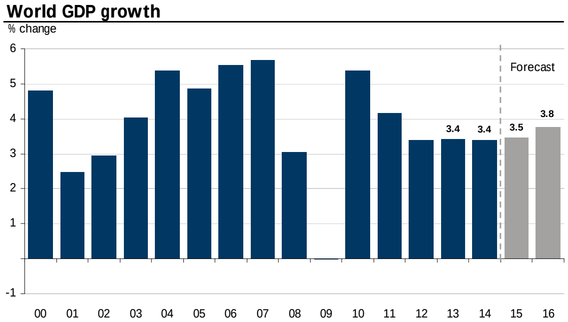
RBC ECONOMICS | RESEARCH

ECONOMIC AND FINANCIAL MARKET OUTLOOK

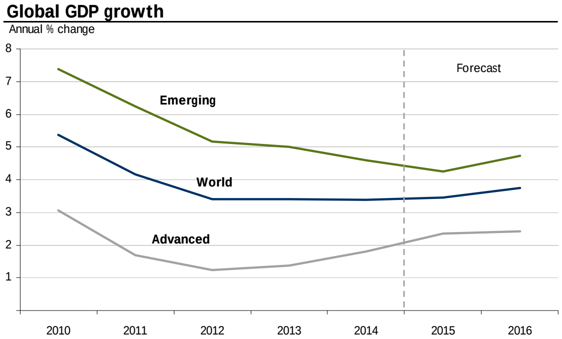
June 2015

World GDP growth



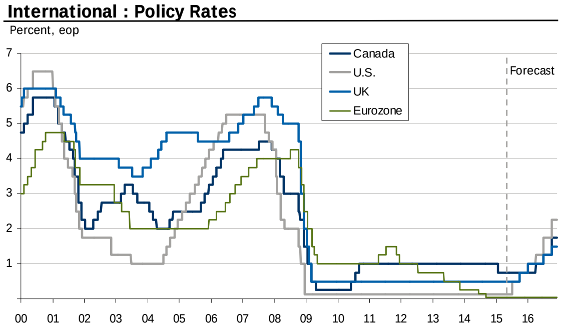
Source: International Monetary Fund, RBC Economics Research

Global GDP growth



Source: International Monetary Fund, RBC Economics Research

International : Policy Rates



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

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

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

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

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

Patience being tested

A full-fledged pickup in global economic growth proved elusive in the first quarter of 2015, although supportive conditions augur well for a strong bounce-back in the current quarter. Our assessment is that the underpinnings for this recovery are sturdier than in previous years given the decline in oil prices and global central banks providing even greater stimulus. Therefore, even with the global economy staggering in early 2015, this slowing is unlikely to be sufficient to push 2015's growth rate below the 3.5% range that has been maintained for the past three years.

Disappointing data from Canada, the US, the UK, and China dominated recently and eclipsed an impressive gain in the euro area in the first quarter. The details showed that the pullback in the energy sector played a role in the weakening, although one-off factors, ranging from severe winter weather in the US and Canada to election-related jitters in the UK, also dampened activity. To some extent, the sharp slowing in global growth in the first quarter was reminiscent of 2014 when one-off factors weighed on activity in a number of economies. This resulted in the global growth rate slipping and then recovering in subsequent quarters such that world gross domestic product (GDP) growth averaged 3.4% that year.

Trading places

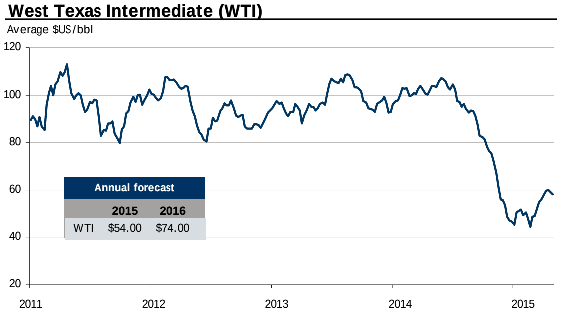
After several years of global growth driven by incremental gains from the emerging market economies, we expect advanced economies to make a larger contribution in 2015. The purchasing managers' indices illustrate this divergence in momentum with the advanced economies showing a sharp acceleration while the momentum in the emerging economies has slowed.

Showing the money

Acceleration in activity in advanced economies was underpinned by central banks flooding the financial system with liquidity, with the relative underperformance in emerging market economies prompting some of the major central banks among these economies to follow suit and ease monetary policy recently. Chinese real GDP growth was the slowest in six years in the first quarter, and April reports point to only mild acceleration in the second quarter. The weaker outturn led the People's Banks of China (PBoC) to ease policy aggressively, and we expect additional stimulus to be implemented to ensure that the government's targets of 7% real GDP growth and 3% inflation are achieved. The Reserve Bank of India also cut its policy rate three times this year.

