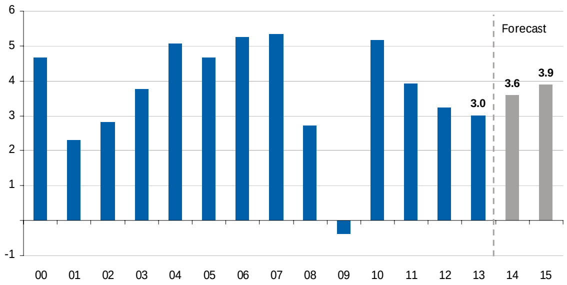
ECONOMIC AND FINANCIAL MARKET OUTLOOK

June 2014

World GDP growth

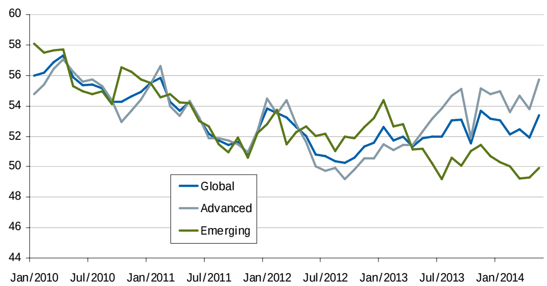
% change



Source: International Monetary Fund, RBC Economics Research

Weighted Composite PMI

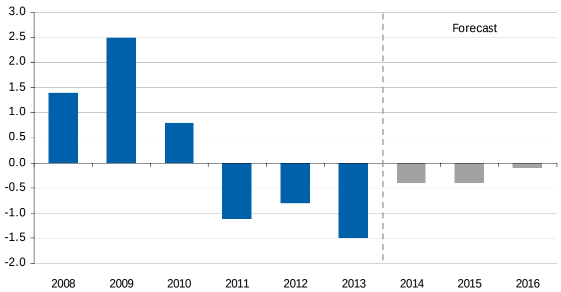
Index level, 50=expansion



Source: RBC Economics Research

G-7 fiscal thrust

changes in the cyclically adjusted government balance



Source: IMF, Haver Analytics, RBC Economics Research

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After slow start to 2014, global economy shifting into higher gear

The combination of a harsh winter in North America and an easing in emerging market economies' momentum dampened global growth in the first quarter of 2014. With that said, much of the weakness in North America reflected a soft handoff from 2013 that only continued in the first few months of 2014. We expect that the unremarkable start to 2014 in the advanced economies will be followed by a persistent improvement in the pace of economic activity backed by accommodative monetary policy and an easing in fiscal restraint. World gross domestic product (GDP) is forecasted to rise by 3.6% in 2014 and an even-stronger 3.9% in 2015, driven by the improvement in the advanced economies. This would mark the end of a three-year run of steadily weakening growth rates.

The most current readings on the global economy's momentum from the composite purchasing managers' indices indicate that the advanced economies picked up pace in May while the emerging market economies' index increased to stand on the cusp of returning to expansionary territory. Global trade volumes slowed in the first quarter after growing at an accelerating pace in the second half of 2013. However, with the effects of the transitory factors that dampened growth in the advanced economies in the first quarter having worn off, we expect the pullback in trade will prove to be short lived. In time, we expect the strengthening in demand from advanced economies to fuel a recovery in export growth from the emerging market economies.

Easy monetary policy + lessening fiscal restraint = healthy backdrop for growth

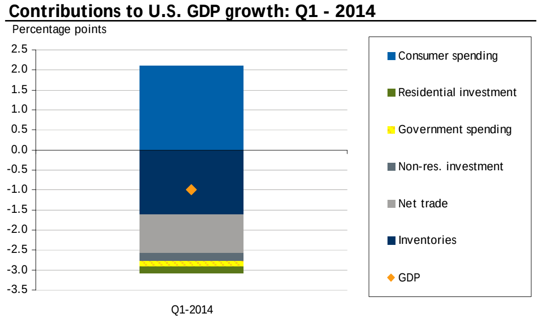
Governments in the advanced economies implemented significant fiscal policy restraint from 2011 to 2013 that reduced economic output by between 0.75 and 1.5 percentage points annually. This aggressive tightening helped to stabilize financial markets because acting 'sooner' prevented the need for even greater restraint 'later'. Central banks, on the other hand, kept interest rates at extraordinarily low levels during this period that aimed at offsetting the dampening effect of government spending cuts and tax increases on growth. Even with governments expected to let up on the amount of fiscal policy restraint, central banks are likely to maintain accommodative monetary policies going forward to ensure that their economies are operating at rates that are sufficient to reduce excess capacity and limit the downside risk to inflation.

