RBC ECONOMICS | **RESEARCH**

ECONOMIC AND FINANCIAL MARKET OUTLOOK

March 2017

CAN GROWTH MOMENTUM TRUMP UNCERTAINTY IN 2017?

Conditions point to a firmer year for the global economy in 2017, backed by accommodative financial conditions, recovering commodity prices and more fiscal spending. With data indicating that the economic momentum of late 2016 continued early this year, we forecast that global growth will hit 3.4%, the best pace since 2014.

Despite a number of uncertainties, our base-case forecasts assume no significant disruption in the workings of the global economy. Growth in the UK and Euro area is forecast to gear down very modestly as Brexit negotiations weigh on business investment. Conversely, in Canada and the US, a recovery in business investment should spur growth.

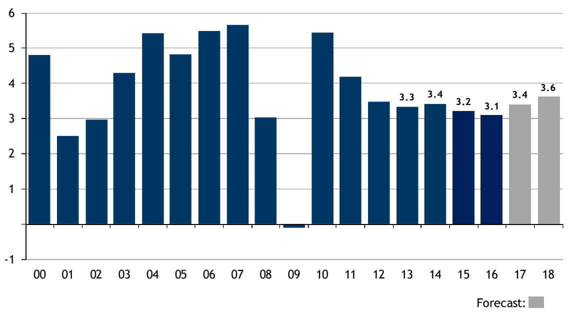
So what are the uncertainties weighing on the outlook? The direction the Trump Administration takes on trade, tax cuts and deregulation carries with it both upside and downside risks. In Europe, recent polls suggest anti-European Union candidates are gaining traction heading into elections in France and the Netherlands, raising the possibility that more countries will chose to exit the trading block. The impending start of the UK's Brexit negotiations may provide a template of what's to come. The prospect of the dissolution of EU and a shift to more protectionist policies puts at risk any recovery in global trade and any related positive impact on growth.

A brighter growth outlook and reduced risk of deflation saw the global stock index hit an all-time high in early 2017 and government bond yields grind higher. Global inflation is poised to rise; however, much of the increase reflects a rebound in energy prices. While inflation rates may exceed central banks' targets in 2017, only countries operating with little slack will see interest rate hikes this year. We expect the ECB, BOE and BOC to leave monetary policy intact while the US Federal Reserve ups the pace of rate hikes as the economy grinds ever-closer to full employment. Interest-rate increases in the US will underpin further gains in the US dollar against other currencies.

US economic fundamentals are solid... but question marks remain

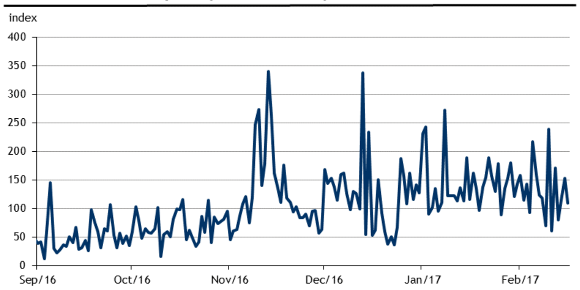
We expect US growth to rise to 2.3% in 2017 and maintain this pace in 2018. However the US economy will need to overcome several challenges to remain on its firmer growth path.

World GDP growth



Source: International Monetary Fund, RBC Economics Research

Global economic policy uncertainty index



Source: Bloomberg, RBC Economics Research

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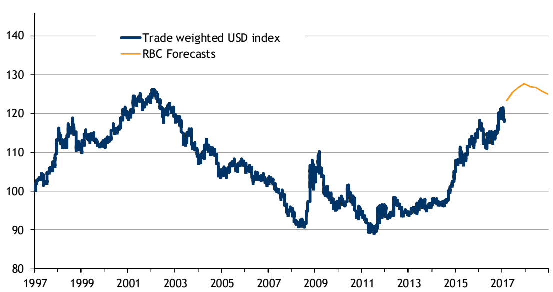
Trade-weighted USD index

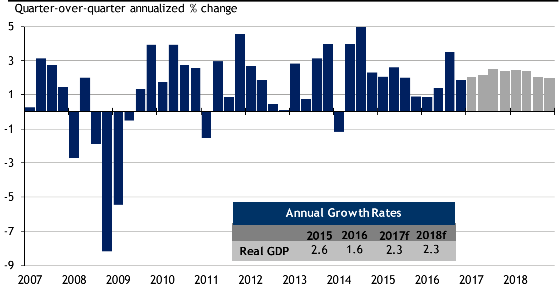
Index: 1997=100



Source: Federal Reserve Board, RBC Economics Research

U.S.: real GDP growth

Quarter-over-quarter annualized % change

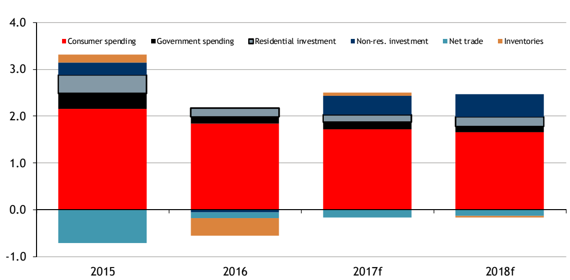


Source: Bureau of Economics Analysis, RBC Economics Research

Forecast:

