ECONOMIC AND FINANCIAL MARKET OUTLOOK

December 2014

Global economy to get a lift from strengthening US growth in 2015

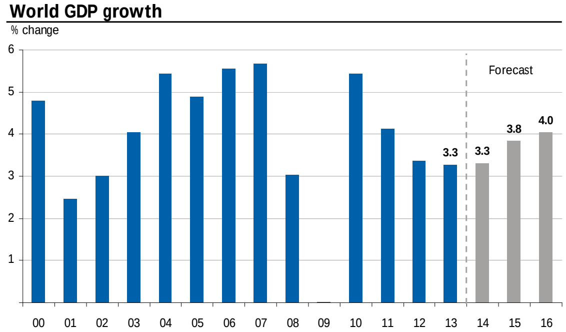
After a year when a confluence of factors served to limit global economic growth, 2015 is likely to prove to be stronger with world GDP forecast to accelerate after three years of steady but unspectacular gains. The Ebola virus, heightened geopolitical tensions and the rotation of disappointing data that started in Canada and the US because of a bitter winter early in the year and migrated to the Euro area and Japan weighed on confidence that the global economy will be able to transition to a stronger growth path. However, the US economy subsequently rebounded strongly. Our view is that this strength will be sustained and sufficient to raise global growth in 2015.

The IMF, in its semi-annual forecast update in early-October lowered the projections for world economic growth in 2014 and 2015. 2014's forecast downgrade reflected lower projections for the Euro-area and Japan although much of this was offset by a ramping up of the estimate of US growth. All told, the world economy is now expected to grow by 3.3% in 2014, closely aligned with growth in the previous two years. 2015's forecast was also lowered to 3.8% although this does represent a strengthening from recent years with a further acceleration to 4.0% in 2016 expected.

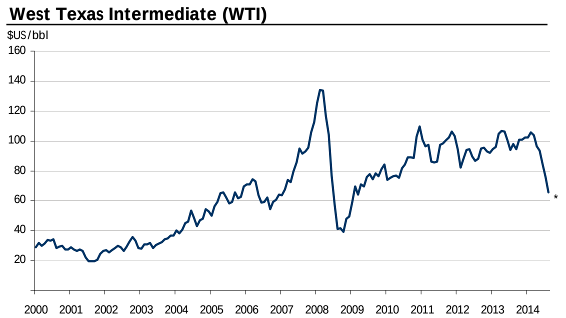
Concern within financial markets emerged in September about the modest pace of global growth. The MSCI world stock market index sank and the decline in commodity prices accelerated. The drop in the stock market proved short-lived and the index reversed course in mid-October as concerns eased. However commodity prices remain under downward pressure. Oil prices, in particular, are sharply lower with the price of West Texas Intermediate crude falling about 40% since mid-June 2014. The drop reflected not only lower demand projections but also indications of a significant increase in supply coming to the market. We expect that the oil prices will regain ground over 2015 as global demand picks up.

What's an investor to do?

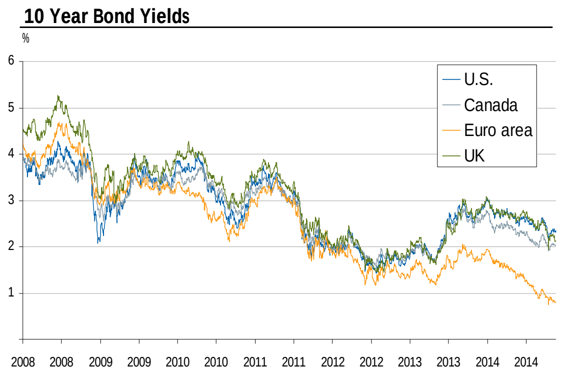
Against this turbulent backdrop, investors ploughed funds into fixed income securities resulting in yields falling to the lowest level this year. Most pronounced was the continued drop in Euro-area yield with the 10-year rate falling to three-quarters of a percentage point from 2.0% in January 2014. The weakening in economic activity and very low inflation rate prompted the ECB to cut its policy rate twice earlier in the year and follow up with a program to grow its balance sheet in order to boost liquidity in the financial system. Our forecast assumes that these policy actions will bear fruit in 2015 with the Euro area economy forecast to grow at a 1.0% rate, faster than 2014's 0.7% rise. Further, we expect these measures will be sufficient to head off further declines in inflation and reduce expectations that the Euro area is entering a pe-



Source: International Monetary Fund, RBC Economics Research



* Month of December to-date
Source: Energy Information Administration/Wall Street Journal, RBC Economics Research



Source: RBC Economics Research, Bank of Canada, Financial Times Reuters, U.S. Tresury

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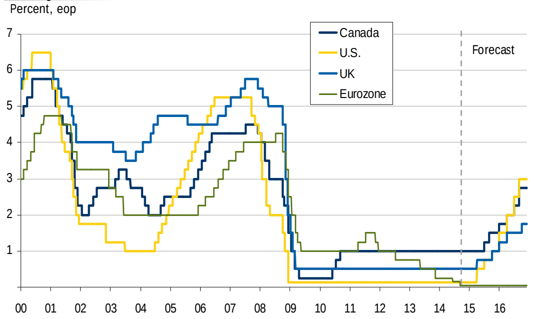
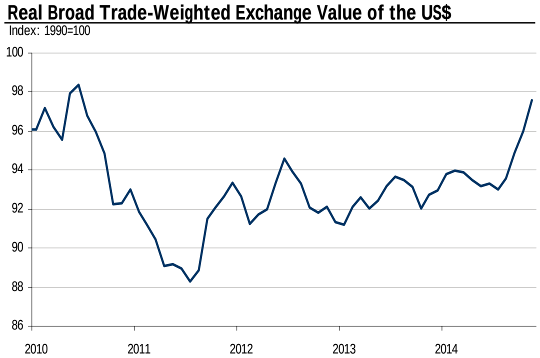
Policy rates : International



