ECONOMIC AND FINANCIAL MARKET OUTLOOK

March 2015

Headwinds temper global growth outlook

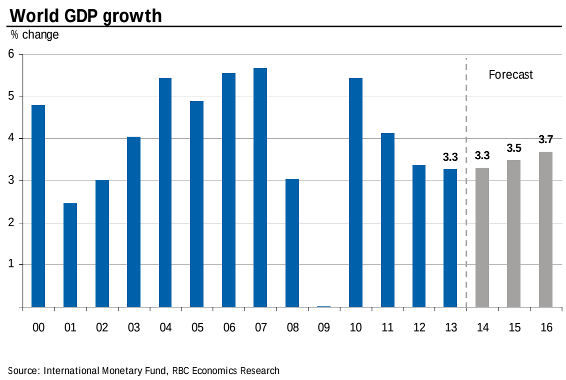
Forecasts for global growth were notched lower as the sharp drop in energy prices fuelled concerns about deflation resulting in financial market volatility weighing on confidence. Elevated concerns about geopolitical developments in the Ukraine, Middle East and, most recently, Greece also weighed on the outlook for world GDP. In mid-January, the IMF cut 0.3 ppt off estimates for both 2015 and 2016 global growth. The world economy is expected to grow by 3.5% in 2015, mildly firmer than the 3.3% pace of the prior two years. Furthermore, 2016's forecast was reduced to 3.7%, only modestly faster than the long-term average pace.

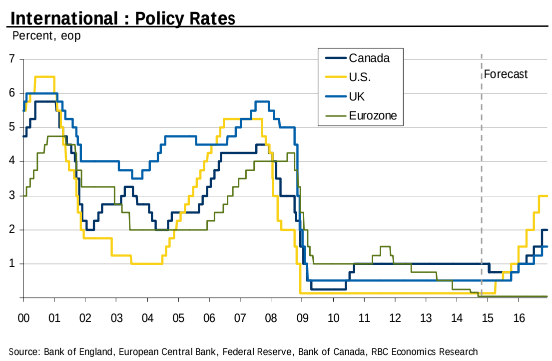
Central banks - fighting the good fight!

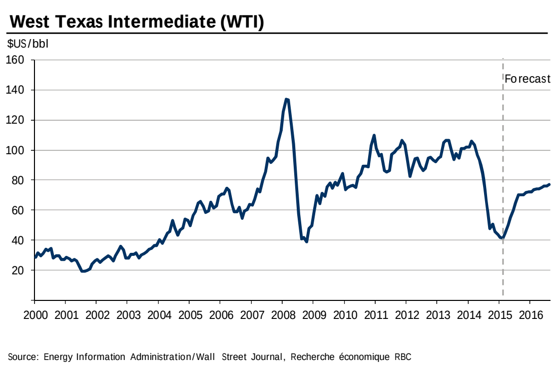
The prospect of another year of lacklustre growth and concerns about the repercussions of the drop in oil prices on inflation elicited a strong response from central banks. The ECB announced a larger-than-expected asset purchase program with the prospect of more to come if growth and inflation don't accelerate. The Bank of Canada kicked off a round of policy rate cuts with the RBA, Riksbank and the Danish central bank following suit. Some emerging economies also eased policy including the Peoples Bank of China and the Reserve Bank of India. The Bank of England made no change to policy although suggested the policy rate may remain at the current level for a more prolonged period than earlier estimated. While the US Federal Reserve is forecast to raise the policy rate this year given the economy's strong momentum and improved labour market conditions, they are working to limit volatility in financial markets through their communication strategy.

Oil in the spotlight

Outside the recession, oil prices trended higher for most of the decade, only to be cut in half from June 2014 to February 2015. The pace of decline accelerated in December and January with the price for a barrel of West Texas Intermediate recording declines of about 20% each month. This was double the monthly clip recorded in October and November. Producers reduced the number of active drilling rigs but the supply of oil on world markets continued to exceed demand. Further reductions in supply are likely in the months ahead and we expect this will see oil prices recover some of the recent losses. Oil and gas companies around the world announced cuts to investment setting up for a reduction in future supply which should also underpin price gains. Our forecast assumes that the price of a barrel of WTI will remain in the low end of the recent trading range until mid-2015 and gradually recover thereafter. We look for the WTI price to average $53.00 this year and $77.00 in 2016.







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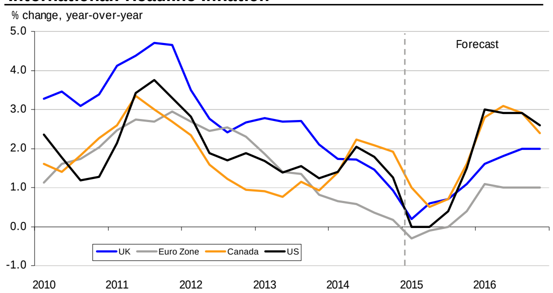
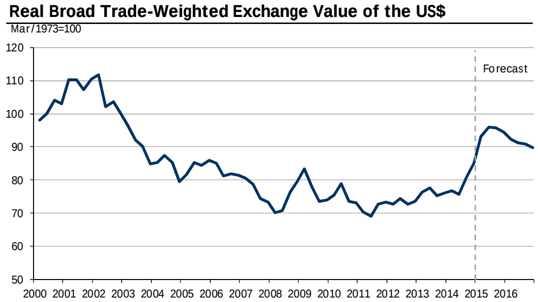
International: Headline Inflation