Geopolitical risks have not destabilized the global economy despite the ongoing conflict in the Ukraine and Middle East and concern about the ability of some emerging economies to attract capital in the wake of the US Federal Reserve's unwinding of its quantitative easing program. Many of the emerging economies made policy adjustments to ensure that investors do not shift their capital to take advantage of the weak US dollar and prospective increases in

Real Broad Trade-Weighted Exchange Value of the US$

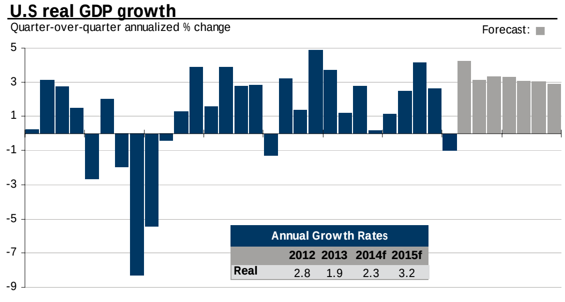
Source: Federal Reserve Board, RBC Economics Research

Contributions to U.S. GDP growth: Q1 - 2014



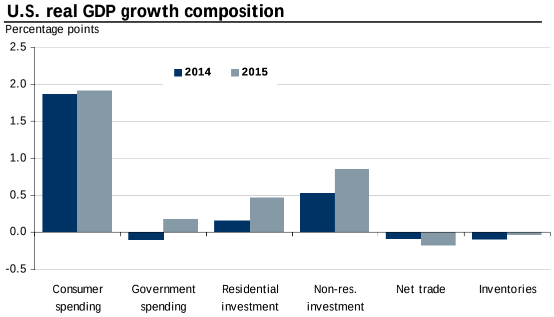
Source: Bureau of Economics Analysis, RBC Economics Research

U.S real GDP growth



Source: Bureau of Economics Analysis, RBC Economics Research

U.S. real GDP growth composition



Source: Bureau of Economics Analysis, RBC Economics Research

US treasury yields. To date, the US dollar has not benefited from the improvement in the economy's momentum or the gradual unwinding of the quantitative easing program. We expect the trade-weighted US dollar will appreciate once the Federal Reserve signals that the economy is strong enough to withstand a reduction in monetary policy support via increases in the federal funds target.

The perfect storm sinks first-quarter US economic growth

US real GDP fell at an annualized 1.0% rate in the first quarter, thereby ending a run of three quarters when the economy expanded at above-potential rates. In large part, unseasonably harsh winter weather was responsible for the pullback in housing, business investment, and exports. This was augmented by a dramatic slowing in the pace of inventory build. Consumer spending, conversely, posted a solid gain in the quarter although more than one-third of the rise was due to increased spending on utilities, which was a by-product of the colder than normal weather.

Tracking the rebound

On a quarterly basis, activity weakened in this period, yet the monthly detail from February to April was more encouraging. Activity rebounded in the retail sector, with housing starts and factory orders also recovering in support of our forecast for real GDP to grow at an annualized 4.2% in the second quarter of 2014. The labour market posted solid gains in April and May, with payrolls increasing at an average monthly pace of 250,000. The unemployment rate fell to 6.3%, which was more than a percentage point below 2013's average. The labour market data support our optimism that the ground lost in the first quarter will be fully recovered in the second quarter.

US economy – it is all coming together

Even with the weather-related weakness early in 2014, the US economy is likely to record a solid gain in 2014 with both households and businesses expected to do their fair share. The combination of stronger household balance sheets and improved labour market conditions will be sufficient to support consumer spending after a sluggish 2013. Business non-residential investment is expected to accelerate, albeit gradually, with growth in 2014 running at its long-term average pace and a more material acceleration on tap for 2015. Housing activity is also expected to pick up in a more meaningful way in 2015 as the recent tightening in lending standards by financial institutions and low inventories of unsold homes temper housing market activity this year. In 2015, however, US households will have made further improvements to their balance sheets, and labour markets will be closer to full employment. These factors alone will support increased demand for housing and should, at the same time, induce financial institutions to ease lending standards and make credit more available across the board.

Household balance sheets are healthier

US households more than recovered the wealth lost during the housing market crash and recession, with the asset side of the balance sheet reaching record-high valuations in 2013. Liabilities also increased last year; however, the rise was relatively small and was held back by the continued reduction in outstanding mortgage balances. The low interest rate environment is limiting the size of debt service payments on outstanding mortgage balances with the ratio of debt service costs to personal disposable income having fallen to the lowest level since 1981.

Labour market to provide extra kick

The US labour market recovered strongly from the sharp weather-related slowing in hiring that occurred in December 2013 and January 2014. The unemployment rate fell to 6.3%, the lowest level since 2008. Concurrently, the participation rate continued to decline and, at 62.8%, was the lowest since 1978 (matching prints recorded in October and December 2013). Our analysis suggests that the main drivers of the persistent decline in the participation rate are structural largely due to the aging of the population. Therefore, the decline in the participation rate does not signal that there is a large legion of workers who will be returning and needing to be absorbed into the labour force. Rather, it suggests that the decline in the unemployment rate is genuine and sets the stage for the rate to move lower as demand strengthens. We forecast that the US unemployment rate will head toward its long-term average of 5.8% over the next year. Wage growth has been stagnant; running around 2.0% for the past four years. Hours worked fell sharply in December 2013 and January 2014 but recovered in February through May, and manufacturing overtime hours picked up. A persistent tightening in labour market conditions will in time generate upward pressure on wages, thereby providing households with the means to support stronger consumption growth.

