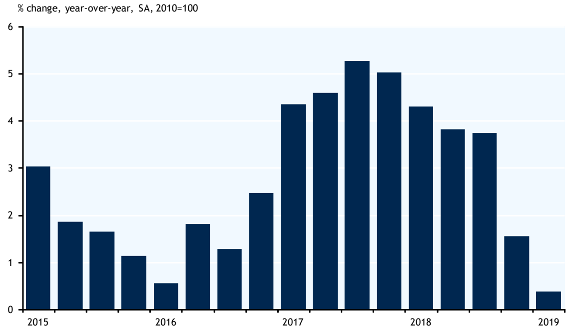
ECONOMIC AND FINANCIAL MARKET OUTLOOK

June 2019

Global GDP growth
year-over-year % change

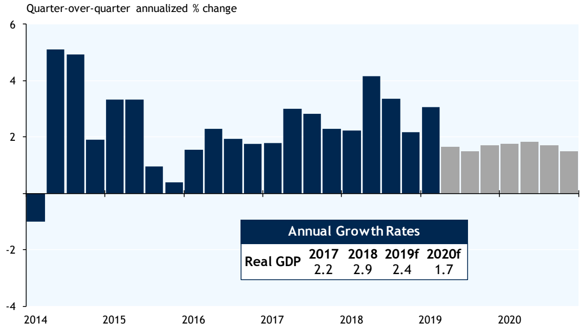
Source: International Monetary Fund, RBC Economic Research

World Trade Volume
% change, year-over-year, SA, 2010=100



Source: Netherlands Bureau of Economic Policy Analysis, RBC Economic Research

Real GDP growth: U.S.
Quarter-over-quarter annualized % change



Source: Bureau of Economic Analysis, RBC Economic Research Forecast:

Uncertainty taking a toll on global economy

The pace of global growth will slow this year as policy uncertainty takes its toll on the world's economy. The prospect of a prolonged US-China trade war, the lack of clarity around Brexit, and political and economic upheaval in countries like Venezuela have combined to generate downside risks to the outlook. Data point to the global economy expanding by 3.3% this year, slower than 2018's 3.6% pace, with trade volumes declining and business sentiment deteriorating. Amid the uncertainty, global central banks have moved to the sidelines. Even with the economic expansion in its tenth year, contained inflation pressures have removed any urgency for central banks to act. We expect most will hold their policy rates steady for the remainder of 2019.

Eye of the storm

On trade policy, the US is the eye of the storm. The recent removal of tariffs on steel and aluminum imports and the Trump Administration's desire to ratify the new trade agreement with Canada and Mexico had dampened some of the pressures within North America. The positive sentiment was stopped in its tracks in late May when the US threatened to levy tariffs on Mexican imports in order to force its southern neighbor to stem the flow of migrants. Tensions between the US and China, meanwhile, have become increasingly heated after the US bumped up tariff rates and made threats to expand the list of products affected. These tariffs have increased costs in the US manufacturing sector, and China's retaliatory measures have made the global trade backdrop even more uncertain. It is not surprising that sentiment about trade continues to deteriorate, with the latest world trade outlook indicator holding at its weakest level since the second quarter of 2010.

US economy not seeing ill-effects of trade turmoil yet

The US economy continued to grow at a solid clip in the first quarter of 2019 on the back of net exports and inventory building. Growth is likely to be somewhat weaker in Q2, but with a firmer-looking composition with less support from inventory building and accelerating consumer spending and business investment. Despite an uneven quarterly pattern, the key driver of the US economy remains the consumer. Strong demand for labour pushed the unemployment rate to a 50-year low in early 2019 and wage growth accelerated. With more people working and wages rising faster than inflation, we expect consumer spending to increase 2.3% this year, slightly slower than the previous two years.

Business investment is also forecast to contribute to the economy as companies take advantage of last year's cut in the corporate income tax rate and other supportive policies. The lift from these policy changes won't match 2018's jump. However, with financial conditions remaining accommodative, there is a case for investment to increase again this year assuming the fractured trade environment doesn't severely damage business confidence.

