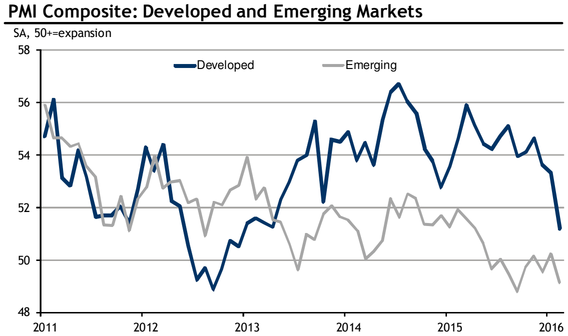
ECONOMIC AND FINANCIAL MARKET OUTLOOK

March 2016

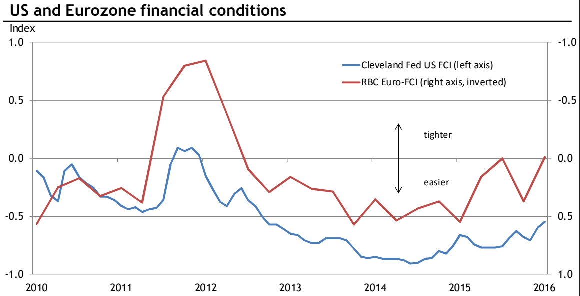
FEAR VERSUS FUNDAMENTALS

PMI Composite: Developed and Emerging Markets



Source: Markit, RBC Economics Research

US and Eurozone financial conditions



Source: RBC Capital Markets, Federal Reserve Bank of Chicago, RBC Economics Research

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The global economy entered 2016 little changed from 2015 with the advanced economies showing signs of continued moderate expansion while the emerging market economies remained on a slower growth trajectory. Investors found little comfort in economic data and focused on the risks to the global outlook associated with slower Chinese demand, falling commodity prices, the prospect of the UK leaving the European Union, and an expected divergence in monetary policy across central banks. Risk aversion ballooned and the world stock market index posted a double-digit decline in the first six weeks of the year and yields on longer-term government bonds fell to challenge or establish all-time lows in Canada, the US, UK and Euro-area. Anxiety eased in mid-February and the global stock market index recovered about three quarters of the decline with 10-year bond yields reversing course. Economic data reported over this period meanwhile pointed to the global economy continuing along a modest growth path.

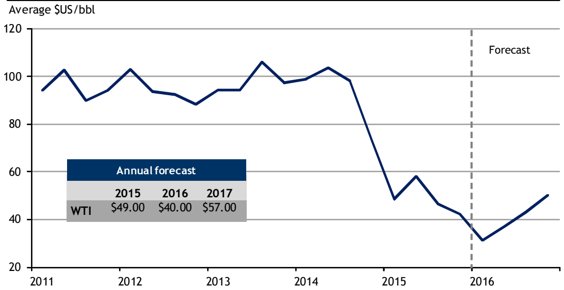
Uncertainty in financial markets

The rise in volatility, drop in equities combined with a widening in credit spreads and higher funding costs for financial institutions resulted in an unanticipated reduction in the degree of support coming from financial conditions. This was evident in both the Euro-area and US with the more dramatic move occurring in the Euro-area. While these stresses lessened the degree of support, financial conditions did not tighten aggressively. Arguably, the shift in financial conditions was largely fueled by fear rather than fundamental developments and risks dampening the economy's growth momentum if sustained. This would neutralize some of the effect of the ECB's aggressive policy easing throughout 2015. In the US, the move in financial conditions has been less pronounced, however with the Fed holding the Fed funds rate steady in January, it still presents a challenge to their plan to gradually reduce the degree of support.

Central banks – easy, easier, easiest

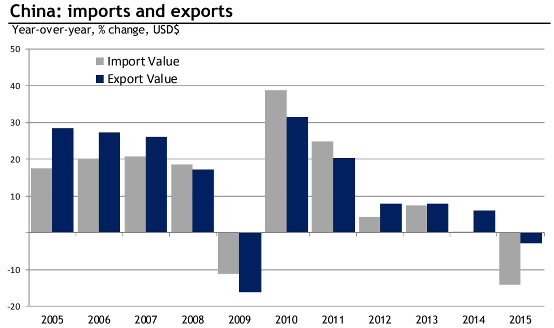
The bout of financial market volatility was a contributing factor to our decision to lower our forecasts for central banks' policy rates in 2016. Consistent with this view we expect the ECB to maintain the deposit rate at -0.4% for the remainder of the year; the Bank of Canada and Bank of England to hold their policy rate at 0.5% in 2016 rather than hike, and for the Fed to raise the fed funds target rate by 75 bps this year, less than the 100 bps in our previous forecast. These adjustments reflect our view that central banks want to lean against any unwanted tightening in financial conditions; mitigate any damage to senti-

West Texas Intermediate (WTI)



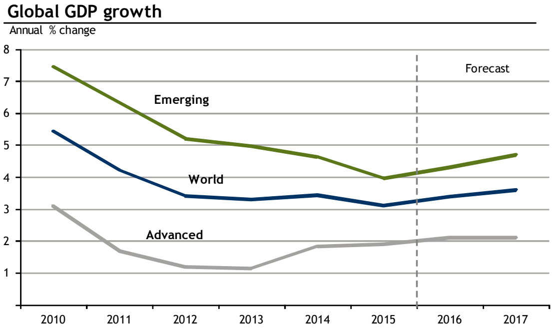
Source: Haver Analytics, RBC Economics Research

China: imports and exports



Source: China Customs, RBC Economics Research

Global GDP growth



Source: International Monetary Fund, RBC Economics Research

ment resulting from the financial market volatility and finally, to ensure that the current low level of inflation reaches their targets over the medium term.

