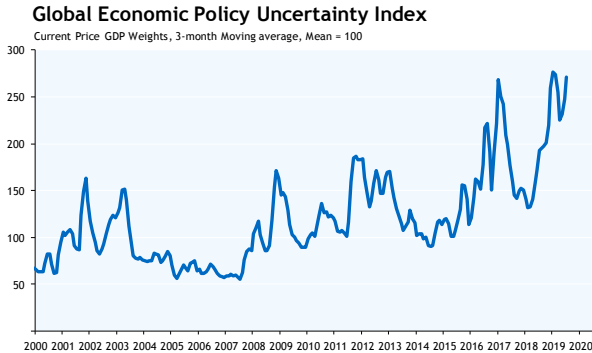
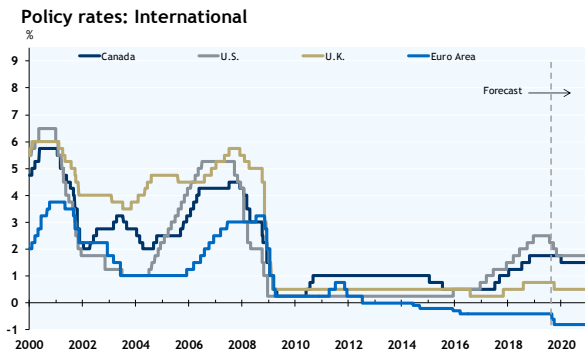


## TRADE WAR TAKING WIND OUT OF GLOBAL ECONOMY'S SAIL

September 2019



Source: PolicyUncertainty.com, RBC Economics Research



Source: FRB, BoC, ECB, BoE, RBA, RBNZ, RBC Economics Research



Source: Bureau of Economic Analysis, RBC Economic Research

Against a hostile trade backdrop, the global economy is losing momentum. Forecasts for world GDP growth this year have fallen to 3.2% from the 3.9% economists expected a year ago. Elevated uncertainty about Brexit and US-China trade relations have combined with stresses in some emerging economies to weigh on the outlook. With recession predictors— inverted yield curves and slumping manufacturing activity—flashing red, the business mood has begun to sour. But consumer optimism is holding up, reflecting the strong job market. The persistence of healthy labour-market conditions, as well as efforts by several central banks to shore up an expansion that's already passed the 10-year mark, will provide support to the global economy. And amid the grey skies, things aren't looking so bad in Canada, where wage growth and lower interest rates are giving consumers some cover.

### Central banks lean in amid policy uncertainty

The US Federal Reserve cut rates this summer for the first time since the great recession, and the ECB committed to a range of policy steps to stoke growth and get inflation to levels closer to its stated target. The two major central banks were among at least a dozen that eased policy rates to combat the negative spinoff from rising trade tensions and political turmoil. The Bank of Canada was an outlier, staying on the sidelines as Canada emerged from a six-month slump in economic activity.

Trade tensions between the US and China have ebbed and flowed, but on balance have escalated. And there is still no firm line of sight on how the UK will leave the European Union. Given these tensions, it will once again fall to extraordinarily stimulative monetary policy to sustain global growth as few governments have committed to providing fiscal support. We see the Bank of Canada eventually getting in on the action, though not in the very near term. It maintained its policy rate in September and retained a relatively neutral tone although concerns about global trade uncertainty remain front and centre and are keeping the door open to an eventual rate cut.

### US economy starting to feel the pain

The US economy posted strong gains in the first half of 2019 but cracks are showing. Business sentiment has deteriorated amid unrelenting uncertainty about trade. Business investment fell in the second quarter for the first time in three years and exports sagged. So far, the weakness has been concentrated in the manufacturing sector.

Consumer spending conversely surged in the second quarter, supported by the strong labour market. The decline in interest rates over the summer tees up for US consumers to be the key driver of activity in the second half of the year. Companies continue to hire and the unemployment rate recently hit a 50-year low. Labour-market tightness is finally translating into a pickup in wages.

