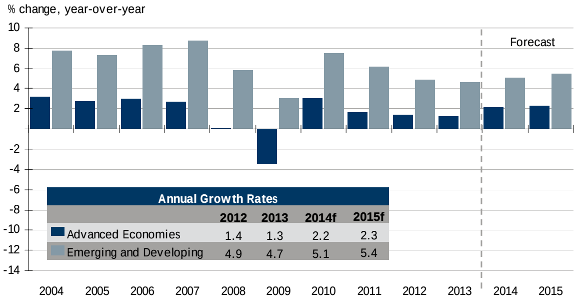
ECONOMIC AND FINANCIAL MARKET OUTLOOK

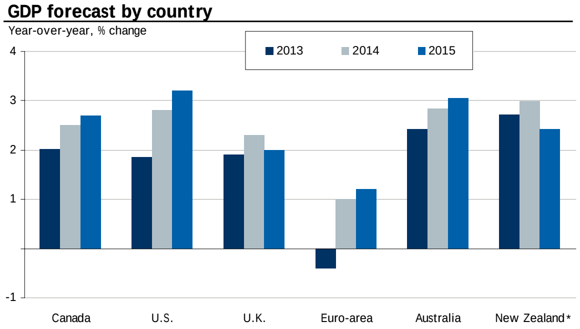
March 2014

Advanced versus emerging economies GDP growth



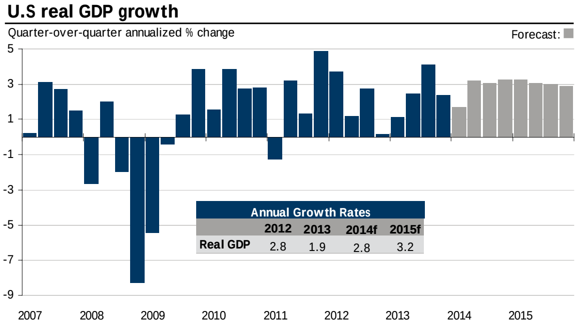
Source: International Monetary Fund, RBC Economics Research Forecasts

GDP forecast by country



* 2013 GDP for New Zealand is a forecast
Source: RBC Capital Markets, RBC Economics Research

U.S real GDP growth



Source: Bureau of Economics Analysis, RBC Economics Research

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Turning the dial on growth
Advanced economies to take lead in 2014

The global economy is headed for stronger growth this year with world GDP likely to expand at a 3.7% pace in 2014 and 3.9% rate in 2015. This more optimistic turn was maintained, despite troubling noises coming from a number of emerging market economies, on increased confidence that policy changes implemented since the last crisis have strengthened the EME's ability to weather unfavourable changes in global financial conditions. Political turmoil in the Ukraine added another layer of uncertainty. As a result, the uptick in growth in 2014 in the emerging economies will likely be relatively limited with the advanced economies expected to slide into the driver's seat and act as the main source of the pickup in global growth in 2014. Importantly, 2014 is likely to mark a turn in the global economy toward faster growth after three consecutive years of deceleration.

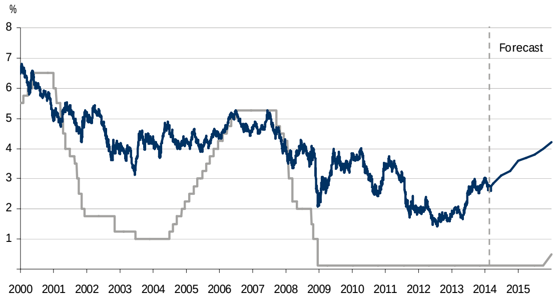
Winter cold not enough to snap global economy's momentum

Despite unseasonably cold and wet weather, the global composite PMI managed to maintain its stride in January and February with the index averaging 53.5. The index held relatively stable in the first two months of 2014 despite indications of slowing US, Chinese and Canadian manufacturing activity to stand just 0.7 ppt below the recent high. The momentum in this global measure of economic activity supports our view that while performances will vary in 2014, all the economies that we monitor will post stronger gains than in 2013. The Euro area economies are forecast to grow by 1.0%, a marked increase after 2013's 0.4% drop. The stronger growth rates in Canada, the US, the UK, Australia and New Zealand will be sufficient to limit the downside for inflation quelling concerns that the global economy might drift into a period of deflation. We project a gradual increase in inflation in 2014, however given the low starting point and amount of excess capacity, inflation rates are only likely to approach central banks' targets in 2015. As a result, we expect extraordinarily low interest rates to be maintained this year.

US economy grew at faster pace in second half of 2013

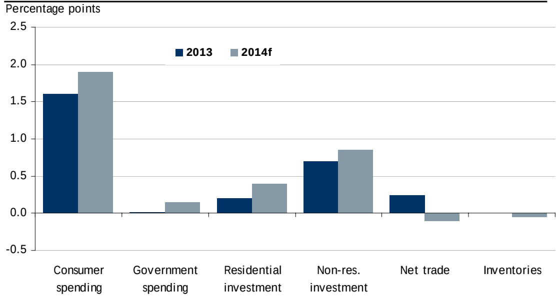
The US economy grew at an average 3.3% in the second half of 2013 driven by a pickup in spending by consumers and inventory building by businesses. Despite this strengthening, real GDP growth averaged just 1.9% in 2013 leaving a yawning output gap of more than 4%. We expect that the combination of persistently easy monetary policy and significantly reduced fiscal policy restraint will result in the US economy recording above-potential gains in both

Interest rates: U.S.



