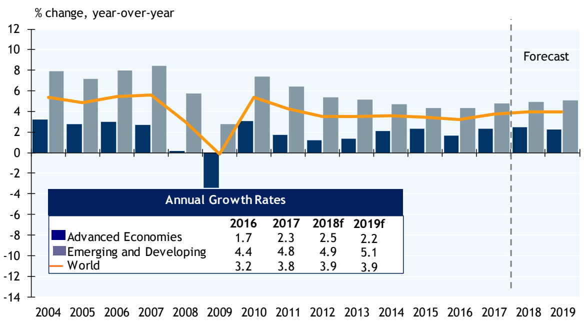
ECONOMIC AND FINANCIAL MARKET OUTLOOK

June 2018

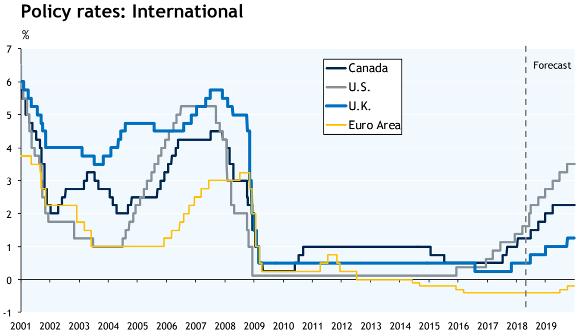
Global economy is still on a positive path...
...but mind the growing gap

Advanced versus emerging economies GDP growth



Source: International Monetary Fund, RBC Economics Research Forecasts

Policy rates: International



Source: ECB, BoE, BoC, Federal Reserve, RBC Economic Research

Threats to a harmonious pickup in global economic growth surfaced in mid-2018. The US's aggressive imposition of tariffs, Italy's political maelstrom and renewed worries about emerging-market debt topped the list of risks to the global outlook. Economic data at the start of the year tended to surprise on the downside, though this largely reflected transitory factors rather than signaled of a sea-change in the global economy's momentum. We continue to forecast that the world economy will expand by 3.9% in 2018, backed by still-accommodative financial conditions.

In spite of heightened talk about protectionist measures, trade flows recorded another solid first quarter. The quarterly gain masked a slowing in March, and the subsequent round of tariffs may keep trade volumes running at March's cooler pace going forward. Business investment trended higher, and elevated business confidence combined with limited spare capacity suggests business will continue to spend and hire. The strong demand for workers in countries that are already operating at close to full employment sparked a pickup in wage growth which will underpin consumer spending and buttress housing markets even as interest rates gradually move up.

Central banks are on watch for opportunities to scale back policy stimulus. The sustained run of strong growth has largely eliminated excess capacity, clearing the path for inflation to meet or exceed central banks' mandated targets. The euro area looks poised to join the club with the ECB expected to start the long process toward policy normalization in the months ahead.

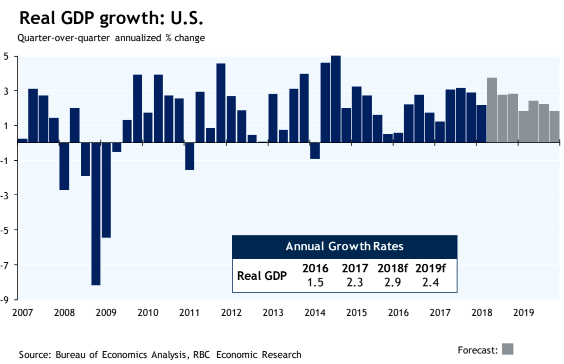
As long as the global economy stays on its current growth trajectory, we expect central banks will boost interest rates this year in Canada, the US and UK with the ECB set to taper its asset purchases. That said, we are monitoring a long and growing list of risk factors that could shift momentum into lower gear and push rate hikes further into the future. Heading into and after the G7 meeting in early June, the Trump Administration ramped up its protectionist rhetoric and threatened to impose more tariffs on imports from its largest trading partners. Policy uncertainty spiked raising the downside risks to the economy in the near term.