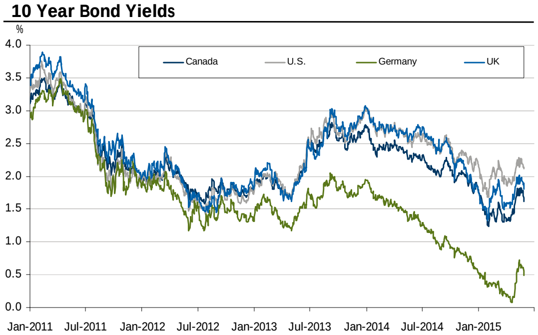
Within the advanced economies, the Bank of Canada and Reserve Bank of Australia cut their policy rates this year from already very accommodative levels while the Bank of England talked down expectations about the timing of

West Texas Intermediate (WTI)



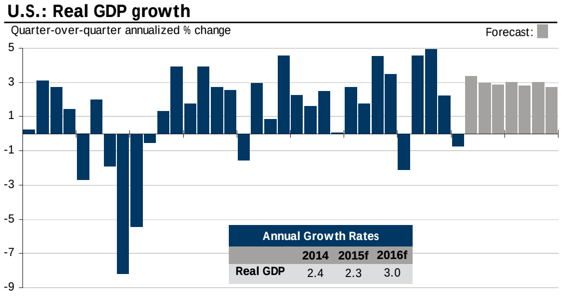
Source: Haver Analytics, RBC Economics Research

10 Year Bond Yields



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

U.S.: Real GDP growth



Source: Bureau of Economic Analysis, RBC Economics Research

its first rate hike on the back of low inflation and the absence of wage pressures. The European Central Bank's (ECB) aggressive quantitative easing program and maintenance of an extremely low policy rate contributed to firmer growth in the euro area in the first quarter despite ongoing concerns about Greece. Even the US Federal Reserve, which is in position to unwind some monetary policy stimulus, remained on the sidelines. A rebound in US growth in the second quarter and persistent improvement in labour market conditions will likely see the Fed raise the fed funds target this autumn, although monetary policy will remain accommodative in 2015 and 2016.

Oil prices - not out of the woods yet

The 40% jump in West Texas Intermediate (WTI) oil prices from the mid-March low reflected a correction after an eight-month period of relatively steady decline. Concerns about Middle Eastern supply making its way to market and a mild reduction in North American inventories combined with a weaker US dollar to prop up oil prices. The six-week rally in prices petered out in mid-May. Despite these gyrations, we maintain our forecast that prices will average $54.00 per barrel on a WTI basis in 2015 and rise in 2016 to average $74.00 per barrel. With the number of active oil and gas rigs running at less than half the pace that they were a year earlier and energy companies aggressively reducing investment, the supply adjustment needed for prices to recover on a sustained basis is underway.

Bond yields rise as tail risks diminish

The recovery in oil prices helped to dispel concerns that the global economy was heading into a period of deflation. Negative headline inflation rates in the US, the UK, and euro area translated into declines in inflation expectations, as investors worried that the combination of energy-induced declines and excess capacity would see households and businesses delay purchases until prices fell further. This view was challenged by developments in the euro area where growth accelerated in the first quarter, and the headline inflation rate rebounded to 0.0% in April from a low of -0.6% in January. Similarly, the turnaround in energy prices and firming in US growth indicators in April resulted in inflation expectations recovering. The easing in the risk of a deflation-driven pullback in economic activity saw investors reduce their holdings of government securities resulting in bond yields shifting significantly higher. The yield on the 10-year German bund moved from a low of 7 basis points on April 20 to 64 basis points a month later. In that period, 10-year US Treasury yields and Canadian government bonds rose 35 and 37 basis points, respectively. We expect that strengthening growth and rising inflation late in the year will keep modest upward pressure on long-term interest rates, although the pace of increase is likely to be less pronounced than in the recent month.

US growth slowdown to be short-lived...

The US economy slipped in the first quarter, hampered by severe weather that weighed on household spending and non-energy investment and the west coast port strike that held back trade activity. A pullback in investment activity by energy companies due to sharply lower oil prices sealed the case for real GDP to contract at a 0.7% annualized pace in the first quarter. Despite the disappointing growth performance, the US labour market managed to generate more than half a million new jobs during the three-month period, with only the March report showing any flow through from the softening in output growth. In April, the pace of job creation recovered with employment rising 223,000. The unemployment rate showed no ill effects from the growth slowdown averaging 5.6% in the first quarter and starting the second quarter at 5.4%.

...rebound likely à la 2014

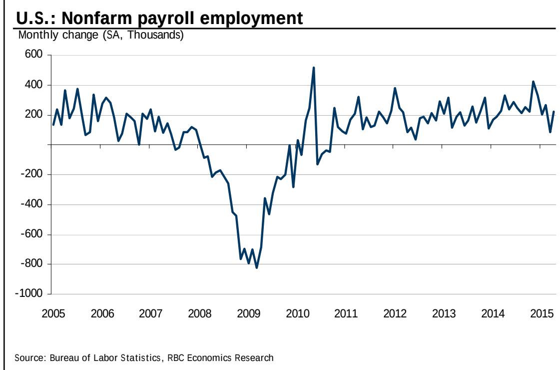
Other reports on April activity were mixed, with strength in housing starts and the composite purchasing managers' index but disappointing prints on retail sales and industrial production. The mixed results were not sufficient to derail our forecast that real GDP will rise at an above-potential pace in the quarter. We expect the persistence of very accommodative financial conditions, the windfall accruing to households from lower gasoline prices, and steady improvement in labour market conditions to result in a reacceleration in spending following a lacklustre first quarter. Business investment is also forecasted to recover following the 21% annualized drop in investment in non-residential structures in the first quarter. Much of this decline was due to a sharp drop in spending on mining exploration, shafts, and wells, as the number of active drilling rigs plunged. That said, poor weather conditions also appeared to be a factor delaying building in other sectors. Further declines in drilling activity are likely to weigh against a strong recovery in non-residential investment in structures in the second quarter; however, a rebound in spending on machinery and equipment is forecasted to skate total business spending back on-side.