Businesses getting ducks in a row

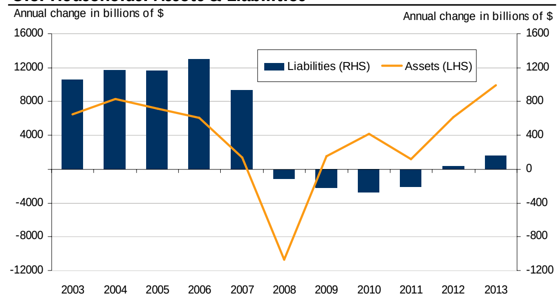
US businesses face a favourable investment environment with lenders easing standards for commercial real estate loans, interest rates remaining extraordinarily low, and credit spreads having narrowed. Despite the sub-par growth in the economy, corporate profits grew in 2012 and 2013. The missing piece for a fulsome increase in investment spending remains the inconsistency of demand that weighed on confidence, a factor that we expect will improve during 2014.

Monetary policy to remain easy throughout 2014

While the US unemployment rate is grinding toward levels that are deemed consistent with the central bank's mandate, inflation remains low. The headline inflation rate rose to 2.0% in April at both the producer and consumer levels; however, this reflected rising prices for food and energy. The core rates, which exclude both of these volatile components, held below the 2% mark. The core consumer price index (CPI) measure provides a better read on the underlying price pressures in the economy and in April stayed in the 1.6% to 1.8% range where it has held for 13 months. As economic growth accelerates to an above-potential pace, the spare capacity in the economy will diminish and in turn fuel upward pressure on wages and prices. In our view, it is unlikely that the inflation rates will be consistently aligned with the Fed's objective until the latter part of 2015.

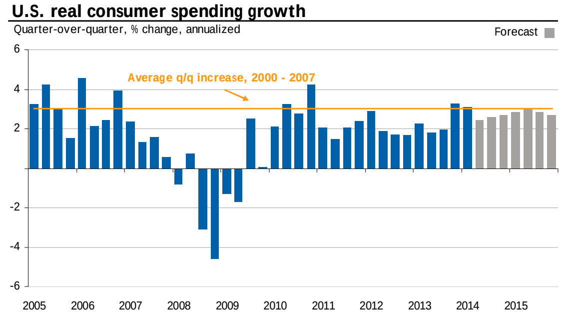
The Federal Reserve has pledged to maintain "highly accommodative" monetary policy until the economy reaches full employment and price stability. As a result, no changes to the fed funds target band of 0.00% to 0.25% have been made; however, the improvement in labour market conditions and rising confidence about the economic outlook prompted the Fed to reduce the size of the

U.S. Households: Assets & Liabilities



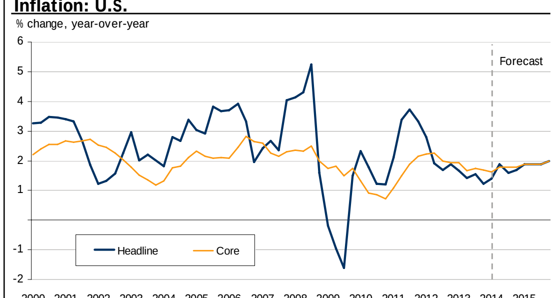
Source: Federal Reserve Board, RBC Economics Research

U.S. real consumer spending growth



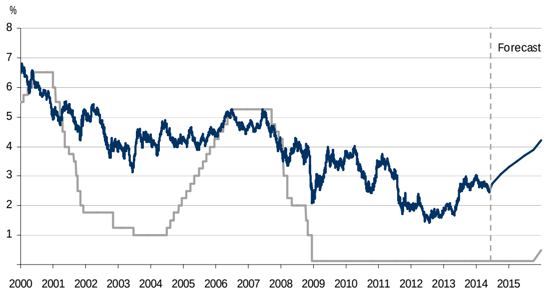
Source: Bureau of Economics Analysis, RBC Economics Research

Inflation: U.S.



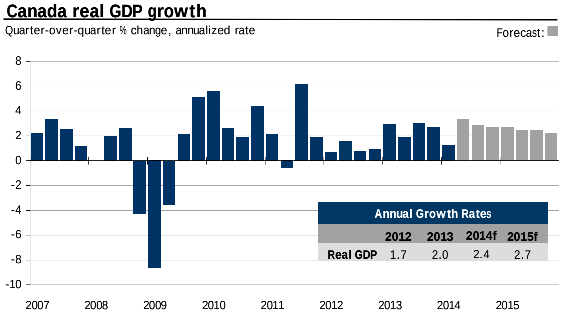
Source: Bureau of Labor Statistics, RBC Economics Research

Interest rates: U.S.



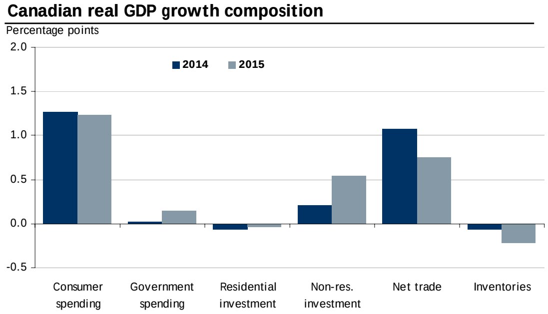
Source: Federal Reserve, RBC Economics Research

Canada real GDP growth



Source: Statistics Canada, RBC Economics Research

Canadian real GDP growth composition



Source: Statistics Canada, RBC Economics Research

asset purchase program at each of the past four policy meetings. This resulted in the size of monthly purchases being shaved to $45 billion as of May 2014 from $85 billion in December 2013. We expect that policymakers will continue to reduce the asset purchase program by $10 billion at each upcoming meeting and to stop making new purchases before year end. We project both the inflation and unemployment rates will meet the Fed's objectives in the latter part of 2015, thereby setting up for the funds target band to be held steady until late next year.