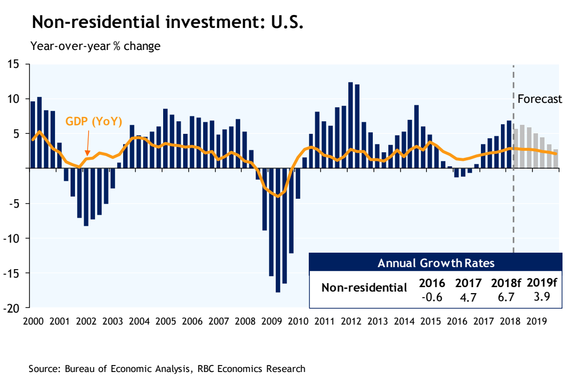
Craig Wright
Chief Economist | 416-974-7457 | craig.wright@rbc.com

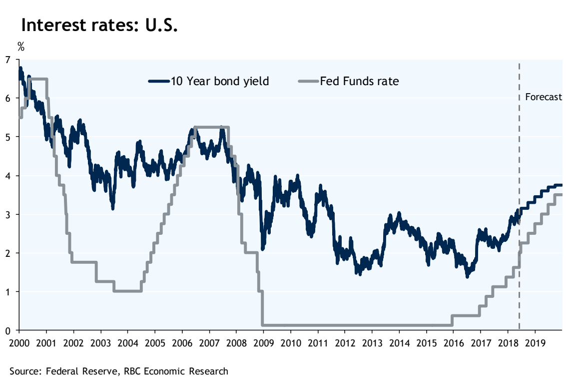
Paul Ferley
Assistant Chief Economist | 416-974-7231 | paul.ferley@rbc.com

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

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







US growth to outpace 2017's pace

The US economy started 2018 on a slightly weaker footing though early Q2 reports are flagging a strong rebound. RBC forecasts real GDP growth will average 2.9% in 2018, outpacing 2017's 2.3% gain. A $100 billion increase in government expenditures combined with strong business investment as companies take advantage of changes to the tax code will add 1.1 ppt to economic growth this year. We expect the cut to the corporate income tax rate and changes to depreciation allowances will support close to a 7% jump in business investment.

Even with the labour market arguably at full employment, job creation continues to run above 200K per month, which is starting to put pressure on firms who want to hire in the very tight labour market. The unemployment rate fell to 3.8% in May, matching the lowest level since 1969, and the six-month run rate in wage growth stands just shy of 3%. The combination of job growth and rising wages saw incomes increase 3.8% in early 2018, which will support consumer spending and the continued recovery in housing.

US business investment is trending higher and did so even before the government's aggressive tax changes as a number of industries bumped up against capacity limits. By the first quarter of 2018, US business had upped the pace of investment for the 3rd consecutive quarter, rebuilding the capital stock that had been whittled away during the great recession. With the added support from the tax cuts, business investment is likely to continue throughout 2018.

The US decision to impose tariffs on its closest allies puts the anticipated rise in business investment at risk. These tariffs not only mean more expensive inputs that will translate into higher consumer prices but an elevated level of uncertainty about future demand and concerns about the prospect of import tariffs being levied on other goods.

The tariffs also put at risk US export and import growth, as the country's trade partners retaliate with tariffs of their own. By our reckoning, tariffs levied to date won't have a material impact on US inflation with the recent increases in the core rate associated with organic price increases as the economy moves further into excess demand. The rise in inflation and decline in the unemployment rate will keep the Fed on track to gradually reduce monetary policy stimulus. We expect the Fed to increase the fed funds target by 25 basis points each quarter of 2018 and 2019, shifting monetary policy toward a mildly restrictive stance by the end of next year. That said, there is a risk that implementing fiscal stimulus at this juncture will create greater upward pressure on prices prompting the Fed to shift to a more aggressive tightening path than in our baseline forecast.

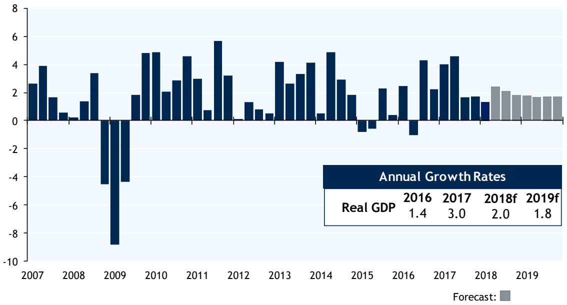
Canada could grow at a faster clip over the rest of the year

Canada's economy transitioned to a slower growth path in the second half of 2017. But it remains comfortably situated, with the average increase over the past three quarters at 1.6%, just shy of the economy's potential run rate. More recent data point to a reacceleration in growth with net exports looking likely to swing from acting as a drag on the economy to a support. Also encouraging was the sharp acceleration in business investment in Q1 which acted as a crucial offset to the drop in housing market activity in the quarter.