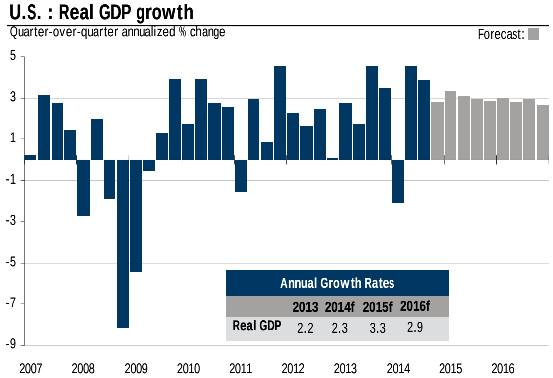
Source: Bank of England, European Central Bank, Federal Reserve, Bank of Canada, RBC Economics Research

Real Broad Trade-Weighted Exchange Value of the US$



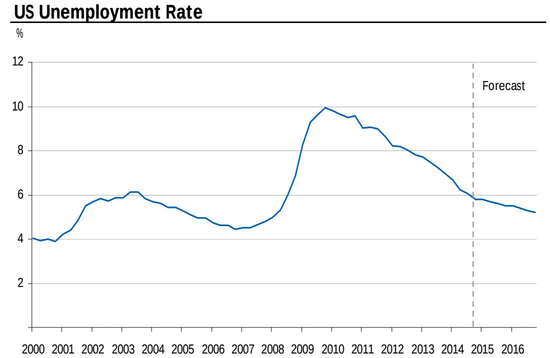
Source: Federal Reserve Board, RBC Economics Research

U.S. : Real GDP growth



Source: Bureau of Economics Analysis, RBC Economics Research

US Unemployment Rate



Source: RBC Economics Research, Bureau of Labor Statistics

riod of deflation. In 2016, the Euro area economy is projected to grow 1.4% with inflation averaging 1.1%.

Central banks face different challenges

Unlike the ECB, where more stimulus continues to be the order of the day, the Federal Reserve completed its first step toward policy normalization by ending its quantitative easing program in late October 2014. The strengthening in economic growth, improving labour market conditions and steady inflation, signalled that the US economy no longer needed the extraordinary policy stimulus. That said, the Fed maintained that it will likely be a “considerable time” after the end of the bond buying program before economic conditions will warrant an increase in the Federal Funds target rate, its key policy tool and we expect the first rate hike to come in the middle of next year. The Bank of Canada and Bank of England are also likely to be in position to raise their policy rates in 2015, however policymakers are concerned that the weaker global growth backdrop will act as a headwind for their respective economies and lean against the achievement of inflation targets on a sustained basis. Our forecast assumes that both countries will maintain adequate momentum to deplete spare capacity in the economy with core inflation heading closer toward target during 2015 that it will behoove these central banks to reduce policy stimulus.

US dollar up, up and away

The US dollar’s rally accelerated sharply this autumn as the diverging economic fortunes and central bank policy outlook underpinned the dollar’s move higher. With central bank tightening projected to occur later than previously anticipated in Canada and the UK and the ECB and Bank of Japan loosening policy further, the Federal Reserve stood alone in preparing markets for interest rates to move higher. In Canada, the weakening in the currency was exacerbated by the sharp decline in commodity prices, in particular oil. Our forecast assumes that the worst is over for most commodities with prices forecast to rise or stabilize in 2015. That said, with the US economy assuming the role of growth leader of the advanced economies and the Fed viewed as the most likely to lead the tightening cycle, we look for the U.S. dollar to strengthen further in 2015. As a result, the Canadian currency is projected to weaken to 0.85 US cents from 0.87 US cents at the end of 2014. The euro and sterling are also expected to continue to depreciate against the US dollar again next year with the euro projected to end 2015 at 1.17 and sterling at 1.43 from 1.24 and 1.56 respectively.

US economy revs up...2015 to mark fastest growth in a decade

The US economy showed strong momentum in the second and third quarters of 2014 after a weather-related drop in activity to start the year. Data for October and November signalled that growth held up in the fourth quarter with the unemployment rate falling to the lowest level since July 2008 and the composite PMI holding at an elevated level, albeit slightly below Q3’s near-record high. We are assuming real GDP growth of 2.8% annualized in the fourth quarter and a 2.3% increase for the year. Outside the weather-related downturn, the US economy showed solid gains for 2014 backed by a pickup in consumer spending and firming in business investment. Continuation of these trends will result in growth accelerating to 3.3% in 2015 before gearing down marginally to 2.9% in 2016.

Conditions in the US labour market improved substantially in 2014 with the average monthly increase in employment of 240,000 setting up for it to be the best year for hiring in more than a decade. The unemployment rate, at 5.8%, is closing in on the 5.2% to 5.5% range the Federal Reserve deems as full employment. In October, the Federal Reserve highlighted that not only have the headline indicators shown improvement but that broader measures of labour market conditions indicate that excess capacity is diminishing. As yet this has not translated into a significant pick up in wages however income gains are expected to materialize in 2015 as conditions tighten.

US consumer – looks who's back!

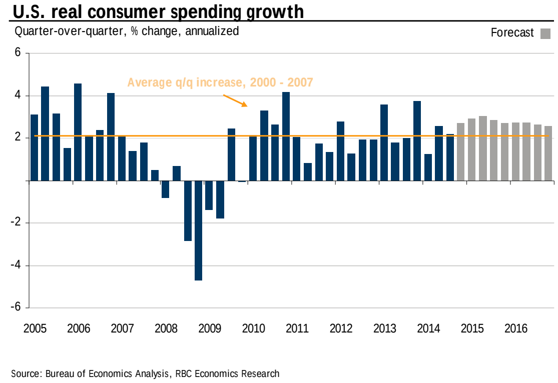
For the US consumer, this will provide the means to increase spending on goods and services and support activity in real estate. US household balance sheets continue to improve and owners have significantly more equity in their real estate holdings. Asset growth eclipsed a small rise in liabilities resulting in net wealth reaching an all-time high on an absolute basis to stand within 4% of the record level relative to disposable income. The strengthening in balance sheet conditions supported an easing in lending standards by financial institutions. Consumers will also benefit from the decline in oil prices that will allow for increased discretionary spending. These supports tee up for consumption growth to accelerate in 2015 to 2.8%, the fastest in 8 years with this pace likely to be maintained in 2016.