The US bilateral merchandise trade deficit with China dropped sharply in

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early 2019 as Chinese exports to the US declined. This followed a period of large US purchases of Chinese goods in the second half of 2018 as US companies tried to get ahead of an increase in tariffs. That pre-buying by US companies partly explains the rise, albeit temporarily, of the US trade deficit with China late last year. Recent actions to ramp up tariffs on imports from China and potentially Mexico are expected to weigh on US import demand.

Fed taking a risk management tact to monetary policy

For the Fed, it's mission accomplished on getting the economy to full employment with most inflation measures at or slightly below the 2% target. Maintaining these conditions is the challenge now facing US policymakers. The FOMC appears content to hold the fed funds rate at a slightly below neutral level as a nod to the risks to the economic outlook coming from policy uncertainty. Fragile financial market sentiment and growing concerns about US-China trade tensions raise the potential for more aggressive slowing ahead, especially in businesses investment. The rally in the US Treasury market provides one of the clearest signs that investors are on edge with the 10-year yield falling back to the lowest level in over a year and a half. The prospect that these uncertain conditions will persist limits how much US Treasury bond yields can be expected to rise in the near term. We have adjusted our year-end forecasts down to reflect this uncertainty and now project the 10-year rate will hold below 3%.

Canada's economy hit turbulence in late 2018; tailwinds could return

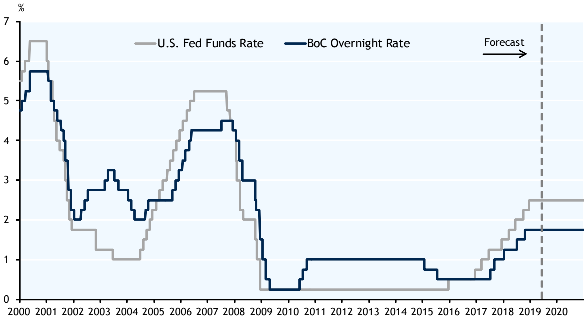
Falling oil prices and a deepening in the housing-market correction saw Canada's economy grow at just a 0.3% annualized rate in the last quarter of 2018 and contributed to the economy growing at a similar pace in the first quarter of this year. A recovery in oil production, easing of pressure in the housing market and the end of an unseasonably cold winter saw the economy post a solid increase in March, paving the way for stronger gains ahead.

On balance, 2019 will likely be a year of subpar economic performance. After growing close to 1½% in 2019, we expect the economy to accelerate modestly in 2020 to 1.8%. Despite the gearing down in growth, Canada's labour market continues to power along, acting as one of the key supports for consumers. That isn't to say spending activity won't be modestly slower in 2019 as household budgets are crimped by higher debt servicing costs. But strong job growth and accelerating wages will mitigate the pressure on household finances and prevent a more radical pullback in consumer spending. In the 12-months to April, the economy generated 426K jobs and the unemployment rate was the near the lowest level in more than 40-years. Wage growth, outside the oil-producing provinces, has picked up and we expect will continue to accelerate as companies increasingly compete for workers. Surveys show that firms report labour shortages as the top obstacle to increased sales activity auguring well for hiring to continue.

Housing market bottoming though no sharp rebound likely

Household credit market debt relative to income hit a record high in late 2018 while net worth declined as both real estate and financial assets floundered. That said, the net worth-to-income ratio remained historically elevated. Further, the pace of debt accumulation slowed significantly with the share of mortgages going to highly indebted households dropping as regulatory changes and enhanced stress-testing took effect. The demand for credit was also dampened by the sharp drop in housing activity with home sales down 11% in 2018 and a further 2.3% in the first quarter of 2019. Prices also came under downward pressure. Resale activity rose in both March and April with the number of homes sold up 6% from February's re-

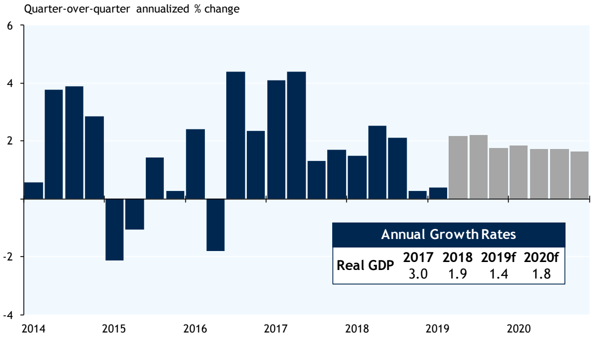
Interest rates: Canada and U.S.