Our baseline view is that Canada's economy will grow at a mildly faster clip in the remaining quarters of 2018. Financial conditions remain accommodative and the labour market is healthy. Wage growth is accelerating and will work to blunt the impact that rising interest rates will have on household debt service costs. Government investment will make a greater contribution to the economy this year. The weak patch, for the first time in many years, will be housing as households face more stringent qualifying criteria and higher interest rates. Risks to the outlook have risen with the drumbeat of US protectionism and the lack of progress on a NAFTA rewrite.

Real GDP growth: Canada

Quarter-over-quarter % change, annualized rate



Source: Statistics Canada, RBC Economic Research

Tariffs….Whaaaat?

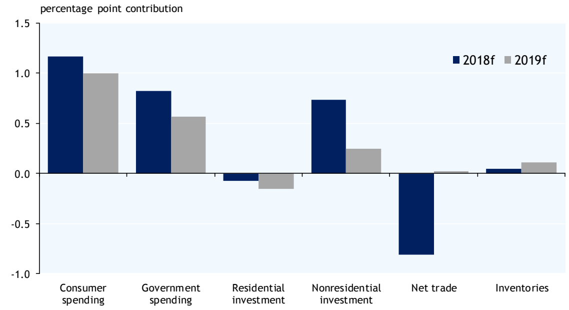
The Trump administration's decision to add to the list of Canadian products facing tariffs and Canada's decision to retaliate turned up the heat on an already-fraught trading relationship. (see Box 1)

The sluggish pace of the NAFTA negotiations already presented a risk to the outlook for Canadian business investment. So far, Canadian companies have looked past the tensions and focused on strong domestic demand and solid global trade activity. So after two years of sharp declines, business fixed investment increased in 2017 and started 2018 growing at a 10.9% annualized rate.

Domestic conditions set up for business investment to continue to increase in 2018 with capacity usage running at elevated levels in many industries. Our monitoring of private companies' investment plans implies spending will rise modestly in 2018 with a more tentative increase forecasted in 2019.

Contributions to Canadian GDP growth

percentage point contribution



Source: Statistics Canada, RBC Economic Research

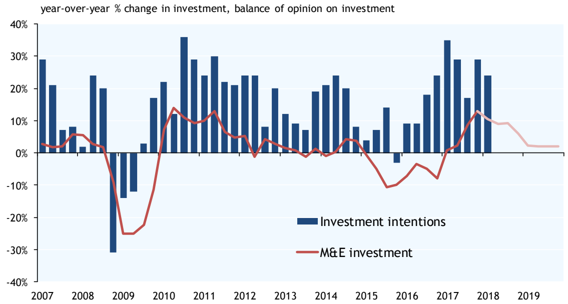
Housing market cooling is manageable

Home-sales activity dropped in the first four months of 2018 as another layer of mortgage stress tests took a toll on sales. The aggressive downdraft was accompanied by a pullback in new listings, meaning that supply and demand in Canada's housing market is now much more balanced. We expect the adjustment to the new regulatory backdrop to ebb over the months ahead with sales likely to recover somewhat over the remainder of 2018.

On balance, 2018 will prove to be a year of more subdued housing-market activity reflecting the impact of the tightening in national mortgage lending regulations as well as measures announced in the BC 2018 budget. Rising interest rates will also act to restrain market activi-

