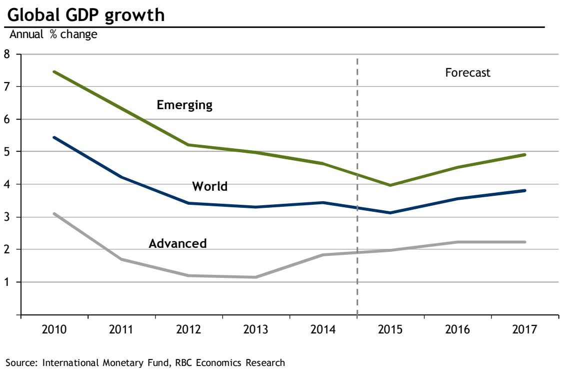
ECONOMIC AND FINANCIAL MARKET OUTLOOK

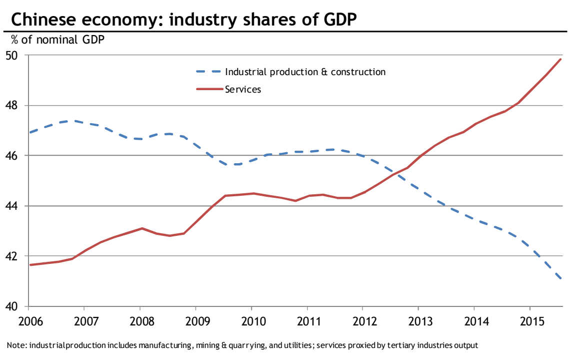
December 2015

Global economy to shift into higher gear in 2016, Canada to stay on positive growth track



2015 is proving to be a mediocre year for the global economy, with forecasts downgraded to show just a 3.1% increase in real gross domestic product (GDP). 2016's forecast was also lowered; however, at 3.6%, the world economy will expand at a pace that is in line with its long-term average with faster growth expected in 2017. A reassessment of the pace of activity in the emerging market economies (EME) was a key contributor to 2015's weaker outcome while the advanced economies are on track to record the strongest gain since 2010. A slowing in China and sharp declines in output in Russia and Brazil were largely responsible for weakening EME output in 2015. In 2016, a less pronounced decline in Russia and Brazil is expected to be sufficient to offset further slowing in Chinese growth and result in a mildly firmer gain for the EME. In the advanced economies, conversely, growth is forecasted to accelerate in both 2015 and 2016, supported by a sustained strengthening in the US, rebound in Canada, and steady gains in the UK and euro area.

Recalibrating expectations of growth in China



As expected, China's economy slowed in 2015 as the government's policy to transition the drivers of growth continued. Success in lifting consumer spending was met by lower industry output, and a sharp weakening in both exports and imports. Aggressive action by the central bank that included both interest rate cuts and depreciation of the yuan resulted in gradual moderation in the annual growth rate during 2015. Our forecast is that China's economy will expand by 6.8% in 2015 and slow to 6.5% and 6.1% in 2016 and 2017, respectively. The economy's weaker growth prospects align with the reduction in the economy's potential growth rate, as the very rapid pace of both capital investment and labour force growth in the past decade is unlikely to be sustained.

Financial markets now anticipate that China's economy will gear down after the past decade of extraordinarily strong growth. Earlier in 2015, financial market volatility shot up, as markets questioned the outlook for the global economy given the shift in China; however, volatility eased, the world stock market index recovered, and yields on government debt remained low. Central banks continue to pursue policies aimed at sustaining growth and shying away from making policy changes that could have negative consequences for more vulnerable economies. Against this backdrop, the US dollar continued to appreciate on a trade-weighted basis and built on 2014's 8% gain. The dollar not only benefitted from safe-haven flows but also from expectations that the US economy will be a dominant contributor to global growth. Additional support came from expectations that the Federal Reserve will hike the policy rate by 25 basis points rate in mid-December 2015. This contrasts to other major central banks that are either standing pat on policy or, as in the case of the Euro-

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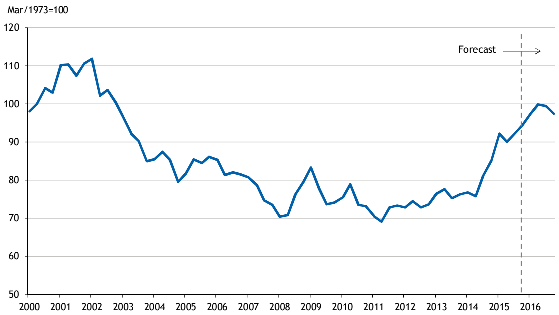
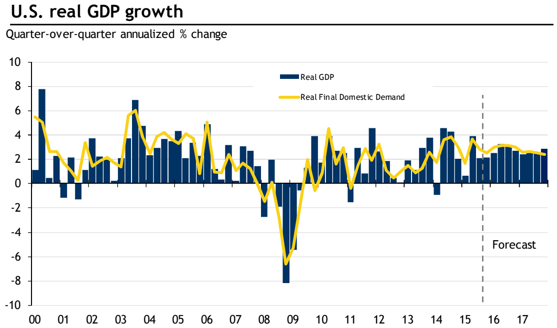
USD Trade Weighted Index (Major Currencies)



Source: Federal Reserve Board, RBC Economics Research

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

pean Central Bank (ECB), recently added to stimulus. The US dollar is likely to appreciate further in the first half of 2016 relative to the Canadian dollar, euro, and sterling.

