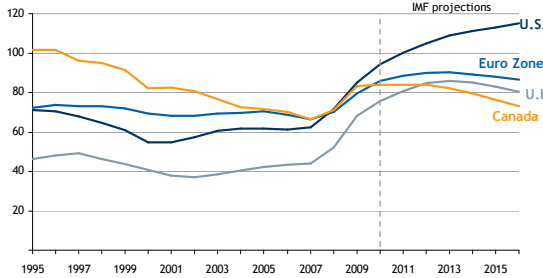


ECONOMIC AND FINANCIAL MARKET OUTLOOK

December 2011

Debt/GDP: Europe and North America

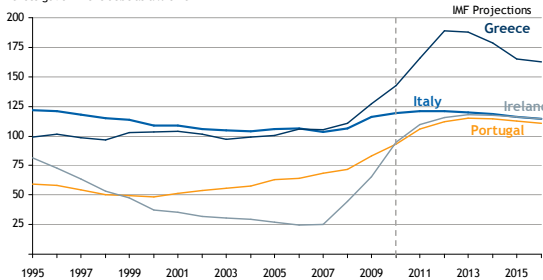
Government gross debt as a % of GDP



Source: International Monetary Fund, RBC Capital Markets, RBC Economics Research

Debt/GDP: Euro Area

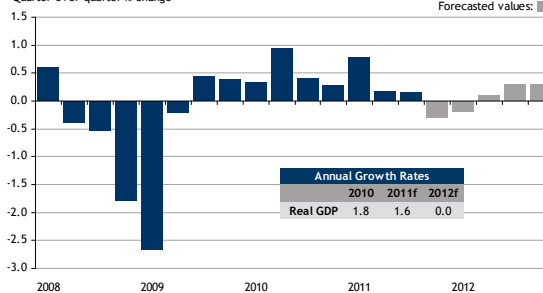
Gross government debt as a % of GDP



Source: International Monetary Fund, RBC Capital Markets, RBC Economics Research

Real GDP: Eurozone

Quarter-over-quarter % change



Source: Eurostat, RBC Economics Research

Bumpy ride continues for global economy

- Scope of Europe's sovereign crisis widens contributing to financial market stress around the globe and expected to push euro-zone into recession.
- US and Canadian economies rebound as temporary downward factors reverse.
- Central banks are of one mind: keep interest rates low.
- Fiscal stress is also present in the US and UK.
- Canada's fiscal credibility remains high.
- Inflation rates will fall given economic slack and a levelling out of commodity prices.

Global economy - taking it on the chin

The global economy picked itself up, only to be knocked down again in recent months. The ongoing European sovereign-debt saga is hurting the growth outlook for the region and weighing on the exports of the European Union's key trading partners. For example, China's exports to the European Union were 10% lower in October than the second quarter of 2011's average level. These direct effects on the global outlook are being augmented by the indirect hit coming from volatile financial markets and mounting uncertainty. Global stocks are off 15% from May's recent peak, and financial conditions have deteriorated. The risk that businesses and households refrain from spending until there is clarity on how the European situation will play out is heightening the risk that some countries will slip back into recession.

Debt levels remain high...

Looking at the International Monetary Fund's (IMF) forecasts for the gross debt-to-GDP ratio for the entire euro area economies shows the ratio peaking at 90% in 2013, well above the Maastricht Treaty's 60% limit but below the US ratio, which peaks at 115% in 2016. Unfortunately, the top-line ratio masks some very ugly numbers for individual countries with Italy's ratio peaking at 121% in 2012, Portugal at 115% in 2013, Ireland at 118% in 2013, and Greece at 189% in 2012. These forecasts do not incorporate the fiscal austerity packages still under construction; however, they elucidate investors' concerns about the ability of these countries to repay their debt. The worries are evident in spreads relative to German bunds, which have risen to the record highs. Funding markets are also being affected as European financial institutions look warily at their counterparty's exposure to the afflicted sovereigns' debt. The joint efforts of global central banks to support liquidity and reduce the cost of borrowing resulted in funding spreads remaining below their 2008 peak; however, with the value of sovereign-debt holdings declining, banks' balance sheets are being negatively affected and in turn this is reducing the amount of loans they are willing to extend.