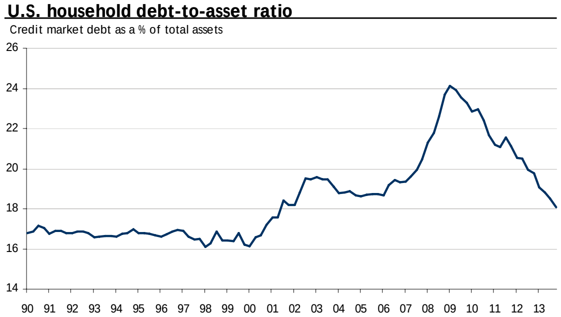
Source: Federal Reserve, RBC Economics Research

U.S. real GDP growth composition



Source: Bureau of Economics Analysis, RBC Economics Research

U.S. household debt-to-asset ratio



Source: Federal Reserve, RBC Economics Research

2014 and 2015 reducing the economy's spare capacity and exerting downward pressure on the unemployment rate.

Against this backdrop, we project that inflation in the US will gradually increase toward the Fed's 2% objective over the forecast horizon. Inflation pressures eased significantly in 2013 with the headline CPI rate averaging 1.5% and the core measure at 1.8%. Falling energy costs and the persistence of a large output gap weighed on prices although inflation expectations remained anchored around 2%. Our research shows that inflation expectations have increasingly taken on an important role as a driver of inflation outcomes. Given that the Fed has the dual mandate of price stability (inflation around 2%) and full employment, even if the unemployment rate continues to move lower as we project, inflation will also have to quicken before policymakers will be in position to raise the Fed funds rate target.

Our economic forecast is predicated on our assumption that the Fed will continue to wean the economy off its quantitative easing program throughout 2014 but will leave its policy rate, the fed funds target, in the current 0% to 0.25% range this year. The steady narrowing in the output gap, falling unemployment rate and gradual rise in inflation will likely be sufficient for the Fed to take a more aggressive stance in late 2015 and initiate the process of returning monetary policy to a more neutral level.

Bend in the road for US economy in near term

Our forecast that US growth will average 2.8% in 2014 includes a brief pullback in the pace of expansion in the first quarter to 1.7%. This slowing will reflect the unwinding of inventories accumulated throughout 2013 and the dampening effect of an unseasonably harsh winter. That said, we expect this hiccup to prove short-lived as the benefits of easy monetary policy and a well functioning financial system lift spending while keeping the housing market on its recovery path. In turn, capacity pressures will start to build in some industries resulting in stronger investment activity.

US consumers finally ready to bring it on!

The US consumer was largely absent in the early days of the economic recovery pressured by the demands of repairing their balance sheets. In 2013, US households' net worth grew 13.8% with a 1.2% rise in debt more than offset by a 11.8% increase in asset values. 2013's modest increase in credit followed several years of debt repayment that lowered the stock of household liabilities. Asset values recovered on the back of a rebound in financial assets. Although real estate holdings have regained ground, they are still worth $3.0 trillion less than at their peak.

Housing market recovery to continue

The housing market recovery that started in 2012 ramped up last year with existing home sales increasing 8.9%; prices, on average, rising at a double-digit pace and housing starts approaching the level of household formation after holding significantly below this level for four consecutive years. Conditions for the housing market recovery to continue remain intact. Affordability deteriorated in 2013 on the back of the house price gains and the 100 bps increase in mortgage rates. That said, according to the National Association of Realtors index, housing is relatively affordable, as prices remain well below the April 2006 peak while mortgage rates are historically low. The supply of existing homes for sale fell back in line with the average of the past decade. At the end of 2013, there was 4.6 months supply of homes available for sale, just slightly above levels before the housing market crash.

Winter weather exerts temporary chill on data

The weakening in housing activity in January was more a reflection of very harsh weather conditions than any easing in demand. Not only have household balance sheets improved but so have labour market conditions. The weather played into the disappointing rise in nonfarm payrolls in December and January. However, hiring snapped back in February with a 175,000 increase in nonfarm payrolls in the month. The February rebound suggests the negative impact from the adverse weather conditions eased and even accounting for the weak patch, the unemployment rate remained on an improving track, standing at 6.7% in February.

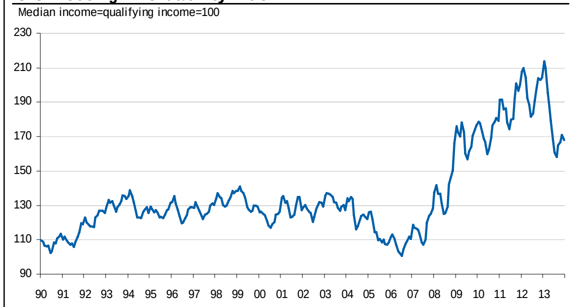
Unemployment rate's decline is the real deal

The average 194,000 monthly increase in nonfarm payrolls in 2013 correlated with a 1.2 ppt drop in the unemployment rate to 6.7% in December. Concerns that the unemployment rate's substantive decline was more a reflection of discouraged workers leaving the labour force than an improvement in labour market conditions are unfounded, in our view. We examined the factors behind the decline in the participation rate from 66% before the recession to 63% in January 2014. The analysis showed that the departure of excess discouraged workers (relative to the historic norm) from the labour market accounted for just 0.2 ppt of the 3.0 ppt decline in the participation rate. More influential were demographic factors with the aging of the population resulting in a growing number of older workers retiring from the labour force or shifting into age cohorts that historically have lower participation rates. The leveling off in the female participation rate that had been rising steadily since 1970 and persistent decline in male participation in the labour force accounted for another 0.5 ppt of the 3.0 ppt decline.