Source: Bank of Canada, Federal Reserve, RBC Economic Research

Real GDP growth: Canada

Quarter-over-quarter annualized % change

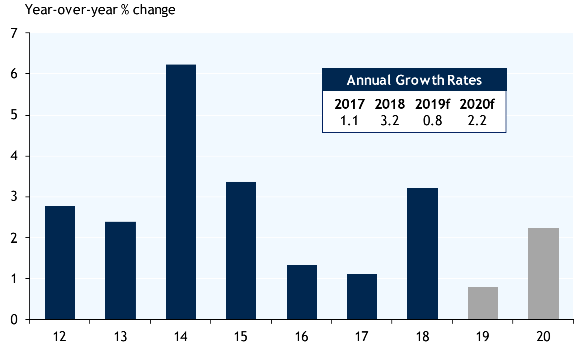


Source: Statistics Canada, RBC Economic Research

Forecast:

Real export growth: Canada

Year-over-year % change



Forecast:

Source: Statistics Canada, RBC Economics Research cent low. And while this suggests the market has hit bottom, it doesn't necessarily point to a strong rebound ahead. We continue to expect activity will remain soft as buyers cope with poor affordability in some of the larger markets and amid tighter housing policies.

Uncertainty taking a toll on business sentiment

Canadian business confidence has weakened with the manufacturing sentiment index slipping into negative territory in April for the first time in more than three years. Global policy uncertainty, frictions with the US, and the Chinese government's banning of Canadian canola all played into the more sombre mood. Although the recent removal of tariffs on steel and aluminum by both the Canadian and US governments and renewed efforts to ratify the updated NAFTA sets up to restore confidence, the impact will be limited by the persistence of tensions between the US, China, Europe and Mexico, Canada's top trading partners.

These factors are weighing on the outlook for Canadian exports. Energy exports dropped in the first quarter, while non-energy exports were up only slightly compared to a year earlier. The U.S. industrial sector, a key customer for Canadian exports, has already shown some signs of softening and with the U.S.-China trade dispute heating up it is possible demand for Canadian exports will remain weak. We expect net trade will add to growth this year, but this is more a result of soft domestic demand growth limiting imports.

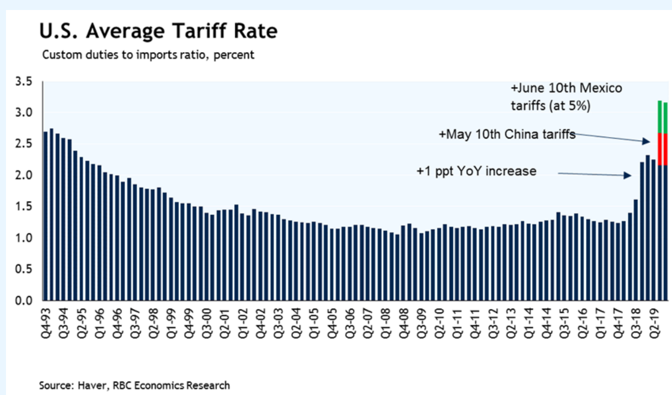
Bank of Canada – leaning against headwinds

The Bank of Canada pivoted toward a neutral policy stance as the domestic economy slumped and global environment became evermore fraught. With inflation staying close to the 2% target, the bank decided to take a step back leaving the policy rate unchanged at 1.75% and dialing down its rhetoric about the need to get the policy rate to neutral.