Low energy costs keep headline inflation under wraps

From the U.S. to the Euro-area, headline inflation rates stand below central bank targets with low oil prices acting as one of the key common factors weighing on price indices. Oil prices fell aggressively in late 2015 and early 2016 confounding expectations for the price recovery to begin. The 24% drop in oil prices between early December and mid-January resulted in a marking to market of our forecast with a $12 cut to the expected average price of WTI to $40.00 in 2016 with 2017's average forecast reduced to $57.00 from $62.00. The basic tenets of our view that prices will recover still hold with global oil demand expected to increase by about 1% per year while global producers eventually cutback supply given the deterioration in profits and access to capital investment.

China's growth momentum eases

Another factor that is threatening sentiment is the slowing in Chinese growth. In 2015, China's economy expanded by 6.9%, the slowest pace since 1990. In and of itself, the economy's growth rate is not concerning as it is consistent with an economy that is moving from years of hyper-investment and rapid labour force expansion to growing at a more sustainable pace. The combination of a slowing in growth in the working-age population and more modest returns on capital investment suggests that China's potential growth rate will be lower in the decade ahead. Thus, growth at 6% to 7% seems likely to be the new normal.

More worrying was the sharp pullback in trade activity in 2015 with Chinese exports slipping 2.5% while imports slumped 14%. This pullback in demand from China provided another weight on growth in other Emerging Market economies that were already dealing with low commodity prices and rising financing costs of US-denominated debt as their currencies came under pressure. These factors dampened growth in 2015 and even if they ease modestly as expected in 2016, real GDP in the Emerging Market Economies is still likely to increase at a subdued 4.3% this year.

Global growth to get lift from advanced economies

2015 was a disappointing year for the global economy with real GDP rising by 3.1%, the slowest pace in six years. As discussed, the sharper than expected slowing in output in the Emerging Markets Economies was largely responsible for the weakening in the global growth rate. Similarly in 2016, these economies are likely to provide only a limited lift to world growth. The advanced economies conversely are forecast to post a solid 2.1% gain. This augurs well for labour market conditions in these economies to improve further and build on 2015's half percentage point drop in the unemployment rate. The combination of easing in financial market volatility, low interest rates and accommodative fiscal policy underpins our optimism on the outlook for the advanced economies in 2016. That said, concerns about the upcoming UK referendum on EU membership raises some risk to the near term outlook.

U.S. growth features strong domestic demand

The choppy pattern of US growth in 2015 produced a 2.4% rise in real GDP, matching 2014's pace. Through the ups and downs in the quarterly growth rates, two patterns emerged with domestic demand remaining solid while external demand was sluggish. The combination of subdued global trade volumes and a strong US dollar largely explain why US exports increased by a paltry 1.1% in 2015, the slowest pace in six years. Import growth conversely strengthened working to satisfy the increase in US domestic demand while the strong currency made imported goods cheaper for US consumers and businesses. In 2016, we expect these trends to persist with domestic demand posting another year of solid growth while net exports act as a drag on real GDP, albeit to a lesser extent than in 2015. Our forecast is that the US economy will expand by 2.2% this year.

US consumers - the beat goes on

US consumers are in a strong position. The labour market is operating close to full employment and wage growth is starting to accelerate. We expect that job creation will be slower than in previous years however will still be sufficient to exert downward pressure on the unemployment rate. The combination of a labour market running close to full potential and slower growth in the working-age population means that even if employment gains are slower in 2016 as we expect, this will not dampen the support for consumers with the offset coming from an acceleration in wage growth. The massive creation of jobs over recent years combined with healthy balance sheets mean that financial institutions continued to ease lending standards for consumers according to the Fed's survey released in early 2016.

Home sales activity increased in 2015 and even though prices moved up, US real estate remains historically affordable. We expect that the supportive factors listed above will result in another year of rising sales and prices. Housing starts activity is also forecast to heat up in 2016 as the level of building activity has been running short of the pace of household formation.

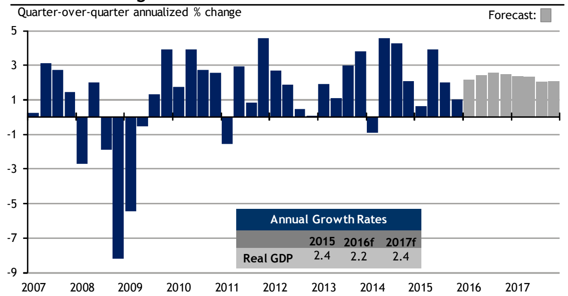
Business investment – slow but steady improvement ahead

US business investment was weak in 2015 as energy companies cut capital spending against a backdrop of a very sharp correction in oil prices. The current low level of oil prices makes it likely that energy companies will slash their capital expenditure budgets again in 2016. Outside energy, however, US businesses are expected to respond to heightened domestic demand not only by increasing their payrolls but also raising investment in equipment and real estate. This is likely to result in another contribution by business investment to economic growth in 2016.

US dollar strength – cuts two ways

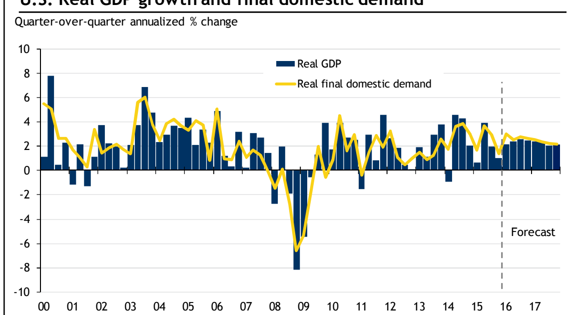
The 11% rally in the trade-weighted US dollar was a key factor weighing on foreign demand for exports in 2015 and barring an unanticipated weakening this year will likely dampen demand again. That said, the weakness in demand for US exports also reflected a general malaise in foreign trade with world trade volumes running well below their historical average pace. The expected