Businesses to revive investment

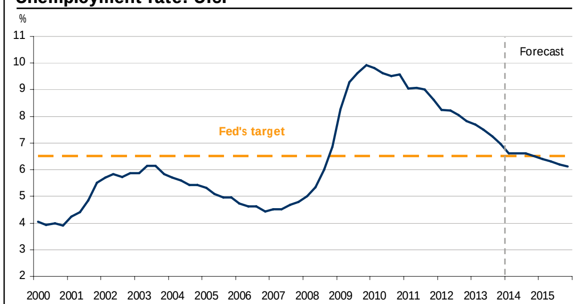
US business investment stalled in 2013 with spending on equipment, intellectual property and nonresidential structures growing by just 2.8%. The uncertain outlook for US fiscal policy and the implications for private demand likely played a large part in businesses scaling back investment. However the risks to the outlook emanating from fiscal policy were dampened after the government reached a budget deal in late December and then passed the debt ceiling legislation in early 2014. The combination of the social security tax cuts being revoked, the implementation of the $80 billion in spending cuts and a temporary shutdown of government services in October 2013 weighed heavily on growth last year and damaged confidence. In 2014, the pullback in government spending is expected to be significantly smaller limiting the impact on economic activity.

U.S. housing Affordability Index



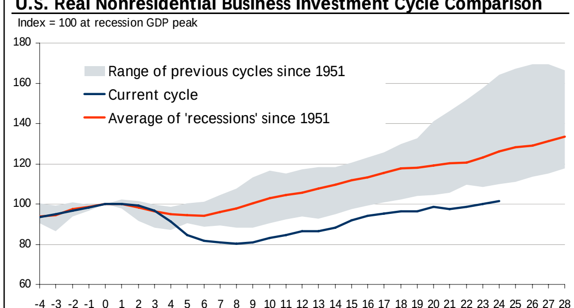
Source: National Association of Realtors, RBC Economics Research

Unemployment rate: U.S.



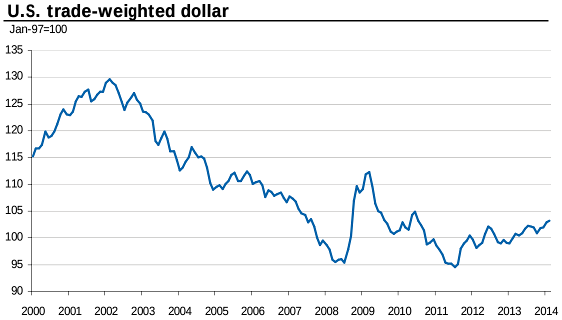
Source: Bureau of Labor Statistics, RBC Economics Research

U.S. Real Nonresidential Business Investment Cycle Comparison



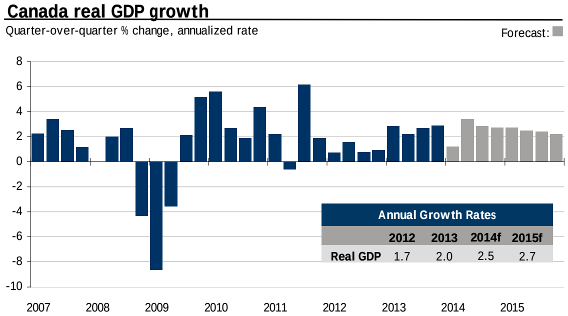
Source: Bureau of Economics Analysis, National Bureau of Economic Research, RBC Economics Research

U.S. trade-weighted dollar



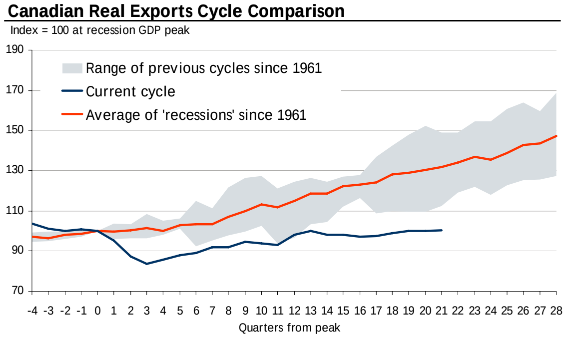
Source: Federal Reserve Board, RBC Economics Research

Canada real GDP growth



Source: Statistics Canada, RBC Economics Research

Canadian Real Exports Cycle Comparison



Favourable lending conditions and low interest rates

The reduction in uncertainty about the fiscal backdrop combined with a majority of financial institutions easing lending standards and supportive financial conditions are the underpinnings of our call for investment spending to increase by 6.4% this year and 8.3% next year. These increases will be more than enough to offset the drag on growth as businesses unwind some of the inventory buildup that occurred in the previous two years. The Fed tweaked its policy stance in late 2013 and initialized the process of reducing the pace of securities purchases while maintaining the Fed funds target in the 0% to 0.25% band. The 10-year bond yield hit 3.02% in late December, the highest since 2011, as markets prepared for the Fed to taper its monthly purchases. However the increase proved short lived as turmoil in some emerging countries saw investors run to the safety of US government bonds. Despite the gyrations in rates, financial conditions faced by corporate borrowers remained healthy.

US dollar - an uneasy appreciation

The trade-weighted US dollar gained 3.3% in the period from late October through January in line with the strengthening in economic growth and growing conviction by forecasters that the risks to the outlook had swung to the upside. That said, the rally stalled in February as weather-related weakness took some of the shine off the near term outlook for the economy. We expect that the US dollar will appreciate against its major trading partners as the Federal Reserve finishes its quantitative easing program by the end of 2014 and raises the policy rate in late 2015, ahead of both the ECB and BoJ.