U.S. real GDP growth composition

Percentage points



Source: Bureau of Economics Analysis, RBC Economics Research

We have made limited assumptions about the new administration's policies. We expect the government to fulfill its campaign pledge to lower personal and corporate income taxes, and estimate tax cuts will boost real GDP by half a percentage point over the next couple of years. That said, there are considerable uncertainties about the timing and configuration of tax policy changes including whether or not they remain a priority for the Trump Administration. We have refrained from making assumptions about the impact of changing regulatory, immigration and trade policies as we await further details about what these policies will entail.

A key support for US growth this year and next will be the consumer. The steady improvement in labour-market conditions, accelerating wages and a healthy balance sheet underpin our call for consumer spending to increase at a solid clip in 2017. Consumers will also get a boost from the anticipated cut in personal income taxes. Our forecast assumes spending on services and goods will rise this year, with the latter supporting strong auto sales. Home sales and housing starts are also expected to benefit from income growth.

Corporate tax cut has potential to jolt business spending

The lower corporate taxes being contemplated have the potential to jolt business spending, particularly given rising demand and businesses' current capacity constraints. Lower corporate taxes will provide businesses with the funds to invest, while accommodative financial conditions will allow non-financial businesses with healthy balance sheets to borrow. Investment by energy companies is also expected to continue to recover as the market moves into an undersupplied state. With production cuts by both OPEC and non-OPEC producers, we look for the price of a barrel of WTI to rise to about US$60 by the end of 2017 and average US$63 next year.

Trade - deal or no deal?

Our baseline forecast is that growth in U.S. exports and imports will be lackluster in 2017 as businesses wait for the administration to flesh out its trade policy. Also weighing on exports will be the strong US dollar and a continued slowing in global trade activity. The Trump Administration's anti-trade rhetoric is not only of concern to the trading partners of the US but also to a large swath of US states who export. Talk of leveling tariffs on imports from Mexico and China to curb the US trade deficit raises the prospects of retaliatory measures and increased costs for US consumers. Our preliminary assessment is that, should the administration levy tariffs on US imports or shift to a border adjustment tax, US GDP would decline and unemployment increase.

Fed rate hike – not if but when

Fed officials now appear to be grappling with "when" a rate hike should occur, rather than "if" one is needed. Certainly, the labour market's performance has convinced the FOMC that the economy is on the cusp of full employment and the faster pace of wage growth highlights that the transition to prices is unlikely to be far behind. Fed officials have also made progress on their inflation goal, although the data is not as clean-cut, with the bump in energy prices compared to a year ago being the largest factor pushing the headline rate to

2.5% in January and the Fed's preferred inflation measure to 2%. That said core measures, which exclude energy prices, also started 2017 close to the 2% objective. The stronger than expected economic data are likely to force the Fed's hand in March when we expect they will raise the policy rate by 25bps. We expect policymakers will stay on a slow-but-steady course in terms of reducing policy support and look for another 50 bps of rate increase this year. As the uncertainty about the administration's agenda eases, the Fed is likely to accelerate the pace of rate hikes to 100 bps in 2018.

Canada's economy – back on track

Canada's economy is starting the year on firm footing, and we expect real GDP to expand by 2.0% in 2017 and a slightly firmer 2.1% in 2018. After struggling for two years, the economy began to rebound in mid-2016 after the Fort McMurray fire-related decline in the second quarter. Importantly, the momentum continued in the fourth quarter and early data for this year showed strength in employment, housing starts and business sentiment.

A slowing in global activity and shift in the drivers of demand for Canadian exports yielded a subpar increase in sales abroad in 2016. Our analysis points to three main reasons: the currency's performance relative to those of other countries competing for US demand; the lack of demand from US businesses for industrial goods, and weaker demand for US finished products which reduced the need for Canadian inputs.

In 2017, a pickup in US business investment and modestly firmer U.S. export growth are likely to lift Canadian exports, although the rise will be limited by historical standards.