Canada's economic outlook hinges on stronger external demand

Growth in Canada managed to strengthen in 2013 relative to 2012 although GDP only mustered a 2.0% gain. Once again, it was household spending that provided the main support to the economy although this was supplemented by modest increases in net exports and inventories. Like the US, economic growth slowed in the first quarter of 2014 and was hampered by an unseasonably harsh winter that curtailed production and stalled transportation. Similarly, as companies make up these production losses, real GDP growth is likely to post a solid rebound in the second quarter.

Our forecast that Canada's economy will grow by 2.4% in 2014 and 2.7% in 2015 is being driven by our view that demand for Canadian exports will pick up. This is based on our assessment that the growth in the US economy will be broadly based and that the slowing in global import demand that started in early 2012 will reverse course. With the global demand picture improving, the weakening in Canada's dollar will provide the extra lift needed to transition the export sector into more than a bit player in terms of supporting economic activity.

Consumer is not out of the growth equation

Canada's consumer has come under the microscope because of the persistent increases in debt accumulation that pushed the debt-to-income rate to an all-time high in the third quarter of 2013. The ratio eased slightly in the fourth quarter and will likely continue to edge lower given the slowing in household credit growth. With that said, the ratio stands well above its historical average. Fortunately, the cost to service the debt remains historically low, which has staved off increases in delinquencies and bankruptcies. Also supporting households is the relatively healthy labour market. Despite the volatility in the monthly labour data, the underlying trend shows that the economy continues to generate jobs with employment rising by 85,500 in the 12-months ended May 2014. Furthermore, the unemployment rate stayed in the 6.9% to 7.2% range that has been in place since April 2013. Wage gains similarly remain relatively steady with the average increase rising to 2.2% year-to-date in 2014 from 2.0% in the previous year. Our forecast assumes that as external demand for Canada's exports strengthens, the pace of hiring will accelerate, thereby leading the labour market closer to full employment. Against this backdrop, wages are also expected to grow at a stronger pace resulting in incomes rising faster than household mortgage and credit growth capping the upside in the debt-to-income ratio.

Housing market support to lessen

Against this backdrop, we expect consumer spending to grow and maintain its current share of GDP. The one area likely to slow is the housing market where both sales and construction activity are forecasted to gear downward. After falling for five months, home sales started to recover in February 2014 although as of April still stood 3% below the 2013 average. Falling mortgage rates supported the recovery, although we expect it will prove to be short lived given that the persistent increase in prices has damaged affordability in some key markets. We forecast that 2014 resale home sales will be only marginally higher than in 2013 while rapidly increasing prices early in the year lay the groundwork for a gain of 3.5%. Building activity started to slow with housing starts so far this year running at an annualized pace of 184,000 units, less than the 188,000 units started in all of 2013.

Moderation in housing market activity sets up for this sector to provide limited support to the economy with conditions likely to soften further in 2015 as sales weaken, prices stabilize, and building activity eases again. This forecast is premised on our assumption that interest rates will grind higher and exert pressure on housing affordability.

Businesses need a nudge

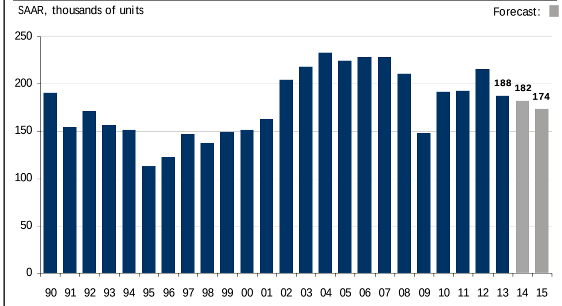
Canadian businesses stepped back in 2013 with non-residential fixed investment increasing by a modest 1.3%. We attribute this slowing to concerns about the lack of external demand as financial conditions facing Canadian businesses remained conducive to growth. A pullback in profit growth, no doubt, also had a hand in the very weak level of business investment. We expect that a strengthening in external demand will underpin business confidence in 2014 and 2015. The latest Bank of Canada *Business Outlook Survey* showed that a growing number of firms experienced faster sales growth in the previous year with the majority expecting to see sales increase further in the year ahead. The majority of firms also indicated that they intend to boost payrolls and more plan to increase investment than reduce it. The April survey highlighted that after a sustained period of inactivity, manufacturers planned to invest in capital goods and machinery in 2014.

Firming demand will exert pressure on existing capacity, thereby leading to acceleration in investment in 2015. As the housing market cools, we expect there will be a handoff from investment in residential real estate to spending on non-residential projects. We see limited scope for government investment to accelerate given the continued focus on balanced budgets at both the federal and provincial levels.