...compounded by a weak growth outlook

Similar to the amalgamated debt-to-GDP ratio, economic growth in the euro zone is forecasted to average 1.6% in 2011 largely reflecting a very strong start to the year in the core countries. As the debt crisis intensified, the pan-Europe growth rate slowed to a below-trend 0.2% in each of the second and third quarters. Gains in Germany and France served to offset persistent weakness in Greece and Portugal; however, October data showed a slowing pace of

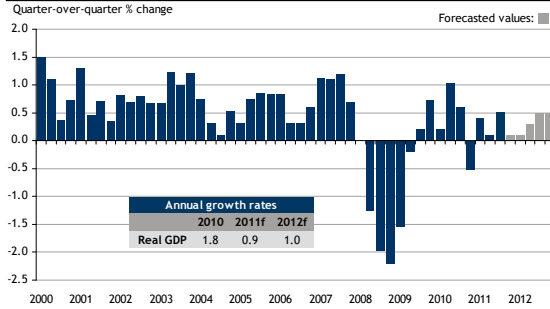
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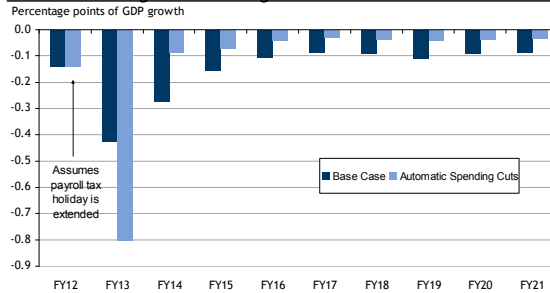
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Real GDP: United Kingdom



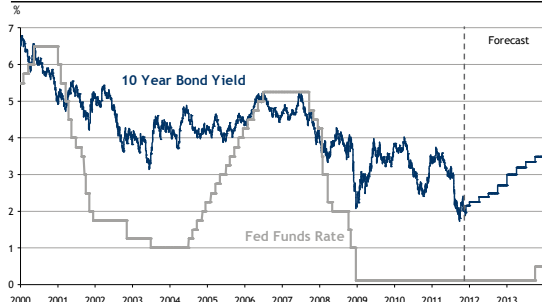
Source: Office for National Statistics, RBC Economics Research

Static Fiscal Drag from the Budget Control Act of 2011



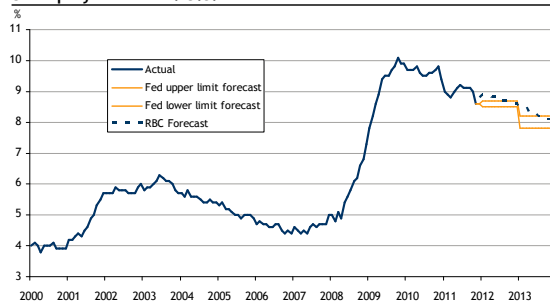
Source: Macroeconomic Advisers, Congressional Budget Office, RBC Economics Research

Interest rates: U.S.



Source: Federal Reserve, RBC Economics Research

Unemployment rate: U.S.



Source: Bureau of Labor Statistics, Federal Reserve, RBC Economics Research

activity in the core European countries consistent with Germany posting its first negative quarter since the global recession. Our base case forecast looks for the euro area to slip into recession in the fourth quarter of 2011 followed by a lengthy subdued recovery. Looking ahead to 2013, the euro area is likely to experience stronger growth than in 2012, but it will still be relatively lack-lustre. We assume that there will be progress on resolving the sovereign-debt issues although structural challenges will remain, meaning that euro area growth will be positive but weak, inflation subdued, and ECB monetary policy will remain exceptionally accommodative.