External factors could create bumps in the road

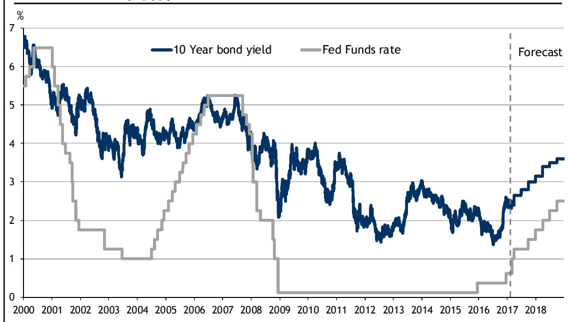
While economic conditions are supportive of Canadian trade, the threat of protectionist policies has the potential to hurt Canada's small, open economy. Canada and the US have a very small trade gap, and the U.S. president's talk of "tweaks" to NAFTA don't sound all that daunting from the Canadian perspective. (Likely the president's relatively collegial tone towards Canada reflects the fact that Canada is the lead destination for 35 US states' exports and supports 9 million US jobs.)

We assume US income-tax cuts will be mildly positive for Canada especially if US businesses invest this windfall. A modest increase in US demand for Canadian exports complements our view that the Canadian consumer will (once again) be the driver of growth in 2017. While we anticipate a solid increase in the consumption of goods and services, activity in real estate is likely to swing from helping to hindering economic growth.

Housing hitting the roof?

Following a record year of housing sales and an almost 10% jump in housing prices, affordability troubles and legislative changes tipped Canada's hot housing market onto a slowing path. As of January 2017, home sales were off 6.8% from their March 2016 peak, and average prices have declined slightly. The

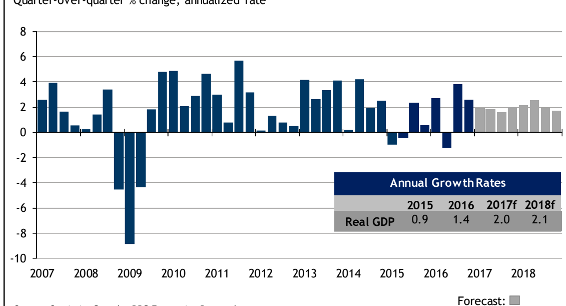
Interest rates: U.S.



Source: Federal Reserve, RBC Economics Research

Canada: real GDP growth

Quarter-over-quarter % change, annualized rate



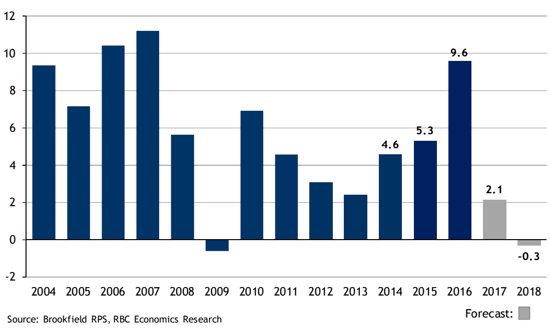
Source: Statistics Canada, RBC Economics Research

weakening in the market was most pronounced in Vancouver, where sales peaked in February 2016. Initially sales sagged because houses were unaffordable, but the downward pressure intensified after the provincial and federal governments moved to cool the market. In Canada's other hot market—Toronto—the cooling is in a much earlier phase. Sales have slowed but prices continue to run at an elevated clip due to limited housing supply. We expect that strained affordability and tighter borrowing rules will reduce demand and slow the pace of price appreciation in Ontario. That said, additional regulatory restraint may be needed to cool the market if red-hot demand persists.

Outside of these hot spots, affordability conditions are more balanced though we expect that regulatory changes will result in slowing sales activity and restrict price increases. On average, home sales in Canada are projected to fall by 11.9% in 2017 and prices to post a modest 2.1% increase.

Home prices in Canada

Annual % change, composite



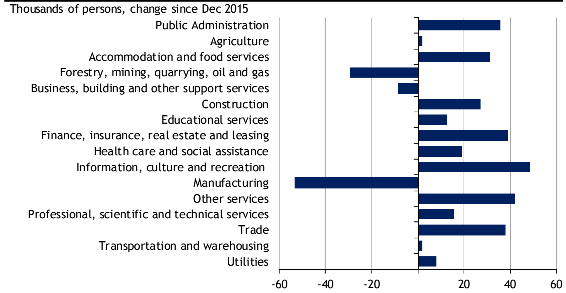
Source: Brookfield RPS, RBC Economics Research

Labour market – mixed signals

The Bank of Canada contends that there continues to be slack in Canada's labour market, pointing to minimal wage increases and a stalling in hours worked. These facts belie an impressive run of employment gains (276K jobs created) and 0.4ppt dip in the unemployment rate over the past twelve months. The Bank is concerned about the split between part-time and full-time work, even though a large percentage of part-time workers are doing so voluntarily. That said the percentage of full-time workers fell to 80.4% from a post-recession peak of 81.2% and wage increases have slowed. Job losses were concentrated in the goods-producing sector where industries tend to pay above-average wages. Service sector wages are more of a mixed bag but 44% of jobs created in 2016 were in industries that paid above-average wages. We expect that as some goods-producing industries recover and the services sector expansion continues, upward pressure on wages will emerge.