Business investment spending and intentions: Canada

year-over-year % change in investment, balance of opinion on investment

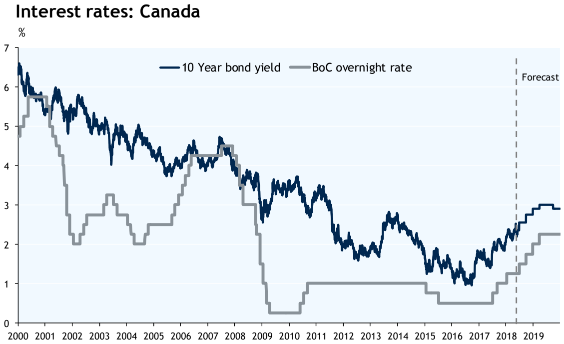


Source: Bank of Canada, Statistics Canada, RBC Economic Research

Home prices: Canada

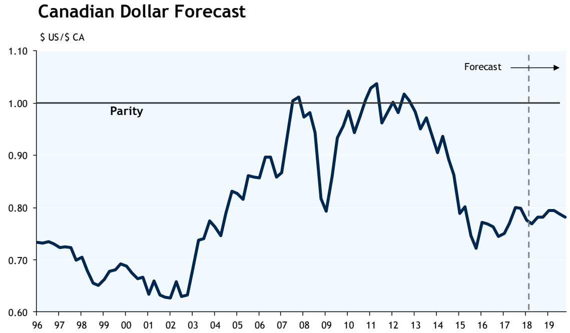
Source: RPS, RBC Economics Research Forecast:

Interest rates: Canada



Source: Bank of Canada, RBC Economic Research

Canadian Dollar Forecast



Source: Bank of Canada, RBC Economic Research

ty. With many of the regional housing markets having moved back into balance, price gains are likely to moderate following two years of outsized increases. Our forecast is for resale activity to decline 4.3% in 2018 with prices edging up 1.8% after averaging increases of 10.2% in 2016-2017.

Consumer spending is also forecast to slow from 2017's blistering pace. Solid income growth combined with rising asset values will keep consumers active. However with an increasing share of their incomes having to go to service their debt, the pace of spending growth is projected to average 2% this year, the slowest pace since 2012.

Even with the deceleration in economic growth in recent quarters, the economy is operating close to its capacity limits. The output gap, which was almost 2% two years ago, is gone. This means that if the economy grows by 2% as we expect this year we will transition into a period of excess demand and see an intensification of price pressures. Currently, the Bank of Canada's measure of underlying inflation stands at about 2% and the rise in energy prices will pump the headline rate closer to 3% by the middle of the year.

The Bank of Canada appears more confident about the economic outlook and acknowledged that interest rates will need to move higher if the bank is to achieve its 2% inflation target on a sustained basis. In our assessment this means the overnight rate will likely rise 50bps in the second half of 2018 and an additional 50bps in the first half of 2019. Once the rate gets to 2.25%, we expect the bank will step to the sidelines to assess the ability of households to manage their debt balances in this higher rate environment.

Canada's dollar faces conflicting impulses from the recovery of oil prices and the recent widening in short-term interest rate differentials vis-à-vis the US. A change in sentiment about the outlook for Canada-US trade has influenced the currency's direction. The fundamentals for Canada's dollar will likely keep the currency within its recent trading range as oil prices steady at today's levels with limited movement expected in the spread between Canada and US short-term interest rates. That said, a further ratcheting up of protectionist moves by the Trump Administration that lead to retaliatory measures by other countries risks another round of weakness for Canada's dollar.

Box 1: Impact of tariffs on steel and aluminum

The impact of the raft of US tariffs on Canadian goods has been limited so far. We expect the direct impact of the latest round to be limited as well as steel and aluminum production together accounts for about 0.5% of Canadian GDP and jobs. By our count, about half of Canada's steel and three-quarters of aluminum exports will be impacted by the tariffs — amounting to about 3% of Canada's total exports. Canada, along with Mexico and Europe, responded with retaliatory measures with Canada intending to levy tariffs on $16.6 billion of goods from the US — matching the value of Canada's 2017 exports impacted by the US tariffs. That will mean higher prices for Canadian importers, but the amount is still only ~2% of Canada's annual imports, so the broader consumer price impact won't be that large.