While the economy is showing signs of pulling out of its slump, this is not giving the all-clear signal for the Bank of Canada to resume raising interest rates. It will take some time for the economy to make up ground that was lost during the recent downturn. Adding in the cool winds blowing from other countries and the fact that inflation pressures remain contained, the most likely scenario is that the bank will maintain a modest amount of policy stimulus.

US tariffs creating risks for Canada

The growing list of US tariffs is starting to bite. And the threat of more to come raises the risk that tariffs will weigh even more on global growth in the months ahead. The 'average' US tariff rate increased about a percentage point last year. The Bank of Canada in October estimated those measures would subtract about 0.2% from US GDP by the end of 2020. In other words, a manageable drag, particularly given other sizable fiscal tailwinds from federal tax cuts and spending increases. The $200 billion worth of imports from China hit with a higher tariff rate as of May and the threat of an across-the-board 5% tariff hike on imports from Mexico will more than double the average tariff rate.



The tariffs on Mexico still might not actually get implemented, and tensions with China could ease around the G20 meetings at the end of this month. Further, a big enough sell-off in equity markets could also change President Trump's tone. But added uncertainty about the future trade backdrop will persist. The threat of new tariffs on Mexico in particular – at a time when there seemed to be a US-led push to get the new USMCA NAFTA-replacement passed – sends a clear message that no trade agreement is really protection from rising tensions with the current US administration. We think increased uncertainty alone will be enough to push US growth to a slightly below-trend rate over the second half of this year. Downside risks will increase if tariff hikes don't ease before that.

Canada's own tensions with the US have eased with the removal of US steel and aluminum tariffs along with Canadian retaliatory measures. But the US industrial sector has borne the brunt of US trade actions to-date, and activity in the sector has already started to look wobbly. US manufacturing output declined in three of the first four months of 2019. Close integration of cross-border production chains means that anything that hurts the US industrial sector will have spillovers to Canada. Concerns about a slowing in global growth could also spill over to Canada's resource-producing regions via lower commodity prices. While the impact of these tariff wars doesn't currently look very large for Canada, the risk remains that they will pack a bigger punch over the quarters ahead.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals					Forecast							Actual		Forecast	
	2018				2019				2020				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
Household Consumption	1.3	1.9	1.3	1.0	3.5	1.4	1.5	1.5	1.4	1.4	1.4	1.4	3.6	2.1	1.9	1.4
Durables	-0.1	-1.8	-0.6	-1.9	4.9	1.4	1.0	1.0	0.5	0.5	0.5	0.5	7.1	1.0	1.1	0.7
Semi-Durables	0.6	1.8	3.1	-0.1	4.9	1.4	1.5	1.5	1.4	1.4	1.4	1.4	3.1	1.4	2.2	1.4
Non-durables	-0.1	1.6	2.0	0.5	2.7	1.4	1.5	1.5	1.4	1.3	1.3	1.3	2.7	1.6	1.6	1.4
Services	2.3	2.9	1.3	2.0	3.3	1.4	1.7	1.6	1.6	1.6	1.6	1.6	3.3	2.6	2.1	1.6
NPISH consumption	2.0	4.3	0.6	3.9	5.5	1.4	1.5	1.5	1.4	1.4	1.4	1.4	-0.6	1.7	3.0	1.4
Government expenditures	2.0	4.3	2.7	2.1	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.9	2.3	2.0
Government fixed investment	-0.5	-6.6	1.7	-13.1	6.4	2.0	2.0	2.0	1.6	1.4	1.1	0.9	6.3	3.6	-0.6	1.6
Residential investment	-8.4	-0.3	-3.2	-10.4	-6.1	4.0	-0.9	1.8	0.3	1.5	2.4	2.8	2.4	-1.5	-3.3	1.3
Non-residential investment	7.3	-0.9	-11.8	-9.5	13.5	-2.1	8.3	6.0	4.0	3.0	3.0	3.0	2.5	1.9	0.6	4.1
Non-residential structures	-1.3	-4.1	-8.6	-14.2	-2.6	4.0	10.0	6.0	4.0	3.0	3.0	3.0	1.1	-0.9	-2.6	4.7
Machinery & equipment	22.0	4.0	-16.3	-2.3	39.5	-10.0	6.0	6.0	4.0	3.0	3.0	3.0	4.7	6.1	5.1	3.3
Intellectual property	18.4	0.5	-3.1	12.7	-4.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.2	4.4	1.5	2.0
Final domestic demand	1.4	1.6	-0.1	-1.0	3.4	1.4	2.1	2.1	1.7	1.7	1.7	1.7	3.1	2.0	1.4	1.8
Exports	3.6	12.0	0.8	0.3	-4.1	3.0	2.5	2.2	2.2	2.2	2.0	2.0	1.1	3.2	0.8	2.2
Imports	4.2	6.2	-8.9	-0.7	7.7	-2.0	0.5	1.7	1.8	1.5	2.0	2.3	4.2	2.9	0.7	1.4
Inventories (change in $b)	16.6	13.3	7.2	13.9	17.7	13.0	10.0	7.5	7.5	6.5	6.5	6.5	17.6	12.7	12.1	6.8
Real gross domestic product	**1.5**	**2.5**	**2.1**	**0.3**	**0.4**	**2.2**	**2.2**	**1.8**	**1.8**	**1.7**	**1.7**	**1.6**	**3.0**	**1.9**	**1.4**	**1.8**