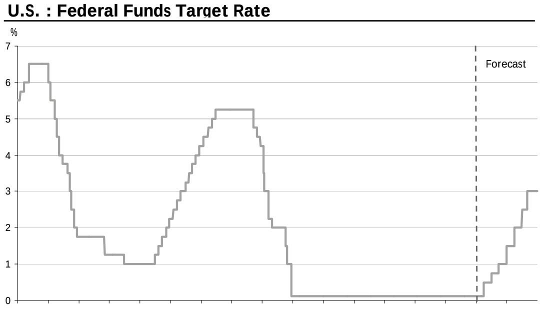
Source: Statistics Canada, Bureau of Labor Statistics, OECD, Office for National Statistics, RBC Economics Research

Real Broad Trade-Weighted Exchange Value of the US$



Source: Federal Reserve Board, RBC Economics Research

U.S. : Federal Funds Target Rate



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

Slump in inflation will prove temporary

Headline inflation rates across the globe are falling because of the drop in energy prices. A recovery in oil prices will translate into a rebound in these inflation rates however in the near term, investors and policymakers will be monitoring the inflation reports to discern if the energy-related declines are fuelling broader disinflationary trends. The Euro-area headline inflation rate was negative for three consecutive months. The core measure also drifted lower to stand at just 0.6% in January/February meaning inflation continues to be a hotter issue for the ECB than the US and Canadian central banks where the ex-energy readings have not eased. Further, with growth in both Canada and the US expected to run at an above-potential pace in 2015, underlying inflation rates are unlikely to decline materially. Similarly, in Europe, an acceleration in growth backed by the stimulative effects of the sharply lower Euro, rock-bottom interest rates and rise in disposable income related to lower gasoline prices, are expected to prevent the inflation rate excluding energy from falling into negative territory.

Bond market yields suggest concerns are deep-rooted

The economic landscape is likely to improve throughout 2015 however global bond investors appear sceptical that “everything is going to be OK”. Yields on government bonds fell sharply in the second half of 2014 and remain very low. In part, this reflects investors’ nervousness about the persistence of the risks to the global economy and worries that the downward pressure on inflation rates will prove to be long-lasting. In many countries, the decline is also a product of central bank actions given the renewed easing via policy rates and other measures. A big beneficiary of all this uncertainty has been the US dollar which gained 16% on the trade-weighted basis since January 2014. The currency’s rise reflects a combination of investors buying securities offering a higher yield, a strong economy and safe-haven flows. We expect that the US dollar will continue to outperform with the US Federal Reserve prepping for a rate increase while most other central banks keep maximum policy stimulus in place in the near term.

The case for the US Fed to reduce policy stimulus

Recent economic reports support the case for the Fed to raise the Fed funds target from the current 0% to 0.25% range. The economy grew at a 2.4% pace in 2014 even after the weather-related contraction in the first quarter of the year. The labour market generated 3.3 million jobs in the twelve months ended February 2015 and the unemployment rate, at 5.5%, is approaching the level that is deemed to indicate full-employment. Declines in the headline inflation rate due to lower energy prices are unlikely to deter the Federal Reserve from initiating the process toward normalization of monetary policy as the ex-energy measure has held close to 2.0%. Policymakers have repeatedly stated the intention to “look through” the drop associated with energy prices because this does not reflect underlying price pressures in the economy. Furthermore the Fed views the relative stability in inflation expectations in survey-based measures as signalling that economic agents are discounting the energy price shock when making their assumption about future inflation. These points were made clear in Chair Yellen’s testimony in late February. Our expectation is that the Fed will initiate the interest rate normalization process in the middle of this year and continue to raise the policy rate gradually to 1.0% at the end of 2015 and 3.0% at the end of 2016 .

US real GDP is forecast to post a strong 3.1% increase in 2015, the fastest gain in a decade. Underpinning this projection is our assessment that 2015 will see a broad-based acceleration in economic activity with the consumer, government and business all providing a lift to growth. Improvement in balance sheet health across all sectors, historically low interest rates and access to capital are key building blocks for our call on growth this year. Falling oil prices are also providing a positive shock to the US economy. The firm fundamentals will allow for the pent-up demand for houses and autos generated during the downturn to be satisfied and support businesses' efforts to alleviate capacity constraints via stronger investment. Governments are also facing improved fiscal health which argues against any more restraint or job cut announcements in 2015.

Labour market turns up the heat

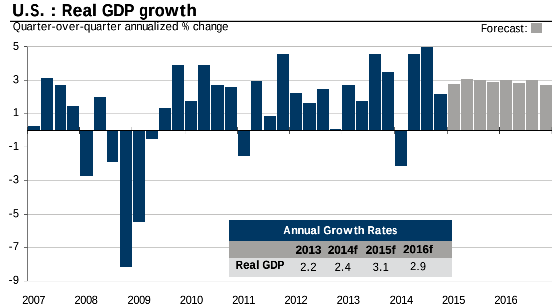
The large increase in employment in 2014 reflected a healthy acceleration in job creation in the second half of the year that continued in early 2015. In turn, the unemployment rate fell to 5.5% in February underpinned by a general improvement in labour market conditions according to the Fed's measure. Wage gains have been muted however continued above-trend growth and persistent increases in hiring are likely to exert upward pressure on wages as we proceed through 2015. This boost to income will be augmented by the windfall generated by sharply lower energy costs. Our calculations suggest that on average, oil prices will be 43% lower in 2015 than in 2014. This will reduce the amount households spend on energy costs by about $120 billion. Even if 5% of this windfall is saved, it will boost consumer spending by an amount equivalent to 0.7% of GDP.