US economy teeing up for a strong 2016

The US economy picked up speed in 2015 after a drop in investment by energy producers combined with temporary factors to dampen growth in the first quarter. Growth in domestic demand averaged 3.3% in the second and third quarters, driven in large part by robust consumer spending activity and solid residential construction. Business investment increased despite a pullback in spending by energy companies. Favourable fundamentals augur well for these sectors of the economy to grow at about a 3% rate during the forecast horizon.

Labour market approaching full employment

Key among the factors supporting the consumer is the steady increase in employment, with non-farm payrolls on track to rise by 2.5 million in 2015, building on 2014's 3.1 million gain. In the same period, the unemployment rate fell by 1.7 percentage point to stand at 5.0% in November 2015, which is within the range that the Fed considers to be full employment. Wage gains have been modest, although the pace accelerated as 2015 progressed. We expect that additional tightening in labour market conditions will underpin stronger wage increases in 2016.

Labour market conditions tightened in 2015 as the pool of underutilized labour decreased. Reduction in excess labour supply and slowing in the growth of the working-age population mean that there will be a waning number of new entrants to the labour force going forward. As a result, even the smaller monthly increases in employment that we expect next year would be sufficient to exert downward pressure on the unemployment rate.

Balance sheets strength to support spending and housing

US household balance sheets showed that both assets and liabilities grew in the first half of 2015, with the stronger uptick in asset valuations producing an increase in overall net worth. This improvement boosted financial institutions' willingness to make loans that partly supported strengthening consumption and housing market activity. The combination of rising incomes and net wealth in 2016 should keep these trends going. We expect household spending will account for almost three-quarters of the 2.8% rise in real GDP in 2016.

Businesses poised to boost investment

Even incorporating another year of declining investment by energy companies, we expect an increase in the pace of business spending in 2016. The steady improvement in the economy's momentum is expected to support business investment as companies increase capacity to meet higher demand. Financial conditions are expected to remain favourable, given historically low interest rates. Energy companies conversely are facing higher financing costs, given the sharp widening in interest rate spreads. Even with the modest rise in energy prices that we expect, energy companies are forecasted to cut investment in 2016 although by significantly less than in 2015.

US dollar’s strength a boon to importers

The 8% rise in the US dollar in the past year supported a strengthening in imports in 2015, which is a trend that we expect will continue in 2016, backed by firm demand from US companies and households. Export growth in 2015 conversely was anemic and affected by the strong US dollar and sluggish global growth. On net, the trade sector acted as a weight on US growth in 2015, and we expect that this will continue in 2016; although, the drag is likely to ease somewhat as an improvement in the global economy should result in a firming in US exports. Import growth is forecasted to rise at an above-trend pace, given the decline in import prices, which even excluding sharply lower petroleum prices, were down by close to 4% as of October 2015.

The decline in import prices filtered into consumer prices in 2015, which alongside the sharp drop in energy costs, depressed the headline inflation rate. Excluding food and energy prices, the inflation rate gradually increased during 2015 despite the sharp US dollar appreciation. Shelter costs, which account for one-third of the index, grew at about a 3% pace in 2015. In 2016, our expectation is that energy costs will bottom and then gradually move higher, which would remove the key depressant on the headline inflation rate. As such, we forecast that both the headline and core measures will average 2.0% next year.

Many reasons for the Fed to shift from the lower bound

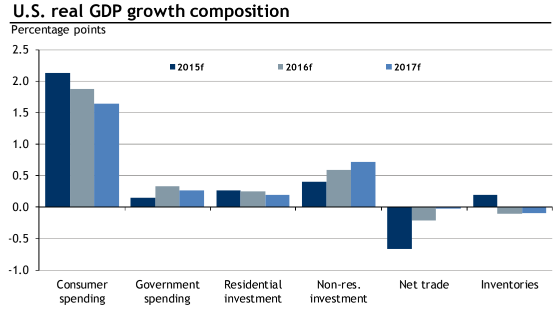
Economic conditions improved sufficiently in 2015 to support the Fed initiating the process of lessening policy stimulus. This is more readily apparent in the labour market indicators, which show a sharp reduction in underutilized resources and the unemployment rate in the range deemed to represent full employment. The inflation backdrop is less clear cut, with the headline rate being depressed by energy prices. The core measure, which excludes energy and food prices, shows price increases that are more consistent with the Fed’s 2.0% objective. The core consumer price index (CPI) inflation rate stood at 1.9% in October, and the Fed’s preferred measure, the core personal consumption expenditure (PCE) deflator at 1.3%, was well above the 0.2% rate of both headline measures. Additionally, survey results indicate that inflation expectations remained anchored, with consumers expecting the Fed to achieve its inflation objective in the medium term.

Given the firming in domestic demand, the need for the policy rate to remain at the lower bound has eroded. We expect the Fed to raise the fed funds target band by 25 basis points in December. Despite acceleration in 2016 and 2017 growth, we expect the Fed to maintain a cautious stance, with subsequent moves likely to be gradual such that during 2016, the funds target will be increased by just 100 basis points and gravitate toward the neutral policy rate by the end of 2017.