U.S.: real GDP growth



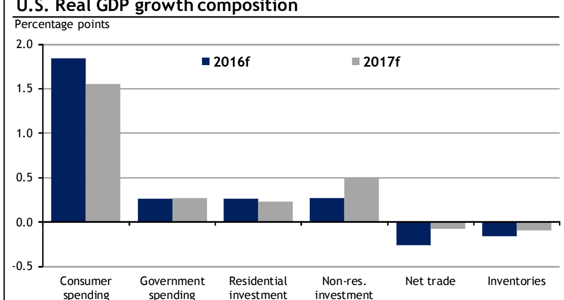
Source: Bureau of Economics Analysis, RBC Economics Research

U.S. Real GDP growth and final domestic demand



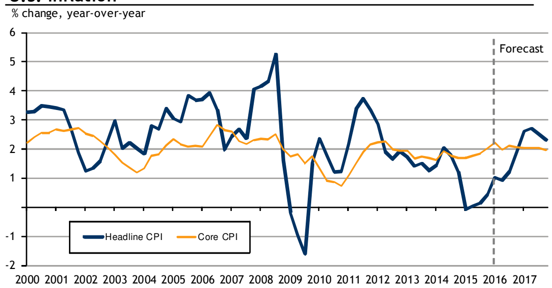
Source: Bureau of Economics Analysis, RBC Economics Research

U.S. Real GDP growth composition



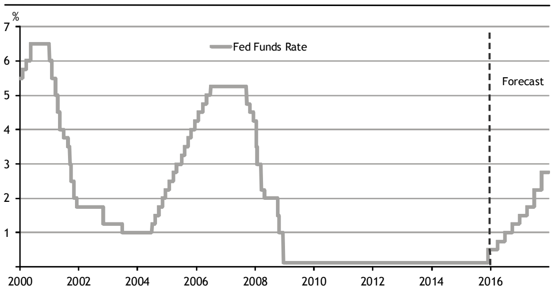
Source: Statistics Canada, RBC Economics Research

U.S. inflation



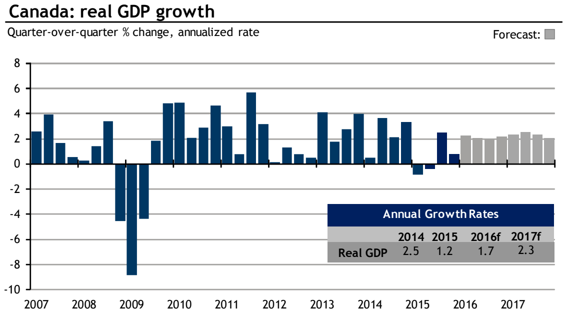
Source: Bureau of Labor Statistics, RBC Economics Research

U.S.: interest rates



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

Canada: real GDP growth



Source: Statistics Canada, RBC Economics Research

limited improvement in activity in the emerging market economies and firming in advanced economic growth is expected to underpin a modest acceleration in trade flows this year. US import growth conversely firmed in 2015 as the strong currency cut the price of non-petroleum imported goods by 2.7% encouraging purchases of goods produced abroad. We expect net exports to be a drag on growth again in 2016 although a modest slowing in imports is likely to limit the hit.

Fed's balancing act

The Fed's decision in January to maintain the policy rate in the range between 0.25% to 0.5% following December's hike reflected concerns about the impact of global financial market turmoil on the US economy. So far, the data suggest there has been a negligible effect with real GDP in the first quarter on track to post a 2.2% annualized gain, well above the 1% increase in the fourth quarter. Chair Yellen, in her testimony to Congress, suggested that financial markets may have overestimated the effect of the weakening in China's economy and market volatility on the outlook for US growth. That said, the Chair also suggested that in the near term policymakers will monitor the data to determine if these factors are having a material effect on growth or the inflation outlook and we expect will refrain from making an policy adjustments at the next two meetings.

Conditions are in place for the Fed to resume raising the Fed funds target in the second quarter of 2016 to fulfill its mandate of achieving full employment and price stability over the medium term. Arguably, the labour market is very close to full employment with the unemployment rate at 4.9% and wage growth accelerating. To-date, the Fed has not reached its inflation goal however this largely reflects the weight from persistent declines in energy prices and lower prices for imported goods. Excluding energy, the US CPI inflation rate was relatively steady at just under 2% throughout 2015. The Fed's preferred measure, the core PCE deflator, stood at 1.5% at the end of 2015 however started 2016 at a higher 1.7%. We expect this measure will continue to rise as the pickup in wages permeates prices for goods and services.

The timing of the next hike will be contingent not only on the Fed's assessment of current conditions but also will take into account the effect that international economic and financial market developments are having on the outlook. As evidence that the economic and inflation outlook is not being significantly affected accumulates, we expect the Fed will resume its tightening cycle with gradual rate hikes resuming in the second quarter. Our forecast is for the fed funds rate to end 2016 at 1.25%.

Canada facing another challenging year

2015 marked a difficult year for Canada's economy that started poorly and ended on a soft note. An unrelenting drop in business investment took a percentage point off the annual growth rate while a shearing of inventories lopped off another three-tenths of a percent. Offsetting these declines were increases in consumption, housing and government spending as well as a lift from net exports. On balance, real GDP increased at a subpar 1.2% pace.

Another year of retrenchment by energy companies will dampen 2016's rise however the degree will be somewhat less allowing the economy to expand by 1.7%, close to its potential rate. Low commodity prices will act as a restraint on growth with 20% of Canadian output being directly or indirectly affected. The key sectors that we expect to offset this weakening are manufacturing and services. Manufacturing sales jumped in November and December alongside an increase in exports providing early evidence that the economy began to get a more meaningful boost from solid domestic growth and weakness in the Canadian dollar bumping up export demand as 2015 drew to a close. The improvement in manufacturing activity was echoed in a rise in employment with 2015 marking just the second annual increase over the past 11 years. Service sector employment also increased at a healthy pace last year while job losses were concentrated in mining, oil and gas and construction. We expect these trends will persist in 2016. The shift in the drivers of employment gains that began last year is an essential part of the economy's ongoing transition with companies in areas outside of those producing and selling commodities boosting their demand for labour.