UK economy - double whammy

The UK economy is facing the double-whammy of fiscal tightening and falling export demand. With close to half of the UK exports going to the euro zone, the prospect of little or falling demand from the European Union countries will put a serious dent into the UK's economic momentum. The announced austerity measures are estimated to trim about 1.5 percentage points from the 2012 and 2013 growth rates. While fiscal policy will weigh on activity, monetary policy continues to be exceedingly supportive for growth with the Bank of England's recent announcement of an additional £75 billion in bond purchases aimed at keeping rates low.

Baseline assumptions

Both the euro zone and UK forecasts are lower than what we published in September. In Canada and the US, we trimmed our growth forecasts very modestly. These forecasts are based on the following assumptions: the euro area crisis will peak in early 2012, and both the European Central Bank and Bank of England will ease monetary policy still further. In the US, the Budget Control Act requirement of automatic sequestration to save \$1.2 trillion spread equally over 2013–2021 came into effect when the committee failed to reach an agreement; however, our working assumption is that an agreement will be reached before the implementation date of January 2013 that reduces the degree of downward pressure on the economy. Before the end of 2011, we assume that the extension of the payroll tax holiday presented in the American Jobs Act will be passed.

US economy looks better; fiscal outlook looks worse

The US economic data switched from consistently disappointing expectations to beating market forecasts. To be sure, forecasters clearly ratcheted down their expectations for US growth during the summer months; however, increasingly, there is evidence that the economy has regained its momentum. The outperformance in the data reported in November was broad based including industrial production, retail sales, housing starts, and sales. An indication of an improvement in the labour market was evident with the three-month average increase in non-farm payrolls rising and the unemployment rate edging down to 8.6% in November.

Fiscal woes, however, continued unabatedly with the Congressional 'Super Committee' failing to reach a medium-term agreement on how to cut the deficit by 2021. This failure triggered automatic spending cuts for the eight-year period between 2013 and 2021 of \$1.2 trillion in equal amounts each year. Should deficit reduction come exclusively from spending cuts, the hit to the economy in 2013 is estimated at 0.8 percentage points. Our base case assumes a package of spending cuts and tax increases will be negotiated before the automatic cuts come into effect in January 2013 thereby reducing the hit to growth.

President Obama's American Jobs Act was not passed as of time of writing. While we give a low probability that the Act will be passed in its entirety, we expect that the payroll tax holiday will be extended. This will reduce the overall negative effect of fiscal actions to 0.1 percentage points in 2012 with the size of the hit to the economy in 2013 expected to be 0.4 percentage points.

Loose monetary policy aimed at offsetting fiscal restraint

The Federal Reserve is continuing with its full-court press aimed at exerting downward pressure on interest rates. Short-term bond yields are at historic lows that are in line with the fed funds targets while longer-term rates face strong demand from investors as well as the Federal Reserve itself. Operation Twist requires that the Fed buy longer-term bonds and sell shorter-dated securities. This keeps downward pressure on long rates and does not increase the size of the Fed's balance sheet. Policymakers view the economy as remaining on a slow-growth trajectory meaning that they are not overly concerned that inflation pressures will accelerate; however, they are concerned about the elevated level of the unemployment rate, which they assume will remain high throughout 2012 and easing to around 8% in 2013. Given that part of the Fed's mandate is to restore the economy to full employment, this will be the primary driver of Fed actions in the near term. The Fed's pledge to keep the overnight rate in the current 0 to 0.25% range until at least mid-2013 is very likely to be honoured. Late in 2013, however, strengthening growth and an improving labour market are likely to result in the Fed taking the first step toward reducing stimulus via interest rate increases.

Labour market stressing patience

The US labour market had a few false starts during this economic recovery although established an improving trend in the past three months. The gains are concentrated in the private sector as public-sector employment continues to decline at a steady clip. So far in 2011, public-sector payrolls are off 263,000, tempering the positive effect of the 1.7 million new private-sector jobs created. The unemployment rate remains elevated and at 8.6% stands about 2.5 percentage points higher than its trend rate. The pick up in demand in the third quarter sets up for the strengthening in employment to continue. This is also being signalled by the decline in the level of claims for state unemployment insurance benefits. There has also been an accelerating trend in hours worked thereby suggesting that businesses are more fully utilizing their current workforce and will be in position to add positions as demand picks up.