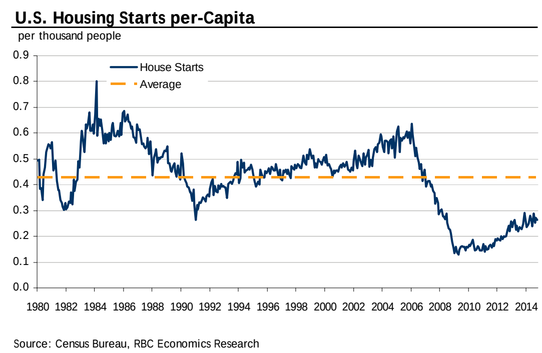
These conditions will also support stronger real estate activity in 2015. Home sales activity was hit back earlier this year as inclement weather conditions kept buyers away and financial institutions temporarily tightened lending standards for mortgage loans. This combination drove home sales activity down about 6.5% in the first quarter of 2014. Subsequently, the easing of lending standards, persistently low borrowing costs and the return of normal weather conditions saw sales activity recover. Housing starts were similarly volatile and rebounded to average more than one million units at an annualized pace in the third quarter of 2014. The elevated level of building permits and persistence of low interest rates are expected to support a further strengthening in housing construction activity in 2015. Housing starts activity is likely to remain elevated in 2016 as the pent-up demand generated during the housing market crash and recession is gradually sated.

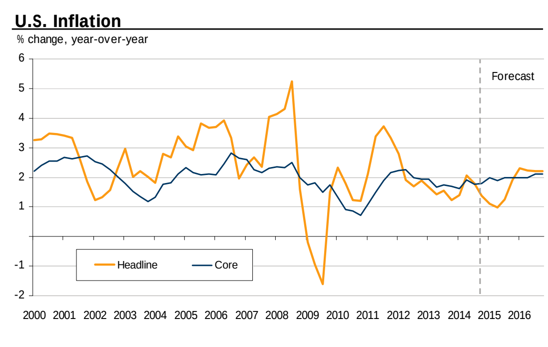
US business investment to accelerate in 2015

US business sentiment improved throughout 2014 buoyed by the pick up in demand and willingness of financial institutions to provide credit at extraordinarily attractive levels. Over the first three quarters of 2014, business non-residential investment increased at a 6.1% average pace, a step up from 2013's 3.0% increase. Capacity usage is running slightly higher than average with the manufacturing and mining sectors showing the greatest tightening. Even with investment activity increasing faster than the historical average in 2014, we expect a further acceleration in 2015 as domestic demand strengthens and businesses take advantage of highly accommodative financial conditions.

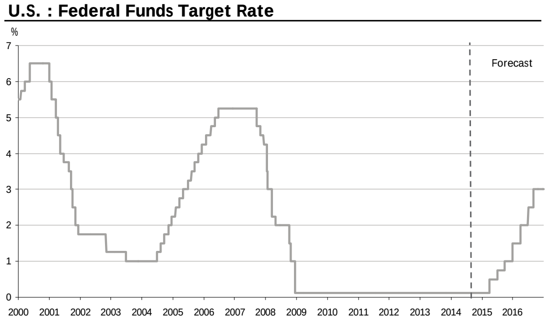
Despite the strengthening in growth in 2014, inflation continues to be modest with both the headline and core rate holding below the Fed's 2.0% objective. The drop in energy prices in recent months will exert downward pressure on the headline rate going forward although we expect only minimal flow-through to the core measure which excludes both food and energy prices. The decline in inflation expectations as indicated by financial markets was discounted by the Federal Reserve at its October meeting with policymakers pointing to survey-based readings that showed expectations were still an-







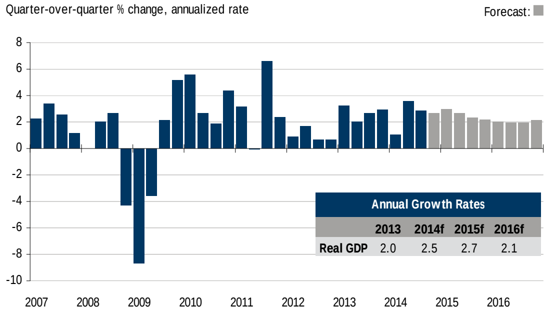
U.S. : Federal Funds Target Rate



Source: Federal Reserve Board, U.S. Treasury, RBC Economics Research

Canada : Real GDP growth

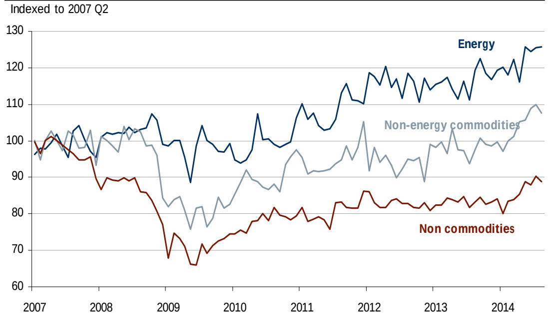
Quarter-over-quarter % change, annualized rate



Source: Statistics Canada, RBC Economics Research

Canada : Exports by sector

Indexed to 2007 Q2



Source: Statistics Canada, RBC Economics Research

chored around 2.0%. We look for inflation, outside of energy, to gravitate to 2% in 2015.

That's all folks!

The Federal Reserve ended its quantitative easing program in October putting an end to new bond purchases by the central bank. Market reaction was minimal given the Fed had communicated its plan earlier. Additionally, the program ended when investors were putting cash into the less risky US Treasury market thereby limiting any increase in longer-term yields. The ending of the securities purchase program marked the first step in the process of normalizing interest rates. This will, according to the Fed's blueprint, be followed by an increase in the Fed funds target rate after a "considerable time" and subsequently the end of the Fed's program of reinvesting the proceeds of maturing securities. The process of normalizing monetary policy will be studied and slow. Our expectation that the US economy will continue to grow at an above-potential pace in 2015 generating demand for labour and a pickup in wages sets up for the Fed to raise its policy rate in the middle of next year. We expect this to be followed by quarter-point increases in the final two quarters of 2015 with the Fed funds target to end the year at 1.0%. The Fed is likely to ramp up the pace of rate increases in 2016 and we expect the fed funds target to rise to 3.0% by the end of the year. With the Fed raising the policy rate, core inflation at the Fed's 2.0% objective and the economy operating at full employment, longer-term interest rates will move higher. The 10-year US Treasury yield is forecast to stand at 3.40% at the end of 2015, well above the 2.30% average so far in the fourth quarter of 2014, and rise to 4.00% in late in 2016.