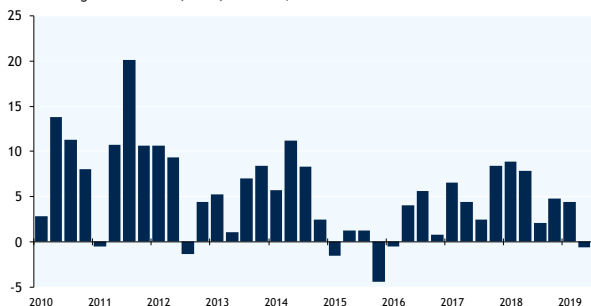
While fundamentals are still positive for the consumer, the government's protectionist policies pose risks to the outlook. Another tranche of tariffs on Chinese imports coming into effect in mid-December will hit US consumers



more directly. Our forecast assumes a slower pace of consumer spending activity in the second half of the year with a risk of a further deterioration should policy uncertainty persist.

**US Nonresidential Investment**

% Change - Annual Rate, SAAR, Chn.2012S



Source: Bureau of Economic Analysis, RBC Economics Research

**Inflation miss gives Fed room to move**

Headline inflation continues to hold below the Fed's 2% target and the Fed's preferred core measure has been running closer to 1 ½% in recent months. Well-anchored inflation expectations, the gradual pace of wage acceleration, and the strong trade-weighted dollar are limiting upside risks to the inflation outlook. The mid-December round of tariffs will raise prices of popular products like telephones, video games, and toys, but not likely by enough to have a significant impact on broader consumer price indicators.

**Fed policy pivot**

After raising the policy rate 100bps in 2018, the Fed changed course in July and cut the funds target by 25bps to mitigate downside risks resulting from trade tensions. While financial markets interpreted the Fed's move as signaling the beginning of an easing cycle, Chair Powell leaned against expectations that a full-fledged easing cycle had begun. In keeping with Powell's assertion that the July cut was part of a mid-cycle adjustment, we expect the Fed will follow up with two more cuts this year. However, the risk of a more prolonged easing cycle can't be discounted if trade tensions gather momentum.

**Real GDP growth: Canada**

Quarter-over-quarter annualized % change



Source: Statistics Canada, RBC Economic Research

**Canada pulls out of its funk, back to trend growth**

Canada's economy rebounded in the second quarter, emerging from a six-month slump as oil-production restraints eased and the housing market got on the road to recovery. Having reset, the economy is likely to expand at a more sustainable 1.6% pace in the second half of the year.

We look for the economy to maintain this pace in 2020 on the strength of the consumer. Canada's unemployment rate remains at four-decade lows and companies are having difficulty finding skilled workers. As a consequence, wage growth, a missing ingredient among earlier indicators of labour-market strength, jumped to average 4% in the three months ending August.

The recent drop in interest rates has reduced pressure on household balance sheets. Debt-service costs, which were at a record high in early 2019, will moderate in line with the decline in interest rates. Market interest rates are down a half to three-quarters of a percent, meaning renewal rates are broadly the same as when the mortgages were negotiated five years ago. After a tough 18 months, the housing market is expected to stay on a modest upward trajectory with buyers having adjusted to the mortgage stress test and other market-cooling measures.

**Home resales in Canada**

Thousand units, seasonally adjusted and annualized



Source: CREA, RBC Economics Research

**Downside risks to exports and business investment mount**

Worries about tariffs, a global trade war and China's ban on Canadian agricultural products are weighing on Canadian business sentiment. Net trade activity will likely weaken in the second half of the year. Modest domestic demand growth is limiting imports, and export growth will be challenged by the decline in global activity and weaker demand from US manufacturers. The USMCA has yet to be ratified. Canada's direct exposure to China is relatively limited, as China accounts for about 5% of Canadian exports. But the impact is being felt more strongly in the agriculture and food-manufacturing sectors which are subject to China's banning some Canadian products.