Employment by industry

Thousands of persons, change since Dec 2015



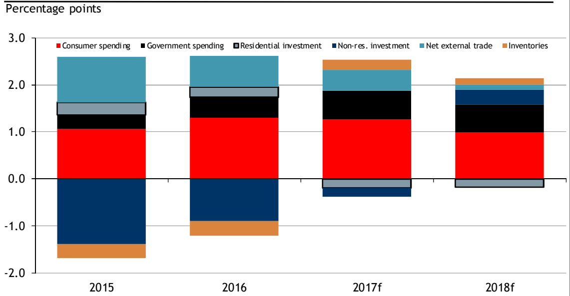
Source: Statistics Canada, RBC Economics Research

Does the Canadian consumer have the stamina?

Bloated debt levels have driven up the debt-to-income ratio for Canadian households in the post-recession period largely due to increased mortgage debt. Importantly, the debt has been accompanied by an even larger increase in assets values such that the net worth of the household sector topped $10 trillion. While debt-service costs remain contained at 14 cents per dollar of disposable income, we expect that as interest rates grind higher these costs will rise to eat up 16 cents of each dollar of income by the end of 2018. This increase along with rising energy costs tee up for a slowing in consumer spending growth next year.

Canada real GDP growth composition

Percentage points



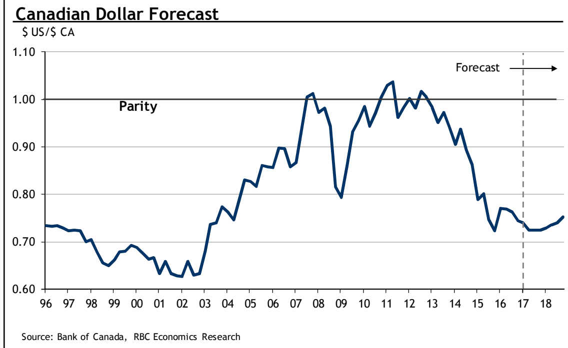
Source: Statistics Canada, RBC Economics Research

Shovel-worthy not shovel-ready

The stimulus contained in the federal government's March 2016 budget has been slow to materialize. The changes to personal income taxes and the increased child care benefit implemented in July 2016 likely played a part in fueling stronger consumer spending in the latter part of the year. However, spending on infrastructure has yet to make any discernable impact on growth. This is likely to change in 2017 when projects that have been under consideration by the government get started and boost economic growth by 0.4 ppts.

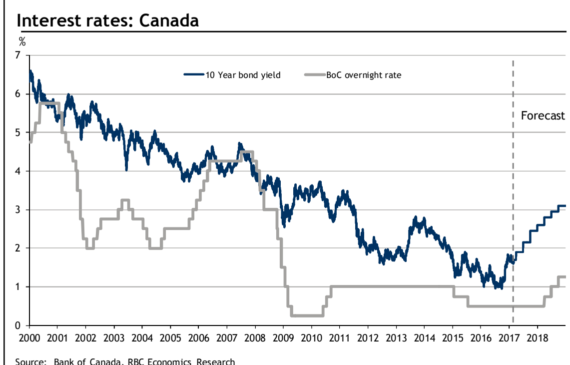
Currency – tug of war!

Canada's dollar has been remarkably well behaved so far this year, trading in a tight range around 76 US cents. Interest-rate differentials will become increasingly negative for the currency as the Fed steps up the pace of rate hikes while the Bank of Canada stays on the sidelines. Conversely, a steady, albeit modest, increase in energy prices is positive for Canada's dollar. In the near term, the rate spread is likely to dominate the currency pair. In fact the US dollar is likely to appreciate against most major currencies in 2017 as the Fed raises rates and the pace of economic growth accelerates. 2018 is likely to see a change in the fortunes for the US dollar with currencies, like the Canadian dollar, regaining ground. Our forecast is for the Canadian dollar to end 2017 at 72.5 US cents and 2018 at 75 US cents.