These positive factors also augur well for a pickup in housing market activity following a disappointing year for home sales in 2014. Sales of new and existing homes dropped in the first quarter of last year due to inclement weather conditions and although the pace accelerated thereafter, the average level for all of 2014 was 2.7% below 2013. Housing starts followed a similar pattern but the recovery was more robust resulting in a 7.7% increase in 2014. Home price gains averaged 5.0% but with mortgage rates falling over the course of the year, this did little to harm affordability which remained significantly less constrained than prior to the recession. The strong state of household balance sheets and increases in employment mean financial institutions are willing to extend mortgage credit. Households have not shown a significant increase in appetite for these loans however given the uncertain geopolitical and financial market backdrop. As uncertainty eases, we expect confidence to improve resulting in a pick up in housing activity as 2015 progresses.

US Business Investment to rise outside oil and gas

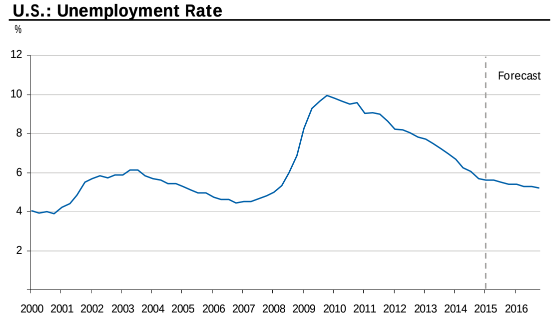
US business balance sheets are in good shape and lending standards continue to be very accommodative. The decline in energy prices has lowered the cost of production for the majority of US companies. Oil and gas companies are the

U.S. : Real GDP growth



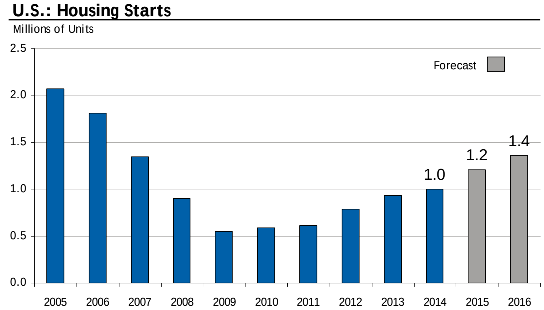
Source: Bureau of Economics Analysis, RBC Economics Research

U.S.: Unemployment Rate



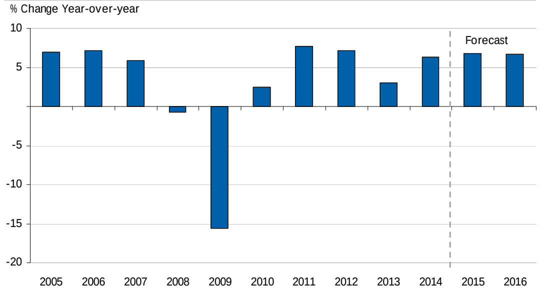
Source: RBC Economics Research, Bureau of Labor Statistics

U.S.: Housing Starts



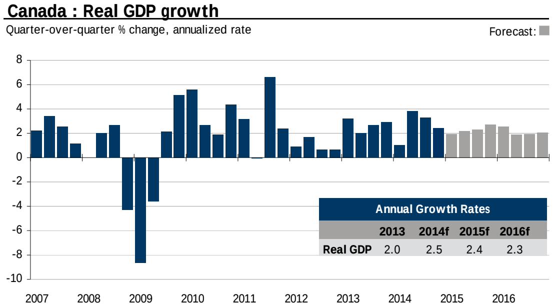
Source: Census Bureau, RBC Economics Research

U.S.: Non-residential Investment



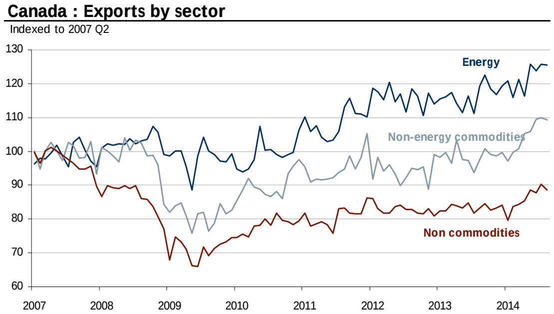
Source: Bureau of Economics Analysis, RBC Economics Research

Canada : Real GDP growth



Source: Statistics Canada, RBC Economics Research

Canada : Exports by sector



Source: Statistics Canada, RBC Economics Research

obvious exception where lower revenues and deteriorating balance sheets will likely constrain the amount of available capital. Investment by oil and gas and closely related industries accounts for about 10% of all non-residential investment and is expected to decline markedly in 2015. Lower energy investment will serve to temper growth in investment this year to about 7%. Capacity utilization continued to rise in 2014 with the rate steadily approaching pre-recession levels. Another year of above-trend growth will further strain capacity in some industries resulting in a pickup in investment as companies work to meet demand.

US imports to grow helped by stronger USD

Positive growth fundamentals will also increase US appetite for imports especially given the cost-advantage flowing from the appreciation of the US dollar. Demand for US exports, conversely, is likely to be more sluggish as a result of stilted growth in some of the US trading partners and the relative depreciation of their currencies. Our forecast implies increased imports of housing materials, machinery and equipment and motor vehicles and parts. Canada is likely to be one of the big beneficiaries of rising US import demand.