Inflation to grind higher

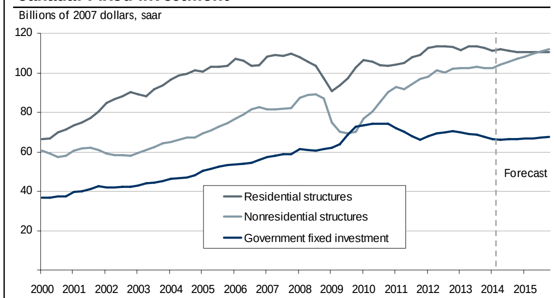
The weaker Canadian dollar and a higher projected trajectory for natural gas and gasoline prices have helped to cap the downside for inflation in the near term. Inflation expectations remained anchored with 93% of businesses surveyed by the Bank of Canada looking for the inflation rate to remain within the 1% to 3% target band; however, 63% forecast that inflation will run between 1% and 2%, more than double the proportion that expects the rate to gravitate to the top end of the Bank’s target range. As the economy approaches full capacity, labour market conditions will tighten and wages will increase more rapidly, thereby

Housing starts: Canada



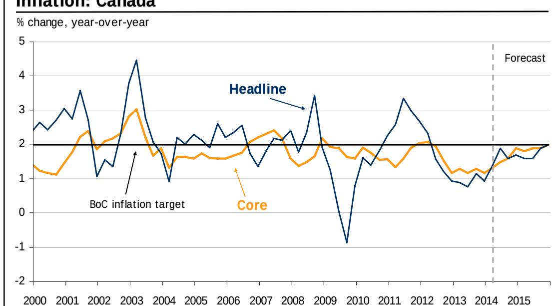
Source: Canada Mortgage and Housing Corporation, RBC Economics Research

Canada: Fixed investment



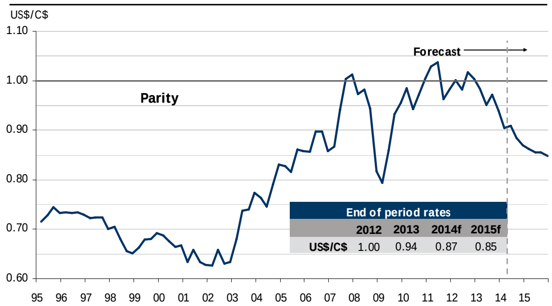
Source: Statistics Canada, RBC Economics Research

Inflation: Canada



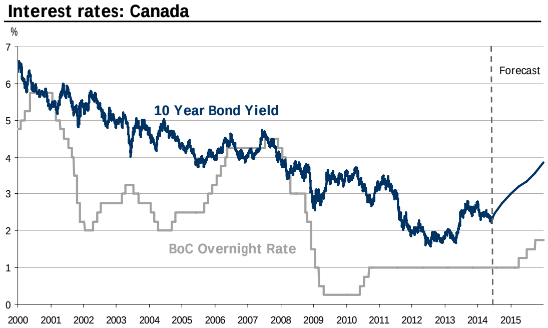
Source: Statistics Canada, RBC Economics Research

Canadian dollar forecast



Source: Bank of Canada, RBC Economics Research Forecasts

Interest rates: Canada



Source: Bank of Canada, RBC Economics Research Forecasts

underpinning a move higher in inflation. We expect that both the headline and core inflation rates will approach the 2.0% target in the second half of 2015.

A pause in the Canadian dollar's decline

The steady weakening in the Canadian dollar since September 2012 halted in the second quarter of 2014 with both the trade-weighted index and US dollar rate holding in a 2% range in April and May. This was a marked change from the persistent weakening evident in the prior 18 months. In part, the currency's performance may reflect a lagged response to the recovery in commodity prices. The Bank of Canada's commodity price index lost 10% between September 2012 and November 2013 but fully recovered these losses in the subsequent six months. This recovery was likely part of the reason that the currency's slide stalled. In the same period, the Canada/US two-year yield spread, another driver of the currency, narrowed and hit a bottom in late March and then widening modestly. Foreign investors' net purchases of Canadian securities also slowed over this period. Thus, the move in the Canadian dollar was in line with the underlying fundamental drivers. Looking forward, we view a recovery in the US dollar, as discussed above, as being the most significant factor arguing for the Canadian dollar to weaken, and we retain our forecast that the currency will end 2015 at US$0.85.

Stronger growth will ease the Bank's concerns

In early June, the Bank of Canada announced that it was maintaining the overnight rate at 1.0%. The Bank also retained a neutral policy bias based on the assessment that the downside risks to inflation outlook "remain important." Similar to our thinking, the Bank forecasts that the economy will grow at a pace that will result in the closing of the output gap and inflation rising to the 2% target.