Canada's economy - more balanced growth ahead

The outlook for Canada was muddied by the decline in commodity prices however on balance our analysis suggests that any weakening in investment in the oil and gas industry will be offset by increased demand for Canada's non-energy exports and commensurate investment by these industries. Further support is expected from a positive hit to household disposable income reflecting lower gasoline prices. Therefore on a national level, we are assuming there will be negligible impact on real GDP although this will mask diverging outcomes among the provincial economies. (see Provincial Outlook, December 2014). Canadian growth slowed early in the year due to the unseasonably harsh winter however recovered in the second quarter and continued to grow at an above-potential rate in the third quarter. We expect growth in the fourth quarter to continue at this pace. Given the soft start to the year, Canada's economy is forecast to grow 2.5% in 2014 with net exports providing a significant lift. In 2015, another strong gain in net exports will drive the economy's growth rate to 2.7% before returning to a trend-like rate of 2.1% in 2016.

Exports power up

After several years of export growth coming largely from the energy sector, 2014 marked a turning point with both non-energy commodities and non-commodity exports making larger contributions. The broadening in export demand corresponded with a firming in US investment in machinery and equipment which bolstered exports of non-commodity goods including transportation equipment and industrial machinery. Further, the strong gains in US auto sales in 2014 boosted exports of motor vehicles and parts. We expect demand for Canadian exports to continue to accelerate in 2015 supported by investment by US firms and persistently strong demand for autos by US consumers. The weakening in the Canadian dollar throughout 2013 and 2014 provided relief to some of the competitiveness challenges facing Canadian exporters. Our expectation that the currency will remain under modest downward pressure in 2015 is based on our assessment that drop in commodity prices will cease as global demand recovers and that the spread between short-term interest rates will narrow as the Bank of Canada lags the US Federal Reserve in boosting policy rates. These offsetting factors will likely limit the degree of Canadian dollar depreciation to about 3% per annum in 2015 and 2016 resulting in yearend values of 85 US cents and 82 US cents.

Energy is important for Canada

While the overall hit to the economy from falling oil prices may not be significant from a GDP add-up point of view, it is still an integral part of the outlook for exports and investment. As discussed, the broadening out of demand will be sufficient to lift export growth in 2015. The outlook for investment in Canada will be affected in so much as it will likely limit new spending by the oil and gas industries next year. Industries outside oil and gas however are likely to pick up the slack due to stronger U.S. demand for Canada's exports. Lower energy prices for Canadian companies will serve to reduce costs and paves the way for higher investment. Our forecast assumes that oil prices recover some of the recent declines in 2015 with West Texas Intermediate averaging $70.00 in 2015, higher than the current level of around $60.00, with the price of WTI expected to average $80.00 in 2016.

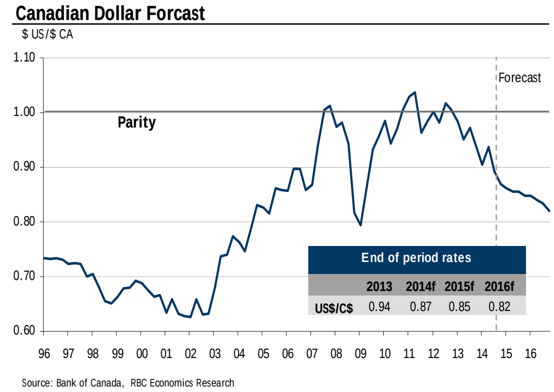
Taking the heat off consumers

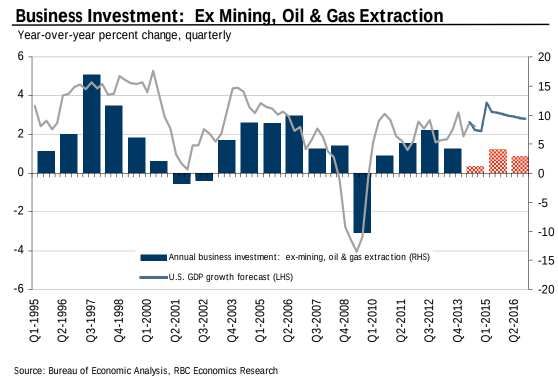
The prospect of firmer external demand propelling the economy higher will take some of the pressure off the consumer who has acted as the strongman for Canada's economy since the Great Recession. The run-up in debt on household balance sheets continued unabated in the first half of 2014 although the pace of increase remained on a slowing trajectory and the value of assets and net worth increased at a quicker pace. Further, given the low level of interest rates, the cost to service the elevated debt balances remained manageable. Looking ahead to 2015, the prospect of higher interest rates will likely reduce households' appetite for debt limiting the support for consumers to continue to increase spending.