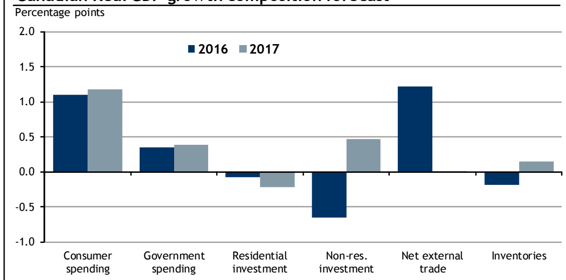
Late surge in exports supports transition story

The jump in export volumes in December of $1.2 billion marked just the sixth time over the past five years when monthly sales grew by such a large amount. Exports picked up again in January with volumes up 21.2% at an annualized rate relative to the Q4 average. Sales of commodities and related products account for almost half of Canadian export volumes however in the second half of 2015; it was sales of non-commodity products that were the drivers of the increase. In 2016, firm US demand and a weaker Canadian dollar are expected to support an increase in exports of autos, consumer goods, machinery and equipment and lumber. Conversely, demand for imported machinery is likely to decline as commodities producers' reduce investment and the weak currency pumps up prices of imported goods. On net, this sets up for trade to support real GDP growth again this year.

Canadian energy companies to pullback again

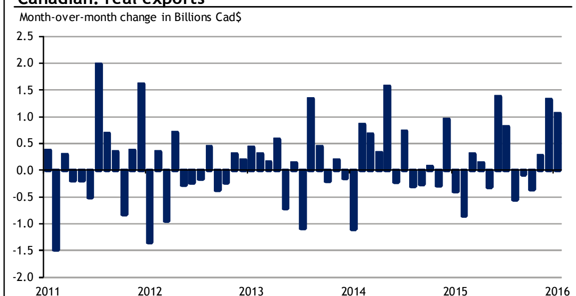
Companies in Canada's energy patch significantly reduced investment in 2015 as prices for oil and natural gas tumbled. We estimate that total investment by these companies fell by almost 40%. With the price of oil and natural gas running below our earlier forecasts, we have increased the estimated size of the cut to investment by these companies in 2016 to 30% from 15%. To-date supply reductions have been insufficient to underpin a recovery in oil prices. Our expectation is that as non-OPEC producers continue to be squeezed by falling revenues and reduced access to capital, production cuts will get underway. By year-end, as the amount of oversupply diminished, we expect the price of WTI will rise to $50.00 per barrel from about $37.00 today. A price recovery of this magnitude will likely be sufficient to stem the cuts in capital spending in 2017. Non-resource companies are likely to be tentative about boosting investment in the near term given the negative sentiment about the impact of the rout in commodity markets and the price increases for imported goods associated with the weaker currency. Our forecast assumes another hit to the economy from lower investment in 2016 although it is likely to be about half the size of last year's substantial 1.0 ppt drag.

Canadian Real GDP growth composition forecast



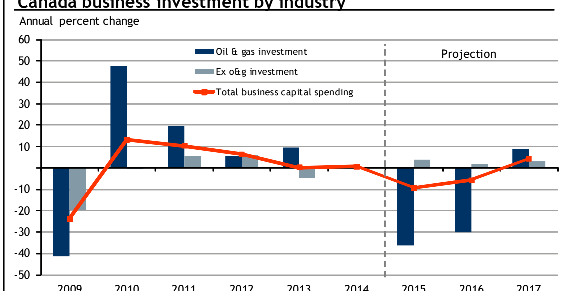
Source: Statistics Canada, RBC Economics Research

Canadian: real exports



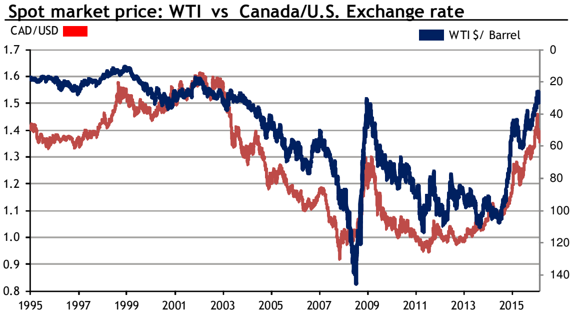
Source: Statistics Canada, RBC Economics Research

Canada business investment by industry



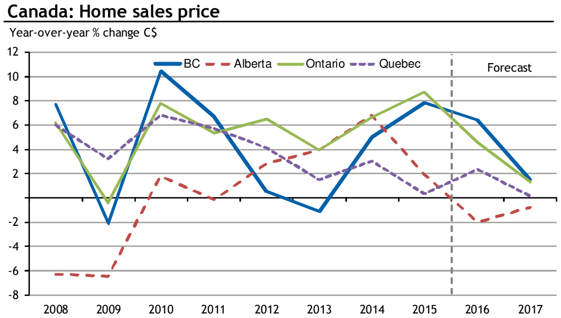
Source: Statistics Canada, RBC Economics Research

Spot market price: WTI vs Canada/U.S. Exchange rate



Source: EIA/CME, BOC/Haiver, RBC Economics Research

Canada: Home sales price



Source: Royal LePage, RBC Economics Research

Canadian dollar – another casualty of the oil price rout

The tight relationship between the Canadian dollar and oil prices persisted in early 2016 and the currency slumped to a 13-year low as oil prices remained under downward pressure. As the price of one of Canada's largest exports (oil) goes down, there will be less income earned by producers, profits will fall leading to reduced government revenues. This will also reduce the amount of investment dollars that are put in place and jobs will be lost. As this cycle plays out, the currency becomes less attractive to investors.