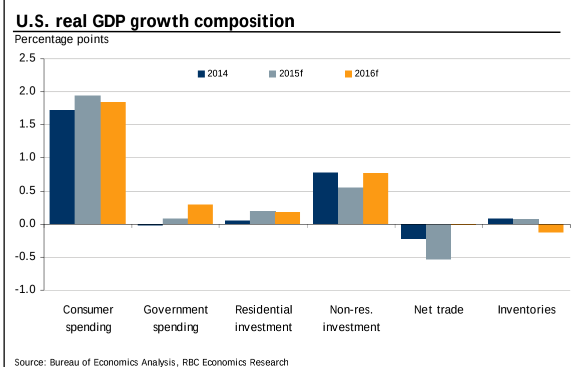
US economy to regain its stride in H2

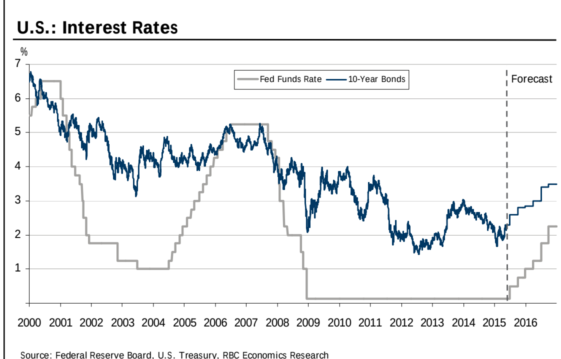
We expect volatility in the first half of 2015 to be followed by a stable period of growth in the second half, as support from lower energy costs underpin spending by consumers and non-energy companies. Healthy balance sheets and tighter labour market conditions should see financial institutions keep credit available. Import demand is forecasted to strengthen as firms and consumers take advantage of the strong US dollar while exports should benefit from gradual acceleration in global growth. Net trade is likely to weigh on the economy's growth rate this year as imports grow more rapidly than exports. Following four years of fiscal restraint weighing on growth, the government sector is forecasted to provide a small lift in 2015 and 2016.

The prospect of stronger growth, tightening labour market conditions, and a gradual recovery in inflation as the effect of the fall in energy prices subsides supports our view that the Federal Reserve will raise the policy rate in the third quarter of 2015. Statements by Fed officials have been clear about the drivers of policy, and although a steady hand has been maintained so far this year, if the data play out as we expect, then it will clear the way for the Fed funds rate to be lifted from the zero lower bound.

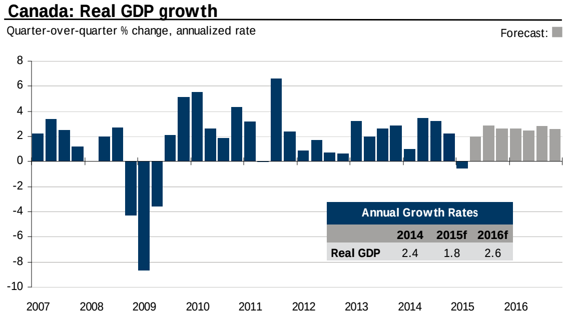
Given the risks associated with reducing policy stimulus for the first time in nine years, policymakers are likely to move slowly, with the funds target band forecasted to end 2015 in the range of 0.50% to 0.75% from 0.00% to 0.25% today. Persistent growth and inflation rising above 2% in 2016 should keep the Fed on course to continue to normalize policy gradually with the fed funds target expected to finish 2016 in the range of 2.00% to 2.25%. Longer-term yields are also forecasted to move higher as the Fed implements its tightening





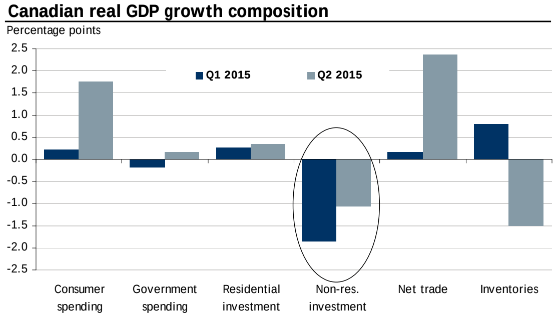


Canada: Real GDP growth



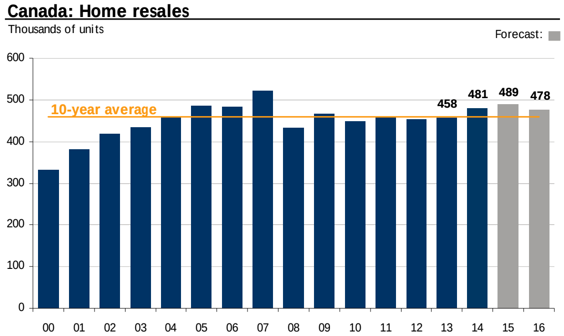
Source: Statistics Canada, RBC Economics Research

Canadian real GDP growth composition



Source: Statistics Canada, RBC Economics Research

Canada: Home resales



Source: Canadian Real Estate Association, RBC Economics Research

program and inflation, both realized and expected, rises. The rapid increase in 10-year yields between mid-April and mid-May reflected not only a reassessment of the risks to the outlook for the global economy and inflation but also the repositioning of investors, which exaggerated the move. Looking forward, we anticipate a more muted pace of increase with the 10-year yield forecasted to end 2015 at 2.8% and 2016 at 3.5%.