Canada's economy to weather oil price drop

The sharp drop in energy price led to significant downgrades to Canadian growth forecasts for 2015. RBC shaved 0.3 ppts off our forecast for real GDP growth to stand at 2.4% although our projection remains at the high end of consensus expectations. While the drop in energy prices is clearly negative for the oil and gas sector, our forecast assumes that much of this weakening will be offset by strength in consumer spending and exports. Consumers will benefit from increased purchasing power due to the windfall accruing from lower gasoline prices as is the case in the US. Further, the pumping up of US growth and the weaker Canadian dollar (a by-product of the oil price decline) will underpin a solid gain in exports this year.

Exports to provide lifeline

The performance of Canada's export sector improved in 2014 with the volume increasing by 5.4%, the best showing in four years. More important was the broadening in export sales away from energy-related products toward industrial goods, consumer goods, transportation equipment and building materials. These non-commodity goods make up more than 50% of Canadian exports and we expect that the sharp rise in demand that began in late 2013 will continue at a sufficient pace to compensate for any pullback in demand for energy and other commodity products. The Canadian dollar's depreciation is also a factor as it makes Canadian products less expensive to US purchasers.

More Canadian dollar weakness ahead

The factors that drove Canada's currency to the lowest level since the recession include increased investor preference for US dollars; the plunge in oil prices as well as diverging expectations about the direction of central bank policy with the BoC having lowered its policy rate while the US Federal Reserve is primed to raise its rate. We estimate that about two-thirds of the Canadian dollar's decline was due to the drop in oil prices with the relative movement in monetary policy expectations and weakening in prices of other commodities accounting for the remainder. We see further downside for Canada's dollar against the US based on our view that the Federal Reserve will raise interest rates well before the Bank of Canada and that even if oil prices recover this year, the average price of WTI will be just $53.00 per barrel, 43% lower than the 2014 average. As market expectations turn from rate cuts to rate hikes in Canada and assuming oil prices rise in 2016 to average $77.00, Canada's currency is likely to recover.

Consumers - more money in their pockets

One of the consequences of lower energy prices is that households need to spend less to fill up their cars and heat their homes. We estimate that the drop in oil prices and corresponding fall in gasoline prices will pump up consumers' purchasing power by $11 billion this year. Unlike US consumers who are largely expected to spend these "extra" funds, we are assuming Canadian consumers will spend one half of the energy-related savings with some portion going to paying down debt and the rest toward saving. All of this said, even accounting for the import content in consumer goods, consumption's contribution to real GDP growth in 2015 will be boosted by 0.2 ppt. Labour market conditions continue to improve with the unemployment rate approaching pre-recession levels although wage growth has been lacklustre. The outlook for employment is mixed with energy-oriented provinces likely to see weaker conditions while job creation is likely to continue in most other regions.

One factor that may act to restrain spending is the elevated level of debt on household balance sheets. In 2014, Canada's household debt-to-income ratio climbed to an all-time high. On the plus side, the rise was accompanied by increased asset values and net wealth and the cost to service the debt fell in line with interest rates. The persistence of low interest rates will likely keep households accumulating debt although the pace is likely to remain moderate and some may use the windfall from lower fuel prices to reduce their debt loads.

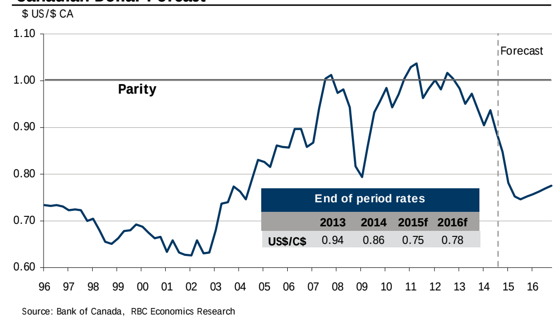
Housing market - location, location, location

Canada's housing market is expected to remain buoyant in 2015 however the decline in oil prices means there will be significant diversity among regional markets. Favourable financing conditions and accelerating growth will support another year of gains in Ontario, BC, Manitoba and Quebec. Activity in Alberta, Saskatchewan and parts of Atlantic Canada conversely are forecast to weaken resulting in a modest increase in national resale sales of 1.7%. Prices are forecast to rise 3.4% on average, slower than 2014's 4.6% gain. In 2016 resale activity is forecast to weaken across the board and prices to edge lower as increasing interest rates damage affordability.

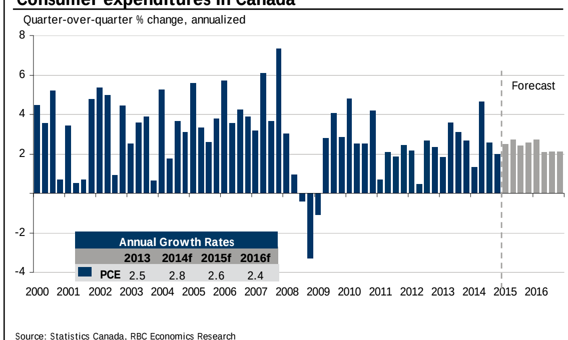
Business investment decline on tap for 2015

The drop in energy prices resulted in a myriad of announcements by oil and gas companies of significant cutbacks in investment for 2015. Our monitoring suggests that capital spending by this industry will fall by as much as 25% resulting in a 1.0 ppt drag on GDP growth this year. While this will be a significant hit to the economy, the outlook for investment by industries outside of oil and gas is much improved. Solid balance sheets, rising domestic and inter-