Canada's economy to switch gears in 2014

After four years of growth being driven by the household sector, Canada's economy is about to undergo a shift as the strengthening in the global economy fuels demand for Canadian exports. A hint that the transition has started was found in the Bank of Canada's January *Business Outlook Survey* as firms reported a rise in orders from outside of Canada relative to a year earlier. Further, the survey showed an increase in the number of firms that intend to increase investment in capital goods and employment over the year ahead.

Not only will the drivers of growth switch in 2014 but the pace of economic activity will accelerate following a two-year period of sub-potential increases. We expect Canada's economy to grow by 2.5% in 2014 and 2.7% in 2015.

Changing fortunes for Canadian exporters

To-date Canada's export sector has significantly lagged other areas of the economy and underperformed previous recovery cycles. At the end of 2013, export volumes were still 5% below their pre-recession peak. This is in contrast to all other sectors of the economy which eclipsed their recent highs. Consumer spending on goods and services and residential investment stood 10.5% higher while business investment rose 7.6%. Part of the export sector's underperformance is directly attributable to the subpar US recovery though there were also competitiveness issues that weighed on growth. One factor was the relatively strong Canadian dollar during the post-recession period. In our view, it is the changing fortunes of the both the US economy and the Canadian currency that will act as catalysts for stronger exports in the year ahead.

Canadian dollar's free-fall to end

The weakening in Canada's currency took on speed in late 2013 as markets pushed expectations of interest rate hikes further into the future, commodity prices stalled and foreign purchases of Canadian securities slowed. After slowly losing ground against the US dollar for most of 2013, the Canadian dollar's downward momentum increased in late October when the Bank of Canada removed its tightening bias. In January, the currency lost another 2.9% against the US dollar. The sharp selling pressure stalled in February and although we expect further Canadian dollar weakness ahead, the pace will likely be much slower with the residual weakening more a reflection of US dollar strength than any made-in-Canada factors. That said, we expect the Canadian dollar to trade at 87 US cents at the end of 2014 and 85 cents at year-end 2015. A weaker Canadian dollar enhances the competitiveness of Canadian goods in the US market with a 10% depreciation historically boosting export volumes by 3.3% in the following two years.

Households will do their bit

Canadian household spending accounted for more than two-thirds of economic growth since 2010 supported by a stable financial sector, low interest rates and a quick recovery in the labour market. These factors will remain in place in 2014 however the lift from the household sector is not likely to increase further in large part due to a pause in the housing market. Spending on goods and services is expected to accelerate relative to the past couple of years rising by 2.5% in 2014 and 2.3% in 2015. The combination of historically low interest rates and a well functioning financial system combined with persistent, if more moderate, employment growth will provide the needed support and at the same time will lean against a pullback due to the high level of household debt.

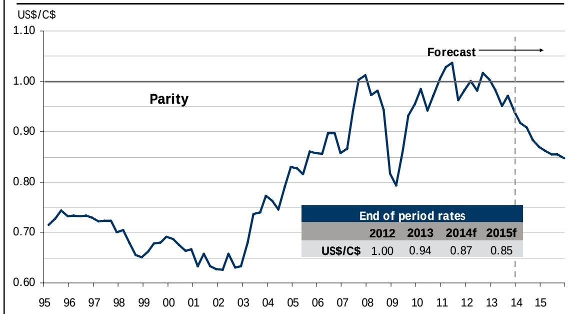
Canada's housing market – bowed not broken

The spring and summer rally in Canada's real estate market stalled late in the year with home sales falling for five straight months. In total, 457,800 homes changed hands in 2013, slightly more than in 2012. Prices increased by an average 2.6% generating pressure on affordability though this was partly offset by rising incomes. RBC's affordability index deteriorated to 43.1 in the fourth quarter of 2013, 1 ppt higher than the same period in 2012 and 3.9 ppts above the long-run average. The mild deterioration in affordability is likely to prevent sales from shifting significantly above 2013's average pace. Supply and demand were largely in balance at the end of 2013 however with a large stock of newly completed condo supply hitting the market in 2014 and 2015, we expect some downward pressure to be exerted on prices.

Interest rates forecast to rise gradually

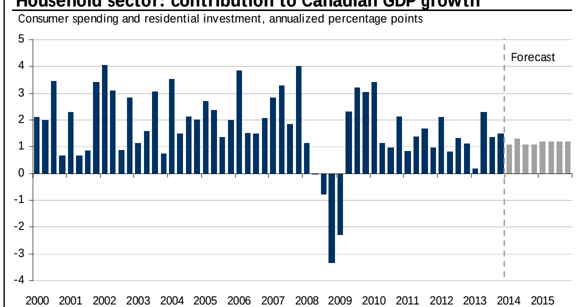
The modest deterioration in housing affordability was also a product of a small increase in mortgages rates in 2013. Interest rates are likely to continue to move higher in 2014 led by increases in longer-dated yields. The US Federal Reserve's tapering of its bond buying program is expected to exert upward

Canadian dollar forecast



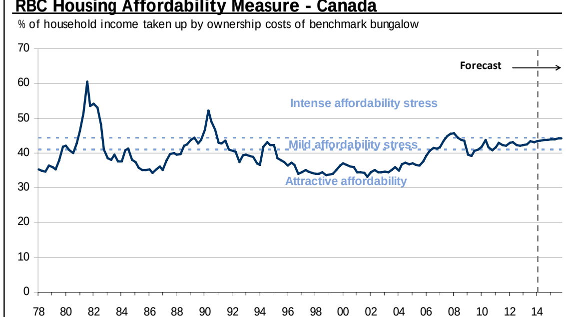
Source: Bank of Canada, RBC Economics Research Forecasts