Our forecast anticipates that the economy will quickly bounce back from the weather-related slowing of the first quarter and grow at an above-potential pace in the remaining quarters of 2014. This will limit the downside risks to core inflation, and we expect it will be sufficient to convince the Bank that conditions warrant the re-insertion of a tightening policy bias before year-end 2014. With that said, it will be a gradual process, meaning that the Bank is likely to maintain a policy rate of 1.0% for the remainder of this year with the first increase 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	1.4	3.8	3.0	2.4	1.2	3.0	2.2	2.3	2.3	2.2	2.2	2.2	1.9	2.4	2.3	2.3
Durables	2.2	14.0	0.3	-3.7	-0.4	6.5	0.4	2.4	2.4	2.6	2.5	2.5	2.6	3.4	1.4	2.4
Semi-Durables	1.8	1.8	11.0	6.5	-3.8	3.2	2.8	2.5	2.5	2.6	2.5	2.5	2.1	3.3	2.7	2.6
Non-durables	-0.3	2.1	4.9	5.5	4.1	3.2	2.8	2.5	2.5	2.3	2.3	2.3	0.7	2.4	3.9	2.5
Services	1.9	2.7	1.9	1.9	1.0	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.2	2.1	1.8	2.1
NPISH consumption	3.7	-1.8	0.1	0.4	1.4	3.0	2.2	2.3	2.3	2.2	2.2	2.2	1.2	2.2	1.3	2.3
Government expenditures	0.1	1.0	-0.4	0.3	-0.5	0.4	0.4	0.4	0.8	0.8	1.0	1.0	1.1	0.6	0.1	0.7
Government fixed investment	-2.4	-6.1	-0.6	-8.8	-4.2	0.6	0.6	1.0	1.2	1.2	1.5	1.5	0.5	-1.0	-3.0	1.1
Residential investment	-4.5	6.1	0.4	-1.7	-6.3	6.6	-0.7	-2.4	-1.3	0.1	0.2	0.4	6.1	-0.3	-0.6	-0.4
Non-residential investment	0.9	-1.2	0.5	-0.8	-2.0	9.1	5.1	5.5	4.6	5.0	4.7	4.3	6.2	1.3	2.0	5.2
Non-residential structures	2.5	-1.0	3.1	-2.4	0.4	9.5	4.9	5.8	4.5	5.1	4.8	4.4	6.9	2.2	2.7	5.2
Machinery & equipment	-1.6	-1.6	-3.4	1.7	-5.8	8.5	5.5	4.9	4.7	4.9	4.4	4.2	5.2	-0.2	0.8	5.0
Intellectual property	-4.9	-12.8	10.5	0.5	-4.4	9.0	5.2	5.4	4.6	5.0	4.6	4.3	-1.5	-3.2	2.0	5.1
Final domestic demand	0.4	2.0	1.8	0.8	-0.3	3.3	1.9	1.9	2.0	2.1	2.1	2.1	2.3	1.4	1.4	2.1
Exports	5.4	4.9	0.7	3.9	-2.4	9.6	8.7	9.4	7.8	6.6	6.5	6.7	1.5	2.2	3.9	7.9
Imports	2.7	2.4	-0.7	1.5	-7.2	6.1	4.0	5.8	5.4	4.9	5.5	5.8	3.1	1.1	0.4	5.3
Inventories (change in $b)	11.8	7.7	11.5	16.8	16.3	10.3	8.0	6.8	7.0	6.5	6.6	6.0	6.8	11.9	10.4	6.5
Real gross domestic product	**3.0**	**1.9**	**3.0**	**2.7**	**1.2**	**3.0**	**2.8**	**2.7**	**2.7**	**2.5**	**2.4**	**2.2**	**1.7**	**2.0**	**2.4**	**2.7**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	-0.2	0.9	1.5	2.1	1.8	1.8	1.5	1.1	1.4	1.2	1.3	1.3	0.0	1.1	1.5	1.3
Pre-tax corporate profits	-8.2	-4.3	2.4	4.3	6.8	8.3	3.9	5.1	0.7	3.3	3.6	2.9	-4.9	-1.7	6.0	2.6
Unemployment rate (%)*	7.1	7.1	7.1	7.0	7.0	6.9	6.8	6.7	6.6	6.6	6.5	6.5	7.2	7.1	6.9	6.6
Inflation																
Headline CPI	0.9	0.8	1.1	0.9	1.4	1.9	1.6	1.7	1.6	1.6	1.9	2.0	1.5	0.9	1.6	1.8
Core CPI	1.3	1.2	1.3	1.2	1.3	1.5	1.6	1.9	1.8	1.9	1.9	2.0	1.7	1.3	1.6	1.9
External trade																
Current account balance ($b)	-60.3	-61.5	-56.8	-62.6	-49.5	-48.6	-47.3	-45.8	-44.8	-43.9	-43.3	-42.9	-62.2	-60.3	-47.8	-43.7
% of GDP	-3.2	-3.3	-3.0	-3.3	-2.6	-2.5	-2.4	-2.3	-2.2	-2.2	-2.1	-2.1	-3.4	-3.2	-2.4	-2.1
Housing starts (000s)*	172	190	194	194	175	194	183	177	176	176	173	173	215	188	182	174
Motor vehicle sales (mill., saar)*	1.71	1.79	1.80	1.79	1.72	1.82	1.80	1.81	1.81	1.82	1.83	1.83	1.72	1.77	1.79	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	3.3	3.1	2.5	2.6	2.7	2.8	3.0	2.9	2.7	2.2	2.0	2.7	2.8
Durables	5.8	6.2	7.9	2.8	1.4	8.0	6.0	6.2	6.3	6.5	6.4	6.1	7.7	6.9	4.9	6.4
Non-durables	2.7	1.6	2.9	2.9	0.4	4.1	2.4	2.5	2.8	3.1	2.8	2.5	1.4	2.0	2.3	2.8
Services	1.5	1.2	0.7	3.5	4.3	1.0	2.1	2.2	2.3	2.4	2.3	2.2	1.6	1.2	2.5	2.2
Government spending	-4.2	-0.4	0.4	-5.2	-0.8	2.8	0.4	0.4	1.0	1.0	1.3	1.5	-1.0	-2.2	-0.6	1.0
Residential investment	12.5	14.2	10.3	-7.9	-5.1	15.5	19.4	15.2	17.0	13.6	12.3	10.5	12.9	12.2	5.2	15.2
Non-residential investment	-4.6	4.7	4.8	5.7	-1.6	10.0	8.0	8.6	8.4	8.4	7.9	7.9	7.3	2.7	4.9	8.4
Non-residential structures	-25.7	17.6	13.4	-1.8	-7.5	9.4	5.8	7.0	6.5	6.5	6.0	6.8	12.7	1.3	3.1	6.6
Equipment & software	1.6	3.2	0.2	10.9	-3.1	10.3	9.1	9.5	9.4	9.3	8.8	8.4	7.6	3.1	5.0	9.3
Intellectual property	3.8	-1.5	5.7	4.0	5.1	4.6	4.6	4.6	4.0	4.0	4.1	4.3	3.4	3.1	4.4	4.3
Final domestic demand	0.5	2.1	2.3	1.6	1.6	3.6	3.2	3.2	3.4	3.4	3.3	3.2	2.4	1.6	2.4	3.4
Exports	-1.3	8.0	3.9	9.5	-6.0	7.5	6.5	8.4	8.0	9.0	8.2	8.3	3.5	2.7	3.8	8.1
Imports	0.6	6.9	2.4	1.5	0.8	5.3	7.9	7.8	7.5	8.0	8.2	8.2	2.2	1.4	3.6	7.7
Inventories (change in $b)	42.2	56.6	115.7	111.7	49.0	65.0	74.0	80.0	76.0	62.0	57.0	50.4	57.6	81.6	67.0	61.4
Real gross domestic product	**1.1**	**2.5**	**4.1**	**2.6**	**-1.0**	**4.2**	**3.1**	**3.3**	**3.3**	**3.1**	**3.0**	**2.9**	**2.8**	**1.9**	**2.3**	**3.2**