Canada’s economy to stay in gear

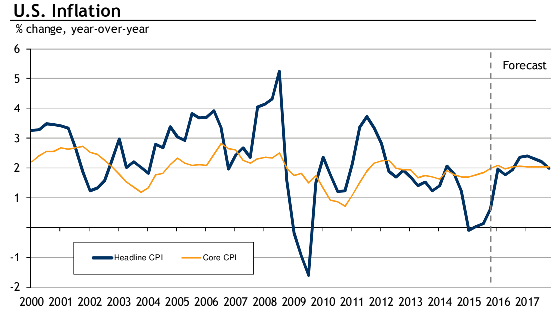
After a rough first half, Canada’s economy switched into a higher gear in June, teeing up for a healthy 2.3% annualized gain in the third quarter. A surge in exports, firm consumer spending, and housing market activity supported the increase. Growth in these sectors more than compensated for another decline in business fixed investment, largely by energy companies. A sharp pullback in real GDP in September was related to production difficulties and mainte-

U.S. real GDP growth composition



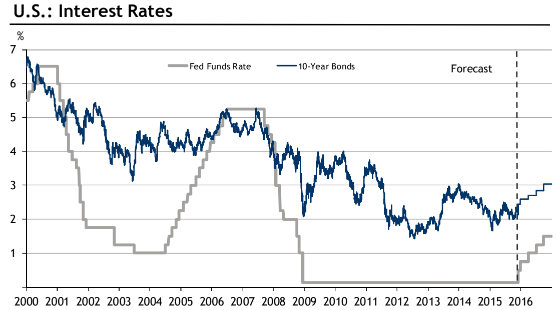
Source: Statistics Canada, RBC Economics Research

U.S. Inflation



Source: Bureau of Labor Statistics, RBC Economics Research

U.S.: Interest Rates

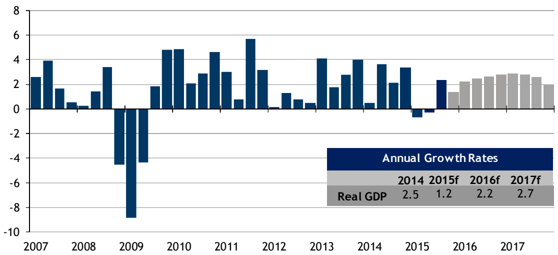


Source: Federal Reserve Board, U.S. Treasury, RBC Economics Research

Canada: Real GDP growth

Quarter-over-quarter % change, annualized rate

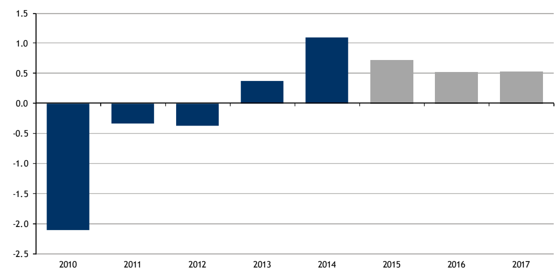
Forecast:



Source: Statistics Canada, RBC Economics Research

Canadian net exports contribution to real GDP growth

Percentage points

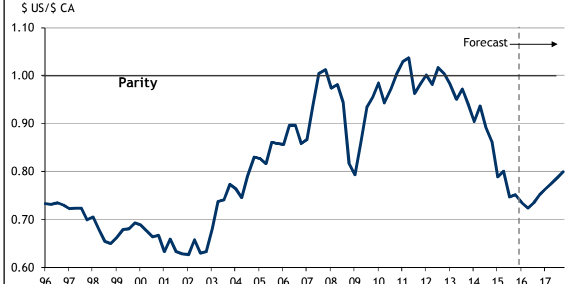


Forecast:

Source: Statistics Canada, RBC Economics Research

Canadian Dollar Forcast

$ US/$ CA



Source: Bank of Canada, RBC Economics Research

nance shutdowns in the energy sector, which ended late in the month. The reversal of this weight on activity and strengthening services output are forecasted to support an increase in real GDP in October and the fourth quarter overall. Furthermore, we expect this momentum to be sustained throughout 2016 as GDP expands by 2.2%. An expected recovery in oil prices in 2017 is likely to eliminate any further drag on the economy's growth rate from falling energy sector investment, thereby setting up for Canadian real GDP growth to ratchet up another notch to 2.7%.

Export recovery on firm footing

Part of the mid-year turn occurred because of a broad-based surge in exports in June that elevated the level of activity heading into the third quarter. On net, export volumes increased at a 9.4% annualized pace in the third quarter and were backed by gains in energy, industrial machinery, autos and parts, and consumer goods. We expect these sectors will continue to post solid gains in 2016. A strengthening US economy and weaker Canadian dollar are forecasted to generate export growth of about 6% in 2016 while imports are likely to increase at a weaker 4% pace. The sluggish pace of imports reflects the sharp 13% rise in prices of imported machinery and equipment due to the depreciation in Canada's currency and ongoing weakness in business investment in the oil and gas sector. As a result, net trade is expected to provide a 0.5 percentage point lift to real GDP in 2016.

Currency likely to weaken further in first half of 2016

Canada's dollar lost 15% against its US counterpart in 2015 and built on 2014's loss, as oil prices held well below the year-ago levels and the expectations for a Fed rate hike increased. The divergence in the outlook for monetary policy between the Fed and Bank of Canada will likely exert further downward pressure on Canada's currency in the early part of 2016; however, as expectations shift toward the Bank of Canada preparing to remove the 'insurance' rate cuts implemented earlier this year, and oil prices recover, we expect Canada's dollar to drift modestly higher.

Canada's consumers – still going strong

Consumers were a stalwart supporter of growth in 2015 between spending on goods and services and housing. Both sales of homes and motor vehicles are on track for record or near-record levels. Solid gains in employment were offset by an increase in the labour force, resulting in a mild rise in the unemployment rate, although this only shifted the rate from a below-trend level closer to its long-term average. Wage growth accelerated sharply starting in May that along with the retroactive payment of the Universal Child Care Benefit early in the summer provided households with the means to spend. Additional support came from cheaper energy costs and low interest rates that fuelled borrowing activity. The persistent rise in borrowing resulted in the debt-to-income ratio hitting a new high while the appreciation in household assets resulted in the debt-to-asset ratio moving lower. On balance, households are more vulnerable to a shock; however, given the low level of interest rates and steady job gains, we do not see an imminent threat to spending in 2016. Our expectation that the Bank of Canada will reverse the 2015 rate cuts in the final quarter of 2016 and then gradually pull back the amount of policy stimulus with 100 basis points of hikes in 2017 tees up for a slowing in consumer and housing activity during the next 24 months.