Engines of growth

Economic growth sped up in the third quarter with real GDP expanding at a 2.0% annualized pace. This was a marked improvement from the less than 1% average gain in the first half of the year. A pick up in consumer spending and business investment drove the quarterly increase helped along by net exports. Moderating the quarterly rise was a drawdown in inventories, a harbinger of future production as long as demand holds up. Data for October suggest exactly that, and we forecast a 3.0% annualized increase in real GDP in the final quarter of 2011 with the annual growth rates in 2012 and 2013 above 2011's 1.8% average increase at 2.5% and 3.0%, respectively.

Start your engines!

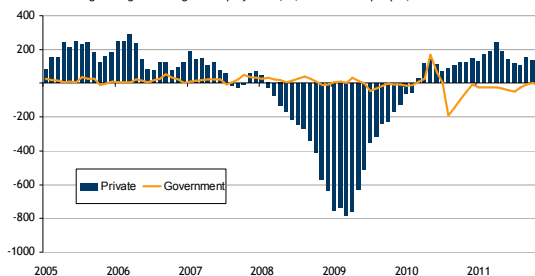
The US consumer returned to the driver's seat, accounting for almost three-quarters of the growth in the second half of 2011. Spending on durable goods petered out in the second quarter in large part reflecting lower auto sales due to the supply-chain disruptions and reduced availability of certain car lines. As the industry conditions returned to normal, however, sales of vehicles rose. Auto sales continued to accelerate in the fourth quarter thereby setting up for another solid increase in consumer spending.

US consumer hangover is not gone yet

The debt hangover will continue to constrain consumer spending, which means that the acceleration in growth is likely to be between 2.5% to 3.0%. There are signs that households are getting a firmer grip on the finances with

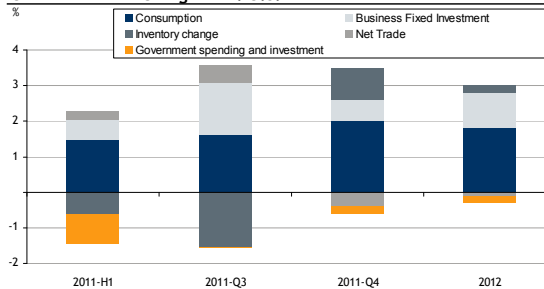
Government and total private payrolls: U.S.

3-month moving average of change in employment (SA, thousands of people)



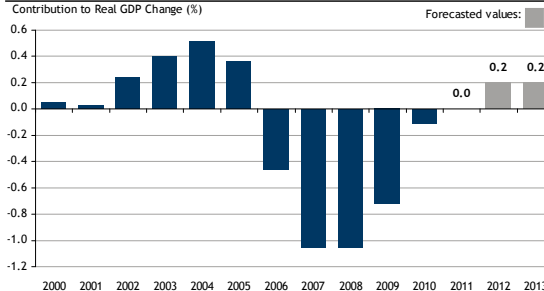
Source: Bureau of Labor Statistics, RBC Economics Research

Contribution to GDP growth: U.S.



Source: Bureau of Economic Analysis, RBC Economics Research

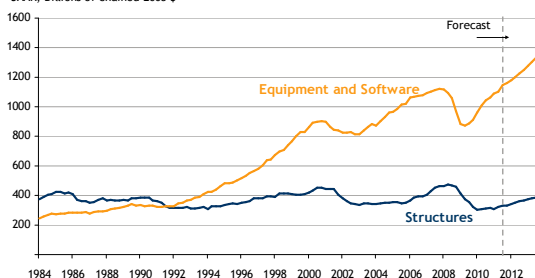
Residential investments: U.S.



Source: Bureau of Economic Analysis, RBC Economics Research

Nonresidential investment: U.S.