Other indicators

Year-over-year % change unless otherwise indicated

	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2017	2018	2019	2020
Business and labour																
Productivity	-0.3	0.1	0.7	0.1	-0.3	-0.9	-0.5	0.1	1.1	1.4	1.1	1.0	1.7	0.1	-0.4	1.2
Pre-tax corporate profits	-1.4	2.2	6.9	-5.7	-4.4	-4.5	-6.1	6.8	6.1	4.1	3.0	1.2	20.1	0.5	-2.2	3.6
Unemployment rate (%)*	5.8	5.9	5.9	5.6	5.8	5.8	5.9	5.9	5.9	5.9	6.0	6.0	6.3	5.8	5.9	6.0
Inflation																
Headline CPI	2.1	2.3	2.7	2.0	1.6	2.1	1.8	2.2	2.3	2.0	2.1	1.9	1.6	2.3	1.9	2.1
CPI ex. food and energy	1.8	1.8	2.1	2.0	1.9	2.1	1.9	2.0	1.9	2.1	2.1	2.0	1.6	1.9	2.0	2.0
External trade																
Current account balance ($b)*	-65.5	-61.5	-40.6	-66.5	-69.4	-57.7	-50.1	-46.6	-44.9	-41.0	-38.3	-39.6	-60.1	-58.5	-55.9	-41.0
% of GDP*	-3.0	-2.8	-1.8	-3.0	-3.1	-2.5	-2.2	-2.0	-1.9	-1.7	-1.6	-1.6	-2.8	-2.6	-2.5	-1.8
Housing starts (000s)*	224	218	197	217	188	199	194	193	191	191	192	192	220	213	193	192
Motor vehicle sales (mill., saar)*	2.10	2.07	2.02	1.96	2.02	1.94	1.94	1.93	1.93	1.92	1.92	1.92	2.08	2.04	1.96	1.92