A mixed housing market backdrop

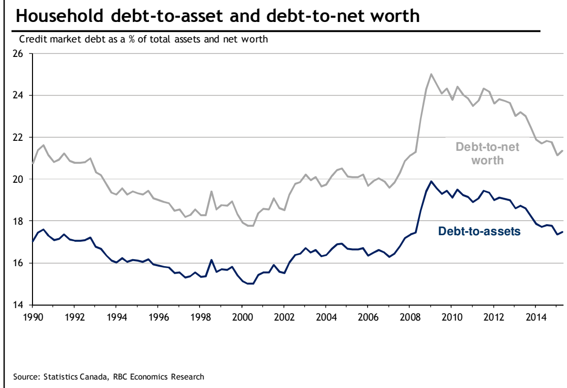
Canada's housing market is running at different speeds depending on the region and housing type. Vancouver and Toronto continue to show robust momentum, with sales rising even as prices post double-digit increases. Affordability in these two cities is stretched, especially for single-family homes, which is a product of limited new supply. Affordability in the condo sector is also stressed compared to historical levels; however, the degree of overvaluation is significantly less. Across the rest of the country, conditions are mixed, with oil-producing provinces struggling while other regions are facing balanced supply-demand conditions that are limiting price increases and maintaining a steadier affordability backdrop. In 2016, the headwinds blowing on the oil-producing provinces are likely to persist, although the improvement in affordability levels should cap the downside. Conversely, in markets where affordability has been severely stretched, sales are likely to weaken, and the pace of price increase should slow. On net, 2016 is likely to produce a modest increase in house prices albeit with a somewhat slower pace of sales activity.

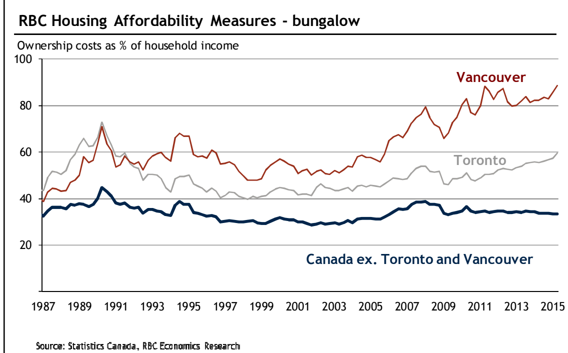
More cuts by oil companies expected in 2016

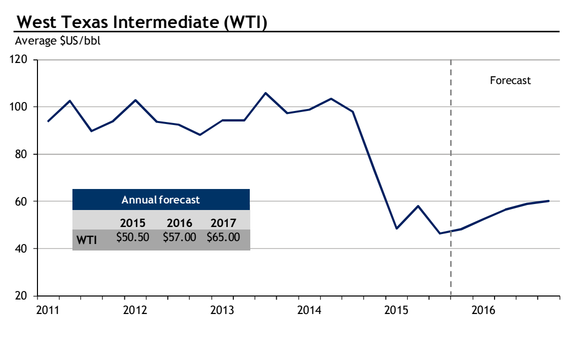
A large part of the economy's subpar performance in 2015 was due to an estimated 30% drop in spending by energy companies and support services that shaved more than a percentage point from the year's growth rate. Outside of the energy sector, companies increased investment; however, this only dented the hit to 2015 growth. Energy companies are likely to continue to pare back investment in 2016. Our forecast assumes that oil prices will rise next year, thereby reflecting a pullback in supply as the sharp drop in the number of active rigs results in lower levels of global output. With time, this will reduce the amount of oversupply, and given persistent strong global demand, we expect that it will support a rise in the price of a barrel of West Texas Intermediate to about $60.00 late in 2016. The gradual increase in prices is expected to limit the magnitude of investment cuts by Canadian oil producers to 13% in 2016. At the same time, rising demand for Canada's exports and solid consumer demand should exert pressure on capacity, thereby leading to a rise in investment in other industries. On net, business investment is unlikely to have a material net effect on the pace of growth in 2016.

Scope of government stimulus to boost growth in 2016

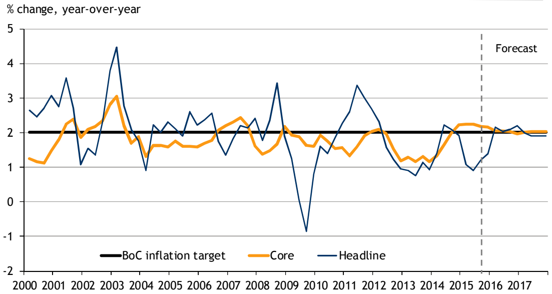
The newly elected Liberal federal government's platform contained a plethora of initiatives including a proposed $150 billion in 'new investment' during the 2016–17 to 2019–20 period, reflecting tax cuts and infrastructure spending. The Liberal party's economic platform proposed fiscal deficits of "less than $10 billion" in the first three fiscal years of its mandate, in part, to fund these new investments with a return to balanced budget in 2019–20. The government provided a fiscal update in late November that showed that even without the promised new initiatives, lower economic growth assumptions resulted in a likely return to deficit in fiscal 2015–16. The government estimated a shortfall of $3.0 billion in the current fiscal year, with a return to surplus forecasted for 2019–20. Looking to 2016, there is scope for the government to provide a dose