Canada weathering the storm(s)

Early 2015 proved challenging for Canada's economy, as severe winter weather cut into domestic and external demand, auto sector retooling took the wind out of manufacturing, and low oil prices sapped investment activity in the energy sector. The combination resulted in the economy contracting at a 0.6% annualized pace in the first quarter. The weakness in the quarter highlighted the effect of the oil price drop on Canada's economy with non-residential investment taking 1.8 percentage points off the quarter's growth rate. This downward pressure was exacerbated by severe weather conditions that dampened consumer spending activity. Weather conditions also reduced US demand for Canadian exports, which fell in the first quarter marking the second consecutive quarterly decline. Investment by energy companies likely weakened further in the second quarter, albeit more modestly, as the rig count continued to fall, and we anticipate another drop in non-residential investment to be reported. Conversely, the storm-affected pullback in consumption of goods and services is forecasted to be reversed.

Pullback not in the cards for housing market this year

Recent data showed housing starts and sales in April running solidly above the first-quarter average pace. Home re-sales recovered in March and April following three months of weaker activity. The Bank of Canada's decision to cut interest rates in late January led to mortgage rates being notched downward and likely contributed to the revival in activity. Markets in Alberta and Saskatchewan tumbled in January and February as oil prices plumbed recent lows, and although sales firmed in March and April, they remained at levels that were significantly lower than in 2014. The recent rise in sales activity hints that the oil-producing provinces may have hit their lows early in the year; however, given the uncertainty surrounding the near-term outlook for the price for oil, another round of selling cannot be ruled out. In the oil-consuming provinces, the rebound in sales activity in March and April is likely to be maintained resulting in sales nationally rising by 1.5% in 2015 and prices posting an average gain of 3.8%. Another annual rise in average home prices would exert pressure on affordability; however, the deterioration will likely be limited by historically low interest rates. In 2016, the combination of price gains and rising rates will likely put sufficient stress on affordability levels that re-sale activity will begin to soften.

Housing starts activity recorded a weather-related easing in December to February followed by firmer levels in March and April. Unlike the resale market, construction activity in Alberta and Saskatchewan failed to snap back in April. With energy-producing provinces headed for a weak year for growth, we expect starts will be subdued in 2015 in these regions. However, strength in Ontario and BC should limit the decline in overall starts in 2015, such that the pace of building is broadly consistent with the pace of household formation.

Positives outweigh negatives for consumer

Canada's consumer is in a good spot with labour market conditions gradually firming, wage growth starting to accelerate, and lower gasoline prices providing a lift to disposable incomes. The slowing in consumer spending and jump in disposable income in the first quarter resulted in the savings rate recovering to 5% following three quarters of sub-4% readings. While debt levels are high so are asset values, with overall net worth suggesting that the strains on household finances are limited at the current time. Furthermore, the persistence of low interest rates means that the cost to service this debt continues to be manageable. To be sure, the dogged increase in debt accumulation is creating concerns about the damage that will be done if the economy hits a speed bump; however, this remains a risk to the outlook not a *fait accompli*. Even when we apply our forecast for interest rates to rise during the next six quarters, debt service costs remain historically low.

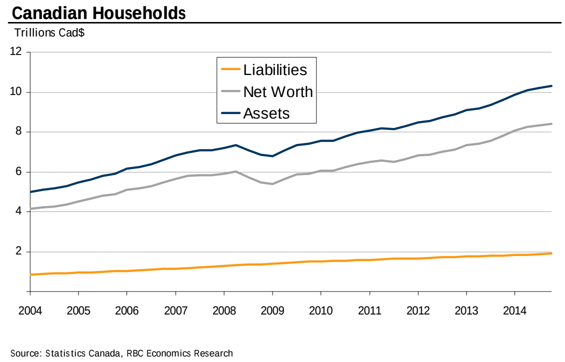
Monthly reports point to a pickup in spending after the first quarter's weather-related slowing in consumer activity. Motor vehicle sales came in close to a record pace in April, setting up for a bounce-back in spending on durable goods following a decline in the first quarter. On balance, consumer spending is forecasted to provide a solid contribution to growth in 2015 despite the weak start to the year. There were 43,000 jobs created in the first four months of 2015, with a whopping 95% being full-time positions. Other indicators show the improvement in the health of the labour market continues with a mild reduction in both the number who are working part-time because they cannot find full-time employment and the number of discouraged workers. Furthermore, wage data indicate a rising proportion of jobs are higher-wage positions. Thus, even after accounting for the effect of the cutbacks in the energy sector, Canada's labour market continues to plod along.

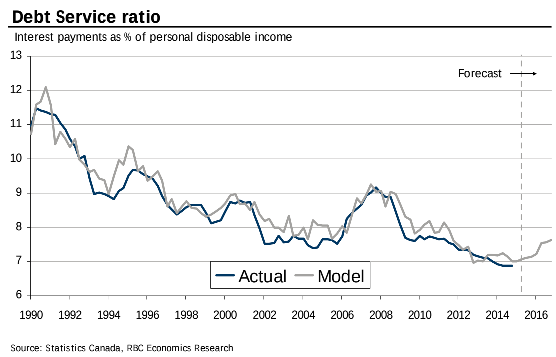
Business outlook murky; 2016 should be better

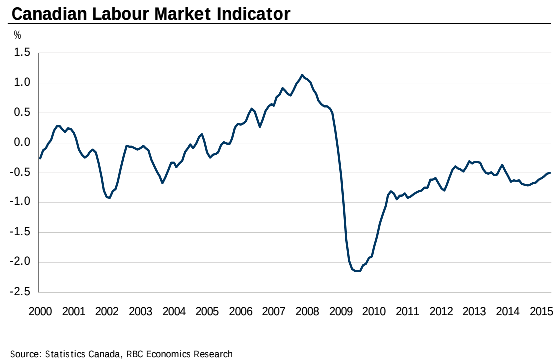
Canadian business investment is headed for a weak year with energy companies aggressively scaling back spending. Our forecast assumes that investment by the energy industry will fall by 30% this year. Even with a pickup in spending by industries outside this sector, overall investment in non-residential structures and machinery and equipment will fall in 2015. For companies outside the energy patch, the combination of easy financial conditions and firmer domestic and foreign demand should see a pickup in investment activity that should partially mitigate the hit to the economy this year. In 2016, as oil prices recover, the weight from the pullback by energy companies will lessen while non-energy companies continue their expansion plans in order to meet demand resulting in investment providing a lift to growth.