Most worrisome for the economic outlook is the possibility that metals production won't be the last industry to face tariffs. In this case, the U.S. justified the tariffs on national security grounds, a questionable position given that Canada, Mexico, and Europe are all US allies. The US also explicitly tied the hike in tariffs for Mexico and Canada to the failure to come to an agreement on NAFTA before the end of May. The flimsy premise used to justify recent tariffs opens the door to more industries facing a similar fate which is creating an uncertain backdrop for all trade-intensive businesses.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals					Forecast							Actual		Forecast	
	2017				2018				2019				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
Household Consumption	4.0	4.3	3.1	2.2	1.1	2.0	1.9	1.9	1.7	1.7	1.6	1.7	2.4	3.5	2.1	1.8
Durables	12.2	7.2	-0.6	2.1	0.2	1.9	1.7	1.7	1.6	1.6	1.5	1.5	4.5	6.5	1.5	1.6
Semi-Durables	2.8	6.0	2.3	-0.7	0.0	1.9	1.9	1.9	1.8	1.6	1.8	1.8	2.2	3.3	1.2	1.8
Non-durables	2.1	5.6	0.4	3.5	-0.3	1.9	1.7	1.9	1.8	1.7	1.7	1.8	1.7	2.6	1.6	1.7
Services	3.0	2.8	5.2	2.0	2.1	2.1	2.0	2.0	1.8	1.8	1.7	1.8	2.2	3.2	2.5	1.8
NPISH consumption	-4.8	0.0	3.4	-1.1	3.7	2.0	1.9	1.9	1.7	1.7	1.6	1.7	-0.5	-1.1	1.9	1.8
Government expenditures	4.8	0.8	3.5	3.8	2.7	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.2	2.3	2.8	2.2
Government fixed investment	-4.2	-1.1	11.6	8.4	6.4	3.5	3.5	3.5	2.8	2.0	2.0	2.0	5.1	3.8	5.8	2.8
Residential investment	7.1	-1.3	-0.1	13.5	-7.2	-2.7	-4.8	-3.7	-2.1	-0.5	0.3	1.2	3.3	2.9	-1.0	-2.0
Non-residential investment	14.3	7.5	5.9	8.0	10.9	2.8	2.3	2.1	2.0	2.0	2.0	2.0	-9.4	2.8	6.3	2.1
Non-residential structures	5.9	6.7	8.9	4.0	6.3	2.8	2.5	2.2	2.0	2.0	2.0	2.0	-11.5	0.7	4.8	2.1
Machinery & equipment	28.5	8.7	1.6	14.5	18.1	2.8	2.0	2.0	2.0	2.0	2.0	2.0	-6.0	6.0	8.6	2.0
Intellectual property	11.9	6.8	9.2	3.0	13.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	-6.4	1.2	6.2	2.0
Final domestic demand	4.9	3.2	3.6	4.1	2.1	1.9	1.6	1.7	1.6	1.6	1.7	1.8	1.1	3.0	2.6	1.7
Exports	2.6	6.4	-9.9	3.9	1.7	10.0	2.0	2.0	3.3	1.7	1.8	2.0	1.0	1.1	2.4	2.7
Imports	14.9	4.1	1.3	7.7	4.9	5.0	3.5	2.8	2.5	1.0	1.7	2.1	-1.0	3.6	4.6	2.4
Inventories (change in $b)	8.9	12.8	18.3	15.8	15.3	10.8	15.5	17.5	17.5	16.6	16.6	16.6	1.0	13.9	14.8	16.8
Real gross domestic product	**4.0**	**4.6**	**1.7**	**1.7**	**1.3**	**2.4**	**2.1**	**1.8**	**1.8**	**1.7**	**1.7**	**1.7**	**1.4**	**3.0**	**2.0**	**1.8**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	2.2	2.6	1.1	1.1	-0.2	0.1	0.8	0.9	1.4	1.2	1.0	1.0	0.6	1.8	0.4	1.2
Pre-tax corporate profits	25.7	35.4	14.5	7.9	1.0	4.8	5.3	4.0	3.9	2.3	2.5	1.4	-1.9	19.9	3.7	2.5
Unemployment rate (%)*	6.6	6.5	6.2	6.0	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	7.0	6.3	5.8	5.8
Inflation																
Headline CPI	1.9	1.3	1.4	1.8	2.1	2.6	2.8	2.5	2.2	2.2	2.1	2.1	1.4	1.6	2.5	2.1
CPI ex. food and energy	2.0	1.4	1.4	1.6	1.8	1.9	2.1	2.3	2.1	2.4	2.3	2.2	1.9	1.6	2.0	2.3
External trade																
Current account balance ($b)*	-55.9	-59.6	-71.7	-65.9	-78.0	-70.1	-74.2	-74.8	-72.4	-69.9	-68.4	-67.5	-65.4	-63.3	-74.3	-69.5
% of GDP*	-2.6	-2.8	-3.3	-3.0	-3.6	-3.1	-3.3	-3.3	-3.1	-3.0	-2.9	-2.9	-3.2	-2.9	-3.3	-3.1
Housing starts (000s)*	222	207	223	229	223	213	207	197	195	192	190	190	198	220	210	192
Motor vehicle sales (mill., saar)*	2.07	2.10	2.08	2.05	2.12	2.00	1.98	1.97	1.94	1.93	1.92	1.92	1.98	2.08	2.02	1.93