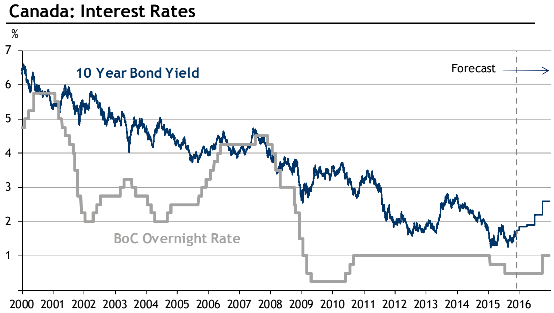


Canada : Inflation



Source: Statistics Canada, RBC Economics Research

Canada: Interest Rates



Source: Bank of Canada, RBC Economics

of fiscal stimulus to the economy; however, the details of the plan and the timing of any initiatives will not likely be unveiled until sometime in the first quarter of 2016. Based on government expenditures announced to date, growth in real GDP is likely to be boosted by 0.4 percentage points in 2016, with further upside if the federal government enacts additional stimulus measures in its 2016 Budget.

Bank of Canada to play the waiting game

The Bank of Canada assumed a neutral stance at its December meeting and maintained the overnight rate at 0.5%. In its October forecast update, the Bank projected a rebound in growth in the second half of the year following a subdued performance in the first half. This recovery was in part attributed to the stimulative effects of low interest rates and a weaker dollar. The Bank highlighted that the declines in real GDP in the first half of 2015 were heavily affected by the contraction in investment in the energy sector and 'temporary factors' including severe weather and shutdowns in the oil and gas and motor vehicles industries. After accounting for the effect of both the temporary factors and low energy prices, the Bank estimated that the economy grew at an average 1.0% pace in the first half. Furthermore, the Bank forecast showed the economy expanding at a 2.0% average rate in the second half of 2015 and throughout 2016.

Inflation data delivering mixed message

Canada's core inflation rate held above the 2.0% midpoint of the Bank's target range for 15 consecutive months, with more than half the components (57%) running at a 2.0% or faster pace in October. The headline rate remained at the lower end of the target band at 1.0% due to sharply lower energy prices. The Bank, in its October *Monetary Policy* report, discounted the persistence of the core measure remaining slightly above its target by pointing to the effect of the Canadian dollar's depreciation as being responsible for elevating the core rate by 0.5 to 0.7 percentage points. After accounting for the currency effect, the Bank estimated the underlying inflation rate was between 1.5% and 1.7%. Given that the largest declines in the currency on a year-over-year basis occurred in the third quarter, the extent of the effect is likely to begin to wane as we exit 2015. At the same time, the magnitude of the decline in energy prices relative to a year earlier is forecasted to dissipate, thereby eliminating a key weight on the headline inflation rate. The net result is that both the core and headline measure will likely converge, albeit from divergent directions, to around 2.0% starting in early 2016.