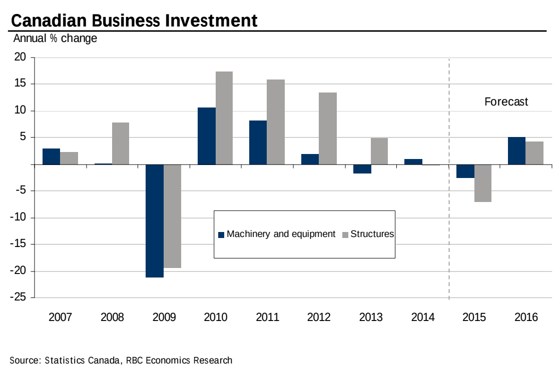
Exports to act as a factor lifting economy's growth rate

Our outlook that Canada's economy will withstand the energy price-driven hit to energy sector investment and employment reflects not only a positive read on the outlook for consumption and housing but also an assumption that the strengthening US economy and recent weakening in the currency will fuel a persistent increase in demand for Canadian exports. Export growth faded in late 2014 and the first quarter of 2015, with the recent weakening due to se-

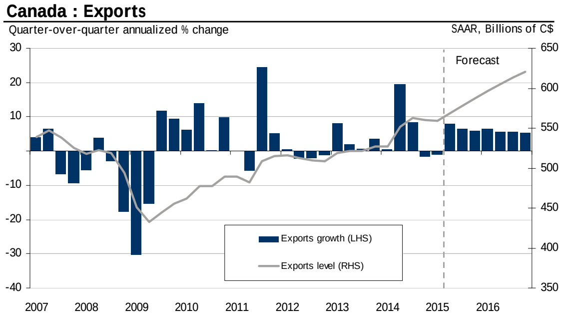






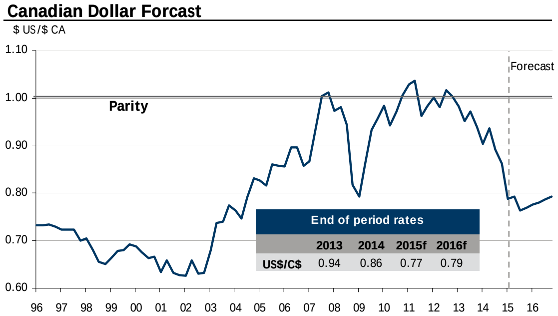


Canada : Exports



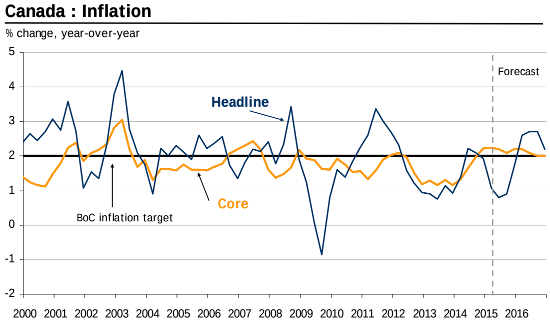
Source: Statistics Canada, RBC Economics Research

Canadian Dollar Forcast



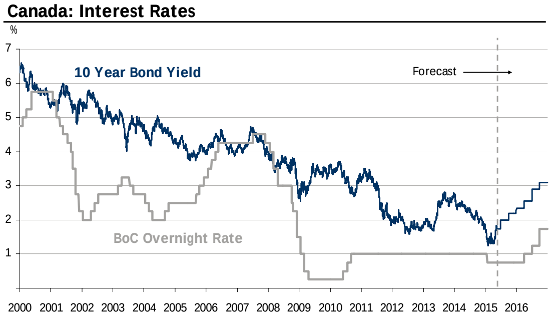
Source: Bank of Canada, RBC Economics Research

Canada : Inflation



Source: Statistics Canada, RBC Economics Research

Canada: Interest Rates



Source: Bank of Canada, RBC Economics

vere winter weather reducing US demand and dampening Canadian exporters' ability to transport their merchandise. A retooling in the auto sector also reduced exports of motor vehicles. The return of normal weather conditions and a revival in US economic activity augur well for a rebound in export growth as Canadian producers work to satisfy pent-up US demand.

We anticipate Canadian exporters to benefit from stable US demand in the second half of 2015. The Canadian dollar is also likely to provide support with the currency forecasted to weaken against the US dollar once the US Federal Reserve raises the policy rate. Our forecast assumes that even with oil prices having recovered some of its lost ground, the divergence in monetary policy between Canada and the US will see investors increase US dollar positions resulting in depreciation in Canada's currency to US$0.77 from US$0.81 on average so far this year. The currency is likely to remain below US$0.80 in 2016 as the Bank of Canada's policy rate stays below its US counterpart.