Our forecast assumes there will be a supply-driven rebalancing in the oil market yielding a recovery in oil prices and commensurate improvement in the Canadian dollar. Another factor at work on the currency is the divergence in monetary policy between Canada and the US with the Federal Reserve committed to raising interest rates while the Bank of Canada is more likely to maintain the policy rate at 50bps for the remainder of the year. This will likely have a marginal effect on the currency unless either central bank moves aggressively. Our forecast is for the Canadian dollar to end 2016 at 75 US cents.

Consumer keeps on going

Canada's consumers have been a key engine of growth for the economy for several years and will likely maintain this role in 2016. The combination of a healthy labour market and low interest rates supported robust housing market activity with resales coming in at the second highest level on record in 2015. Prices also increased on average although there was a significant divergence in performance across the provinces. Similarly the affordability picture was mixed with Vancouver and Toronto becoming increasingly expensive while cities in the oil-producing provinces cheapened up. We expect Canada's housing market will continue along this well-worn path in 2016 with hot markets continuing to record gains while markets in Alberta, Saskatchewan and Newfoundland and Labrador remain under downward pressure. Price gains on average are likely to slow as stretched affordability in Toronto and Vancouver temper increases while the oil producing regions see prices fall.

Strong housing market activity fueled rising demand for mortgages resulting in the debt-to-income ratio hitting an all-time high in 2015. With home sales continuing to be firm in early 2016, the debt-to-income ratio is likely to grind higher in the near-term. However as the year progresses the combination of persistent income gains and a gradual slowing in housing activity will likely result in this measure of household indebtedness easing slightly late in the year. Elevated debt holdings present a risk to the outlook for consumer spending; however the combination of steady employment gains and low interest rates will support households being able to service their debt in the year ahead.

Bank of Canada to keep policy accommodative

The Bank of Canada's overnight rate stands at 0.5% and will likely remain at that level for the remainder of 2016. In January and March, the Bank decided to hold policy steady pointing to several factors including evidence that the non-resource sectors of the economy were improving. In his January press conference, the Governor also posited that lowering Canada's policy rate while the Fed was expected to hike would exert further downward pressure on the currency and in turn upward pressure on import prices with the potential to drive an unwarranted rise in inflation and inflation expectations. Further, the Bank cited the potential for fiscal stimulus to underpin a strengthening in economic activity later in the year.

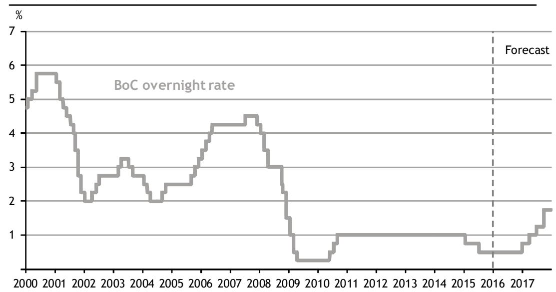
Canada's headline inflation rate is likely to remain below the BOC's 2% target for much of 2016 weighed down by low prices for gasoline and other fuels. The core measure excludes gasoline prices and is likely to hold at around 2% reflecting the impact of the weak currency on the price of imported goods. As energy prices and the currency recovery in 2017 and the amount of slack in the economy dissipates, Canada's inflation rates are likely to converge at 2%.

The Bank of Canada's forecast has many of the same tenets as our view. The Bank expects Canada's economy to grow at a mildly faster clip in 2016 with the hit from business investment easing while consumer and government spending act to support growth. Additionally the Bank expects that exports will increase again this year. Backed by this projected growth, the inflation rate is forecast to gradually move back to the 2% target. This outlook underpinned the Bank's view that the "current stance of monetary policy is appropriate" at its January meeting and barring any significant deviation in the economy's performance from their projection sets up for the overnight rate to remain at 0.5% this year.

Fiscal policy to provide lift

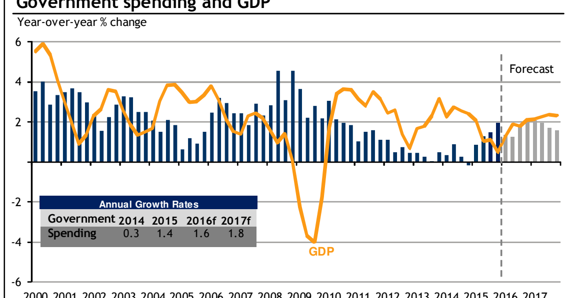
The federal government provided a peak at the nation's fiscal situation ahead of the March 22, 2016 budget. The preview showed a marked deterioration in the country's fiscal health with the deficit forecast to be $18.4 billion in fiscal 2016-17, larger than the $3.9 billion projected in their fall fiscal update. The increase in the deficit reflected a downgraded forecast for economic growth and a larger adjustment for risk as well as the incorporation of several policy changes. The Government is expected to unveil several more policy initiatives in the March 22 Budget that will yield an even larger deficit. We expect these initiatives will include spending on infrastructure ($5 billion); changes to the Canada Child Benefit ($4 billion) and the extension of employment insurance benefits in regions impacted by the sharp drop in oil prices. In total, we expect the government's initiatives will boost Canadian GDP by 0.2 ppts in 2016 providing a needed lift as the economy works through the commodity price shock.