Household sector: contribution to Canadian GDP growth



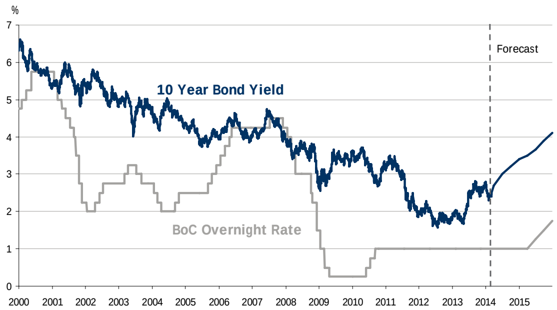
Source: Statistics Canada, RBC Economics Research

RBC Housing Affordability Measure - Canada



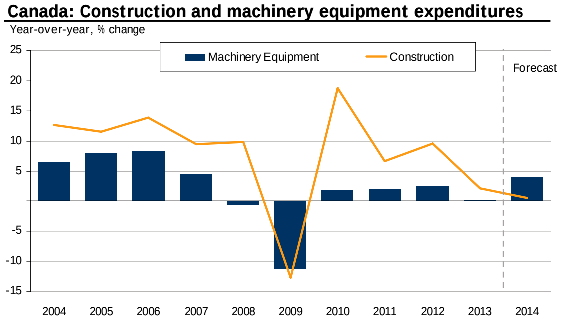
Source: Royal LePage, Statistics Canada, RBC Economics Research

Interest rates: Canada



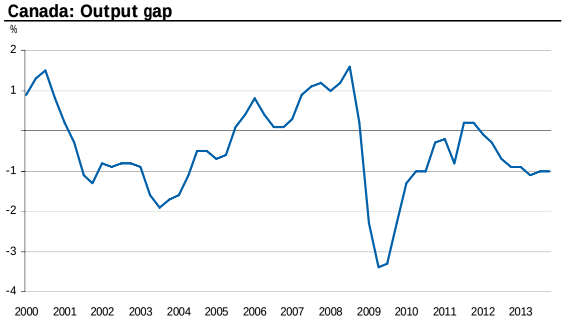
Source: Bank of Canada, RBC Economics Research Forecasts

Canada: Construction and machinery equipment expenditures



Source: Statistics Canada, RBC Economics Research

Canada: Output gap



Source: Bank of Canada, RBC Economics Research

pressure on US Treasury yields with Canadian bond yields moving in sync. Shorter-term yields in Canada are also forecast to increase in 2014 as a strengthening in economic growth, tightening labour market conditions and accelerating wage growth fuel a steady, albeit slow, increase in inflation. As the downside risks to the inflation outlook dissipate, the Bank of Canada is likely to re-establish a tightening policy bias with the first rate hike expected in the second quarter of 2015.

Summing all these factors, Canada's housing market is likely to trend sideways in 2014 with scope for sales to gear down later in the year as affordability conditions become slightly less favourable due to increased mortgage rates. That said, persistent increases in incomes will go some distance in limiting the deterioration.

Businesses remain cautious, spending to increase modestly

Surveys of business spending intentions, both by the Bank of Canada and Statistics Canada, showed a pickup in planned investment in machinery and equipment in 2014 although private firms plan to very modestly cut back spending on nonresidential construction projects. In the public sector, investment is expected to increase in 2014 at a relatively slow 1.9% pace.

Canadian businesses continue to be cautious, as evidenced by the modest rise in investment plans, although we see scope for increased activity as external demand heats up. Canada sent 83.1% of its merchandise exports to the US, Euro-area and UK in 2013, all countries which are forecast to post significantly faster growth this year. Further, with the recovery in both the US housing market and auto sales expected to continue, Canadian exports of transportation equipment and wood products will benefit. Our forecast is for Canadian exports to rise by 5.7% and 8.0% in 2014 and 2015 respectively following two years of gains of around 2.0% resulting in a narrowing in the trade deficit and correspondingly a smaller current account shortfall.