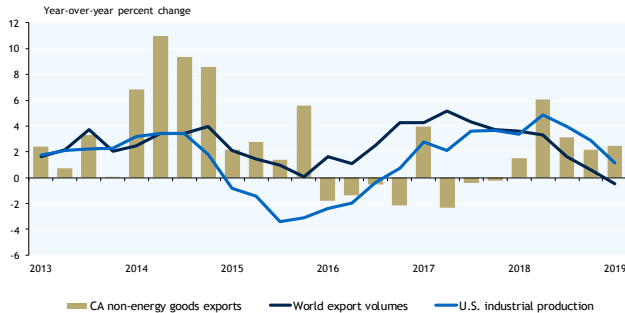
The mandated cuts to Canadian energy production are winding down. But with pipeline capacity remaining constrained due to construction delays, the government is keeping some production limits in place into 2020. Our forecast calls for a modest increase in investment activity in 2020 although the recovery is contingent on a calmer global backdrop.

Even in the absence of a clear directive from the Bank of Canada, markets are pricing in a bank rate cut in early 2020, not far off our forecast for a 25bp cut in Q1 2020. We don't believe the Bank will feel compelled to immediately follow other global central banks and cut rates, given Canada's recent pace of growth and encouraging signs from the housing market. That said, it may have to act more quickly if global trade tensions intensify further.

**Canada's dollar holding up**

Canada's currency has held up reasonably well given the uncertain backdrop and investors' rising risk aversion, which normally benefits the US dollar. The main driver of the Canadian dollar's performance is the narrowing of short-term interest rates differentials in Canada's favour. Even with the US in the eye of the trade storm, our view is that the market is anticipating too many rate cuts by the Fed. We look for this Fed easing cycle to be short and shallow relative to history which augurs for the US dollar to appreciate as these excess rate cuts are priced out.

**Canadian export drivers**



Source: Netherlands Bureau for Economic Policy, U.S. Federal Reserve, RBC Economics Research

**Yield curve inversion**

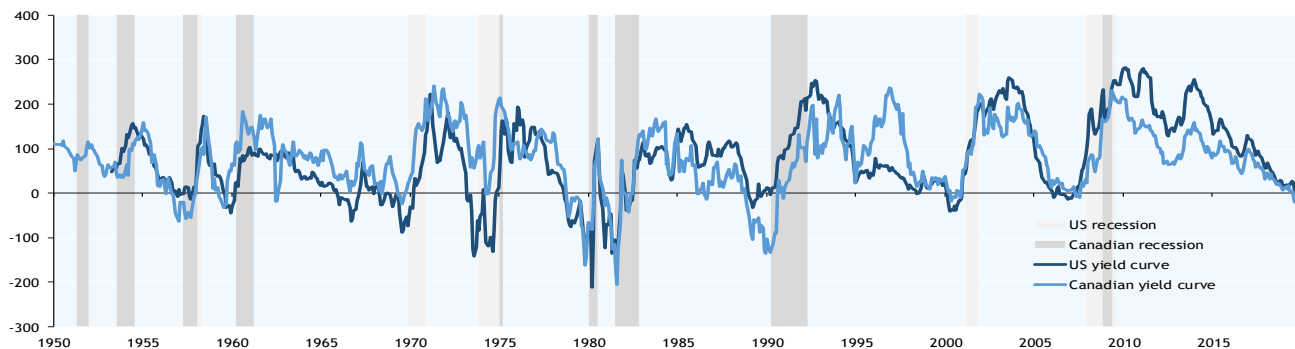
Both the Canadian and US yield curves inverted in recent months, generating plenty of recession talk. What exactly does it mean when the yield curve—in this context, the spread between longer-term and shorter-term interest rates—turns negative. Markets are essentially signaling that growth and inflation are expected to slow in the years ahead, and that central banks are likely to lower their policy rates in response. This indicator has a pretty good track record anticipating economic downturns. In the US, the yield curve has inverted prior to every recession in the last sixty years. Lead times can vary significantly, however. A recession has followed inversion by as little as half a year, and by as much as four years. Averaging the last five recessions, yield curve inversion has given about 16 months' lead time before a downturn.