Bank of Canada – cautiously optimistic with the emphasis on caution

The Bank of Canada has a relatively upbeat growth forecast for 2017, and anticipates a narrowing in the output gap sufficient to bring the economy back into equilibrium and inflation to 2.0% on a sustained basis starting in the middle of next year. The Bank said the risks around the forecast are balanced, however until the US Administration's policy stance on trade is clearer, policymakers are likely to remain cautious. Even without a disruption in trade due to policy changes south of the border, we expect the Bank of Canada to hold the overnight rate at 0.5% this year. Two years of subpar growth has increased the amount of slack in the economy, and even though we may not agree with the Bank on just how much slack there is, we still think policy needs to remain stimulative to ensure it is eliminated. In 2018, the Bank is likely to begin to reduce policy stimulus.



Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals				Forecast								Actual		Forecast	
	2016				2017				2018				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
Household Consumption	2.3	2.1	2.7	2.6	2.2	2.1	2.0	1.7	1.7	1.7	1.6	1.7	1.9	2.2	2.3	1.7
Durables	3.9	-1.2	-1.2	8.1	2.3	1.5	1.5	1.0	1.5	1.3	1.3	1.3	2.8	3.6	2.3	1.3
Semi-Durables	9.7	-1.8	2.9	5.9	2.2	2.4	2.0	1.8	1.8	1.8	1.8	2.0	2.3	4.4	2.7	1.9
Non-durables	3.4	3.5	2.0	0.7	2.2	2.5	2.3	2.0	1.8	1.8	1.8	2.0	0.8	1.7	2.0	2.0
Services	0.6	2.7	3.9	1.8	2.1	2.1	1.9	1.8	1.7	1.7	1.6	1.6	2.1	1.9	2.3	1.7
NPISH consumption	-1.0	1.0	0.1	-4.6	2.2	2.1	2.0	1.7	1.7	1.7	1.6	1.7	2.0	0.1	0.5	1.7
Government expenditures	3.3	5.9	-1.9	2.1	1.8	1.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.5	2.1
Government fixed investment	3.4	-2.3	4.9	5.2	8.5	8.5	7.0	5.0	2.5	3.5	3.5	3.5	4.5	1.0	6.3	4.3
Residential investment	10.3	-0.1	-4.7	4.8	-2.4	-6.6	-5.7	-4.0	-2.8	-0.3	1.4	2.6	3.8	2.9	-2.6	-2.3
Non-residential investment	-8.6	-3.6	3.0	-17.4	1.8	1.9	3.0	3.6	3.9	3.8	2.6	2.4	-11.5	-8.4	-2.0	3.3
Non-residential structures	-12.6	-7.1	14.9	-21.7	6.5	3.5	3.2	4.0	4.4	4.2	3.0	2.7	-16.0	-10.7	-0.5	3.8
Machinery & equipment	-2.5	1.5	-12.5	-10.3	-5.0	-0.5	2.8	3.0	3.2	3.1	2.0	2.0	-3.3	-5.0	-4.4	2.6
Intellectual property	-3.8	-3.5	-16.9	-7.3	3.5	2.5	2.8	3.5	3.5	3.0	2.0	2.0	-9.0	-5.3	-2.1	3.0
Final domestic demand	1.8	1.8	0.9	0.4	2.0	1.6	1.6	1.6	1.8	2.0	2.0	2.1	0.3	0.9	1.4	1.8
Exports	9.3	-14.8	9.4	1.3	1.4	1.6	2.8	3.8	3.7	4.4	2.3	1.6	3.4	1.1	1.6	3.3
Imports	3.5	1.1	4.8	-13.5	4.0	3.5	3.7	3.0	2.7	2.7	2.3	2.7	0.3	-1.0	0.2	2.9
Inventories (change in $b)	-7.5	0.4	7.4	-4.4	-0.9	3.0	4.5	5.4	5.7	5.6	5.5	5.5	3.9	-1.0	3.0	5.6
Real gross domestic product	**2.7**	**-1.2**	**3.8**	**2.6**	**1.9**	**1.8**	**1.6**	**2.0**	**2.1**	**2.5**	**1.9**	**1.7**	**0.9**	**1.4**	**2.0**	**2.1**