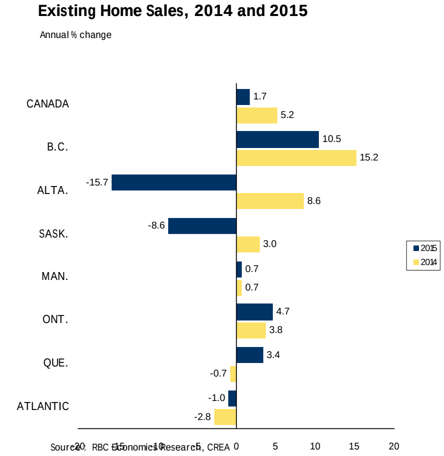
Canadian Dollar Forcast



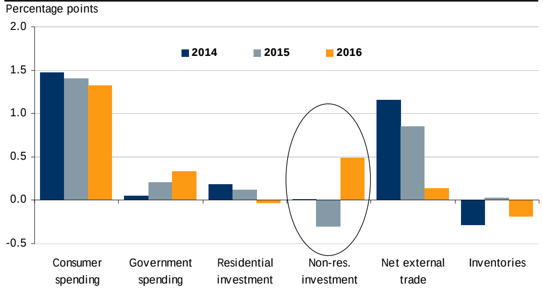
Consumer expenditures in Canada



Existing Home Sales, 2014 and 2015

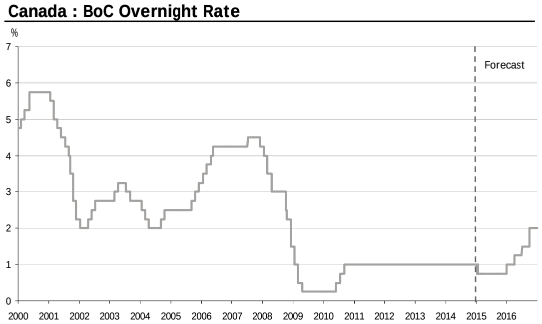


Canadian real GDP growth composition



Source: Statistics Canada, RBC Economics Research

Canada : BoC Overnight Rate



Source: Bank of Canada, RBC Economics Research Forecasts

national demand and the gradual rise in capacity utilization set up for spending on equipment and structures to increase by 7.5% outside of the oil & gas sector this year. This will cap the drag from business investment on real GDP growth to 0.3 ppt. Investment is likely to recover in 2016 as energy prices rebound and business continue to expand capacity.

The depressing effect of the downturn in the oil and gas sector is projected to be largely offset by a ramping up of manufacturing activity. After more than a decade of the manufacturing sector shrinking relative to the size of the economy, activity levels started to climb with manufacturing output increasing in four of the past five years. That still left output 7% below its 2009 peak at the end of last year; however, there are several factors that support our view that the recent momentum will be sustained in 2015. The pickup in US demand bodes well for the 50% of manufactured goods that are exported especially given the historically strong correlation between a weakening in Canada's currency and increased manufacturing sales. Importantly, manufacturing output makes up a greater share of real GDP than oil and gas meaning the lift should compensate for a significant share of the drop in the energy sector. Although employment in manufacturing to-date has not increased significantly from its recession low, with gains in output largely accounted for by improvement in productivity, it still accounts for a significantly higher share of total employment than the oil & gas industry and we expect further production gains will eventually necessitate increasing headcounts in a more significant way.