In Canada, yield curve inversion has a somewhat spottier track record. We've had a few false positives when the curve inverted but a Canadian recession didn't follow. That reflects Canada's exposure to global (and particularly US) interest rate moves—yield curve inversion in other countries can make its way into Canada, even if there is less concern about the domestic economy. Indeed, half of the false positives in Canada have been associated with recessions in the US but with no downturn north of the border. When yield curve inversion has successfully predicted a Canadian slowdown, it also provides just over one year of lead time, on average.

So should we anticipate a recession in the second half of next year? That's not in our forecast, though certainly the risk of a downturn has increased as trade tensions escalated and global growth slowed. But for now there is little evidence that the slowdown in manufacturing activity in many countries is spilling over into other sectors. Labour markets in both Canada and the US remain healthy, though that's typical of the very late stages of an economic cycle. All told, we remain on recession watch but don't see enough evidence to incorporate a downturn into our forecasts.

**US and Canadian yield curves and recessions**

spread between 10-year and 2-year yield, basis points



Source: Federal Reserve Board, Bank of Canada, NBER, CD Howe Institute, RBC Economics



## 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		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	2.9	0.5	1.7	2.0	1.6	1.6	1.6	1.6	3.6	2.1	1.6	1.6
Durables	-0.1	-1.8	-0.6	-1.9	5.3	-1.3	2.0	2.0	1.0	1.0	1.0	1.0	7.1	1.0	0.9	1.2
Semi-Durables	0.6	1.8	3.1	-0.1	3.4	1.4	1.5	2.0	2.0	2.0	2.0	2.0	3.1	1.4	1.9	1.9
Non-durables	-0.1	1.6	2.0	0.5	3.2	-0.5	1.5	2.0	1.6	1.6	1.6	1.6	2.7	1.6	1.4	1.5
Services	2.3	2.9	1.3	2.0	2.2	1.3	1.8	2.0	1.6	1.6	1.6	1.6	3.3	2.6	1.9	1.7
NPISH consumption	2.0	4.3	0.6	3.9	1.3	0.5	1.7	2.0	1.6	1.6	1.6	1.6	-0.6	1.7	1.8	1.6
Government expenditures	2.0	4.3	2.7	2.1	1.3	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.9	2.2	2.0
Government fixed investment	-0.5	-6.6	1.7	-13.1	10.3	-7.8	2.0	2.0	1.6	1.4	1.1	0.9	6.3	3.6	-1.6	1.0
Residential investment	-8.4	-0.3	-3.2	-10.4	-3.9	5.5	5.0	-1.5	-2.0	0.9	1.4	2.2	2.4	-1.5	-2.0	0.6
Non-residential investment	7.3	-0.9	-11.8	-9.5	14.4	-16.2	1.8	-0.2	-0.4	1.0	2.2	2.2	2.5	1.9	-3.2	-0.4
Non-residential structures	-1.3	-4.1	-8.6	-14.2	-3.0	-1.8	1.0	0.0	0.0	1.0	2.0	2.0	1.1	-0.9	-5.1	0.6
Machinery & equipment	22.0	4.0	-16.3	-2.3	42.9	-32.4	3.0	-0.5	-1.0	1.0	2.5	2.5	4.7	6.1	-0.4	-1.8
Intellectual property	18.4	0.5	-3.1	12.7	-5.1	2.3	2.0	2.0	1.5	1.0	1.0	1.0	1.2	4.4	1.4	1.5
Final domestic demand	1.4	1.6	-0.1	-1.0	3.2	-0.7	2.0	1.6	1.2	1.5	1.7	1.7	3.1	2.0	0.9	1.4
Exports	3.6	12.0	0.8	0.3	-3.3	13.4	1.0	1.2	1.6	1.7	1.5	1.5	1.1	3.2	2.6	2.1
Imports	4.2	6.2	-8.9	-0.7	8.7	-4.0	0.5	0.0	1.0	0.8	1.5	1.8	4.2	2.9	0.5	0.5
Inventories (change in \$b)	16.6	13.3	7.2	13.9	19.5	14.0	12.0	9.0	9.0	7.5	7.5	7.5	17.6	12.7	13.6	7.9
<b>Real gross domestic product</b>	<b>1.5</b>	<b>2.5</b>	<b>2.1</b>	<b>0.3</b>	<b>0.5</b>	<b>3.7</b>	<b>1.8</b>	<b>1.4</b>	<b>1.4</b>	<b>1.6</b>	<b>1.7</b>	<b>1.6</b>	<b>3.0</b>	<b>1.9</b>	<b>1.6</b>	<b>1.7</b>

### Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	-0.5	-0.3	0.3	-0.3	0.4	0.2	0.4	0.9	0.8	0.8	0.8	0.9	1.7	-0.2	0.5	0.8
Pre-tax corporate profits	-1.4	2.2	6.9	-5.7	-2.9	1.0	-4.1	9.1	6.6	0.6	3.1	2.1	20.1	0.5	0.6	3.0
Unemployment rate (%)*	5.8	5.9	5.9	5.6	5.8	5.5	5.7	5.7	5.8	5.8	5.9	5.9	6.3	5.8	5.7	5.9
Inflation																
Headline CPI	2.1	2.3	2.7	2.0	1.6	2.1	2.0	2.1	1.9	1.5	1.5	1.7	1.6	2.3	2.0	1.7
CPI ex. food and energy	1.8	1.8	2.1	2.0	1.9	2.3	2.3	2.4	2.2	2.1	1.9	1.9	1.6	1.9	2.2	2.0
External trade																
Current account balance (\$b)*	-65.5	-61.5	-40.6	-66.5	-66.5	-25.5	-27.3	-20.9	-18.4	-13.8	-10.6	-8.9	-60.1	-58.5	-35.1	-12.9
% of GDP*	-3.0	-2.8	-1.8	-3.0	-3.0	-1.1	-1.2	-0.9	-0.8	-0.6	-0.4	-0.4	-2.8	-2.6	-1.6	-0.6
Housing starts (000s)*	224	218	197	217	187	224	221	207	201	201	200	200	220	213	210	200
Motor vehicle sales (mill., saar)*	2.10	2.06	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	1.7	4.0	3.5	1.4	1.1	4.7	2.4	1.7	1.8	1.9	1.9	1.9	2.6	3.0	2.5	2.5
Durables	2.3	8.0	3.5	1.3	0.3	13.0	2.5	1.5	1.6	1.8	1.9	1.9	6.9	6.3	4.0	4.0
Non-durables	0.7	4.1	3.6	1.7	2.2	6.8	2.0	1.6	1.6	1.8	1.8	1.8	2.5	3.0	3.2	3.2
Services	1.9	3.4	3.4	1.4	1.0	2.8	2.5	1.8	1.9	2.0	2.0	2.0	2.0	2.5	2.1	2.1
Government spending	1.9	2.6	2.1	-0.4	2.9	4.5	2.4	2.0	1.5	1.5	1.5	1.5	0.7	1.7	2.3	2.3
Residential investment	-5.2	-3.7	-4.0	-4.6	-1.1	-2.9	7.0	-1.0	0.9	1.0	2.0	1.4	3.5	-1.5	-1.7	-1.7
Non-residential investment	8.8	7.9	2.1	4.8	4.4	-0.6	-0.1	0.9	0.0	-0.2	0.5	1.0	4.4	6.4	2.6	2.6
Non-residential structures	12.0	11.0	-2.1	-9.0	4.0	-9.4	0.0	0.0	-2.0	-2.0	0.0	2.0	4.7	4.1	-2.2	-2.2
Equipment & software	6.6	3.4	2.9	7.4	-0.1	0.7	-1.0	0.5	-0.5	-1.0	-0.5	2.0	4.7	6.8	1.9	1.9
Intellectual property	9.7	11.9	4.1	11.7	10.9	3.6	1.0	2.0	2.0	2.0	2.0	2.0	3.6	7.4	7.0	7.0
Final domestic demand	2.4	4.0	2.8	1.3	1.8	3.6	2.2	1.6	1.5	1.5	1.7	1.9	2.5	3.0	2.3	2.3
Exports	0.8	5.8	-6.2	1.5	4.2	-5.8	2.2	2.2	2.8	2.5	2.5	2.5	3.5	3.0	0.1	1.9
Imports	0.6	0.3	8.6	3.5	-1.5	0.1	2.0	1.8	1.5	1.5	1.0	2.0	4.7	4.4	1.7	1.5
Inventories (change in \$b)	40.5	-28.0	87.2	93.0	116.0	69.0	58.0	55.0	48.0	46.0	40.0	36.0	31.7	48.2	74.5	42.5
<b>Real gross domestic product</b>	<b>2.6</b>	<b>3.5</b>	<b>2.9</b>	<b>1.1</b>	<b>3.1</b>	<b>2.0</b>	<b>2.0</b>	<b>1.5</b>	<b>1.5</b>	<b>1.6</b>	<b>1.8</b>	<b>1.8</b>	<b>2.4</b>	<b>2.9</b>	<b>2.3</b>	<b>1.7</b>

### Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	1.3	1.8	1.2	1.1	1.7	1.8	1.8	1.9	1.1	0.5	0.6	0.8	1.3	1.3	1.8	0.8
Pre-tax corporate profits	2.9	2.4	4.2	4.2	-2.2	2.7	0.9	1.7	5.6	0.5	0.3	0.7	-0.3	3.4	0.8	1.7
Unemployment rate (%)*	4.1	3.9	3.8	3.8	3.9	3.6	3.7	3.7	3.8	3.8	3.8	3.8	4.4	3.9	3.7	3.8
Inflation																
Headline CPI	2.2	2.7	2.6	2.2	1.6	1.8	1.7	1.7	1.9	1.7	1.9	2.2	2.1	2.4	1.7	1.9
CPI ex. food and energy	1.9	2.2	2.2	2.2	2.1	2.1	2.2	2.1	2.1	2.2	2.1	2.2	1.8	2.1	2.1	2.2
External trade																
Current account balance (\$b)*	-456	-429	-503	-576	-522	-549	-545	-551	-548	-547	-544	-546	-440	-491	-542	-546
% of GDP*	-2.3	-2.1	-2.4	-2.8	-2.5	-2.6	-2.5	-2.5	-2.5	-2.5	-2.4	-2.4	-2.3	-2.4	-2.5	-2.5
Housing starts (000s)*	1321	1260	1233	1185	1213	1258	1230	1295	1300	1300	1310	1310	1209	1250	1249	1305
Motor vehicle sales (millions, saar)*	17.1	17.3	17.0	17.4	16.8	17.0	16.9	17.2	17.2	17.2	17.1	17.1	17.1	17.2	17.0	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
<b>Canada</b>																
Overnight	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.00	1.75	1.75	1.50
Three-month	1.10	1.26	1.59	1.64	1.67	1.66	1.65	1.60	1.40	1.40	1.40	1.40	1.06	1.64	1.60	1.40
Two-year	1.78	1.91	2.21	1.86	1.55	1.47	1.45	1.35	1.30	1.45	1.45	1.50	1.69	1.86	1.35	1.50
Five-year	1.97	2.07	2.34	1.89	1.52	1.39	1.40	1.35	1.40	1.50	1.55	1.60	1.87	1.89	1.35	1.60
10-year	2.09	2.17	2.43	1.97	1.62	1.47	1.45	1.35	1.45	1.55	1.60	1.70	2.04	1.97	1.35	1.70
30-year	2.23	2.20	2.42	2.18	1.89	1.69	1.70	1.60	1.70	1.80	1.90	1.95	2.27	2.18	1.60	1.95
Yield curve (10s-2s)	31	26	22	11	7	0	0	0	15	10	15	20	35	11	0	20
<b>United States</b>																
Fed funds*	1.75	2.00	2.25	2.50	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.50	2.50	1.75	1.75
Three-month	1.73	1.93	2.19	2.45	2.40	2.12	1.90	1.65	1.65	1.65	1.65	1.65	1.39	2.45	1.65	1.65
Two-year	2.27	2.52	2.81	2.48	2.27	1.75	1.50	1.50	1.60	1.65	1.70	1.70	1.89	2.48	1.50	1.70
Five-year	2.56	2.73	2.94	2.51	2.23	1.76	1.50	1.50	1.60	1.65	1.85	1.95	2.20	2.51	1.50	1.95
10-year	2.74	2.85	3.05	2.69	2.41	2.00	1.50	1.50	1.70	1.85	2.00	2.10	2.40	2.69	1.50	2.10