Other indicators

Year-over-year % change unless otherwise indicated

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2015	2016	2017	2018
Business and labour																
Productivity	-0.3	0.4	1.1	1.3	1.2	1.9	1.1	1.1	1.3	1.3	1.4	1.4	-0.2	0.6	1.3	1.3
Pre-tax corporate profits	-10.2	-15.3	-3.0	12.0	12.3	26.5	8.9	2.9	2.9	4.1	4.9	4.9	-19.5	-4.5	12.0	4.2
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.9	6.9	6.8	6.8	6.7	6.6	6.5	6.5	6.9	7.0	6.9	6.6
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	2.2	2.4	2.6	2.6	2.2	2.0	2.2	2.3	1.1	1.4	2.5	2.2
CPIX	2.0	2.1	1.9	1.6	1.8	1.9	1.9	2.2	2.2	2.0	2.2	2.1	2.2	1.9	1.9	2.1
External trade																
Current account balance ($b)*	-71.3	-77.6	-79.0	-42.9	-43.5	-43.4	-43.1	-40.3	-36.0	-29.6	-26.0	-24.2	-67.6	-67.7	-42.6	-29.0
% of GDP*	-3.6	-3.9	-3.9	-2.1	-2.1	-2.0	-2.0	-1.9	-1.6	-1.3	-1.2	-1.1	-3.4	-3.3	-2.0	-1.3
Housing starts (000s)*	199	198	199	197	196	186	183	180	174	175	175	175	196	198	186	175
Motor vehicle sales (mill., saar)*	2.02	1.99	1.95	1.99	2.05	1.92	1.91	1.90	1.90	1.90	1.89	1.89	1.94	1.98	1.95	1.90

*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

	Actuals				Forecast								Actual		Forecast	
	2016				2017				2018				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
Consumer spending	1.6	4.3	3.0	3.0	1.6	2.3	2.5	2.4	2.6	2.4	2.1	2.0	3.2	2.7	2.5	2.4
Durables	-0.6	9.8	11.6	11.5	2.5	3.5	3.1	3.1	3.0	2.7	2.1	2.1	6.9	5.8	6.0	2.8
Non-durables	2.1	5.7	-0.5	2.8	1.6	1.9	2.8	2.8	3.1	2.8	2.2	2.0	2.6	2.5	2.1	2.7
Services	1.9	3.0	2.7	1.8	1.5	2.3	2.3	2.2	2.4	2.2	2.1	2.0	2.8	2.3	2.1	2.2
Government spending	1.6	-1.7	0.8	0.3	1.5	1.2	1.2	1.0	0.6	0.4	0.4	0.4	1.8	0.8	0.9	0.7
Residential investment	7.8	-7.8	-4.1	9.6	8.5	3.6	3.0	5.5	5.7	6.4	6.6	6.3	11.7	4.9	4.2	5.5
Non-residential investment	-3.4	1.0	1.4	1.3	5.1	3.3	4.3	4.4	4.3	3.9	3.1	2.8	2.1	-0.5	3.2	3.9
Non-residential structures	0.1	-2.1	12.0	-4.4	4.1	2.2	4.0	4.5	4.5	3.8	2.9	2.3	-4.4	-3.0	2.6	3.8
Equipment & software	-9.5	-3.0	-4.5	1.9	6.4	3.4	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-2.9	2.7	4.3
Intellectual property	3.8	9.0	3.2	4.5	3.9	3.9	3.8	3.7	3.4	3.3	3.2	3.0	4.8	4.9	4.2	3.5
Final domestic demand	1.2	2.4	2.1	2.6	2.3	2.3	2.5	2.5	2.6	2.4	2.1	2.0	3.1	2.1	2.4	2.4
Exports	-0.7	1.8	10.0	-4.0	5.5	-0.5	1.0	1.5	2.5	2.8	3.2	3.2	0.1	0.4	2.0	2.1
Imports	-0.6	0.2	2.2	8.5	4.0	1.5	1.2	2.5	3.1	2.9	3.5	3.0	4.6	1.1	3.4	2.7
Inventories (change in $b)	40.7	-9.5	7.1	46.2	31.0	35.0	33.0	33.0	30.0	30.0	30.0	29.0	84.0	21.1	33.0	29.8
Real gross domestic product	**0.8**	**1.4**	**3.5**	**1.9**	**2.0**	**2.2**	**2.5**	**2.4**	**2.4**	**2.3**	**2.0**	**2.0**	**2.6**	**1.6**	**2.3**	**2.3**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.1	-0.3	0.1	1.2	1.5	1.8	1.1	1.0	1.2	1.3	1.3	1.2	0.8	0.3	1.4	1.2
Pre-tax corporate profits	-6.6	-4.3	2.1	9.3	6.5	7.8	2.6	2.8	2.9	3.0	2.9	2.4	-3.0	-0.1	4.9	2.8
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.7	4.6	4.6	4.5	4.5	4.4	4.4	5.3	4.9	4.7	4.5
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.6	2.4	2.6	2.2	2.1	2.1	2.2	2.2	0.1	1.3	2.4	2.2
Core CPI	2.2	2.2	2.2	2.2	2.2	2.0	2.0	2.1	2.1	2.1	2.1	2.1	1.8	2.2	2.1	2.1
External trade																
Current account balance ($b)*	-527	-473	-452	-530	-542	-561	-565	-575	-586	-594	-605	-612	-463	-495	-561	-599
% of GDP*	-2.9	-2.6	-2.4	-2.8	-2.8	-2.9	-2.9	-2.9	-3.0	-3.0	-3.0	-3.0	-2.6	-2.7	-2.9	-3.0
Housing starts (000s)*	1151	1159	1145	1249	1240	1217	1241	1271	1300	1333	1362	1396	1108	1176	1242	1348
Motor vehicle sales (millions, saar)*	17.3	17.1	17.5	18.0	17.6	17.9	18.0	18.1	18.2	18.2	18.3	18.4	17.4	17.5	17.9	18.3