Bank of Canada forecasts growth recovery

The Bank of Canada provided a relatively upbeat assessment of the economy's prospects in 2015 with the April forecast showing a quicker and deeper drop in activity in the first quarter to be followed by a stronger rebound in the next three quarters. The Bank stressed that it did not expect the hit from the oil sector to be bigger than in their earlier projections but that its effect would affect growth more quickly. The basic tenets of the Bank's forecast were unchanged, with the economy expected to grow at an above-potential pace starting in the third quarter and the output gap to close by the end of 2016. The forecast assumes that energy prices will hold steady, meaning that the downward pressure from the declines in prices in the past year will dissipate in 2016 and both the headline and core measures of inflation will converge around 2% as the economy reaches its capacity limits.

Our forecast is broadly in line with the Bank's outlook, although we are assuming a stronger growth profile. This raises the prospect that inflation will rise beyond the 2% target unless the Bank starts to remove some policy stimulus. We expect Canada's headline inflation rate to bottom in the second quarter of 2015, as the effects of the drop in energy prices start to abate. In 2016, the combination of rising energy prices and a sustained run of above-potential growth reducing the economy's spare capacity should underpin stronger increases in the headline rate, which we expect will remain above the Bank's 2% target. Given that some of the increase reflects a swing in energy prices, the Bank is unlikely to react immediately, because the ex-energy and core measure (which does not include various energy components) will remain only slightly above target.

With the economy expanding at an above-trend pace, labour market conditions will tighten generating upward pressure on wages and creating the conditions for the Bank to shift policy toward a less highly stimulative position. We maintain our call that the first increase in the overnight rate will be announced in the second quarter of 2016. By the end of 2016, we forecast the overnight rate will be 1.75%, 100 basis points above today's rate. Longer-term yields will increase with the 10-year yield expected to end 2016 at just above 3.0%.

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	4.3	2.7	2.1	0.4	3.2	2.5	2.6	2.7	2.6	2.1	2.1	2.5	2.7	2.2	2.6
Durables	1.9	14.3	8.5	1.6	-5.5	5.5	2.1	1.7	2.8	2.1	1.5	1.5	3.8	5.1	2.1	2.3
Semi-Durables	-5.4	8.0	3.4	2.9	1.3	3.0	2.8	2.5	3.1	3.8	3.1	3.1	2.8	3.1	2.8	3.1
Non-durables	2.7	-0.5	-0.1	2.2	3.0	3.0	2.8	2.8	3.1	3.8	2.2	2.2	2.3	2.4	2.2	3.0
Services	1.5	3.9	2.7	2.1	0.5	2.8	2.4	2.7	2.5	2.1	2.1	2.1	2.3	2.3	2.1	2.4
NPISH consumption	3.1	-0.1	1.9	0.6	1.5	3.2	2.6	2.5	2.7	2.6	2.1	2.1	1.6	0.8	1.8	2.6
Government expenditures	-0.7	2.2	-0.9	1.0	-0.8	0.8	1.0	1.0	1.5	2.0	2.5	2.5	0.4	0.2	0.3	1.6
Government fixed investment	-2.9	-3.5	-0.7	5.9	8.0	1.2	1.5	1.5	2.5	3.0	3.5	3.5	-1.6	-2.7	3.2	2.4
Residential investment	-2.4	10.2	11.8	0.3	4.0	4.9	2.3	3.1	-1.2	-2.5	0.9	0.8	-0.4	2.7	4.5	0.5
Non-residential investment	-0.7	1.4	4.1	-2.0	-15.5	-9.7	-0.1	6.3	7.9	5.8	5.8	4.3	2.6	0.2	-5.4	4.5
Non-residential structures	-1.5	0.6	0.9	-1.7	-19.7	-9.8	-0.5	7.0	7.5	5.0	5.0	3.8	5.0	-0.1	-7.0	4.2
Machinery & equipment	0.8	3.1	10.2	-2.5	-7.4	-9.5	0.5	5.2	8.5	7.3	7.3	5.1	-1.7	1.0	-2.5	5.1
Intellectual property	1.0	-25.6	7.1	13.1	-21.2	-9.7	0.0	5.3	6.0	5.5	5.5	3.0	-4.6	-2.7	-6.1	3.7
Final domestic demand	0.3	2.8	2.6	1.6	-1.6	1.1	1.8	2.7	2.8	2.6	2.6	2.4	1.5	1.6	1.0	2.5
Exports	0.5	19.6	8.4	-1.7	-1.1	8.0	6.5	6.1	6.6	5.6	5.5	5.4	2.0	5.4	4.2	6.2
Imports	-4.5	9.8	4.2	1.6	-1.5	0.4	3.6	5.4	6.9	6.1	4.0	4.6	1.3	1.8	1.9	5.1
Inventories (change in $b)	14.8	5.7	1.2	8.5	11.5	4.8	5.7	5.1	5.5	6.3	5.2	5.2	12.4	7.5	6.8	5.5
Real gross domestic product	**1.0**	**3.4**	**3.2**	**2.2**	**-0.6**	**2.0**	**2.9**	**2.7**	**2.7**	**2.5**	**2.8**	**2.6**	**2.0**	**2.4**	**1.8**	**2.6**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	1.7	2.8	2.4	1.6	1.3	0.2	0.3	0.7	1.5	1.5	1.7	1.7	1.1	2.1	0.6	1.6
Pre-tax corporate profits	7.5	12.0	9.7	6.2	-10.8	-10.2	-10.9	-5.4	12.0	10.2	10.5	8.8	-0.6	8.8	-9.4	10.3
Unemployment rate (%)*	7.0	7.0	7.0	6.7	6.7	6.7	6.5	6.4	6.3	6.3	6.2	6.2	7.1	6.9	6.6	6.3
Inflation																
Headline CPI	1.4	2.2	2.1	1.9	1.1	0.8	0.9	1.7	2.6	2.7	2.7	2.2	0.9	2.0	1.1	2.5
Core CPI	1.3	1.7	2.0	2.2	2.2	2.2	2.1	2.2	2.2	2.1	2.0	2.0	1.3	1.8	2.2	2.1
External trade																
Current account balance ($b)	-41.2	-36.5	-36.1	-52.2	-69.9	-52.5	-48.7	-35.0	-26.2	-25.9	-22.1	-19.4	-56.3	-41.5	-51.5	-23.4
% of GDP	-2.1	-1.9	-1.8	-2.6	-3.5	-2.6	-2.4	-1.7	-1.3	-1.2	-1.0	-0.9	-3.0	-2.1	-2.6	-1.1
Housing starts (000s)*	176	196	199	184	175	182	181	181	182	180	178	177	188	189	180	179
Motor vehicle sales (mill., saar)*	1.77	1.86	1.98	1.94	1.83	1.88	1.86	1.85	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	4.4	1.8	2.5	2.9	2.7	2.7	2.7	2.6	2.5	2.4	2.5	2.8	2.7
Durables	3.2	14.1	9.2	6.2	1.1	5.4	6.4	6.1	5.8	5.5	5.2	4.8	6.7	6.9	5.6	5.7
Non-durables	0.0	2.2	2.5	4.1	0.1	2.5	2.8	2.5	2.5	2.4	2.3	2.1	1.9	1.8	2.2	2.5
Services	1.3	0.9	2.5	4.3	2.5	2.1	2.3	2.2	2.3	2.4	2.3	2.3	1.9	2.1	2.6	2.3
Government spending	-0.8	1.7	4.4	-1.9	-1.1	1.0	1.3	1.5	1.7	1.8	2.0	2.2	-2.0	-0.2	0.5	1.7
Residential investment	-5.3	8.8	3.3	3.8	4.9	10.1	7.0	5.0	4.3	4.8	5.5	5.5	11.9	1.6	6.0	5.4
Non-residential investment	1.6	9.7	8.9	4.7	-2.8	6.7	7.7	6.2	5.9	5.7	5.5	5.4	3.0	6.3	4.4	6.1
Non-residential structures	2.9	12.6	4.8	5.9	-20.8	2.0	8.8	5.5	4.8	4.1	3.6	3.1	-0.5	8.2	-1.7	4.9
Equipment & software	-1.0	11.2	11.0	0.6	2.7	9.4	9.0	7.7	7.4	7.3	7.1	7.1	4.6	6.4	6.2	7.7
Intellectual property	4.7	5.5	8.8	10.3	3.6	6.0	5.1	4.3	4.4	4.5	4.5	4.4	3.4	4.8	6.3	4.6
Final domestic demand	0.7	3.4	4.1	3.3	0.8	3.0	3.3	3.0	3.0	3.0	3.0	2.9	1.9	2.5	2.7	3.0
Exports	-9.2	11.0	4.6	4.5	-7.6	9.0	6.4	6.9	7.6	7.6	7.4	7.7	3.0	3.2	2.9	7.4
Imports	2.2	11.3	-0.9	10.4	5.6	4.0	5.2	6.4	6.2	7.0	5.4	5.9	1.1	4.0	5.7	6.0
Inventories (change in $b)	35.2	84.8	82.2	80.0	95.0	84.7	68.6	66.6	65.6	59.6	55.5	42.5	63.6	70.6	78.7	55.8
Real gross domestic product	**-2.1**	**4.6**	**5.0**	**2.2**	**-0.7**	**3.4**	**3.0**	**2.9**	**3.0**	**2.8**	**3.0**	**2.7**	**2.2**	**2.4**	**2.3**	**3.0**