Canada: interest rates



Source: Bank of Canada, RBC Economics

Government spending and GDP



Source: Statistics Canada, RBC Economics Research

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual 2015				Forecast 2016				2017				Actual year-over-year % change		Forecast	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2014	2015	2016	2017
Household Consumption	0.6	1.9	2.2	1.0	2.1	2.2	2.3	2.2	2.1	2.0	1.8	1.7	2.6	1.9	1.9	2.1
Durables	-5.6	5.1	10.3	1.7	2.0	2.3	1.7	1.8	1.5	1.5	1.5	1.0	4.3	3.3	3.1	1.6
Semi-Durables	0.2	3.0	1.2	2.6	2.0	2.6	2.5	3.4	2.5	2.1	1.8	1.8	3.1	2.4	2.4	2.5
Non-durables	2.7	-2.9	1.7	-1.0	2.0	2.6	3.0	2.5	2.2	2.2	2.0	2.0	2.4	0.7	1.9	2.5
Services	1.2	3.3	0.8	1.5	2.1	2.0	2.2	2.1	2.1	2.0	1.8	1.8	2.3	2.1	2.0	2.0
NPISH consumption	-5.3	6.7	-0.9	-0.1	2.5	2.2	2.3	2.2	2.1	2.0	1.8	1.7	0.2	1.4	1.8	2.1
Government expenditures	3.8	2.4	0.1	1.5	1.5	2.0	2.5	2.0	1.8	1.5	1.5	1.5	0.3	1.4	1.6	1.8
Government fixed investment	2.8	0.5	-1.8	-5.1	2.5	3.5	8.5	8.5	5.0	3.0	2.5	2.5	2.1	2.6	1.6	5.1
Residential investment	5.9	1.3	2.7	1.8	-0.1	-4.0	-5.7	-5.2	-2.7	-0.7	-0.5	-1.2	2.5	3.9	-1.1	-2.9
Non-residential investment	-19.4	-13.0	-10.1	-12.4	-10.3	-1.5	5.5	5.4	5.3	4.8	4.4	5.0	0.0	-8.8	-6.5	4.7
Non-residential structures	-27.7	-12.8	-11.7	-14.6	-10.5	-1.8	5.5	5.3	5.3	4.8	4.5	5.0	-0.4	-12.7	-7.3	4.7
Machinery & equipment	-2.1	-13.4	-7.5	-9.0	-10.0	-1.0	5.5	5.5	5.3	4.8	4.3	5.0	1.0	-1.3	-5.4	4.7
Intellectual property	-32.4	-12.5	-6.4	-4.7	-10.5	-2.0	5.8	3.8	3.8	4.0	3.5	3.5	-4.2	-12.6	-4.7	3.7
Final domestic demand	-1.5	0.1	0.1	-0.6	0.4	1.4	2.4	2.2	2.1	2.0	1.9	1.9	1.6	0.5	0.7	2.1
Exports	-0.6	-0.1	10.8	-2.2	8.1	3.9	3.5	3.7	4.5	4.9	4.3	4.5	5.3	3.0	4.3	4.2
Imports	0.5	-1.7	-2.4	-8.9	4.0	3.0	5.7	4.7	3.6	3.4	3.4	3.6	1.8	0.1	0.4	4.0
Inventories (change in $b)	12.7	8.4	1.1	-4.0	-1.4	0.7	2.1	3.4	3.2	3.5	4.3	4.5	9.9	4.5	1.2	3.9
Real gross domestic product	**-0.9**	**-0.4**	**2.4**	**0.8**	**2.2**	**2.1**	**2.0**	**2.2**	**2.3**	**2.5**	**2.3**	**2.2**	**2.5**	**1.2**	**1.7**	**2.3**

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	1.7	-0.5	-0.3	-0.6	0.3	1.3	1.2	1.3	1.2	1.2	1.4	1.4	2.1	0.0	1.0	1.3
Pre-tax corporate profits	-11.4	-14.1	-16.4	-18.6	-12.5	-7.1	-3.3	7.0	17.4	15.1	12.5	9.4	7.0	-15.2	-4.1	13.4
Unemployment rate (%)*	6.8	6.8	7.0	7.0	7.1	7.0	6.9	6.8	6.8	6.7	6.6	6.5	6.9	6.9	7.0	6.7
Inflation																
Headline CPI	1.1	0.9	1.2	1.3	1.6	1.4	1.6	2.0	2.5	2.5	2.3	2.1	2.0	1.1	1.7	2.3
Core CPI	2.2	2.2	2.2	2.0	2.0	2.1	2.0	2.1	2.1	2.0	2.0	2.0	1.8	2.2	2.1	2.0
External trade																
Current account balance ($b)	-75.2	-64.9	-61.2	-61.5	-74.6	-61.7	-55.2	-45.3	-38.0	-30.4	-25.1	-18.3	-44.9	-65.7	-59.2	-27.9
% of GDP	-3.8	-3.3	-3.1	-3.1	-3.7	-3.0	-2.7	-2.2	-1.8	-1.4	-1.2	-0.8	-2.3	-3.3	-2.9	-1.3
Housing starts (000s)*	175	193	213	194	189	187	182	176	176	175	172	168	189	196	183	173
Motor vehicle sales (mill., saar)*	1.83	1.92	2.00	2.00	1.97	1.92	1.89	1.87	1.86	1.86	1.83	1.82	1.89	1.94	1.91	1.84