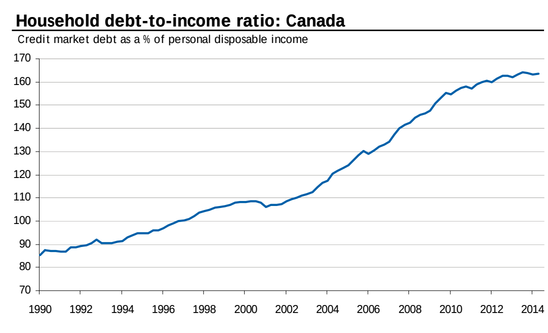
Firm employment growth to drive wages up

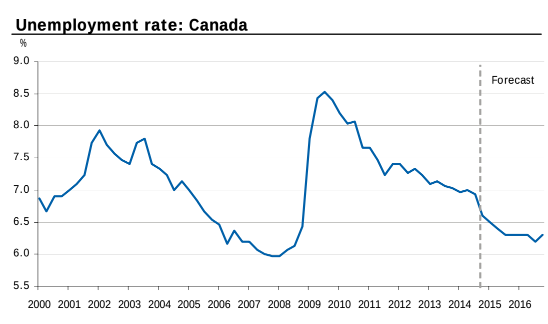
We expect that increasing income growth will more than offset the slowing in demand for debt and drive consumption in 2015. Recently, Canada's labour market showed renewed strength with monthly job gains averaging 27,000 from July to November, substantially quicker than the 9,000 pace recorded in the first half of 2014. The unemployment rate correspondingly dipped and we expect will hold around 6.5% which is very close to what is historically considered to be the economy's full employment rate. A broader measure of labour market conditions that includes indicators tracking those working part-time for economic reasons, the duration of unemployment and unemployment benefits shows that the labour market gap is aligned with more conventional measures of the output gap suggesting only one half percentage point of slack remains. The improvement in many of the inputs of the labour market conditions index in recent months suggests that the gap will narrow further in the fourth quarter.

Wage growth however has not caught up with the general improvement in the labour market with the average increase running at about 2.0% throughout

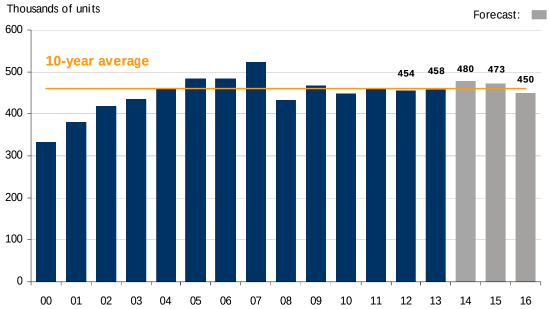






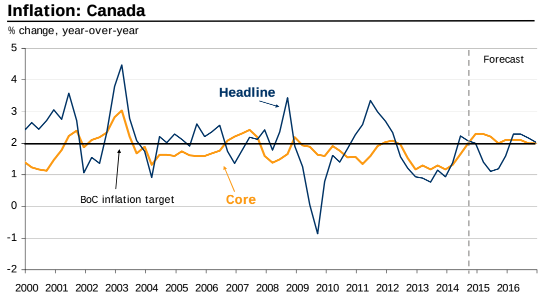


Home resales: Canada



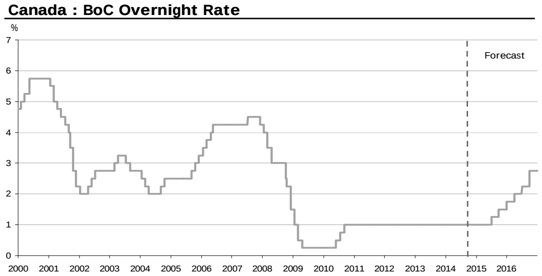
Source: Canadian Real Estate Association, RBC Economics Research

Inflation: Canada



Source: Statistics Canada, RBC Economics Research

Canada : BoC Overnight Rate



Source: Bank of Canada, RBC Economics Research Forecasts

2013 and 2014 year-to-date. In real terms, this suggests no increase in wages in recent months. We expect that as labour market conditions continue to firm, upward pressure on wages will materialize providing consumers with the means to spend. Our forecast is for consumer spending to increase by 2.4% in 2015 and 2.2% in 2016, somewhat slower than the 2.8% rise in 2014.

Housing market's glow to dim slightly in 2015

Canada's housing market continued to power along in 2014 with sales running at a rapid pace after faltering early in the year as the harsh winter weather curbed activity. Year-to-date, sales are 4.5% higher than the same period in 2013 and price gains averaged 7.0% over the period. Despite the strong price performance, housing affordability in most markets is only showing modest signs of stress. The outliers are Toronto and Vancouver where affordability is stretched relative to average conditions. Low interest rates and modest increases in income have largely offset the impact of rising prices in most cities. In 2015, expected increases in mortgage rates as the Bank of Canada transitions to tightening mode will challenge affordability resulting in a mild pullback in sales activity. That said, with the Bank of Canada likely to only slowly raise the policy rate, and income growth expected to accelerate, we are only looking for a cooling in housing sales, not a collapse.

Bank of Canada not quite ready to pull the trigger on interest rates

The Bank of Canada remains comfortable with the overnight rate at 1.0% and views the risks to the outlook as being balanced. This view is based on the Bank's assessment that the recent increase in the headline and core inflation rates will prove to be temporary as the rise reflects one-off factors that will dissipate over time. To be sure, the weakening in the Canadian dollar has fuelled a pick up in prices for clothing and other goods that have high import content. The recent decline in energy prices will translate into a lower headline inflation rate in the months ahead however excluding energy, inflation pressures are likely to continue to run at or above 2.0%. It is notable that recent data have shown a broadening out in inflation pressures with 46% of the components of the CPI posting gains of at least 2% in October.