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	2013	2014	2015	2016
Business and labour																
Productivity	0.5	0.9	0.9	-0.4	0.5	0.2	-0.3	0.6	1.5	1.4	1.5	1.6	1.2	0.5	0.2	1.5
Pre-tax corporate profits	-4.8	0.1	1.4	-0.2	3.7	-3.4	-5.5	-3.0	4.1	4.1	4.6	4.7	4.2	-0.8	-2.2	4.4
Unemployment rate (%)*	6.6	6.2	6.1	5.7	5.6	5.4	5.4	5.3	5.3	5.3	5.3	5.2	7.4	6.2	5.4	5.3
Inflation																
Headline CPI	1.4	2.1	1.8	1.2	-0.1	0.0	0.2	1.2	2.7	2.5	2.7	2.6	1.5	1.6	0.3	2.6
Core CPI	1.6	1.9	1.8	1.7	1.7	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)	-404	-389	-396	-454	-507	-433	-400	-415	-432	-438	-434	-432	-400	-411	-439	-434
% of GDP	-2.4	-2.3	-2.3	-2.6	-2.9	-2.4	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3	-2.4	-2.4	-2.4	-2.3
Housing starts (000s)*	934	984	1029	1055	975	1100	1237	1293	1322	1350	1376	1400	928	1001	1151	1362
Motor vehicle sales (millions, saar)*	15.7	16.5	16.7	16.7	16.6	17.0	17.1	17.1	17.2	17.4	17.6	17.8	15.5	16.4	17.0	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	0.75	1.00	1.25	1.75	1.00	0.75	1.75
Three-month	0.90	0.94	0.92	0.91	0.55	0.75	0.75	0.75	0.85	1.15	1.40	1.85	0.91	0.75	1.85
Two-year	1.07	1.10	1.13	1.01	0.51	0.65	0.75	0.90	1.15	1.50	1.75	2.05	1.01	0.90	2.05
Five-year	1.71	1.53	1.63	1.34	0.77	1.05	1.25	1.55	1.85	2.10	2.35	2.55	1.34	1.55	2.55
10-year	2.46	2.24	2.15	1.79	1.35	1.75	2.00	2.20	2.35	2.55	2.90	3.10	1.79	2.20	3.10
30-year	2.96	2.78	2.67	2.34	1.98	2.45	2.65	2.80	2.90	3.00	3.35	3.50	2.34	2.80	3.50
Yield curve (10s-2s)	139	114	102	78	84	110	125	130	120	105	115	105	78	130	105
United States															
Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.75	2.25	0.25	0.75	2.25
Three-month	0.05	0.04	0.02	0.04	0.03	0.15	0.35	0.50	0.70	0.90	1.45	1.95	0.04	0.50	1.95
Two-year	0.45	0.47	0.58	0.67	0.56	0.75	1.05	1.30	1.65	1.90	2.25	2.40	0.67	1.30	2.40
Five-year	1.74	1.62	1.78	1.65	1.37	1.65	1.85	2.05	2.20	2.30	2.65	2.75	1.65	2.05	2.75
10-year	2.73	2.53	2.52	2.17	1.94	2.30	2.60	2.80	2.85	3.00	3.40	3.50	2.17	2.80	3.50
30-year	3.55	3.34	3.21	2.75	2.54	3.05	3.30	3.50	3.50	3.70	4.15	4.25	2.75	3.50	4.25
Yield curve (10s-2s)	228	206	194	150	138	155	155	150	120	110	115	110	150	150	110
Yield spreads															
Three-month T-bills	0.85	0.90	0.90	0.87	0.52	0.60	0.40	0.25	0.15	0.25	-0.05	-0.10	0.87	0.25	-0.10
Two-year	0.62	0.63	0.55	0.34	-0.05	-0.10	-0.30	-0.40	-0.50	-0.40	-0.50	-0.35	0.34	-0.40	-0.35
Five-year	-0.03	-0.09	-0.15	-0.31	-0.60	-0.60	-0.60	-0.50	-0.35	-0.20	-0.30	-0.20	-0.31	-0.50	-0.20
10-year	-0.27	-0.29	-0.37	-0.38	-0.59	-0.55	-0.60	-0.60	-0.50	-0.45	-0.50	-0.40	-0.38	-0.60	-0.40
30-year	-0.59	-0.56	-0.54	-0.41	-0.56	-0.60	-0.65	-0.70	-0.60	-0.70	-0.80	-0.75	-0.41	-0.70	-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	0.43	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	1.58	2.10	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	-0.25	-0.20	-0.20	-0.20	-0.15	-0.15	-0.15	-0.15	-0.11	-0.20	-0.15
10-year	1.57	1.25	0.95	0.54	0.18	0.70	0.80	1.00	1.10	1.25	1.40	1.55	0.54	1.00	1.55