Timing is Everything

On balance, we see the offsets to the pullback in oil and gas activity as sufficient to allow the economy to grow at an above-potential pace in 2015. Job creation will continue resulting in a gradual decline in the unemployment rate and eventually upward pressure being exerted on wages. This tightening in labour market conditions and the gradual elimination of the output gap will prevent the ex-energy inflation rate from falling and in turn prevent inflation expectations from shifting lower. The Bank of Canada cut the policy rate by 25 bps in January to balance the risk that the sharp drop in oil prices would exert persistent downward pressure on growth and inflation. The move was described as providing a measure of insurance against the downside risks to both inflation and stability in the financial system. Governor Poloz said that the rate cut provided the Bank with time to evaluate how the economy is coping with the oil price shock, and to size the negative hit to growth. As discussed above, we see the hit to the economy as targeted and regional and unlikely to derail the national economy this year. One of the key events to watch for will be that the hole created by lower investment is eventually filled by firmer consumer spending and exports. As these offsets become increasingly evident, the need for monetary policy stimulus will recede with the Bank likely to be in position to remove the "insurance" it has put in place. We expect that this will occur in early 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	2013	2014	2015	2016
Household Consumption	1.3	4.6	2.6	2.0	2.5	2.7	2.4	2.6	2.7	2.1	2.1	2.1	2.5	2.8	2.6	2.4
Durables	1.6	15.3	9.3	1.5	3.5	0.8	1.5	1.7	2.8	1.1	1.5	1.5	3.8	5.3	3.6	1.7
Semi-Durables	-5.1	9.9	3.9	3.2	3.0	3.8	2.8	2.5	3.1	3.1	3.1	3.1	2.8	3.6	3.7	3.0
Non-durables	3.0	-0.2	-0.5	1.1	2.5	3.8	2.8	2.8	3.1	2.3	2.2	2.2	2.3	2.4	2.0	2.7
Services	1.3	4.0	2.3	2.4	2.2	2.5	2.4	2.7	2.5	2.1	2.1	2.1	2.3	2.2	2.5	2.4
NPISH consumption	3.3	-0.5	4.2	4.3	2.5	2.7	2.6	2.5	2.7	2.1	2.1	2.1	1.6	1.3	2.9	2.4
Government expenditures	-0.3	1.4	-0.3	2.1	0.8	0.8	1.0	1.0	1.5	2.0	2.5	2.5	0.4	0.3	1.0	1.6
Government fixed investment	-4.3	0.5	2.3	0.1	1.2	1.2	1.5	1.5	2.5	3.0	3.5	3.5	-1.6	-2.3	1.1	2.4
Residential investment	-3.7	11.6	12.5	1.5	-4.2	-0.1	1.8	3.0	-3.3	-3.0	0.2	1.0	-0.4	2.8	1.7	-0.5
Non-residential investment	-1.2	2.0	3.5	-2.3	-6.6	-8.0	0.4	6.0	7.5	5.2	5.2	4.3	2.6	0.1	-2.7	4.4
Non-residential structures	-1.3	0.4	0.8	-1.8	-8.0	-7.5	0.3	6.5	7.0	4.0	4.0	3.8	5.0	-0.1	-3.3	4.0
Machinery & equipment	-1.1	5.2	9.0	-3.2	-4.0	-9.0	0.5	5.2	8.5	7.3	7.3	5.1	-1.7	0.7	-1.6	5.1
Intellectual property	-2.6	-15.8	11.5	4.2	-6.0	-8.3	0.4	5.3	6.0	5.5	5.5	3.0	-4.6	-1.4	-1.7	3.9
Final domestic demand	0.1	3.4	2.9	1.5	0.5	0.7	1.8	2.7	2.6	2.2	2.5	2.4	1.5	1.6	1.5	2.3
Exports	0.2	19.7	8.9	-1.6	4.5	6.8	5.5	6.1	6.6	5.6	5.0	5.4	2.0	5.4	5.4	5.9
Imports	-4.7	9.7	4.2	1.7	4.3	-3.9	3.6	5.4	6.7	6.3	6.0	6.3	1.3	1.7	2.5	5.2
Inventories (change in $b)	15.2	5.9	0.7	8.0	14.6	6.1	5.6	5.0	4.7	4.7	3.7	3.7	12.4	7.4	7.8	4.2
Real gross domestic product	**1.0**	**3.8**	**3.2**	**2.4**	**2.0**	**2.2**	**2.3**	**2.7**	**2.5**	**1.9**	**1.9**	**2.1**	**2.0**	**2.5**	**2.4**	**2.3**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2013	2014	2015	2016
Business and labour																
Productivity	1.7	2.8	2.4	1.6	1.9	0.7	0.8	1.2	1.3	1.3	1.3	1.1	1.1	2.1	1.2	1.3
Pre-tax corporate profits	7.5	12.0	10.0	6.7	-8.8	-12.1	-10.7	-3.9	11.7	14.0	9.8	5.8	-0.6	9.0	-8.9	10.2
Unemployment rate (%)*	7.0	7.0	7.0	6.7	6.6	6.4	6.3	6.3	6.3	6.3	6.2	6.3	7.1	6.9	6.4	6.3
Inflation																
Headline CPI	1.4	2.2	2.1	1.9	1.0	0.5	0.7	1.6	2.8	3.1	2.9	2.4	0.9	2.0	0.9	2.8
Core CPI	1.3	1.7	2.0	2.2	2.2	2.2	2.0	2.1	2.1	2.1	2.0	2.0	1.3	1.8	2.1	2.0
External trade																
Current account balance ($b)	-40.7	-39.2	-38.4	-55.7	-70.0	-68.2	-55.1	-35.0	-25.6	-25.8	-26.2	-26.7	-56.3	-43.5	-57.1	-26.1
% of GDP	-2.1	-2.0	-1.9	-2.8	-3.5	-3.4	-2.7	-1.7	-1.2	-1.2	-1.2	-1.2	-3.0	-2.2	-2.8	-1.2
Housing starts (000s)*	176	196	199	184	179	187	184	185	180	181	177	177	188	189	184	179
Motor vehicle sales (mill., saar)*	1.73	1.86	1.99	1.96	1.89	1.88	1.83	1.83	1.85	1.85	1.84	1.84	1.78	1.89	1.86	1.85