Bank of Canada – keeping an open mind

In January, the Bank of Canada affirmed that markets should not view monetary policy as on a pre-set course but rather dependent on the economy's performance and how this feeds into the medium-term outlook for inflation. To that end, the Bank introduced the idea that both the timing and direction of its next policy change was incumbent on how these conditions evolved. Recent reports showed real GDP was slightly higher than the Bank expected in its January update. Furthermore, recent inflation data also point to stronger than expected increases in the first quarter of 2014. More important for the policy outlook will be evidence that the long-awaited pickup in exports has started to materialize resulting in a firming in growth and narrowing in the output gap. In turn, the downside risks to inflation will dissipate. We expect these factors will become evident over the course of 2014 leaving the door open for the Bank to signal that the next move in rates will be higher with the first hike expected in the second quarter of 2015.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual				Forecast								Actual		Forecast	
	2013				2014				2015				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014	2015
Household Consumption	1.0	3.5	2.4	3.1	2.0	2.5	2.4	2.3	2.3	2.2	2.2	2.2	1.9	2.2	2.5	2.3
Durables	1.3	14.5	-0.7	-1.5	1.7	2.4	2.4	2.4	2.4	2.6	2.5	2.5	2.6	3.3	1.8	2.4
Semi-Durables	0.2	1.6	8.1	6.1	2.0	3.2	2.8	2.5	2.5	2.6	2.5	2.5	2.1	2.5	3.8	2.6
Non-durables	-0.8	0.6	3.1	5.8	2.0	3.2	2.8	2.5	2.5	2.3	2.3	2.3	0.7	1.7	3.1	2.5
Services	1.8	2.8	2.1	2.5	2.0	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.1
NPISH consumption	3.7	-1.8	0.1	0.4	2.0	2.5	2.4	2.3	2.3	2.2	2.2	2.2	1.2	2.2	1.4	2.3
Government expenditures	-0.4	1.7	0.4	1.6	0.4	0.4	0.4	0.4	0.8	0.8	1.0	1.0	1.1	0.8	0.7	0.7
Government fixed investment	-1.7	-7.6	-2.4	-10.4	0.6	0.6	0.6	1.0	1.2	1.2	1.5	1.5	0.5	-1.5	-2.4	1.1
Residential investment	-5.0	6.4	1.3	-2.3	-0.4	-1.6	-3.4	-2.1	-0.6	0.6	-0.2	0.0	6.1	-0.2	-0.8	-1.0
Non-residential investment	1.5	-0.8	-0.1	-1.3	1.9	7.6	5.1	5.5	4.6	5.0	4.7	4.3	6.2	1.4	2.5	5.1
Non-residential structures	2.8	-1.0	2.6	-4.0	0.5	7.8	4.9	5.8	4.5	5.1	4.8	4.4	6.9	2.1	2.0	5.1
Machinery & equipment	-0.7	-0.4	-4.3	3.2	4.1	7.3	5.5	4.9	4.7	4.9	4.4	4.2	5.2	0.2	3.4	5.0
Intellectual property	-0.7	-11.7	7.1	-3.4	2.3	7.6	5.2	5.4	4.6	5.0	4.6	4.3	-1.5	-2.6	2.4	5.1
Final domestic demand	0.2	2.0	1.5	1.2	1.4	2.3	1.9	1.9	2.0	2.1	2.1	2.0	2.3	1.4	1.7	2.0
Exports	6.1	4.9	-0.1	1.7	7.2	8.5	9.1	9.4	7.8	7.0	6.9	6.7	1.5	2.1	5.7	8.0
Imports	3.1	2.1	-1.0	0.9	0.3	4.3	5.8	6.3	5.5	5.5	5.5	5.3	3.1	1.1	2.2	5.6
Inventories (change in $b)	11.6	7.9	12.4	18.0	8.3	7.4	7.1	6.8	7.2	7.2	7.2	6.2	6.8	12.5	7.4	6.9
Real gross domestic product	**2.9**	**2.2**	**2.7**	**2.9**	**1.2**	**3.4**	**2.8**	**2.7**	**2.7**	**2.5**	**2.4**	**2.2**	**1.7**	**2.0**	**2.5**	**2.7**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014	2015
Business and labour																
Productivity	-0.3	0.9	1.3	2.0	1.6	1.4	1.5	1.0	1.4	1.3	1.3	1.3	0.0	1.0	1.4	1.3
Pre-tax corporate profits	-8.6	-5.0	1.2	2.9	-1.9	4.0	1.6	3.0	7.3	5.7	4.5	3.8	-4.9	-2.6	1.6	5.3
Unemployment rate (%)*	7.1	7.1	7.1	7.0	7.0	6.8	6.7	6.7	6.6	6.6	6.5	6.5	7.2	7.1	6.8	6.6
Inflation																
Headline CPI	0.9	0.8	1.1	0.9	1.1	1.5	1.5	1.6	1.8	1.9	1.9	2.0	1.5	0.9	1.4	1.9
Core CPI	1.3	1.2	1.3	1.2	1.2	1.4	1.5	1.8	1.8	1.9	1.9	2.0	1.7	1.3	1.5	1.9
External trade																
Current account balance ($b)	-58.7	-60.8	-59.2	-66.5	-49.4	-48.0	-46.2	-45.1	-43.6	-43.0	-42.3	-41.7	-62.2	-61.3	-47.2	-42.6
% of GDP	-3.2	-3.3	-3.1	-3.5	-2.6	-2.5	-2.4	-2.3	-2.2	-2.1	-2.1	-2.0	-3.4	-3.3	-2.4	-2.1
Housing starts (000s)*	170	190	195	195	190	184	178	178	176	176	173	173	215	188	182	174
Motor vehicle sales (mill., saar)*	1.71	1.79	1.80	1.80	1.77	1.80	1.80	1.81	1.81	1.82	1.83	1.83	1.72	1.77	1.80	1.82