The Bank of Canada's forecast assumes that the core inflation rate will ease in 2015 and only return to the 2% target once the economy reaches its full production capacity in late 2016. Our assessment is that the broadening out of inflation pressures is likely to limit how much the core rate moves back down in 2015. We also anticipate that the economy will reach its full production capacity earlier than the Bank sowing the seeds for inflation pressures to accelerate further if interest rates are not increased. Our view remains that the persistence of core inflation holding near or above the Bank's target and a firming in economic growth will convince the Bank to reduce the amount of policy stimulus by raising the overnight rate in the middle of next year. Additional increases will be slow and steady such that the overnight rate is projected to be 1.50% at the end of 2015 and 2.75% at the end of 2016.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual			Forecast									Actual		Forecast		
	2014				2015				2016				year-over-year % change				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014	2015	2016
Household Consumption	1.5	4.4	2.8	2.3	2.3	2.2	2.2	2.1	2.3	2.1	2.1	2.1	1.9	2.5	2.8	2.4	2.2
Durables	1.6	14.9	12.6	-2.0	0.5	1.8	1.7	1.7	2.8	1.1	1.5	1.5	2.8	3.8	5.4	2.7	1.8
Semi-Durables	-5.8	11.7	4.5	3.0	3.0	2.6	2.5	2.5	2.5	2.5	2.5	2.5	3.1	2.8	3.8	3.5	2.5
Non-durables	4.0	-0.5	-0.7	3.5	3.0	2.4	2.5	2.4	2.3	2.3	2.2	2.2	0.3	2.3	2.8	2.2	2.3
Services	1.3	3.5	2.1	2.6	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.3	2.3	2.1	2.3	2.1
NPISH consumption	3.7	-0.5	2.4	2.3	2.3	2.2	2.2	2.1	2.3	2.1	2.1	2.1	2.3	1.6	1.0	2.1	2.2
Government expenditures	-0.5	1.2	-0.1	0.4	0.8	0.8	1.0	1.0	1.5	2.0	2.5	2.5	1.2	0.4	0.1	0.7	1.6
Government fixed investment	-1.8	2.5	2.4	1.0	1.2	1.2	1.5	1.5	2.5	3.0	3.5	3.5	-4.8	-1.6	-1.2	1.4	2.4
Residential investment	-4.2	11.4	12.5	0.1	-4.5	-3.1	-3.2	-1.3	-1.3	-0.6	-0.1	0.6	5.7	-0.4	2.5	-0.1	-1.3
Non-residential investment	-1.9	0.8	0.5	3.1	4.6	5.0	4.7	4.3	4.9	4.4	4.4	4.2	9.0	2.6	-0.3	3.6	4.6
Non-residential structures	-0.3	0.5	-1.9	3.8	4.5	5.1	4.8	4.4	4.8	4.0	4.0	3.8	13.5	5.0	0.1	3.4	4.4
Machinery & equipment	-5.0	1.4	5.2	1.9	4.7	4.9	4.4	4.2	5.0	5.3	5.3	5.1	1.9	-1.7	-1.1	4.0	4.9
Intellectual property	-4.2	-8.9	15.9	2.9	4.6	5.0	4.6	4.3	4.0	3.5	3.5	3.0	1.0	-4.6	0.1	4.8	4.0
Final domestic demand	0.1	3.3	2.8	1.8	1.8	1.9	1.9	1.9	2.2	2.2	2.4	2.4	2.5	1.5	1.6	2.0	2.1
Exports	0.9	19.0	6.9	2.1	8.5	6.3	5.0	5.5	6.6	5.6	5.0	5.4	2.6	2.0	5.5	6.6	5.7
Imports	-4.8	9.8	4.0	4.0	4.0	3.3	3.8	5.3	6.4	6.1	5.5	6.0	3.7	1.3	1.8	4.3	5.5
Inventories (change in $b)	13.3	4.8	0.6	7.2	6.2	5.8	6.2	7.2	6.2	5.9	4.9	4.9	7.4	12.4	6.5	6.4	5.5
Real gross domestic product	**1.0**	**3.6**	**2.8**	**2.7**	**3.0**	**2.7**	**2.3**	**2.2**	**2.0**	**1.9**	**1.9**	**2.1**	**1.9**	**2.0**	**2.5**	**2.7**	**2.1**

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	2016
Business and labour																	
Productivity	1.8	3.0	2.6	1.7	2.1	0.9	1.1	1.4	1.2	1.1	1.1	1.1	0.2	1.1	2.3	1.4	1.1
Pre-tax corporate profits	7.8	12.0	10.3	5.8	-0.1	-0.8	-2.8	2.2	4.9	4.0	3.3	2.8	-4.2	-0.6	8.9	-0.4	3.7
Unemployment rate (%)*	7.0	7.0	6.9	6.6	6.5	6.4	6.3	6.3	6.3	6.3	6.2	6.3	7.2	7.1	6.9	6.4	6.3
Inflation																	
Headline CPI	1.4	2.2	2.1	2.0	1.4	1.1	1.2	1.6	2.3	2.3	2.2	2.0	1.5	0.9	1.9	1.3	2.2
Core CPI	1.3	1.7	2.0	2.3	2.3	2.2	2.0	2.1	2.1	2.1	2.0	2.0	1.7	1.3	1.8	2.1	2.0
External trade																	
Current account balance ($b)	-45.0	-39.6	-33.6	-52.0	-54.4	-49.8	-46.2	-44.1	-38.1	-38.7	-38.9	-39.6	-59.9	-56.3	-42.6	-48.6	-38.8
% of GDP	-2.3	-2.0	-1.7	-2.6	-2.7	-2.5	-2.3	-2.1	-1.8	-1.8	-1.8	-1.8	-3.3	-3.0	-2.2	-2.4	-1.8
Housing starts (000s)*	175	197	199	195	190	189	184	183	179	178	174	174	215	188	191	187	177
Motor vehicle sales (mill., saar)*	1.7	1.9	2.0	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.8	1.9	1.8	1.8