Other indicators

Year-over-year % change unless otherwise indicated

	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2012	2013	2014	2015
Business and labour																
Productivity	0.4	0.6	0.9	1.9	0.9	1.3	0.8	0.7	2.0	1.5	1.5	1.5	1.4	0.9	0.9	1.6
Pre-tax corporate profits	2.1	4.5	5.7	6.2	-3.0	2.6	1.6	0.6	13.3	5.1	5.1	4.9	7.0	4.6	0.5	6.9
Unemployment rate (%)*	7.7	7.5	7.2	7.0	6.7	6.3	6.3	6.2	6.1	6.0	5.9	5.8	8.1	7.4	6.4	6.0
Inflation																
Headline CPI	1.7	1.4	1.6	1.2	1.4	1.9	1.6	1.7	1.9	1.9	1.9	2.0	2.1	1.5	1.7	1.9
Core CPI	1.9	1.7	1.7	1.7	1.6	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	-387	-385	-324	-330	-312	-316	-321	-324	-327	-335	-344	-440	-379	-320	-332
% of GDP	-2.5	-2.3	-2.3	-1.9	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-2.7	-2.3	-1.8	-1.8
Housing starts (000s)*	947	865	882	1025	924	1050	1151	1247	1328	1400	1461	1515	784	930	1093	1426
Motor vehicle sales (millions, saar)*	15.3	15.5	15.7	15.6	15.6	16.2	16.2	16.3	16.4	16.6	16.7	16.9	14.4	15.5	16.1	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	0.90	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	1.07	1.10	1.30	1.50	1.70	2.00	2.40	2.60	1.05	1.13	1.50	2.60
Five-year	1.30	1.80	1.86	1.95	1.71	1.70	2.05	2.35	2.65	2.85	3.05	3.30	1.30	1.95	2.35	3.30
10-year	1.88	2.44	2.55	2.77	2.46	2.45	2.75	3.00	3.20	3.35	3.55	3.85	1.75	2.77	3.00	3.85
30-year	2.50	2.90	3.07	3.24	2.96	3.00	3.30	3.50	3.70	3.85	4.10	4.30	2.40	3.24	3.50	4.30
Yield curve (10s-2s)	88	122	136	164	139	135	145	150	150	135	115	125	70	164	150	125
United States																
Fed funds	0.13	0.13	0.13	0.13	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.13	0.13	0.25	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	0.45	0.45	0.65	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	1.74	1.75	2.00	2.25	2.50	2.75	3.00	3.35	0.70	1.75	2.25	3.35
10-year	1.87	2.52	2.64	3.04	2.73	2.75	3.05	3.30	3.50	3.70	3.90	4.20	1.70	3.04	3.30	4.20
30-year	3.10	3.52	3.69	3.96	3.55	3.70	4.00	4.25	4.45	4.55	4.70	4.90	2.90	3.96	4.25	4.90
Yield curve (10s-2s)	162	216	231	266	228	230	240	245	245	240	225	215	145	266	245	215
Yield spreads																
Three-month T-bills	0.91	0.98	0.96	0.84	0.85	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	0.62	0.65	0.65	0.65	0.65	0.70	0.75	0.55	0.80	0.75	0.65	0.55
Five-year	0.53	0.39	0.47	0.20	-0.03	-0.05	0.05	0.10	0.15	0.10	0.05	-0.05	0.60	0.20	0.10	-0.05
10-year	0.01	-0.08	-0.09	-0.27	-0.27	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	0.05	-0.27	-0.30	-0.35
30-year	-0.60	-0.62	-0.62	-0.72	-0.59	-0.70	-0.70	-0.75	-0.75	-0.70	-0.60	-0.60	-0.50	-0.72	-0.75	-0.60