*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	
	2013				2014				2015				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014	2015
Consumer spending	2.3	1.8	2.0	2.6	2.3	2.5	2.6	2.7	2.9	3.0	2.9	2.7	2.2	2.0	2.4	2.8
Durables	5.8	6.2	7.9	2.5	-1.7	6.0	6.0	6.2	6.3	6.5	6.4	6.1	7.7	6.9	3.6	6.3
Non-durables	2.7	1.6	2.9	3.5	2.1	2.3	2.4	2.5	2.8	3.1	2.8	2.5	1.4	2.0	2.5	2.7
Services	1.5	1.2	0.7	2.2	3.1	2.1	2.1	2.2	2.3	2.4	2.3	2.2	1.6	1.1	2.1	2.3
Government spending	-4.2	-0.4	0.4	-5.5	3.7	0.1	0.4	0.4	1.0	1.0	1.3	1.5	-1.0	-2.3	0.0	0.8
Residential investment	12.5	14.2	10.3	-8.8	2.2	19.4	16.6	14.1	11.2	10.1	9.0	7.9	12.9	12.1	7.3	12.1
Non-residential investment	-4.6	4.7	4.8	7.3	3.8	8.3	8.0	8.6	8.4	8.4	7.9	7.9	7.3	2.8	6.4	8.3
Non-residential structures	-25.7	17.6	13.4	0.2	1.5	8.4	5.8	7.0	6.5	6.5	6.0	6.8	12.7	1.4	5.8	6.6
Equipment & software	1.6	3.2	0.2	10.5	5.0	8.3	9.1	9.5	9.4	9.3	8.8	8.4	7.6	3.1	6.7	9.1
Intellectual property	3.8	-1.5	5.7	8.0	4.6	4.6	4.6	4.6	4.0	4.0	4.1	4.3	3.4	3.4	5.0	4.3
Final domestic demand	0.5	2.1	2.3	1.2	2.8	3.2	3.2	3.2	3.3	3.3	3.2	3.1	2.4	1.5	2.5	3.2
Exports	-1.3	8.0	3.9	9.4	6.5	7.0	8.4	8.4	8.5	9.0	8.2	8.3	3.5	2.7	7.3	8.4
Imports	0.6	6.9	2.4	1.5	5.5	5.8	7.9	7.8	7.5	8.0	8.2	8.2	2.2	1.4	4.9	7.7
Inventories (change in $b)	42.2	56.6	115.7	117.4	74.0	74.0	74.0	80.0	80.0	70.0	69.0	66.4	57.6	83.0	75.5	71.4
Real gross domestic product	**1.1**	**2.5**	**4.1**	**2.4**	**1.7**	**3.2**	**3.1**	**3.3**	**3.3**	**3.1**	**3.0**	**2.9**	**2.8**	**1.9**	**2.8**	**3.2**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014	2015
Business and labour																
Productivity	0.4	0.6	0.9	1.7	1.9	1.6	1.1	1.2	1.3	1.4	1.5	1.5	1.4	0.9	1.4	1.4
Pre-tax corporate profits	2.1	4.5	5.7	4.7	6.6	4.2	3.5	3.9	4.9	5.0	5.0	4.9	7.0	4.2	4.5	5.0
Unemployment rate (%)*	7.7	7.5	7.2	7.0	6.6	6.6	6.6	6.5	6.4	6.3	6.2	6.1	8.1	7.4	6.6	6.3
Inflation																
Headline CPI	1.7	1.4	1.6	1.2	1.4	1.8	1.6	1.7	1.9	1.9	1.9	2.0	2.1	1.5	1.6	1.9
Core CPI	1.9	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.1	1.8	1.8	1.9
External trade																
Current account balance ($b)	-420	-386	-379	-345	-322	-323	-330	-334	-337	-339	-347	-355	-440	-383	-328	-345
% of GDP	-2.5	-2.3	-2.3	-2.0	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-2.7	-2.3	-1.9	-1.9
Housing starts (000s)*	957	869	882	1016	940	1197	1267	1329	1387	1439	1485	1521	783	931	1183	1458
Motor vehicle sales (millions, saar)*	15.3	15.5	15.7	15.6	15.6	16.0	16.1	16.3	16.4	16.6	16.7	16.9	14.4	15.5	16.0	16.6

*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	
	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	2012	2013	2014	2015
Canada																
Overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75	1.00	1.00	1.00	1.75
Three-month	0.98	1.02	0.98	0.91	1.00	1.05	1.10	1.10	1.10	1.35	1.60	1.85	1.05	0.91	1.10	1.85
Two-year	1.00	1.22	1.19	1.13	1.15	1.30	1.50	1.65	1.85	2.15	2.55	2.70	1.05	1.13	1.65	2.70
Five-year	1.30	1.80	1.86	1.95	1.90	2.15	2.40	2.70	2.80	3.00	3.30	3.50	1.30	1.95	2.70	3.50
10-year	1.88	2.44	2.55	2.77	2.70	3.00	3.20	3.40	3.50	3.65	3.90	4.10	1.75	2.77	3.40	4.10
30-year	2.50	2.90	3.07	3.24	3.25	3.45	3.70	3.90	3.95	4.05	4.20	4.40	2.40	3.24	3.90	4.40
Yield curve (10s-2s)	88	122	136	164	155	170	170	175	165	150	135	140	70	164	175	140
United States																
Fed funds	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.50	0.13	0.13	0.13	0.50
Three-month	0.07	0.04	0.02	0.07	0.05	0.05	0.05	0.05	0.05	0.05	0.10	0.20	0.09	0.07	0.05	0.20
Two-year	0.25	0.36	0.33	0.38	0.35	0.40	0.60	0.85	1.05	1.30	1.65	2.05	0.25	0.38	0.85	2.05
Five-year	0.77	1.41	1.39	1.75	1.60	1.90	2.10	2.50	2.70	2.90	3.10	3.35	0.70	1.75	2.50	3.35
10-year	1.87	2.52	2.64	3.04	2.85	3.10	3.25	3.60	3.70	3.80	4.00	4.20	1.70	3.04	3.60	4.20
30-year	3.10	3.52	3.69	3.96	3.85	4.00	4.05	4.35	4.45	4.55	4.70	4.90	2.90	3.96	4.35	4.90
Yield curve (10s-2s)	162	216	231	266	250	270	265	275	265	250	235	215	145	266	275	215
Yield spreads																
Three-month T-bills	0.91	0.98	0.96	0.84	0.95	1.00	1.05	1.05	1.05	1.30	1.50	1.65	0.96	0.84	1.05	1.65
Two-year	0.75	0.86	0.86	0.75	0.80	0.90	0.90	0.80	0.80	0.85	0.90	0.65	0.80	0.75	0.80	0.65
Five-year	0.53	0.39	0.47	0.20	0.30	0.25	0.30	0.20	0.10	0.10	0.20	0.15	0.60	0.20	0.20	0.15
10-year	0.01	-0.08	-0.09	-0.27	-0.15	-0.10	-0.05	-0.20	-0.20	-0.15	-0.10	-0.10	0.05	-0.27	-0.20	-0.10
30-year	-0.60	-0.62	-0.62	-0.72	-0.60	-0.55	-0.35	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.72	-0.45	-0.50