*Period average

Source: Statistics Canada, RBC Economic Research forecasts

Economic forecast detail — United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals					Forecast							Actual		Forecast	
	2017				2018				2019				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
Consumer spending	1.9	3.3	2.2	4.0	1.0	3.5	3.2	2.7	1.7	2.3	2.3	1.8	2.7	2.8	2.7	2.4
Durables	-0.1	7.6	8.6	13.7	-2.6	7.2	4.5	2.8	2.2	2.3	2.2	1.6	5.5	6.7	5.4	2.9
Non-durables	1.1	4.2	2.3	4.8	0.4	3.3	4.5	3.5	1.9	2.5	2.4	1.8	2.8	2.4	3.0	2.8
Services	2.5	2.3	1.1	2.3	1.8	2.9	2.6	2.5	1.6	2.3	2.3	1.8	2.3	2.2	2.2	2.2
Government spending	-0.6	-0.2	0.7	3.0	1.1	0.6	2.4	2.7	2.4	2.4	2.4	2.4	0.8	0.1	1.5	2.3
Residential investment	11.1	-7.3	-4.7	12.8	-2.0	1.0	3.8	3.4	1.8	0.9	1.9	1.2	5.5	1.8	1.5	2.1
Non-residential investment	7.1	6.7	4.7	6.8	9.2	5.0	6.5	5.7	2.8	2.8	2.6	2.6	-0.6	4.7	6.7	3.9
Non-residential structures	14.8	7.0	-7.0	6.3	14.3	4.0	6.5	5.2	4.0	4.0	2.0	2.0	-4.1	5.6	6.0	4.1
Equipment & software	4.4	8.8	10.8	11.5	5.5	5.3	7.2	6.5	3.5	3.5	0.7	0.1	-3.4	4.8	7.7	4.0
Intellectual property	5.8	3.7	5.2	0.9	10.9	5.3	5.2	5.0	4.8	3.6	2.6	2.6	6.3	3.9	5.7	4.3
Final domestic demand	2.4	2.7	1.9	4.5	1.9	3.1	3.5	3.1	2.1	2.5	2.2	1.8	2.1	2.5	2.9	2.6
Exports	7.3	3.5	2.1	7.0	4.2	7.5	2.0	2.5	3.0	2.8	2.8	2.8	-0.3	3.4	4.6	3.0
Imports	4.3	1.5	-0.7	14.1	2.8	1.5	7.4	6.0	5.4	3.0	2.8	3.2	1.3	4.0	4.8	4.6
Inventories (change in $b)	1.2	5.5	38.5	15.6	20.2	17.0	20.0	29.0	33.0	33.0	33.0	38.0	33.4	15.2	21.6	34.3
Real gross domestic product	**1.2**	**3.1**	**3.2**	**2.9**	**2.2**	**3.8**	**2.8**	**2.8**	**1.8**	**2.4**	**2.2**	**1.8**	**1.5**	**2.3**	**2.9**	**2.4**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
Business and labour																
Productivity	1.1	1.4	1.5	0.9	1.3	1.4	1.0	1.5	1.4	1.2	1.2	1.0	0.1	1.2	1.3	1.2
Pre-tax corporate profits	3.3	6.4	5.4	2.7	4.3	5.5	2.2	3.0	3.9	3.0	2.6	2.4	-2.1	4.4	3.7	3.0
Unemployment rate (%)*	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.8	3.8	3.7	3.7	3.7	4.9	4.4	3.9	3.7
Inflation																
Headline CPI	2.5	1.9	2.0	2.1	2.2	2.7	2.6	2.2	1.8	1.9	2.0	2.2	1.3	2.1	2.4	2.0
CPI ex. food and energy	2.2	1.8	1.7	1.8	1.9	2.2	2.3	2.3	2.1	2.1	2.2	2.2	2.2	1.8	2.2	2.2
External trade																
Current account balance ($b)*	-451	-495	-406	-513	-528	-500	-539	-569	-593	-600	-605	-613	-452	-466	-534	-603
% of GDP*	-2.4	-2.6	-2.1	-2.6	-2.6	-2.5	-2.6	-2.8	-2.8	-2.8	-2.8	-2.9	-2.4	-2.4	-2.6	-2.8
Housing starts (000s)*	1231	1171	1172	1259	1320	1285	1300	1315	1315	1315	1325	1325	1177	1208	1305	1320
Motor vehicle sales (millions, saar)*	17.1	16.8	17.1	17.7	17.1	17.3	17.3	17.3	17.3	17.3	17.4	17.4	17.5	17.1	17.3	17.4