30-year	2.97	2.98	3.19	3.02	2.81	2.52	2.05	1.95	2.10	2.25	2.40	2.45	2.74	3.02	1.95	2.45
Yield curve (10s-2s)	47	33	24	21	14	25	0	0	10	20	30	40	51	21	0	40
<b>Yield spreads</b>																
Three-month T-bills	-0.63	-0.67	-0.60	-0.81	-0.73	-0.46	-0.25	-0.05	-0.25	-0.25	-0.25	-0.25	-0.33	-0.81	-0.05	-0.25
Two-year	-0.49	-0.61	-0.60	-0.62	-0.72	-0.28	-0.05	-0.15	-0.30	-0.20	-0.25	-0.20	-0.20	-0.62	-0.15	-0.20
Five-year	-0.59	-0.66	-0.60	-0.62	-0.71	-0.37	-0.10	-0.15	-0.20	-0.15	-0.30	-0.35	-0.33	-0.62	-0.15	-0.35
10-year	-0.65	-0.68	-0.62	-0.72	-0.79	-0.53	-0.05	-0.15	-0.25	-0.30	-0.40	-0.40	-0.36	-0.72	-0.15	-0.40
30-year	-0.74	-0.78	-0.77	-0.84	-0.92	-0.83	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.47	-0.84	-0.35	-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	
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019	2020
<b>United Kingdom</b>																
Repo	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.50	0.50
Two-year	0.82	0.72	0.82	0.75	0.63	0.62	0.60	0.55	0.60	0.60	0.60	0.60	0.45	0.75	0.55	0.60
10-year	1.34	1.28	1.57	1.27	0.99	0.84	0.75	0.85	0.90	1.00	1.10	1.10	1.19	1.27	0.85	1.10
<b>Euro Area</b>																
Deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.60	-0.80	-0.80	-0.80	-0.80	-0.80	-0.40	-0.40	-0.80	-0.80
Two-year	-0.59	-0.69	-0.55	-0.59	-0.60	-0.73	-0.80	-0.80	-0.80	-0.80	-0.75	-0.75	-0.63	-0.59	-0.80	-0.75
10-year	0.50	0.31	0.47	0.25	-0.07	-0.33	-0.40	-0.20	-0.10	-0.05	0.00	0.00	0.43	0.25	-0.20	0.00
<b>Australia</b>																
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.25	1.00	0.75	0.50	0.50	0.50	0.50	1.50	1.50	0.75	0.50
Two-year swap	2.00	2.00	2.02	1.89	1.47	0.98	0.90	0.75	0.70	0.70	0.70	0.80	2.00	1.89	0.75	0.80
10-year swap	2.60	2.63	2.67	2.32	1.78	1.32	0.90	0.80	0.95	1.10	1.30	1.40	2.63	2.32	0.80	1.40
<b>New Zealand</b>																
Cash target rate	1.75	1.75	1.75	1.75	1.75	1.50	1.00	0.75	0.50	0.50	0.50	0.50	1.75	1.75	0.75	0.50
Two-year	2.21	2.14	2.02	1.96	1.62	1.35	1.00	0.85	0.80	0.80	0.80	0.80	2.20	1.96	0.85	0.80
10-year	3.06	3.02	2.89	2.64	2.15	1.78	1.20	0.95	1.05	1.20	1.35	1.45	3.13	2.64	0.95	1.45