Interest rates—International

%, end of period

	Actual				Forecast								Actual		Forecast	
	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	2012	2013	2014	2015
United Kingdom																
Repo	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.50	0.50	0.50	0.75
Two-year	0.21	0.41	0.30	0.57	0.50	0.60	0.70	0.70	0.80	1.00	1.20	1.50	0.20	0.57	0.70	1.50
10-year	1.78	2.46	2.50	3.04	2.75	2.85	2.90	3.00	3.10	3.20	3.30	3.40	1.70	3.04	3.00	3.40
Euro Area																
Refinancing rate	0.75	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	0.25	0.25	0.25
Two-year	-0.02	0.20	0.15	0.24	0.30	0.30	0.35	0.40	0.45	0.55	0.65	0.75	0.00	0.24	0.40	0.75
10-year	1.29	1.73	1.70	2.11	2.00	2.10	2.15	2.25	2.25	2.30	2.40	2.50	1.50	2.11	2.25	2.50
Australia																
Cash target rate	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.00	3.00	2.50	2.50	3.00
Two-year swap	2.83	2.58	2.45	2.68	2.80	2.90	3.10	3.30	3.50	3.75	4.00	4.30	2.75	2.68	3.30	4.30
10-year swap	3.42	3.76	3.81	4.23	4.20	4.50	4.70	5.10	5.20	5.40	5.60	5.90	3.00	4.23	5.10	5.90
New Zealand																
Cash target rate	2.50	2.50	2.50	2.50	2.75	3.00	3.00	3.25	3.50	3.50	3.75	3.75	2.50	2.50	3.25	3.75
Two-year	2.85	2.85	3.42	3.81	3.50	3.60	3.80	3.90	4.00	4.20	4.40	4.60	2.60	3.81	3.90	4.60
10-year	3.96	4.16	4.86	5.23	5.20	5.30	5.60	5.80	6.00	6.10	6.30	6.50	3.80	5.23	5.80	6.50

Growth outlook

% change, quarter-over-quarter in real GDP

	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	2012A	2013A	2014F	2015F
Canada*	2.9	2.2	2.7	2.9	1.2	3.4	2.8	2.7	2.7	2.5	2.4	2.2	1.7	2.0	2.5	2.7
United States*	1.1	2.5	4.1	2.4	1.7	3.2	3.1	3.3	3.3	3.1	3.0	2.9	2.8	1.9	2.8	3.2
United Kingdom	0.4	0.7	0.8	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.2	1.9	2.3	2.0
Euro Area	-0.2	0.3	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	-0.6	-0.4	1.0	1.2
Australia	0.5	0.8	0.6	0.8	0.6	0.7	0.7	0.8	0.8	0.7	0.8	0.8	3.6	2.4	2.8	3.0
New Zealand	0.5	0.3	1.4	0.8**	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.6	2.7	3.0	2.4

*annualized, ** forecast

Inflation outlook

% change, year-over-year

	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	2012A	2013A	2014F	2015F
Canada	0.9	0.8	1.1	0.9	1.1	1.5	1.5	1.6	1.8	1.9	1.9	2.0	1.5	0.9	1.4	1.9
United States	1.7	1.4	1.6	1.2	1.4	1.8	1.6	1.7	1.9	1.9	1.9	2.0	2.1	1.5	1.6	1.9
United Kingdom	2.8	2.7	2.7	2.0	2.3	2.5	2.5	2.5	1.9	1.9	2.0	2.0	2.8	2.6	2.4	1.9
Eurozone	1.8	1.4	1.3	0.8	0.8	1.0	0.8	1.2	1.2	1.2	1.2	1.2	2.5	1.3	0.9	1.2
Australia	2.5	2.4	2.2	2.6	3.0	3.2	2.6	2.5	2.4	2.5	2.6	2.8	1.8	2.4	2.8	2.6
New Zealand	0.9	0.7	1.4	1.6	1.7	1.8	1.8	2.0	2.2	2.3	2.3	2.4	1.1	1.1	1.8	2.3

Exchange rates

%, end of period

	Actual				Forecast								Actual		Forecast	
	13Q1	**13Q2**	**13Q3**	**13Q4**	**14Q1**	**14Q2**	**14Q3**	**14Q4**	**15Q1**	**15Q2**	**15Q3**	**15Q4**	**2012**	**2013**	**2014**	**2015**
Australian dollar	1.04	0.91	0.93	0.89	0.91	0.91	0.92	0.92	0.90	0.88	0.86	0.85	1.04	0.89	0.92	0.85
Canadian dollar	1.02	1.05	1.03	1.06	1.09	1.10	1.13	1.15	1.16	1.17	1.17	1.18	0.99	1.06	1.15	1.18
Euro	1.28	1.30	1.35	1.38	1.40	1.37	1.34	1.30	1.28	1.27	1.26	1.25	1.32	1.38	1.30	1.25
Yen	94	99	98	105	99	97	99	100	103	105	107	110	87	105	100	110
New Zealand dollar	0.84	0.77	0.83	0.82	0.82	0.82	0.81	0.80	0.78	0.77	0.76	0.75	0.83	0.82	0.80	0.75
Swiss franc	0.95	0.95	0.90	0.90	0.87	0.90	0.92	0.95	0.97	0.98	0.99	1.00	0.92	0.90	0.95	1.00
U.K. pound sterling	1.52	1.52	1.62	1.66	1.67	1.67	1.65	1.63	1.64	1.65	1.59	1.56	1.62	1.66	1.63	1.56

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