*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	2013	2014	2015	2016
Consumer spending	1.2	2.5	3.2	4.2	2.8	3.2	2.9	2.7	2.7	2.7	2.6	2.5	2.4	2.5	3.2	2.7
Durables	3.2	14.1	9.2	6.0	7.0	6.7	6.4	6.1	5.8	5.5	5.2	4.8	6.7	6.9	7.3	5.8
Non-durables	0.0	2.2	2.5	3.8	1.8	3.5	2.8	2.5	2.5	2.4	2.3	2.1	1.9	1.8	2.8	2.5
Services	1.3	0.9	2.5	4.1	2.4	2.5	2.3	2.2	2.3	2.4	2.3	2.3	1.9	2.0	2.6	2.3
Government spending	-0.8	1.7	4.4	-1.8	1.0	1.0	1.3	1.5	1.7	1.8	2.0	2.2	-2.0	-0.2	1.0	1.7
Residential investment	-5.3	8.8	3.3	3.3	7.4	10.1	7.0	5.0	4.3	4.8	5.5	5.5	11.9	1.6	6.5	5.4
Non-residential investment	1.6	9.7	8.9	4.8	5.2	7.7	7.7	7.0	6.5	6.3	5.9	5.8	3.0	6.3	6.8	6.7
Non-residential structures	2.9	12.6	4.8	5.0	6.5	6.5	6.8	5.5	4.8	4.1	3.6	3.1	-0.5	8.1	6.3	4.9
Equipment & software	-1.0	11.2	11.0	0.9	4.5	8.4	8.2	7.7	7.4	7.3	7.1	7.1	4.6	6.5	6.4	7.5
Intellectual property	4.7	5.5	8.8	10.9	4.0	4.0	4.1	4.3	4.4	4.5	4.5	4.4	3.4	4.9	6.0	4.4
Final domestic demand	0.7	3.4	4.1	3.2	2.9	3.4	3.2	3.0	3.0	3.0	3.0	2.9	1.9	2.4	3.3	3.0
Exports	-9.2	11.0	4.6	3.2	-3.0	5.5	5.4	6.9	7.6	7.6	7.4	7.7	3.0	3.1	3.2	7.1
Imports	2.2	11.3	-0.9	10.1	-2.0	6.5	6.3	6.4	6.2	7.0	5.4	5.9	1.1	4.0	4.3	6.3
Inventories (change in $b)	35.2	84.8	82.2	88.4	84.4	79.4	81.9	79.9	78.9	72.9	68.8	55.8	63.6	72.7	81.4	69.1
Real gross domestic product	**-2.1**	**4.6**	**5.0**	**2.2**	**2.8**	**3.1**	**3.0**	**2.9**	**3.0**	**2.8**	**3.0**	**2.7**	**2.2**	**2.4**	**3.1**	**2.9**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2013	2014	2015	2016
Business and labour																
Productivity	0.5	0.9	0.9	-0.4	1.1	0.7	0.2	1.2	1.4	1.4	1.5	1.6	1.2	0.5	0.8	1.5
Pre-tax corporate profits	-4.8	0.1	1.4	0.8	11.4	3.7	1.5	3.1	4.3	4.4	5.0	5.0	4.2	-0.6	4.7	4.7
Unemployment rate (%)*	6.6	6.2	6.1	5.7	5.6	5.6	5.5	5.4	5.4	5.3	5.3	5.2	7.4	6.2	5.5	5.3
Inflation																
Headline CPI	1.4	2.1	1.8	1.2	0.0	0.0	0.4	1.5	3.0	2.9	2.9	2.6	1.5	1.6	0.5	2.8
Core CPI	1.6	1.9	1.8	1.7	1.8	1.8	2.0	2.1	2.2	2.0	2.0	2.1	1.8	1.7	1.9	2.1
External trade																
Current account balance ($b)	-408	-394	-401	-425	-371	-391	-422	-443	-460	-466	-461	-459	-400	-407	-407	-462
% of GDP	-2.4	-2.3	-2.3	-2.4	-2.1	-2.2	-2.3	-2.4	-2.5	-2.5	-2.4	-2.4	-2.4	-2.3	-2.2	-2.4
Housing starts (000s)*	925	985	1030	1065	1050	1180	1297	1313	1322	1350	1376	1400	930	1001	1210	1362
Motor vehicle sales (millions, saar)*	15.7	16.5	16.7	16.7	16.6	16.8	16.9	17.0	17.2	17.4	17.6	17.8	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	2014	2015	2016
Canada															
Overnight	1.00	1.00	1.00	1.00	0.75	0.75	0.75	0.75	1.00	1.25	1.50	2.00	1.00	0.75	2.00
Three-month	0.90	0.94	0.92	0.91	0.75	0.75	0.75	0.85	1.15	1.40	1.65	2.15	0.91	0.85	2.15
Two-year	1.07	1.10	1.13	1.01	0.70	0.75	0.95	1.20	1.50	1.75	2.00	2.30	1.01	1.20	2.30
Five-year	1.71	1.53	1.63	1.34	1.10	1.35	1.60	1.80	2.15	2.35	2.60	2.80	1.34	1.80	2.80
10-year	2.46	2.24	2.15	1.79	1.70	2.10	2.35	2.55	2.90	3.10	3.30	3.45	1.79	2.55	3.45
30-year	2.96	2.78	2.67	2.34	2.25	2.60	2.85	3.00	3.30	3.45	3.60	3.75	2.34	3.00	3.75
Yield curve (10s-2s)	139	114	102	78	100	135	140	135	140	135	130	115	78	135	115
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	1.00	3.00
Three-month	0.05	0.04	0.02	0.04	0.10	0.40	0.65	0.90	1.40	1.90	2.40	2.80	0.04	0.90	2.80
Two-year	0.45	0.47	0.58	0.67	0.75	1.10	1.60	2.00	2.25	2.50	2.80	3.20	0.67	2.00	3.20
Five-year	1.74	1.62	1.78	1.65	1.65	1.95	2.20	2.50	3.00	3.15	3.30	3.50	1.65	2.50	3.50
10-year	2.73	2.53	2.52	2.17	2.25	2.65	2.90	3.10	3.55	3.70	3.85	4.00	2.17	3.10	4.00
30-year	3.55	3.34	3.21	2.75	2.85	3.25	3.50	3.75	4.10	4.25	4.35	4.50	2.75	3.75	4.50
Yield curve (10s-2s)	228	206	194	150	150	155	130	110	130	120	105	80	150	110	80
Yield spreads															
Three-month T-bills	0.85	0.90	0.90	0.87	0.65	0.35	0.10	-0.05	-0.25	-0.50	-0.75	-0.65	0.87	-0.05	-0.65
Two-year	0.62	0.63	0.55	0.34	-0.05	-0.35	-0.65	-0.80	-0.75	-0.75	-0.80	-0.90	0.34	-0.80	-0.90
Five-year	-0.03	-0.09	-0.15	-0.31	-0.55	-0.60	-0.60	-0.70	-0.85	-0.80	-0.70	-0.70	-0.31	-0.70	-0.70
10-year	-0.27	-0.29	-0.37	-0.38	-0.55	-0.55	-0.55	-0.55	-0.65	-0.60	-0.55	-0.55	-0.38	-0.55	-0.55
30-year	-0.59	-0.56	-0.54	-0.41	-0.60	-0.65	-0.65	-0.75	-0.80	-0.80	-0.75	-0.75	-0.41	-0.75	-0.75