Even with inflation running around the 2.0% target, we expect the Bank to maintain the overnight rate at 0.5% during most of 2016 to ensure the economy grows at a strong enough pace to eliminate excess supply and reduce any downside risks to inflation in the medium term. Accordingly, we anticipate the Bank will hold the overnight rate at 0.5% until late 2016, when concerns about the inflation rate moving above target will become more prevalent. The overnight rate is expected to finish 2016 at 1.0%. Further increases are likely in 2017 as the output gap is eliminated and requiring that the policy rate be closer to its neutral rate in order to keep inflation from exceeding the Bank's target. Our forecast calls for the overnight rate to rise to 2.0% by year-end 2017.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual			Forecast									Actual	Forecast		
	2015				2016				2017				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2014	2015	2016	2017
Household Consumption	0.4	2.3	1.8	2.5	2.3	2.3	2.4	2.1	2.1	2.0	1.8	1.7	2.6	2.0	2.3	2.1
Durables	-4.7	6.4	9.7	1.8	3.0	2.2	1.5	1.5	1.5	1.5	1.5	1.0	4.3	3.7	3.3	1.5
Semi-Durables	0.6	3.7	0.7	2.8	2.1	2.5	2.8	3.1	2.5	2.1	1.8	1.8	3.1	2.6	2.4	2.4
Non-durables	2.7	-2.6	0.9	2.8	2.1	2.5	3.3	2.2	2.2	2.2	2.0	2.0	2.4	0.9	2.0	2.3
Services	0.5	3.4	0.6	2.5	2.3	2.2	2.1	2.1	2.2	2.0	1.8	1.8	2.3	2.0	2.1	2.1
NPISH consumption	-1.0	6.1	1.2	2.5	2.3	2.3	2.4	2.1	2.1	2.0	1.8	1.7	0.2	2.8	2.4	2.1
Government expenditures	3.8	1.7	-1.6	2.0	1.5	2.0	2.5	2.0	1.8	1.5	1.5	1.5	0.3	1.1	1.5	1.8
Government fixed investment	4.3	0.2	-2.2	2.5	2.5	3.0	3.5	3.5	3.0	3.0	2.5	2.5	2.1	3.4	2.0	3.1
Residential investment	6.3	0.1	2.5	7.1	0.1	-4.5	-6.7	-5.0	-3.8	-1.3	-1.4	0.1	2.5	4.1	-0.4	-3.5
Non-residential investment	-18.5	-11.2	-5.8	-1.6	-1.9	4.2	6.3	6.4	5.3	4.7	4.4	4.0	0.0	-7.0	-0.3	5.2
Non-residential structures	-24.7	-9.3	-6.5	-1.0	-1.5	3.8	6.3	6.4	5.3	4.8	4.5	4.0	-0.4	-9.7	-0.2	5.3
Machinery & equipment	-5.9	-14.5	-4.5	-2.5	-2.5	4.8	6.3	6.4	5.2	4.5	4.3	4.0	1.0	-1.7	-0.6	5.2
Intellectual property	-28.7	-11.6	-8.1	-2.0	-2.5	3.8	4.5	4.5	4.4	3.8	3.5	3.5	-4.2	-11.3	-1.3	4.1
Final domestic demand	-1.3	0.2	0.0	2.2	1.5	2.0	2.2	2.1	2.0	2.0	1.8	1.9	1.6	0.8	1.6	2.0
Exports	-1.0	1.9	9.4	2.3	6.6	6.0	5.8	5.8	6.3	5.9	5.6	4.8	5.3	3.4	5.6	5.9
Imports	0.4	-1.9	-2.9	7.5	4.8	4.3	4.8	4.1	3.6	3.6	3.6	4.0	1.8	1.0	3.7	3.9
Inventories (change in $b)	12.8	5.4	0.7	4.6	5.4	5.2	5.8	6.2	6.2	6.6	7.5	7.1	9.9	5.9	5.6	6.8
Real gross domestic product	**-0.7**	**-0.3**	**2.3**	**1.3**	**2.2**	**2.4**	**2.6**	**2.7**	**2.9**	**2.8**	**2.6**	**2.0**	**2.5**	**1.2**	**2.2**	**2.7**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2014	2015	2016	2017
Business and labour																
Productivity	1.8	-0.4	-0.3	-0.6	0.1	1.1	1.4	1.7	1.7	1.7	1.8	1.7	2.1	0.1	1.1	1.7
Pre-tax corporate profits	-13.5	-15.6	-19.2	-19.4	-2.3	0.2	4.6	11.1	12.3	12.3	11.2	8.1	7.0	-16.9	3.3	10.9
Unemployment rate (%)*	6.7	6.8	7.0	7.0	6.9	6.8	6.7	6.6	6.5	6.4	6.3	6.2	6.9	6.9	6.8	6.4
Inflation																
Headline CPI	1.1	0.9	1.2	1.4	2.2	2.0	2.1	2.2	2.0	1.9	1.9	1.9	2.0	1.1	2.1	1.9
Core CPI	2.2	2.2	2.2	2.2	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	1.8	2.2	2.0	2.0
External trade																
Current account balance ($b)	-76.4	-66.3	-64.8	-76.8	-69.8	-64.2	-57.7	-49.2	-37.3	-32.4	-27.9	-24.5	-44.9	-71.1	-60.2	-30.5
% of GDP	-3.9	-3.3	-3.2	-3.8	-3.4	-3.1	-2.8	-2.3	-1.7	-1.5	-1.3	-1.1	-2.3	-3.6	-2.9	-1.4
Housing starts (000s)*	175	193	213	200	195	189	183	179	175	175	170	170	189	195	186	172
Motor vehicle sales (mill., saar)*	1.82	1.92	2.00	1.97	1.95	1.88	1.87	1.87	1.87	1.87	1.87	1.87	1.89	1.93	1.89	1.87