*Period average

Source: Statistics Canada, RBC Economics Research forecasts

Economic forecast detail — United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual			Forecast									Actual		Forecast		
	2014				2015				2016				year-over-year % change				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014	2015	2016
Consumer spending	1.2	2.5	2.2	2.7	2.9	3.0	2.9	2.7	2.7	2.7	2.6	2.5	1.8	2.4	2.3	2.8	2.7
Durables	3.2	14.1	8.7	1.9	7.0	6.7	6.4	6.1	5.8	5.5	5.2	4.8	7.3	6.7	6.6	6.5	5.8
Non-durables	0.0	2.2	2.2	3.5	2.8	3.1	2.8	2.5	2.5	2.4	2.3	2.1	0.7	1.9	1.7	2.9	2.5
Services	1.3	0.9	1.2	2.5	2.3	2.4	2.3	2.2	2.3	2.4	2.3	2.3	1.3	1.9	1.8	2.1	2.3
Government spending	-0.8	1.7	4.2	0.4	1.0	1.0	1.3	1.5	1.7	1.8	2.0	2.2	-1.4	-2.0	0.0	1.4	1.7
Residential investment	-5.3	8.8	2.7	16.5	10.4	7.1	7.0	5.0	4.3	4.8	5.5	5.5	13.5	11.9	2.3	9.0	5.3
Non-residential investment	1.6	9.7	7.1	6.7	8.1	7.7	7.7	7.0	6.6	6.3	5.9	5.8	7.2	3.0	6.2	7.6	6.7
Non-residential structures	2.9	12.6	1.1	8.0	6.5	6.5	6.8	5.5	4.8	4.1	3.6	3.1	13.1	-0.5	7.8	6.4	4.9
Equipment & software	-1.0	11.2	10.8	6.0	8.8	8.4	8.2	7.7	7.4	7.3	7.1	7.1	6.8	4.6	6.8	8.4	7.5
Intellectual property	4.7	5.5	6.4	4.6	4.0	4.0	4.1	4.3	4.4	4.5	4.5	4.4	3.9	3.4	4.2	4.5	4.4
Final domestic demand	0.7	3.4	3.2	3.1	3.3	3.2	3.2	3.0	3.0	3.0	3.0	2.9	2.1	1.9	2.3	3.2	3.0
Exports	-9.2	11.0	4.9	4.9	7.5	6.1	6.4	6.2	6.5	6.3	5.7	5.5	3.3	3.0	3.3	6.4	6.2
Imports	2.2	11.3	-0.7	5.9	5.6	7.0	7.0	6.5	6.0	6.7	5.1	5.5	2.3	1.1	3.7	5.7	6.3
Inventories (change in $b)	35.2	84.8	79.1	76.3	70.0	73.0	72.5	73.5	75.5	75.5	75.4	68.4	57.1	63.6	68.9	72.3	73.7
Real gross domestic product	**-2.1**	**4.6**	**3.9**	**2.8**	**3.3**	**3.1**	**3.0**	**2.9**	**3.0**	**2.8**	**3.0**	**2.7**	**2.3**	**2.2**	**2.3**	**3.3**	**2.9**

Other indicators

Year-over-year % change unless otherwise indicated

	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2012	2013	2014	2015	2016
Business and labour																	
Productivity	0.5	1.1	0.7	0.0	1.7	1.4	1.3	1.4	1.4	1.4	1.5	1.5	0.9	1.2	0.6	1.4	1.5
Pre-tax corporate profits	-4.8	0.1	0.4	1.0	12.8	5.3	4.2	4.4	4.4	4.3	4.4	4.4	11.4	4.2	-0.8	6.5	4.4
Unemployment rate (%)*	6.7	6.2	6.1	5.8	5.8	5.7	5.6	5.5	5.5	5.4	5.3	5.2	8.1	7.4	6.2	5.7	5.4
Inflation																	
Headline CPI	1.4	2.1	1.8	1.4	1.1	1.0	1.3	1.9	2.3	2.2	2.2	2.2	2.1	1.5	1.7	1.3	2.2
Core CPI	1.6	1.9	1.8	1.8	2.0	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	1.8	1.8	2.0	2.1
External trade																	
Current account balance ($b)	-408	-394	-363	-349	-334	-348	-364	-379	-392	-403	-406	-413	-461	-400	-379	-356	-404
% of GDP	-2.4	-2.3	-2.1	-2.0	-1.9	-1.9	-2.0	-2.0	-2.1	-2.1	-2.1	-2.1	-2.9	-2.4	-2.2	-2.0	-2.1
Housing starts (000s)*	925	985	1033	1161	1222	1266	1297	1313	1322	1350	1376	1400	784	930	1026	1274	1362
Motor vehicle sales (millions, saar)*	15.7	16.5	16.7	16.6	16.6	16.8	16.9	17.0	17.2	17.4	17.6	17.8	14.4	15.5	16.4	16.8	17.5

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates—North America

%, end of period

	Actual			Forecast									Actual		Forecast		
	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	2012	2013	2014	2015	2016
Canada																	
Overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.75	1.00	1.00	1.00	1.50	2.75
Three-month	0.90	0.94	0.92	0.90	1.10	1.10	1.35	1.60	1.90	2.15	2.40	2.75	1.05	0.90	0.90	1.60	2.75
Two-year	1.07	1.10	1.13	1.00	1.20	1.40	1.75	2.00	2.25	2.45	2.60	2.75	1.05	1.00	1.00	2.00	2.75
Five-year	1.71	1.53	1.63	1.45	1.75	2.00	2.30	2.55	2.70	2.85	3.00	3.20	1.30	1.45	1.45	2.55	3.20
10-year	2.46	2.24	2.15	1.95	2.30	2.60	2.70	3.00	3.10	3.30	3.40	3.50	1.75	1.95	1.95	3.00	3.50
30-year	2.96	2.78	2.67	2.50	2.80	3.00	3.10	3.30	3.50	3.60	3.75	3.90	2.40	2.50	2.50	3.30	3.90
Yield curve (10s-2s)	139	114	102	95	110	120	95	100	85	85	80	75	70	95	95	100	75
United States																	
Fed funds	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.50	2.00	2.50	3.00	0.25	0.25	0.25	1.00	3.00
Three-month	0.05	0.04	0.02	0.05	0.10	0.40	0.65	0.90	1.40	1.90	2.40	2.80	0.09	0.05	0.05	0.90	2.80
Two-year	0.45	0.47	0.58	0.60	0.75	1.10	1.60	2.00	2.25	2.50	2.75	3.00	0.25	0.60	0.60	2.00	3.00
Five-year	1.74	1.62	1.78	1.60	1.85	2.25	2.60	2.85	3.00	3.15	3.30	3.50	0.70	1.60	1.60	2.85	3.50
10-year	2.73	2.53	2.52	2.30	2.60	3.00	3.20	3.40	3.55	3.70	3.85	4.00	1.70	2.30	2.30	3.40	4.00
30-year	3.55	3.34	3.21	3.00	3.30	3.65	3.85	4.00	4.10	4.25	4.35	4.50	2.90	3.00	3.00	4.00	4.50
Yield curve (10s-2s)	228	206	194	170	185	190	160	140	130	120	110	100	145	170	170	140	100
Yield spreads																	
Three-month T-bills	0.85	0.90	0.90	0.85	1.00	0.70	0.70	0.70	0.50	0.25	0.00	-0.05	0.96	0.85	0.85	0.70	-0.05
Two-year	0.62	0.63	0.55	0.40	0.45	0.30	0.15	0.00	0.00	-0.05	-0.15	-0.25	0.80	0.40	0.40	0.00	-0.25
Five-year	-0.03	-0.09	-0.15	-0.15	-0.10	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	0.60	-0.15	-0.15	-0.30	-0.30
10-year	-0.27	-0.29	-0.37	-0.35	-0.30	-0.40	-0.50	-0.40	-0.45	-0.40	-0.45	-0.50	0.05	-0.35	-0.35	-0.40	-0.50
30-year	-0.59	-0.56	-0.54	-0.50	-0.50	-0.65	-0.75	-0.70	-0.60	-0.65	-0.60	-0.60	-0.50	-0.50	-0.50	-0.70	-0.60