*Period average

Economic forecast detail — United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals					Forecast							Actual		Forecast	
	2018				2019				2020				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
Consumer spending	0.5	3.8	3.5	2.5	1.3	2.5	2.1	1.8	1.9	1.9	1.7	1.7	2.5	2.6	2.3	2.3
Durables	-2.0	8.6	3.7	3.6	-4.6	2.3	2.0	1.6	1.6	1.5	1.2	1.4	6.8	5.5	1.2	1.2
Non-durables	0.1	4.0	4.6	2.1	2.0	3.5	2.0	1.8	1.8	1.8	1.5	1.5	2.1	2.8	2.7	2.7
Services	1.0	3.0	3.2	2.4	2.1	2.3	2.1	1.8	2.0	2.0	1.9	1.8	2.0	2.1	2.4	2.4
Government spending	1.5	2.5	2.6	-0.4	2.5	3.7	2.4	2.0	1.0	0.5	0.5	0.5	-0.1	1.5	2.1	2.1
Residential investment	-3.4	-1.4	-3.5	-4.7	-3.5	4.5	-1.0	0.9	0.9	1.2	2.0	1.4	3.3	-0.3	-1.6	-1.6
Non-residential investment	11.5	8.7	2.5	5.4	2.3	1.2	0.9	1.2	2.1	2.5	2.3	2.0	5.3	6.9	2.8	2.8
Non-residential structures	13.9	14.5	-3.4	-3.9	1.7	-4.0	0.0	1.0	2.5	2.5	2.3	2.0	4.6	5.0	-0.6	-0.6
Equipment & software	8.5	4.6	3.4	6.6	-1.0	2.0	0.5	0.5	1.5	2.5	2.3	2.0	6.1	7.4	2.1	2.1
Intellectual property	14.1	10.5	5.6	10.7	7.2	3.6	2.0	2.2	2.5	2.5	2.3	2.0	4.6	7.5	6.2	6.2
Final domestic demand	1.9	4.0	2.9	2.1	1.5	2.6	1.9	1.7	1.7	1.7	1.6	1.5	2.5	2.9	2.2	2.2
Exports	3.6	9.3	-4.9	1.8	4.8	-4.0	2.2	2.2	2.8	2.5	2.5	2.5	3.0	4.0	1.1	2.1
Imports	3.0	-0.6	9.3	2.0	-2.5	-3.2	3.0	1.8	1.5	1.5	1.0	2.0	4.6	4.5	0.7	1.4
Inventories (change in $b)	30.3	-36.8	89.8	96.8	125.5	75.0	63.0	60.0	53.0	51.0	45.0	41.0	22.5	45.0	80.9	47.5
Real gross domestic product	**2.2**	**4.2**	**3.4**	**2.2**	**3.1**	**1.6**	**1.5**	**1.7**	**1.8**	**1.8**	**1.7**	**1.5**	**2.2**	**2.9**	**2.4**	**1.7**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
Business and labour																
Productivity	1.1	1.5	1.2	1.8	2.4	1.6	1.4	1.3	0.5	0.5	0.8	0.8	1.1	1.4	1.7	0.7
Pre-tax corporate profits	5.9	7.3	10.4	7.4	3.1	0.1	-3.1	-2.5	0.7	1.2	1.3	1.2	3.2	7.8	-0.6	1.1
Unemployment rate (%)*	4.1	3.9	3.8	3.8	3.9	3.7	3.7	3.6	3.6	3.6	3.6	3.7	4.4	3.9	3.7	3.6
Inflation																
Headline CPI	2.2	2.7	2.6	2.2	1.6	1.8	1.8	2.0	2.2	2.1	2.2	2.1	2.1	2.4	1.8	2.1
CPI ex. food and energy	1.9	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	1.8	2.1	2.1	2.2
External trade																
Current account balance ($b)*	-496	-414	-506	-538	-494	-496	-510	-514	-509	-509	-505	-504	-4	-5	-503	-507
% of GDP*	-2.5	-2.0	-2.5	-2.6	-2.3	-2.3	-2.4	-2.4	-2.3	-2.3	-2.3	-2.3	0.0	0.0	-2.4	-2.3
Housing starts (000s)*	1321	1260	1233	1185	1203	1250	1295	1295	1300	1300	1310	1310	1209	1250	1261	1305
Motor vehicle sales (millions, saar)*	17.1	17.2	16.9	17.5	16.8	17.1	17.2	17.2	17.2	17.2	17.1	17.1	17.1	17.2	17.1	17.2