*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									Actua	Forecast		
	2015				2016				2017				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2014	2015	2016	2017
Consumer spending	1.7	3.6	3.0	2.5	2.7	2.7	2.6	2.5	2.4	2.3	2.2	2.1	2.7	3.1	2.7	2.4
Durables	2.0	8.0	6.5	3.1	5.8	5.5	5.2	4.8	4.5	4.2	3.9	3.6	5.9	5.9	5.3	4.5
Non-durables	0.7	4.3	4.0	3.1	2.5	2.4	2.3	2.1	2.0	1.9	1.7	1.6	2.1	2.8	2.8	2.0
Services	2.1	2.7	2.2	2.2	2.3	2.4	2.3	2.3	2.2	2.1	2.1	2.0	2.4	2.8	2.3	2.2
Government spending	-0.1	2.6	1.7	2.0	1.7	1.8	2.0	1.8	1.5	1.2	1.2	1.0	-0.6	0.8	1.9	1.5
Residential investment	10.1	9.4	7.3	5.1	8.5	8.3	6.8	6.3	5.6	5.0	4.6	4.2	1.8	8.4	7.4	5.7
Non-residential investment	1.6	4.1	2.4	2.7	5.2	5.6	6.4	6.2	4.4	6.0	5.5	5.5	6.2	3.1	4.6	5.6
Non-residential structures	-7.4	6.3	-7.1	-2.0	4.3	6.1	6.2	5.5	1.5	6.2	4.9	5.0	8.1	-1.3	2.4	4.6
Equipment & software	2.3	0.3	9.5	3.7	6.2	6.1	7.4	7.3	5.7	7.0	6.3	6.3	5.8	3.4	6.0	6.6
Intellectual property	7.4	8.3	-0.9	4.3	4.3	4.5	5.0	5.0	4.6	4.3	4.7	4.6	5.2	5.9	4.0	4.7
Final domestic demand	1.7	3.7	2.9	2.5	3.0	3.1	3.1	3.0	2.6	2.7	2.5	2.4	2.5	2.9	3.0	2.8
Exports	-6.0	5.1	0.9	3.0	4.0	4.0	4.8	5.2	5.3	5.5	5.5	5.8	3.4	1.5	3.7	5.2
Imports	7.1	3.0	2.1	3.5	5.2	5.4	5.2	4.8	4.3	4.0	4.0	3.5	3.8	5.2	4.4	4.4
Inventories (change in $b)	112.8	113.5	90.2	81.0	70.0	86.0	90.9	79.9	68.0	63.0	60.0	68.0	68.0	99.4	81.7	64.8
Real gross domestic product	**0.6**	**3.9**	**2.1**	**2.2**	**2.5**	**3.2**	**3.1**	**2.7**	**2.4**	**2.7**	**2.6**	**2.8**	**2.4**	**2.5**	**2.8**	**2.7**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.4	0.6	0.6	0.9	1.6	1.1	1.0	1.7	1.7	1.7	1.7	1.8	0.6	0.6	1.3	1.8
Pre-tax corporate profits	4.6	0.6	-4.7	-3.4	3.2	1.0	3.1	4.2	4.3	4.0	3.6	3.4	1.7	-0.9	2.9	3.8
Unemployment rate (%)*	5.6	5.4	5.2	5.0	5.0	4.9	4.9	4.8	4.8	4.7	4.7	4.6	6.2	5.3	4.9	4.7
Inflation																
Headline CPI	-0.1	0.0	0.1	0.6	2.0	1.8	2.0	2.4	2.4	2.3	2.2	2.0	1.6	0.2	2.0	2.2
Core CPI	1.7	1.8	1.8	2.0	2.1	2.0	2.0	2.1	2.0	2.0	2.0	2.0	1.7	1.8	2.0	2.0
External trade																
Current account balance ($b)	-473	-439	-452	-454	-476	-498	-514	-524	-536	-533	-531	-522	-390	-454	-503	-530
% of GDP	-2.7	-2.5	-2.5	-2.5	-2.6	-2.7	-2.7	-2.7	-2.8	-2.7	-2.7	-2.6	-2.2	-2.5	-2.7	-2.7
Housing starts (000s)*	978	1158	1153	1200	1250	1283	1313	1342	1368	1391	1413	1433	1001	1122	1297	1401
Motor vehicle sales (millions, saar)*	16.7	17.1	17.8	18.1	17.8	17.9	18.1	18.2	18.3	18.4	18.5	18.5	16.4	17.4	18.0	18.4

*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		
	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015	2016	2017
Canada																
Overnight	0.75	0.75	0.50	0.50	0.50	0.50	0.50	1.00	1.25	1.50	1.75	2.00	1.00	0.50	1.00	2.00
Three-month	0.55	0.58	0.43	0.40	0.50	0.55	0.60	1.10	1.30	1.55	1.80	2.05	0.91	0.40	1.10	2.05
Two-year	0.50	0.48	0.52	0.65	0.70	0.80	1.00	1.60	1.95	2.25	2.45	2.65	1.01	0.65	1.60	2.65
Five-year	0.77	0.82	0.80	1.00	1.15	1.25	1.50	2.10	2.40	2.60	2.80	2.95	1.34	1.00	2.10	2.95
10-year	1.36	1.69	1.43	1.75	1.85	1.90	2.20	2.60	2.75	2.90	3.15	3.30	1.79	1.75	2.60	3.30
30-year	1.98	2.31	2.20	2.45	2.55	2.60	2.75	3.05	3.20	3.35	3.65	3.75	2.34	2.45	3.05	3.75
Yield curve (10s-2s)	86	121	91	110	115	110	120	100	80	65	70	65	78	110	100	65
United States																
Fed funds*	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50	2.00	2.50	3.00	3.50	0.25	0.50	1.50	3.50
Three-month	0.04	0.03	0.00	0.20	0.45	0.65	0.70	0.95	1.50	2.05	2.65	3.20	0.04	0.20	0.95	3.20
Two-year	0.56	0.64	0.64	1.05	1.30	1.50	1.70	2.00	2.55	3.05	3.45	3.80	0.67	1.05	2.00	3.80
Five-year	1.37	1.64	1.37	1.85	2.05	2.15	2.30	2.55	3.00	3.35	3.75	4.00	1.65	1.85	2.55	4.00
10-year	1.93	2.35	2.04	2.45	2.60	2.70	2.85	3.05	3.40	3.65	3.95	4.15	2.17	2.45	3.05	4.15
30-year	2.54	3.12	2.86	3.20	3.30	3.35	3.45	3.55	3.70	3.85	4.15	4.25	2.75	3.20	3.55	4.25
Yield curve (10s-2s)	137	171	140	140	130	120	115	105	85	60	50	35	150	140	105	35
Yield spreads																
Three-month T-bills	0.51	0.55	0.43	0.20	0.05	-0.10	-0.10	0.15	-0.20	-0.50	-0.85	-1.15	0.87	0.20	0.15	-1.15
Two-year	-0.06	-0.16	-0.12	-0.40	-0.60	-0.70	-0.70	-0.40	-0.60	-0.80	-1.00	-1.15	0.34	-0.40	-0.40	-1.15
Five-year	-0.60	-0.82	-0.57	-0.85	-0.90	-0.90	-0.80	-0.45	-0.60	-0.75	-0.95	-1.05	-0.31	-0.85	-0.45	-1.05
10-year	-0.57	-0.66	-0.61	-0.70	-0.75	-0.80	-0.65	-0.45	-0.65	-0.75	-0.80	-0.85	-0.38	-0.70	-0.45	-0.85
30-year	-0.56	-0.81	-0.66	-0.75	-0.75	-0.75	-0.70	-0.50	-0.50	-0.50	-0.50	-0.50	-0.41	-0.75	-0.50	-0.50