*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	
	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017	2018
Canada																
Overnight	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	0.50	0.50	0.50	1.25
Three-month	0.45	0.49	0.53	0.46	0.50	0.50	0.55	0.60	0.65	0.85	1.15	1.40	0.51	0.46	0.60	1.40
Two-year	0.54	0.52	0.52	0.75	0.75	0.85	0.95	1.05	1.20	1.40	1.60	1.80	0.48	0.75	1.05	1.80
Five-year	0.67	0.57	0.62	1.12	1.15	1.30	1.55	1.85	2.05	2.30	2.45	2.60	0.73	1.12	1.85	2.60
10-year	1.23	1.06	1.00	1.71	1.70	1.90	2.15	2.45	2.60	2.80	2.95	3.10	1.40	1.71	2.45	3.10
30-year	2.00	1.72	1.66	2.31	2.40	2.45	2.70	2.95	3.05	3.20	3.30	3.45	2.15	2.31	2.95	3.45
Yield curve (10s-2s)	69	54	48	96	95	105	120	140	140	140	135	130	92	96	140	130
United States																
Fed funds*	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.50	0.75	1.50	2.50
Three-month	0.21	0.26	0.29	0.51	0.70	1.00	1.05	1.30	1.55	1.80	2.05	2.30	0.16	0.51	1.30	2.30
Two-year	0.73	0.58	0.77	1.20	1.30	1.45	1.60	1.90	2.15	2.40	2.60	2.80	1.06	1.20	1.90	2.80
Five-year	1.21	1.01	1.14	1.93	1.90	2.10	2.25	2.50	2.65	2.90	3.05	3.20	1.76	1.93	2.50	3.20
10-year	1.78	1.49	1.60	2.45	2.40	2.65	2.80	3.00	3.15	3.40	3.50	3.60	2.27	2.45	3.00	3.60
30-year	2.61	2.30	2.32	3.06	3.00	3.20	3.35	3.50	3.60	3.75	3.80	3.90	3.01	3.06	3.50	3.90
Yield curve (10s-2s)	105	91	83	125	110	120	120	110	100	100	90	80	121	125	110	80
Yield spreads																
Three-month T-bills	0.24	0.23	0.24	-0.05	-0.20	-0.50	-0.50	-0.70	-0.90	-0.95	-0.90	-0.90	0.35	-0.05	-0.70	-0.90
Two-year	-0.19	-0.06	-0.25	-0.45	-0.55	-0.60	-0.65	-0.85	-0.95	-1.00	-1.00	-1.00	-0.58	-0.45	-0.85	-1.00
Five-year	-0.54	-0.44	-0.52	-0.81	-0.75	-0.80	-0.70	-0.65	-0.60	-0.60	-0.60	-0.60	-1.03	-0.81	-0.65	-0.60
10-year	-0.55	-0.43	-0.60	-0.74	-0.70	-0.75	-0.65	-0.55	-0.55	-0.60	-0.55	-0.50	-0.87	-0.74	-0.55	-0.50
30-year	-0.61	-0.58	-0.66	-0.75	-0.60	-0.75	-0.65	-0.55	-0.55	-0.55	-0.50	-0.45	-0.86	-0.75	-0.55	-0.45