## Growth outlook

% change, quarter-over-quarter in real GDP

	<u>18Q1</u>	<u>18Q2</u>	<u>18Q3</u>	<u>18Q4</u>	<u>19Q1</u>	<u>19Q2</u>	<u>19Q3</u>	<u>19Q4</u>	<u>20Q1</u>	<u>20Q2</u>	<u>20Q3</u>	<u>20Q4</u>	<u>2017</u>	<u>2018</u>	<u>2019F</u>	<u>2020F</u>
Canada*	1.5	2.5	2.1	0.3	0.5	3.7	1.8	1.4	1.4	1.6	1.7	1.6	3.0	1.9	1.6	1.7
United States*	2.6	3.5	2.9	1.1	3.1	2.0	2.0	1.5	1.5	1.6	1.8	1.8	2.4	2.9	2.3	1.7
United Kingdom	0.1	0.4	0.7	0.2	0.5	-0.2	0.2	0.3	0.3	0.3	0.4	0.4	1.8	1.4	1.1	1.1
Euro area	0.3	0.4	0.2	0.3	0.4	0.2	0.2	0.3	0.3	0.4	0.4	0.3	2.7	1.9	1.1	1.3
Australia	1.0	0.7	0.3	0.1	0.5	0.5	0.7	0.7	0.6	0.5	0.8	0.7	2.4	2.7	1.8	2.5

\*Seasonally adjusted annualized rates

## Inflation outlook

% change, year-over-year

	<u>18Q1</u>	<u>18Q2</u>	<u>18Q3</u>	<u>18Q4</u>	<u>19Q1</u>	<u>19Q2</u>	<u>19Q3</u>	<u>19Q4</u>	<u>20Q1</u>	<u>20Q2</u>	<u>20Q3</u>	<u>20Q4</u>	<u>2017</u>	<u>2018</u>	<u>2019F</u>	<u>2020F</u>
Canada*	2.1	2.3	2.7	2.0	1.6	2.1	2.0	2.1	1.9	1.5	1.5	1.7	1.6	2.3	2.0	1.7
United States*	2.2	2.7	2.6	2.2	1.6	1.8	1.7	1.7	1.9	1.7	1.9	2.2	2.1	2.4	1.7	1.9
United Kingdom	2.7	2.4	2.5	2.3	1.8	2.0	1.7	1.7	1.9	1.7	1.8	1.8	2.7	2.5	1.8	1.8
Euro area	1.3	1.7	2.1	1.9	1.4	1.4	1.0	1.2	1.9	1.4	1.4	1.4	1.5	1.8	1.3	1.5
Australia	1.9	2.1	1.9	1.8	1.3	1.6	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	
	<u>18Q1</u>	<u>18Q2</u>	<u>18Q3</u>	<u>18Q4</u>	<u>19Q1</u>	<u>19Q2</u>	<u>19Q3</u>	<u>19Q4</u>	<u>20Q1</u>	<u>20Q2</u>	<u>20Q3</u>	<u>20Q4</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
AUD/USD	0.77	0.74	0.72	0.70	0.71	0.70	0.68	0.68	0.67	0.67	0.66	0.66	0.78	0.70	0.68	0.66
USD/CAD	1.29	1.31	1.29	1.36	1.33	1.31	1.30	1.30	1.30	1.31	1.32	1.33	1.26	1.36	1.30	1.33
EUR/USD	1.23	1.17	1.16	1.15	1.12	1.14	1.10	1.08	1.08	1.10	1.10	1.12	1.20	1.15	1.08	1.12
USD/JPY	106.3	110.8	113.7	109.7	110.9	107.9	108.0	110.0	112.0	111.0	110.0	109.0	112.7	109.7	110.0	109.0
USD/CHF	0.95	0.99	0.98	0.98	1.00	0.98	1.00	0.99	1.00	1.00	1.00	1.00	0.97	0.98	0.99	1.00
GBP/USD	1.40	1.32	1.30	1.28	1.30	1.27	1.22	1.19	1.19	1.18	1.18	1.20	1.35	1.28	1.19	1.20

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

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