Interest rates—International

%, end of period

	Actual				Forecast								Actual	Forecast	
	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	2014	2015	2016
United Kingdom															
Repo	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.50	0.50	0.75	1.50
Two-year	0.71	0.87	0.84	0.45	0.50	0.65	0.90	1.25	1.40	1.60	1.95	2.15	0.45	1.25	2.15
10-year	2.73	2.68	2.43	1.76	1.80	2.20	2.40	2.50	2.75	2.90	3.10	3.30	1.76	2.50	3.30
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	0.05	0.05	0.05
Two-year	0.17	0.03	-0.07	-0.11	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.10	0.20	-0.11	-0.10	0.20
10-year	1.57	1.25	0.95	0.54	0.75	0.80	0.90	1.10	1.20	1.35	1.50	1.65	0.54	1.10	1.65
Australia															
Cash target rate	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.50	2.00	2.00
Two-year swap	2.78	2.80	2.61	2.19	2.00	1.75	1.75	1.75	1.80	1.90	2.00	2.25	2.19	1.75	2.25
10-year swap	4.08	4.00	3.48	2.81	2.75	3.05	3.30	3.40	3.80	3.95	4.10	4.25	2.81	3.40	4.25
New Zealand															
Cash target rate	2.75	3.25	3.50	3.50	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.50	3.00	3.00
Two-year	4.01	3.90	4.04	3.54	3.50	3.25	3.00	2.80	2.80	3.00	3.10	3.20	3.54	2.80	3.20
10-year	4.62	5.00	4.53	3.67	3.60	3.60	3.70	5.00	5.10	5.30	5.40	5.60	3.67	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	2014	2015F	2016F
Canada*	1.0	3.8	3.2	2.4	2.0	2.2	2.3	2.7	2.5	1.9	1.9	2.1	2.5	2.4	2.3
United States*	-2.1	4.6	5.0	2.2	2.8	3.1	3.0	2.9	3.0	2.8	3.0	2.7	2.4	3.1	2.9
United Kingdom	0.7	0.8	0.7	0.5	0.8	0.5	0.7	0.6	0.6	0.5	0.5	0.4	2.6	2.8	2.4
Euro Area	0.3	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.9	1.4	1.5
Australia	1.1	0.5	0.4	0.5	0.8	0.6	0.8	0.9	0.8	0.7	0.8	0.7	2.7	2.6	3.1
New Zealand	0.9	0.7	1.0	0.6**	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	3.2	2.7	2.3

*Seasonally adjusted annualized rates;**Forecast

Inflation outlook

% change, year-over-year

	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	2014	2015F	2016F
Canada	1.4	2.2	2.1	1.9	1.0	0.5	0.7	1.6	2.8	3.1	2.9	2.4	2.0	0.9	2.8
United States	1.4	2.1	1.8	1.2	0.0	0.0	0.4	1.5	3.0	2.9	2.9	2.6	1.6	0.5	2.8
United Kingdom	1.7	1.7	1.5	0.9	0.2	0.6	0.7	1.1	1.6	1.8	2.0	2.0	1.5	0.7	1.8
Eurozone	0.7	0.6	0.4	0.2	-0.3	-0.1	0.0	0.4	1.1	1.0	1.0	1.0	0.4	0.0	1.0
Australia	2.9	3.0	2.3	1.7	1.7	2.0	2.3	2.8	2.9	2.9	2.7	2.6	2.5	2.2	2.8
New Zealand	1.5	1.6	1.0	0.8	0.0	-0.1	-0.3	-0.1	0.6	0.9	1.2	1.5	1.2	-0.1	1.1

Exchange rates

%, end of period

	Actual				Forecast								Actual	Forecast	
	14Q1	**14Q2**	**14Q3**	**14Q4**	**15Q1**	**15Q2**	**15Q3**	**15Q4**	**16Q1**	**16Q2**	**16Q3**	**16Q4**	**2014**	**2015**	**2016**
AUD/USD	0.93	0.94	0.87	0.82	0.75	0.74	0.73	0.72	0.71	0.71	0.70	0.70	0.82	0.72	0.70
USD/CAD	1.11	1.07	1.12	1.16	1.28	1.33	1.34	1.33	1.32	1.31	1.30	1.29	1.16	1.33	1.29
EUR/USD	1.38	1.37	1.26	1.21	1.07	1.05	1.07	1.11	1.15	1.16	1.16	1.17	1.21	1.11	1.17
USD/JPY	103.2	101.3	109.7	119.7	120.0	124.0	128.0	132.0	129.0	126.0	123.0	120.0	119.7	132.0	120.0
NZD/USD	0.87	0.88	0.78	0.78	0.69	0.67	0.65	0.64	0.63	0.63	0.62	0.62	0.78	0.64	0.62
USD/CHF	0.89	0.89	0.96	0.99	1.12	1.15	1.13	1.10	1.06	1.06	1.06	1.05	0.99	1.10	1.05
GBP/USD	1.67	1.71	1.62	1.56	1.47	1.40	1.41	1.44	1.47	1.49	1.49	1.50	1.56	1.44	1.50

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