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

Interest rates—International

%, end of period

	Actual				Forecast								Actual		Forecast	
	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017	2018
United Kingdom																
Repo	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.50	0.25	0.25	0.10
Two-year	0.45	0.13	0.13	0.08	0.20	0.20	0.20	0.20	0.05	0.10	0.15	0.15	0.66	0.08	0.20	0.15
10-year	1.43	0.89	0.76	1.24	1.40	1.60	1.75	1.90	2.00	2.10	2.25	2.30	1.96	1.24	1.90	2.30
Euro Area																
Deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.40	-0.40	-0.40
Two-year	-0.48	-0.61	-0.69	-0.78	-0.70	-0.65	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.34	-0.78	-0.50	-0.50
10-year	0.15	-0.11	-0.12	0.21	0.20	0.35	0.50	0.60	0.65	0.65	0.70	0.75	0.63	0.21	0.60	0.75
Australia																
Cash target rate	2.00	1.75	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.25	1.50	1.50	2.00	1.50	1.25	1.50
Two-year swap	1.89	1.59	1.55	1.86	1.70	1.50	1.60	1.75	1.75	2.00	2.00	2.25	2.02	1.86	1.75	2.25
10-year swap	2.49	1.98	1.91	2.76	2.80	2.95	3.20	3.40	3.55	3.90	4.05	4.15	2.88	2.76	3.40	4.15
New Zealand																
Cash target rate	2.25	2.25	2.00	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.75	1.75	2.50	1.75	1.50	1.75
Two-year	2.19	2.22	1.96	2.50	2.20	1.90	1.90	2.00	2.10	2.20	2.30	2.40	2.83	2.50	2.00	2.40
10-year	2.97	2.65	2.41	3.58	3.50	3.70	3.90	4.10	4.30	4.70	4.90	5.00	3.73	3.58	4.10	5.00

Growth outlook

% change, quarter-over-quarter in real GDP

	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016F	2017F	2018F
Canada*	2.7	-1.2	3.8	2.6	1.9	1.8	1.6	2.0	2.1	2.5	1.9	1.7	0.9	1.4	2.0	2.1
United States*	0.8	1.4	3.5	1.9	2.0	2.2	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.3	2.3
United Kingdom	0.2	0.6	0.6	0.7	0.4	0.4	0.2	0.2	0.4	0.5	0.5	0.5	2.2	1.8	1.6	1.6
Euro area	0.5	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.9	1.7	1.5	1.5
Australia	1.1	0.8	-0.5	1.1	0.7	0.7	0.8	0.7	0.7	0.7	0.6	0.6	2.4	2.5	2.6	2.8
New Zealand	0.7	0.7	1.1	0.6	0.7	0.8	0.8	0.6	0.6	0.6	0.6	0.6	2.5	3.1	2.9	2.6

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017F	2018F
Canada	1.5	1.6	1.2	1.4	2.2	2.4	2.7	2.7	2.3	2.2	2.2	2.2	1.1	1.4	2.5	2.2
United States	1.1	1.0	1.1	1.8	2.6	2.4	2.6	2.2	2.1	2.1	2.2	2.2	0.1	1.3	2.4	2.2
United Kingdom	0.3	0.4	0.7	1.2	2.1	2.5	2.4	2.4	2.3	2.3	2.2	2.1	0.0	0.7	2.4	2.2
Euro area	0.0	-0.1	0.3	0.7	1.9	1.8	1.6	1.5	1.3	1.4	1.4	1.4	0.0	0.2	1.7	1.4
Australia	1.3	1.0	1.3	1.5	2.3	2.6	2.6	2.7	2.7	2.6	2.6	2.5	1.5	1.3	2.5	2.6
New Zealand	0.4	0.4	0.4	1.3	1.3	1.2	1.3	1.5	1.6	1.7	1.8	1.8	0.3	0.6	1.3	1.7

Exchange rates

%, end of period

	Actual				Forecast								Actual		Forecast	
	16Q1	**16Q2**	**16Q3**	**16Q4**	**17Q1**	**17Q2**	**17Q3**	**17Q4**	**18Q1**	**18Q2**	**18Q3**	**18Q4**	**2015**	**2016**	**2017**	**2018**
AUD/USD	0.77	0.75	0.77	0.72	0.74	0.74	0.73	0.72	0.72	0.72	0.73	0.73	0.73	0.72	0.72	0.73
USD/CAD	1.30	1.29	1.31	1.34	1.35	1.38	1.38	1.38	1.37	1.36	1.35	1.33	1.38	1.34	1.38	1.33
EUR/USD	1.14	1.11	1.12	1.05	1.02	1.00	0.98	0.96	0.98	1.00	1.02	1.04	1.09	1.05	0.96	1.04
USD/JPY	112.6	102.7	101.3	117.0	112.0	110.0	107.0	103.0	100.0	102.0	104.0	106.0	120.1	117.0	103.0	106.0
NZD/USD	0.69	0.71	0.73	0.69	0.71	0.72	0.73	0.74	0.74	0.74	0.75	0.75	0.68	0.69	0.74	0.75
USD/CHF	0.96	0.98	0.97	1.02	1.05	1.06	1.09	1.13	1.12	1.11	1.09	1.08	1.00	1.02	1.13	1.08
GBP/USD	1.44	1.33	1.30	1.24	1.20	1.15	1.16	1.16	1.18	1.20	1.23	1.25	1.47	1.24	1.16	1.25

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