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	3.4	3.2	2.2	-0.6	2.0	2.9	2.7	2.7	2.5	2.8	2.6	2.4	1.8	2.6
United States*	-2.1	4.6	5.0	2.2	-0.7	3.4	3.0	2.9	3.0	2.8	3.0	2.7	2.4	2.3	3.0
United Kingdom	0.7	0.8	0.7	0.6	0.3	0.5	0.7	0.6	0.6	0.5	0.5	0.4	2.8	2.5	2.4
Euro Area	0.3	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.9	1.5	1.8
Australia	1.1	0.5	0.4	0.5	0.7**	0.6	0.7	0.8	0.7	0.8	0.7	0.7	2.7	2.4	2.8
New Zealand	1.0	0.7	0.9	0.8	0.6**	0.6	0.6	0.6	0.6	0.6	0.5	0.5	3.3	2.8	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	1.1	0.8	0.9	1.7	2.6	2.7	2.7	2.2	2.0	1.1	2.5
United States	1.4	2.1	1.8	1.2	-0.1	0.0	0.2	1.2	2.7	2.5	2.7	2.6	1.6	0.3	2.6
United Kingdom	1.7	1.7	1.5	0.9	0.1	0.3	0.3	0.7	1.6	1.8	2.0	2.0	1.5	0.4	1.8
Eurozone	0.7	0.6	0.4	0.2	-0.3	0.2	0.3	0.5	0.9	1.0	1.0	1.0	0.4	0.2	1.0
Australia	2.9	3.0	2.3	1.7	1.3	2.1	2.3	2.9	3.0	2.9	2.8	2.6	2.5	2.3	2.9
New Zealand	1.5	1.6	1.0	0.8	0.1	-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	0.76	0.78	0.76	0.75	0.74	0.74	0.73	0.73	0.82	0.75	0.73
USD/CAD	1.11	1.07	1.12	1.16	1.27	1.26	1.31	1.30	1.29	1.28	1.27	1.26	1.16	1.30	1.26
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	120.1	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	0.75	0.73	0.71	0.69	0.68	0.67	0.66	0.66	0.78	0.69	0.66
USD/CHF	0.89	0.89	0.96	0.99	0.97	1.00	1.03	1.01	0.98	0.97	0.98	0.98	0.99	1.01	0.98
GBP/USD	1.67	1.71	1.62	1.56	1.48	1.46	1.51	1.59	1.64	1.63	1.63	1.63	1.56	1.59	1.63

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