*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	
	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	2.0	3.2	2.3	2.6	2.4	2.3	2.1	2.0	2.0	2.7	3.1	2.7	2.3
Durables	2.0	8.0	6.6	3.4	6.5	3.5	4.8	4.5	4.0	3.5	3.1	3.1	5.9	5.9	5.1	3.9
Non-durables	0.7	4.3	4.2	1.2	3.4	2.5	2.3	2.1	2.0	1.9	1.7	1.6	2.1	2.7	2.7	2.0
Services	2.1	2.7	2.1	2.1	2.6	2.1	2.3	2.2	2.1	2.0	1.9	1.9	2.4	2.8	2.3	2.1
Government spending	-0.1	2.6	1.8	-0.1	1.7	1.8	2.0	1.8	1.5	1.2	1.2	1.0	-0.6	0.7	1.5	1.5
Residential investment	10.1	9.4	8.2	7.9	9.5	4.6	6.8	7.4	7.4	6.4	6.0	5.6	1.8	8.7	7.6	6.7
Non-residential investment	1.6	4.1	2.6	-1.9	2.0	3.8	3.7	3.9	3.9	4.0	3.9	3.8	6.2	2.9	2.1	3.9
Non-residential structures	-7.4	6.3	-7.2	-6.6	-1.3	3.0	2.6	2.5	2.6	2.7	2.7	2.7	8.1	-1.6	-1.1	2.6
Equipment & software	2.3	0.3	9.9	-1.8	3.0	3.9	3.9	4.3	4.4	4.4	4.3	4.1	5.8	3.1	3.1	4.3
Intellectual property	7.4	8.3	-0.8	1.3	2.9	4.1	4.1	4.2	4.2	4.2	4.1	4.0	5.2	5.7	2.9	4.2
Final domestic demand	1.7	3.7	2.9	1.4	3.0	2.5	2.8	2.7	2.5	2.3	2.2	2.2	2.5	2.8	2.6	2.5
Exports	-6.0	5.1	0.7	-2.7	-4.0	1.3	4.4	4.8	4.8	4.7	4.4	4.2	3.4	1.1	-0.1	4.4
Imports	7.1	3.0	2.3	-0.6	0.5	3.8	4.4	4.3	4.3	4.0	3.8	3.6	3.8	4.9	2.0	4.1
Inventories (change in $b)	112.8	113.5	85.5	81.7	68.1	79.0	74.0	66.0	61.0	60.0	52.0	49.0	68.0	98.4	71.8	55.5
Real gross domestic product	**0.6**	**3.9**	**2.0**	**1.0**	**2.2**	**2.4**	**2.6**	**2.5**	**2.4**	**2.3**	**2.1**	**2.1**	**2.4**	**2.4**	**2.2**	**2.4**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.4	0.6	0.6	0.5	0.9	0.3	0.0	1.0	1.3	1.5	1.4	1.4	0.6	0.5	0.6	1.4
Pre-tax corporate profits	4.6	0.6	-5.1	-4.7	1.8	-1.4	0.9	2.2	2.4	2.5	2.4	2.2	1.7	-1.3	0.9	2.4
Unemployment rate (%)*	5.6	5.4	5.2	5.0	4.9	4.9	4.9	4.8	4.8	4.7	4.7	4.7	6.2	5.3	4.9	4.7
Inflation																
Headline CPI	-0.1	0.0	0.1	0.5	1.0	0.9	1.2	1.9	2.6	2.7	2.5	2.3	1.6	0.1	1.3	2.5
Core CPI	1.7	1.8	1.8	2.0	2.2	2.0	2.1	2.1	2.0	2.0	2.0	2.0	1.7	1.8	2.1	2.0
External trade																
Current account balance ($b)	-473	-444	-496	-500	-501	-537	-557	-576	-587	-594	-599	-606	-390	-478	-543	-596
% of GDP	-2.7	-2.5	-2.8	-2.8	-2.7	-2.9	-3.0	-3.1	-3.1	-3.1	-3.1	-3.1	-2.2	-2.7	-2.9	-3.1
Housing starts (000s)*	978	1158	1158	1130	1145	1180	1218	1253	1286	1313	1342	1368	1001	1106	1199	1327
Motor vehicle sales (millions, saar)*	16.7	17.1	17.8	17.8	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	0.50	0.75	1.00	1.25	1.75	1.00	0.50	0.50	1.75
Three-month	0.55	0.58	0.43	0.51	0.40	0.40	0.50	0.60	0.85	1.10	1.35	1.80	0.91	0.51	0.60	1.80
Two-year	0.50	0.48	0.52	0.48	0.40	0.50	0.65	1.00	1.30	1.60	1.95	2.45	1.01	0.48	1.00	2.45
Five-year	0.77	0.82	0.80	0.73	0.60	0.80	1.05	1.35	1.70	2.00	2.35	2.70	1.34	0.73	1.35	2.70
10-year	1.36	1.69	1.43	1.40	1.20	1.50	1.65	2.00	2.35	2.60	2.80	3.05	1.79	1.40	2.00	3.05
30-year	1.98	2.31	2.20	2.15	1.85	2.25	2.40	2.70	2.95	3.05	3.20	3.35	2.34	2.15	2.70	3.35
Yield curve (10s-2s)	86	121	91	92	80	100	100	100	105	100	85	60	78	92	100	60
United States																
Fed funds*	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.25	2.75	0.25	0.50	1.25	2.75
Three-month	0.04	0.03	0.00	0.17	0.20	0.40	0.45	0.70	1.00	1.30	1.90	2.45	0.04	0.17	0.70	2.45
Two-year	0.56	0.64	0.64	1.05	0.85	1.10	1.25	1.60	1.90	2.20	2.60	2.95	0.67	1.05	1.60	2.95
Five-year	1.37	1.64	1.37	1.76	1.30	1.60	1.75	2.15	2.40	2.65	2.95	3.20	1.65	1.76	2.15	3.20
10-year	1.93	2.35	2.04	2.27	1.85	2.10	2.15	2.55	2.80	3.00	3.25	3.40	2.17	2.27	2.55	3.40
30-year	2.54	3.12	2.86	3.02	2.65	2.90	2.95	3.30	3.45	3.55	3.75	3.85	2.75	3.02	3.30	3.85
Yield curve (10s-2s)	137	171	140	122	100	100	90	95	90	80	65	45	150	122	95	45
Yield spreads																
Three-month T-bills	0.51	0.55	0.43	0.34	0.20	0.00	0.05	-0.10	-0.15	-0.20	-0.55	-0.65	0.87	0.34	-0.10	-0.65
Two-year	-0.06	-0.16	-0.12	-0.57	-0.45	-0.60	-0.60	-0.60	-0.60	-0.60	-0.65	-0.50	0.34	-0.57	-0.60	-0.50
Five-year	-0.60	-0.82	-0.57	-1.03	-0.70	-0.80	-0.70	-0.80	-0.70	-0.65	-0.60	-0.50	-0.31	-1.03	-0.80	-0.50
10-year	-0.57	-0.66	-0.61	-0.87	-0.65	-0.60	-0.50	-0.55	-0.45	-0.40	-0.45	-0.35	-0.38	-0.87	-0.55	-0.35
30-year	-0.56	-0.81	-0.66	-0.87	-0.80	-0.65	-0.55	-0.60	-0.50	-0.50	-0.55	-0.50	-0.41	-0.87	-0.60	-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	0.50	0.50	0.50	0.75	0.75	1.00	1.00	0.50	0.50	0.50	1.00
Two-year	0.43	0.55	0.56	0.66	0.40	0.55	0.60	0.75	0.85	0.95	1.10	1.10	0.45	0.66	0.75	1.10
10-year	1.58	2.01	1.76	1.96	1.50	1.70	1.75	2.10	2.40	2.50	2.75	3.00	1.76	1.96	2.10	3.00
Euro Area																
Deposit rate	-0.20	-0.20	-0.20	-0.30	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.20	-0.30	-0.40	-0.40
Two-year	-0.25	-0.23	-0.26	-0.34	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.11	-0.34	-0.50	-0.50
10-year	0.18	0.77	0.59	0.63	0.30	0.35	0.40	0.55	0.75	0.95	1.10	1.25	0.54	0.63	0.55	1.25
Australia																
Cash target rate	2.25	2.00	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50	2.50	2.00	1.50	1.50
Two-year swap	1.72	2.01	1.81	2.02	1.75	1.70	1.60	1.70	1.70	1.75	1.80	2.00	2.19	2.02	1.70	2.00
10-year swap	2.32	3.01	2.61	2.88	2.55	2.80	2.75	3.05	3.40	3.60	3.95	4.20	2.81	2.88	3.05	4.20
New Zealand																
Cash target rate	3.50	3.25	2.75	2.50	2.25	2.00	2.00	2.00	2.00	2.00	2.25	2.50	3.50	2.50	2.00	2.50
Two-year	3.48	3.09	2.69	2.83	2.50	2.20	2.20	2.30	2.50	2.70	3.00	3.20	3.76	2.83	2.30	3.20
10-year	3.71	3.89	3.48	3.73	3.20	3.20	3.40	3.80	4.10	4.30	4.60	4.80	4.07	3.73	3.80	4.80