*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	
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018	2019
Canada																
Overnight	0.50	0.50	1.00	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.25	2.25	0.50	1.00	1.75	2.25
Three-month	0.52	0.71	1.00	1.06	1.10	1.20	1.45	1.65	1.90	2.15	2.15	2.15	0.46	1.06	1.65	2.15
Two-year	0.75	1.10	1.52	1.69	1.78	1.95	2.15	2.30	2.50	2.50	2.40	2.30	0.75	1.69	2.30	2.30
Five-year	1.12	1.40	1.75	1.87	1.97	2.15	2.35	2.55	2.75	2.80	2.75	2.65	1.12	1.87	2.55	2.65
10-year	1.62	1.76	2.10	2.04	2.09	2.35	2.55	2.75	2.90	3.00	3.00	2.90	1.71	2.04	2.75	2.90
30-year	2.30	2.14	2.47	2.27	2.23	2.50	2.75	2.90	3.05	3.15	3.15	3.10	2.31	2.27	2.90	3.10
Yield curve (10s-2s)	87	66	58	35	31	40	40	45	40	50	60	60	96	35	45	60
United States																
Fed funds*	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	0.75	1.50	2.50	3.50
Three-month	0.76	1.03	1.06	1.39	1.73	1.90	2.15	2.35	2.65	2.90	3.15	3.35	0.51	1.39	2.35	3.35
Two-year	1.27	1.38	1.47	1.89	2.27	2.50	2.65	2.80	3.00	3.25	3.40	3.55	1.20	1.89	2.80	3.55
Five-year	1.93	1.89	1.92	2.20	2.56	2.80	2.95	3.10	3.25	3.45	3.55	3.65	1.93	2.20	3.10	3.65
10-year	2.40	2.31	2.33	2.40	2.74	3.00	3.15	3.30	3.45	3.60	3.70	3.75	2.45	2.40	3.30	3.75
30-year	3.02	2.84	2.86	2.74	2.97	3.35	3.50	3.60	3.70	3.75	3.80	3.85	3.06	2.74	3.60	3.85
Yield curve (10s-2s)	113	93	86	51	47	50	50	50	45	35	30	20	125	51	50	20
Yield spreads																
Three-month T-bills	-0.24	-0.32	-0.06	-0.33	-0.63	-0.70	-0.70	-0.70	-0.75	-0.75	-1.00	-1.20	-0.05	-0.33	-0.70	-1.20
Two-year	-0.52	-0.28	0.05	-0.20	-0.49	-0.55	-0.50	-0.50	-0.50	-0.75	-1.00	-1.25	-0.45	-0.20	-0.50	-1.25
Five-year	-0.81	-0.49	-0.17	-0.33	-0.59	-0.65	-0.60	-0.55	-0.50	-0.65	-0.80	-1.00	-0.81	-0.33	-0.55	-1.00
10-year	-0.78	-0.55	-0.23	-0.36	-0.65	-0.65	-0.60	-0.55	-0.55	-0.60	-0.70	-0.85	-0.74	-0.36	-0.55	-0.85
30-year	-0.72	-0.70	-0.39	-0.47	-0.74	-0.85	-0.75	-0.70	-0.65	-0.60	-0.65	-0.75	-0.75	-0.47	-0.70	-0.75