Note: Interest Rates are end of period rates. * Top of 25 basis point range

Interest rates—International

%, end of period

	Actual			Forecast									Actual	Forecast		
	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015	2016	2017
United Kingdom																
Repo	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	0.50	0.50	1.00	1.50
Two-year	0.43	0.55	0.56	0.70	0.80	0.95	1.10	1.30	1.50	1.75	1.90	2.10	0.45	0.70	1.30	2.10
10-year	1.58	2.01	1.76	2.00	2.10	2.30	2.45	2.60	2.75	2.95	3.15	3.40	1.76	2.00	2.60	3.40
Euro Area																
Deposit rate	-0.20	-0.20	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.20	-0.30	-0.30	-0.30
Two-year	-0.25	-0.23	-0.26	-0.30	-0.30	-0.30	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.11	-0.30	-0.25	-0.25
10-year	0.18	0.77	0.59	0.60	0.65	0.75	0.90	1.00	1.25	1.40	1.55	1.70	0.54	0.60	1.00	1.70
Australia																
Cash target rate	2.25	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.50	2.00	1.50	2.00
Two-year swap	1.72	2.01	1.81	1.80	1.70	1.60	1.75	2.00	2.10	2.30	2.70	3.00	2.19	1.80	2.00	3.00
10-year swap	2.32	3.01	2.61	3.00	3.10	3.10	3.25	3.50	3.90	4.15	4.55	4.85	2.81	3.00	3.50	4.85
New Zealand																
Cash target rate	3.50	3.25	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.50	2.50	2.50	3.00
Two-year	3.48	3.09	2.69	2.80	2.80	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.76	2.80	3.10	3.30
10-year	3.71	3.89	3.48	3.80	4.00	4.10	4.25	4.50	4.90	5.15	5.70	6.00	4.07	3.80	4.50	6.00

Growth outlook

% change, quarter-over-quarter in real GDP

	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015F	2016F	2017F
Canada*	-0.7	-0.3	2.3	1.3	2.2	2.4	2.6	2.7	2.9	2.8	2.6	2.0	2.5	1.2	2.2	2.7
United States*	0.6	3.9	2.1	2.2	2.5	3.2	3.1	2.7	2.4	2.7	2.6	2.8	2.4	2.5	2.8	2.7
United Kingdom	0.4	0.7	0.5	0.5	0.6	0.5	0.6	0.5	0.6	0.5	0.6	0.6	2.9	2.4	2.3	2.3
Euro Area	0.5	0.4	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.9	1.5	1.7	1.8
Australia	0.9	0.3	0.9	0.4	0.4	0.9	0.7	0.8	0.8	0.7	0.7	0.8	2.7	2.3	2.5	3.1
New Zealand	0.2	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	3.3	2.1	1.9	2.1

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015F	2016F	2017F
Canada	1.1	0.9	1.2	1.4	2.2	2.0	2.1	2.2	2.0	1.9	1.9	1.9	1.9	1.1	2.1	1.9
United States	-0.1	0.0	0.1	0.6	2.0	1.8	2.0	2.4	2.4	2.3	2.2	2.0	1.6	0.2	2.0	2.2
United Kingdom	0.1	0.0	0.0	0.5	1.0	1.1	1.0	1.3	1.4	1.6	2.0	2.0	1.5	0.2	1.1	1.8
Eurozone	-0.3	0.2	0.1	0.4	0.9	0.8	1.1	1.3	1.4	1.4	1.5	1.5	0.4	0.1	1.0	1.5
Australia	1.3	1.5	1.5	2.1	2.6	2.7	2.8	2.6	2.6	2.6	2.7	2.8	2.5	1.6	2.7	2.7
New Zealand	0.3	0.4	0.4	0.6	1.1	1.0	1.2	1.5	1.6	1.6	1.6	1.7	1.2	0.4	1.2	1.6

** Actual

Exchange rates

%, end of period

	Actual			Forecast									Actual	Forecast		
	15Q1	**15Q2**	**15Q3**	**15Q4**	**16Q1**	**16Q2**	**16Q3**	**16Q4**	**17Q1**	**17Q2**	**17Q3**	**17Q4**	**2014**	**2015**	**2016**	**2017**
AUD/USD	0.76	0.77	0.70	0.69	0.67	0.65	0.65	0.65	0.66	0.66	0.67	0.68	0.82	0.69	0.65	0.68
USD/CAD	1.27	1.25	1.33	1.33	1.36	1.38	1.36	1.33	1.31	1.29	1.27	1.25	1.16	1.33	1.33	1.25
EUR/USD	1.07	1.11	1.12	1.07	1.03	1.00	1.00	1.02	1.03	1.04	1.05	1.06	1.21	1.07	1.02	1.06
USD/JPY	120.1	122.5	119.9	123.0	128.0	132.0	130.0	128.0	126.0	124.0	122.0	120.0	119.7	123.0	128.0	120.0
NZD/USD	0.75	0.68	0.64	0.65	0.64	0.63	0.63	0.63	0.64	0.64	0.65	0.66	0.78	0.65	0.63	0.66
USD/CHF	0.97	0.94	0.97	1.03	1.08	1.12	1.13	1.12	1.12	1.11	1.10	1.09	0.99	1.03	1.12	1.09
GBP/USD	1.48	1.57	1.51	1.51	1.51	1.47	1.45	1.48	1.51	1.55	1.59	1.63	1.56	1.51	1.48	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