RBC

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*	-0.9	-0.4	2.4	0.8	2.2	2.1	2.0	2.2	2.3	2.5	2.3	2.2	2.5	1.2	1.7	2.3
United States*	0.6	3.9	2.0	1.0	2.2	2.4	2.6	2.5	2.4	2.3	2.1	2.1	2.4	2.4	2.2	2.4
United Kingdom	0.4	0.6	0.4	0.5	0.4	0.5	0.6	0.5	0.6	0.5	0.6	0.6	2.9	2.2	1.9	2.2
Euro Area	0.6	0.4	0.3	0.3	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	1.1	0.6	0.4	0.7	0.5	0.7	0.7	0.6	0.7	0.8	2.6	2.5	2.4	2.7
New Zealand	0.2	0.3	0.9	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	3.7	2.1	1.8	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	1.3	1.6	1.4	1.6	2.0	2.5	2.5	2.3	2.1	2.0	1.1	1.7	2.3
United States	-0.1	0.0	0.1	0.5	1.0	0.9	1.2	1.9	2.6	2.7	2.5	2.3	1.6	0.1	1.3	2.5
United Kingdom	0.1	0.0	0.0	0.1	0.6	0.7	0.7	0.8	1.3	1.4	1.6	1.8	1.5	0.0	0.7	1.6
Eurozone	-0.3	0.2	0.1	0.2	0.2	0.1	0.3	0.5	1.1	1.0	1.0	1.0	0.4	0.0	0.3	1.0
Australia	1.3	1.5	1.5	1.7	2.2	2.3	2.4	2.6	2.6	2.6	2.7	2.8	2.5	1.5	2.4	2.7
New Zealand	0.3	0.4	0.4	0.1	0.6	0.5	0.6	1.4	1.5	1.5	1.5	1.6	1.2	0.3	0.8	1.5

** 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	0.73	0.70	0.68	0.66	0.65	0.66	0.66	0.67	0.68	0.82	0.73	0.65	0.68
USD/CAD	1.27	1.25	1.33	1.38	1.45	1.40	1.36	1.33	1.31	1.29	1.27	1.25	1.16	1.38	1.33	1.25
EUR/USD	1.07	1.11	1.12	1.09	1.06	1.03	1.00	1.02	1.03	1.04	1.05	1.06	1.21	1.09	1.02	1.06
USD/JPY	120.1	122.5	119.9	120.1	117.0	120.0	124.0	128.0	126.0	124.0	122.0	120.0	119.7	120.1	128.0	120.0
NZD/USD	0.75	0.68	0.64	0.68	0.65	0.62	0.60	0.58	0.58	0.58	0.59	0.60	0.78	0.68	0.58	0.60
USD/CHF	0.97	0.94	0.97	1.00	1.05	1.09	1.13	1.12	1.12	1.11	1.10	1.09	0.99	1.00	1.12	1.09
GBP/USD	1.48	1.57	1.51	1.47	1.36	1.45	1.43	1.48	1.51	1.55	1.59	1.63	1.56	1.47	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