*Period average

Financial market forecast detail

Interest rates—North America

%, end of period

	Actual					Forecast							Actual		Forecast	
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019	2020
Canada																
Overnight	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.00	1.75	1.75	1.75
Three-month	1.10	1.26	1.59	1.64	1.67	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.06	1.64	1.65	1.65
Two-year	1.78	1.91	2.21	1.86	1.55	1.50	1.60	1.70	1.75	1.85	1.85	1.90	1.69	1.86	1.70	1.90
Five-year	1.97	2.07	2.34	1.89	1.52	1.50	1.65	1.80	1.85	1.95	1.95	2.00	1.87	1.89	1.80	2.00
10-year	2.09	2.17	2.43	1.97	1.62	1.65	1.80	1.90	2.00	2.10	2.15	2.20	2.04	1.97	1.90	2.20
30-year	2.23	2.20	2.42	2.18	1.89	1.90	2.05	2.15	2.25	2.30	2.35	2.35	2.27	2.18	2.15	2.35
Yield curve (10s-2s)	31	26	22	11	7	15	20	20	25	25	30	30	35	11	20	30
United States																
Fed funds*	1.75	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	1.50	2.50	2.50	2.50
Three-month	1.73	1.93	2.19	2.45	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	1.39	2.45	2.40	2.40
Two-year	2.27	2.52	2.81	2.48	2.27	2.00	2.20	2.35	2.45	2.55	2.55	2.55	1.89	2.48	2.35	2.55
Five-year	2.56	2.73	2.94	2.51	2.23	2.05	2.25	2.45	2.55	2.65	2.75	2.75	2.20	2.51	2.45	2.75
10-year	2.74	2.85	3.05	2.69	2.41	2.25	2.45	2.60	2.70	2.80	2.85	2.85	2.40	2.69	2.60	2.85
30-year	2.97	2.98	3.19	3.02	2.81	2.75	2.90	3.00	3.10	3.20	3.20	3.20	2.74	3.02	3.00	3.20
Yield curve (10s-2s)	47	33	24	21	14	25	25	25	25	25	30	30	51	21	25	30
Yield spreads																
Three-month T-bills	-0.63	-0.67	-0.60	-0.81	-0.73	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.33	-0.81	-0.75	-0.75
Two-year	-0.49	-0.61	-0.60	-0.62	-0.72	-0.50	-0.60	-0.65	-0.70	-0.70	-0.70	-0.65	-0.20	-0.62	-0.65	-0.65
Five-year	-0.59	-0.66	-0.60	-0.62	-0.71	-0.55	-0.60	-0.65	-0.70	-0.70	-0.80	-0.75	-0.33	-0.62	-0.65	-0.75
10-year	-0.65	-0.68	-0.62	-0.72	-0.79	-0.60	-0.65	-0.70	-0.70	-0.70	-0.70	-0.65	-0.36	-0.72	-0.70	-0.65
30-year	-0.74	-0.78	-0.77	-0.84	-0.92	-0.85	-0.85	-0.85	-0.85	-0.90	-0.85	-0.85	-0.47	-0.84	-0.85	-0.85

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

Interest rates—International

%, end of period

	Actual					Forecast							Actual		Forecast	
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019	2020
United Kingdom																
Repo	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	0.50	0.75	0.75	1.00
Two-year	0.82	0.72	0.82	0.75	0.63	0.60	0.65	0.75	0.85	1.00	1.00	1.00	0.45	0.75	0.75	1.00
10-year	1.34	1.28	1.57	1.27	0.99	0.95	1.05	1.10	1.15	1.25	1.30	1.30	1.19	1.27	1.10	1.30
Euro Area																
Deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20	-0.10	-0.40	-0.40	-0.40	-0.10
Two-year	-0.59	-0.69	-0.55	-0.59	-0.60	-0.65	-0.60	-0.55	-0.50	-0.40	-0.30	-0.20	-0.63	-0.59	-0.55	-0.20
10-year	0.50	0.31	0.47	0.25	-0.07	-0.10	0.00	0.15	0.20	0.25	0.30	0.30	0.43	0.25	0.15	0.30
Australia																
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.25	1.00	1.00	1.00	1.00	1.00	1.00	1.50	1.50	1.00	1.00
Two-year swap	2.00	2.00	2.02	1.89	1.47	1.20	1.10	1.10	1.15	1.25	1.35	1.50	2.00	1.89	1.10	1.50
10-year swap	2.60	2.63	2.67	2.32	1.78	1.50	1.65	1.75	1.85	2.00	2.10	2.15	2.63	2.32	1.75	2.15
New Zealand																
Cash target rate	1.75	1.75	1.75	1.75	1.75	1.50	1.25	1.25	1.25	1.25	1.25	1.25	1.75	1.75	1.25	1.25
Two-year	2.21	2.14	2.02	1.96	1.62	1.50	1.40	1.40	1.45	1.55	1.65	1.80	2.20	1.96	1.40	1.80
10-year	3.06	3.02	2.89	2.64	2.15	2.00	2.00	2.10	2.20	2.35	2.45	2.50	3.13	2.64	2.10	2.50