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	0.71	0.60	0.70	0.80	1.00	1.25	1.50	1.75	0.20	0.57	0.80	1.75
10-year	1.78	2.46	2.50	3.04	2.73	2.70	3.00	3.25	3.40	3.60	3.80	4.10	1.70	3.04	3.25	4.10
Euro Area																
Refinancing rate	0.75	0.50	0.50	0.25	0.25	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.75	0.25	0.15	0.15
Two-year	-0.02	0.20	0.15	0.24	0.17	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.00	0.24	0.10	0.10
10-year	1.29	1.73	1.70	2.11	1.57	1.40	1.60	1.75	1.80	1.90	2.00	2.25	1.50	2.11	1.75	2.25
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	3.25	3.00	2.50	2.50	3.25
Two-year swap	2.83	2.58	2.45	2.68	2.78	2.80	3.00	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	4.08	4.00	4.30	4.65	5.00	5.30	5.50	5.90	3.00	4.23	4.65	5.90
New Zealand																
Cash target rate	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.50	3.75	4.00	4.00	4.00	2.50	2.50	3.50	4.00
Two-year	2.85	2.85	3.42	3.81	4.01	3.90	4.00	4.10	4.10	4.20	4.40	4.60	2.60	3.81	4.10	4.60
10-year	3.96	4.16	4.86	5.23	4.62	5.00	5.30	5.50	5.80	6.10	6.30	6.50	3.80	5.23	5.50	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*	3.0	1.9	3.0	2.7	1.2	3.0	2.8	2.7	2.7	2.5	2.4	2.2	1.7	2.0	2.4	2.7
United States*	1.1	2.5	4.1	2.6	-1.0	4.2	3.1	3.3	3.3	3.1	3.0	2.9	2.8	1.9	2.3	3.2
United Kingdom	0.4	0.7	0.8	0.7	0.8	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.2	1.9	2.9	2.4
Euro Area	-0.2	0.3	0.1	0.3	0.2	0.4	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	1.1	0.6	0.5	0.6	0.9	0.9	0.9	0.9	3.6	2.4	3.2	3.1
New Zealand	0.6	0.1	1.0	0.6	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	1.4	1.9	1.6	1.7	1.6	1.6	1.9	2.0	1.5	0.9	1.6	1.8
United States	1.7	1.4	1.6	1.2	1.4	1.9	1.6	1.7	1.9	1.9	1.9	2.0	2.1	1.5	1.7	1.9
United Kingdom	2.8	2.7	2.7	2.0	1.8	1.7	1.6	1.8	1.7	1.8	1.8	1.6	2.8	2.6	1.7	1.8
Eurozone	1.8	1.4	1.3	0.8	0.7	0.6	0.4	0.6	0.8	0.9	0.9	0.9	2.5	1.3	0.6	0.9
Australia	2.5	2.4	2.2	2.6	2.9	3.1	2.7	2.4	2.5	2.6	2.6	2.8	1.8	2.4	2.8	2.7
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**
AUD/USD	1.04	0.91	0.93	0.89	0.93	0.91	0.92	0.92	0.90	0.88	0.86	0.85	1.04	0.89	0.92	0.85
USD/CAD	1.02	1.05	1.03	1.06	1.11	1.10	1.13	1.15	1.16	1.17	1.17	1.18	0.99	1.06	1.15	1.18
EUR/USD	1.28	1.30	1.35	1.38	1.38	1.37	1.34	1.30	1.28	1.27	1.26	1.25	1.32	1.38	1.30	1.25
USD/JPY	94	99	98	105	103	99	99	100	103	105	107	110	87	105	100	110
NZD/USD	0.84	0.77	0.83	0.82	0.87	0.84	0.85	0.85	0.84	0.83	0.81	0.80	0.83	0.82	0.85	0.80
USD/CHF	0.95	0.95	0.90	0.89	0.89	0.89	0.92	0.95	0.97	0.98	0.99	1.00	0.92	0.89	0.95	1.00
GBP/USD	1.52	1.52	1.62	1.66	1.67	1.65	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