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

Interest rates—International

%, end of period

	Actual					Forecast							Actual		Forecast	
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018	2019
United Kingdom																
Repo	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.25	0.25	0.50	0.75	1.25
Two-year	0.12	0.36	0.46	0.45	0.82	0.75	0.80	0.95	1.00	1.05	1.10	1.15	0.08	0.45	0.95	1.15
10-year	1.14	1.26	1.38	1.19	1.34	1.50	1.60	1.75	2.00	2.10	2.20	2.30	1.24	1.19	1.75	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	-0.30	-0.20	-0.40	-0.40	-0.40	-0.20
Two-year	-0.74	-0.57	-0.69	-0.63	-0.59	-0.65	-0.60	-0.50	-0.50	-0.50	-0.40	-0.30	-0.78	-0.63	-0.50	-0.30
10-year	0.33	0.47	0.47	0.43	0.50	0.65	0.70	0.80	1.00	1.05	1.25	1.25	0.21	0.43	0.80	1.25
Australia																
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00	2.00	1.50	1.50	1.50	2.00
Two-year swap	1.76	1.78	1.94	2.00	2.00	2.10	2.25	2.40	2.50	2.60	2.60	2.60	1.86	2.00	2.40	2.60
10-year swap	2.70	2.60	2.84	2.63	2.60	2.75	3.05	3.30	3.70	4.10	4.10	4.05	2.76	2.63	3.30	4.05

Growth outlook

% change, quarter-over-quarter in real GDP

	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018F	2019F
Canada*	4.0	4.6	1.7	1.7	1.3	2.4	2.1	1.8	1.8	1.7	1.7	1.7	1.4	3.0	2.0	1.8
United States*	1.2	3.1	3.2	2.9	2.2	3.8	2.8	2.8	1.8	2.4	2.2	1.8	1.5	2.3	2.9	2.4
United Kingdom	0.3	0.2	0.5	0.4	0.1	0.4	0.3	0.4	0.3	0.4	0.3	0.4	1.9	1.8	1.3	1.4
Euro area	0.6	0.7	0.7	0.7	0.4	0.6	0.5	0.5	0.4	0.4	0.4	0.4	1.8	2.5	2.2	1.9
Australia	0.3	1.0	0.5	0.5	1.0	0.8	0.7	0.6	0.7	0.7	0.8	0.9	2.6	2.2	2.7	2.8
New Zealand	0.7	0.9	0.6	0.6	1.0	0.8	0.8	0.7	0.7	0.7	0.7	0.7	4.0	2.9	3.4	2.9

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018F	2019F
Canada	1.9	1.3	1.4	1.8	2.1	2.6	2.8	2.5	2.2	2.2	2.1	2.1	1.4	1.6	2.5	2.1
United States	2.5	1.9	2.0	2.1	2.2	2.7	2.6	2.2	1.8	1.9	2.0	2.2	1.3	2.1	2.4	2.0
United Kingdom	2.2	2.8	2.8	3.0	2.7	2.5	2.6	2.5	2.3	2.2	2.2	2.0	0.6	2.7	2.6	2.2
Euro area	1.8	1.5	1.4	1.4	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.5	0.2	1.5	1.4	1.5
Australia	2.1	1.9	1.8	1.9	1.9	2.2	2.2	2.2	2.3	2.5	2.6	2.7	1.3	1.9	2.1	2.5
New Zealand	2.1	1.7	1.9	1.6	1.1	2.0	2.1	2.0	2.0	2.0	2.0	2.0	0.6	1.9	2.0	2.0

Exchange rates

%, end of period

	Actual					Forecast							Actual		Forecast	
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018	2019
AUD/USD	0.76	0.77	0.78	0.78	0.77	0.76	0.75	0.73	0.73	0.73	0.73	0.73	0.72	0.78	0.73	0.73
USD/CAD	1.33	1.30	1.25	1.26	1.29	1.30	1.28	1.28	1.26	1.26	1.27	1.28	1.34	1.26	1.28	1.28
EUR/USD	1.07	1.14	1.18	1.20	1.23	1.20	1.16	1.18	1.20	1.22	1.24	1.26	1.05	1.20	1.18	1.26
USD/JPY	111.4	112.4	112.5	112.7	106.3	107.0	109.0	111.0	113.0	115.0	118.0	120.0	117.0	112.7	111.0	120.0
NZD/USD	0.70	0.73	0.72	0.71	0.72	0.71	0.73	0.71	0.69	0.69	0.69	0.69	0.69	0.71	0.71	0.69
USD/CHF	1.00	0.96	0.97	0.97	0.95	0.98	1.03	1.03	1.03	1.02	1.01	1.00	1.02	0.97	1.03	1.00
GBP/USD	1.26	1.30	1.34	1.35	1.40	1.35	1.27	1.27	1.29	1.31	1.33	1.35	1.24	1.35	1.27	1.35

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