Interest rates—International

%, end of period

	Actual			Forecast									Actual		Forecast		
	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	2012	2013	2014	2015	2016
United Kingdom																	
Repo	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.25	1.50	1.50	1.75	0.50	0.50	0.50	1.00	1.75
Two-year	0.71	0.87	0.84	0.60	0.75	0.85	1.10	1.40	1.55	1.70	1.95	2.15	0.20	0.57	0.60	1.40	2.15
10-year	2.73	2.68	2.43	2.00	2.15	2.50	2.70	2.90	3.00	3.25	3.40	3.50	1.70	3.04	2.00	2.90	3.50
Euro Area																	
Refinancing rate	0.25	0.15	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.75	0.25	0.05	0.05	0.05
Two-year	0.17	0.03	-0.07	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.10	0.20	0.00	0.24	-0.10	-0.10	0.20
10-year	1.57	1.25	0.95	0.75	0.90	1.00	1.10	1.25	1.35	1.50	1.65	1.75	1.50	2.11	0.75	1.25	1.75
Australia																	
Cash target rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	3.00	2.50	2.50	2.50	2.50
Two-year swap	2.78	2.80	2.61	2.40	2.30	2.40	2.40	2.60	2.60	2.70	2.75	2.75	2.75	2.68	2.40	2.60	2.75
10-year swap	4.08	4.00	3.48	3.00	3.40	3.70	3.90	4.00	4.15	4.30	4.35	4.50	3.00	4.23	3.00	4.00	4.50
New Zealand																	
Cash target rate	2.75	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75	4.00	4.00	2.50	2.50	3.50	3.50	4.00
Two-year	4.01	3.90	4.04	3.90	3.75	3.75	3.90	3.90	4.00	4.25	4.25	4.25	2.60	3.81	3.90	3.90	4.25
10-year	4.62	5.00	4.53	4.40	4.70	4.90	5.00	5.00	5.10	5.30	5.40	5.60	3.80	5.23	4.40	5.00	5.60

Growth outlook

% change, quarter-over-quarter in real GDP

	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	2013A	2014F	2015F	2016F
Canada*	1.0	3.6	2.8	2.7	3.0	2.7	2.3	2.2	2.0	1.9	1.9	2.1	2.0	2.5	2.7	2.1
United States*	-2.1	4.6	3.9	2.8	3.3	3.1	3.0	2.9	3.0	2.8	3.0	2.7	2.2	2.3	3.3	2.9
United Kingdom	0.7	0.9	0.7	0.6	0.6	0.5	0.8	0.6	0.6	0.5	0.5	0.4	1.9	3.0	2.6	2.4
Euro Area	0.3	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	-0.4	0.7	1.0	1.4
Australia	1.0	0.5	0.3	0.8	0.8	0.6	0.8	0.9	0.8	0.7	0.8	0.7	2.3	2.8	2.7	3.1
New Zealand	1.3	0.4	0.6**	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	2.8	3.5	2.5	2.3

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	2013A	2014F	2015F	2016F
Canada	1.4	2.2	2.1	2.0	1.4	1.1	1.2	1.6	2.3	2.3	2.2	2.0	0.9	1.9	1.3	2.2
United States	1.4	2.1	1.8	1.4	1.1	1.0	1.3	1.9	2.3	2.2	2.2	2.2	1.5	1.7	1.3	2.2
United Kingdom	1.7	1.7	1.5	1.2	1.0	1.3	1.4	1.7	1.8	1.9	2.0	2.0	2.6	1.5	1.4	1.9
Eurozone	0.7	0.6	0.4	0.3	0.5	0.7	0.7	1.0	1.1	1.1	1.1	1.1	1.4	0.5	0.7	1.1
Australia	2.9	3.0	2.3	2.1	2.3	2.5	2.7	2.8	2.8	2.8	2.7	2.6	2.4	2.6	2.6	2.8
New Zealand	1.5	1.6	1.0	1.2	1.5	1.6	1.7	1.8	1.8	1.9	2.0	2.0	1.1	1.3	1.7	1.9

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	0.94	0.87	0.83	0.82	0.81	0.80	0.80	1.04	0.89	0.83	0.80
USD/CAD	1.02	1.05	1.03	1.06	1.11	1.07	1.12	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	1.26	1.23	1.20	1.18	1.17	1.17	1.32	1.38	1.23	1.17
USD/JPY	94.2	99.1	98.3	105.3	103.2	101.3	109.7	122.0	124.0	127.0	129.0	132.0	86.8	105.3	122.0	132.0
NZD/USD	0.84	0.77	0.83	0.82	0.87	0.88	0.78	0.77	0.76	0.75	0.74	0.74	0.83	0.82	0.77	0.74
USD/CHF	0.95	0.95	0.90	0.89	0.89	0.89	0.96	0.99	1.03	1.04	1.06	1.06	0.92	0.89	0.99	1.06
GBP/USD	1.52	1.52	1.62	1.66	1.67	1.71	1.62	1.58	1.54	1.49	1.44	1.43	1.62	1.66	1.58	1.43

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