Growth outlook

% change, quarter-over-quarter in real GDP

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019F	2020F
Canada*	1.5	2.5	2.1	0.3	0.4	2.2	2.2	1.8	1.8	1.7	1.7	1.6	3.0	1.9	1.4	1.8
United States*	2.2	4.2	3.4	2.2	3.1	1.6	1.5	1.7	1.8	1.8	1.7	1.5	2.2	2.9	2.4	1.7
United Kingdom	0.1	0.4	0.7	0.2	0.5	0.3	0.3	0.4	0.4	0.4	0.4	0.3	1.8	1.4	1.6	1.5
Euro area	0.4	0.4	0.1	0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.3	2.5	1.8	1.2	1.5
Australia	1.0	0.9	0.3	0.2	0.4	0.6	0.7	0.7	0.6	0.5	0.6	0.7	2.4	2.8	2.1	2.5

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019F	2020F
Canada*	2.1	2.3	2.7	2.0	1.6	2.1	1.8	2.2	2.3	2.0	2.1	1.9	1.6	2.3	1.9	2.1
United States*	2.2	2.7	2.6	2.2	1.6	1.8	1.8	2.0	2.2	2.1	2.2	2.1	2.1	2.4	1.8	2.1
United Kingdom	2.7	2.4	2.5	2.3	1.8	2.2	1.9	1.8	2.2	2.1	2.1	2.1	2.7	2.5	1.9	2.1
Euro area	1.3	1.7	2.1	1.9	1.4	1.4	0.8	1.1	1.2	1.4	1.4	1.4	1.5	1.8	1.2	1.3
Australia	1.9	2.1	1.9	1.8	1.3	1.5	1.5	1.4	1.9	1.9	2.0	2.1	1.9	1.9	1.4	2.0

Exchange rates

End of period

	Actual					Forecast							Actual		Forecast	
	18Q1	**18Q2**	**18Q3**	**18Q4**	**19Q1**	**19Q2**	**19Q3**	**19Q4**	**20Q1**	**20Q2**	**20Q3**	**20Q4**	**2017**	**2018**	**2019**	**2020**
AUD/USD	0.77	0.74	0.72	0.70	0.71	0.69	0.68	0.67	0.67	0.67	0.66	0.66	0.78	0.70	0.67	0.66
USD/CAD	1.29	1.31	1.29	1.36	1.33	1.34	1.34	1.35	1.35	1.36	1.36	1.37	1.26	1.36	1.35	1.37
EUR/USD	1.23	1.17	1.16	1.15	1.12	1.10	1.12	1.14	1.15	1.17	1.18	1.18	1.20	1.15	1.14	1.18
USD/JPY	106.3	110.8	113.7	109.7	110.9	113.0	117.0	120.0	119.0	118.0	117.0	116.0	112.7	109.7	120.0	116.0
USD/CNY	6.28	6.62	6.87	6.88	6.71	7.00	7.25	7.40	7.50	7.50	7.60	7.70	6.51	6.88	7.40	7.70
USD/CHF	0.95	0.99	0.98	0.98	1.00	1.02	1.01	0.99	0.99	0.98	0.98	0.98	0.97	0.98	0.99	0.98
GBP/USD	1.40	1.32	1.30	1.28	1.30	1.26	1.27	1.30	1.31	1.33	1.34	1.34	1.35	1.28	1.30	1.34

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