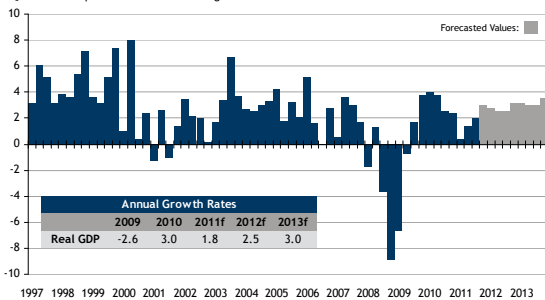
SAAR, Billions of chained 2005 \$



Source: Bureau of Labor Statistics, RBC Economics Research

U.S. real GDP

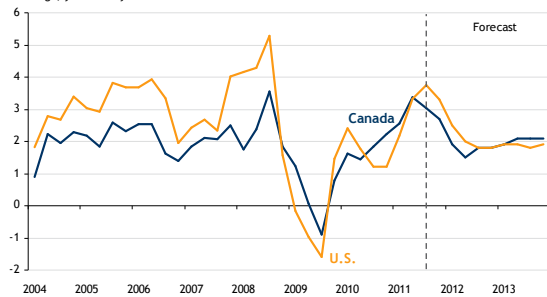
Quarter-over-quarter annualized % change



Source: Bureau of Economic Analysis, RBC Economics Research

Headline inflation: Canada and U.S.

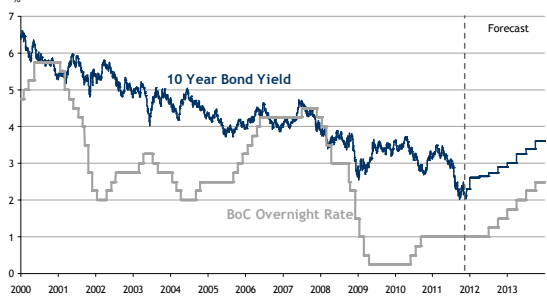
% change, year-over-year



Source: Statistics Canada, Bureau of Labor Statistics, RBC Economics Research

Interest rates: Canada

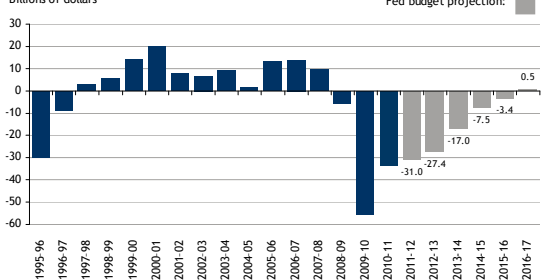
%



Source: Bank of Canada, RBC Economics Research

Federal government budgetary balance

Billions of dollars



Excluding savings targeted by the Deficit Reduction Action Plan

Source: Department of Finance, RBC Economics Research

the mortgage delinquency rate at the lowest since the fourth quarter of 2008 and the number of foreclosed properties levelling off; however, asset values have come under renewed downward pressure with stock markets lower and existing home prices off 4.8% compared to a year earlier. This combination of lower debt and asset values means the overall state of household balance sheets have yet to recover fully.

Home sweet home

The oversupply of homes on the market continues to weigh on new construction especially given that sales activity is running at a below-average clip. This is even with rock-bottom mortgage rates and financial institutions putting an end to the tightening in lending standards for mortgages. The government continues to make efforts to encourage homeowners to refinance at today's lower rates though the take-up rate on these initiatives has been limited. The bottom line is that until the supply of homes available for sale is reduced, construction activity will make a very limited contribution to economic growth. In turn, this will limit the improvement in prices restricting growth in household real estate assets.

Business balance sheets in rude health

Unlike the household sector, US corporations are generating strong earnings and are hoarding cash thereby providing a means to invest even if borrowing costs rise. Having said that, even with the recent increase in credit spreads, borrowing rates remain historically low, and the Fourth-quarter 2011 Senior Loans Officer Survey indicated that the majority of financial institutions continued to ease lending standards. Volatility in financial markets may cap appetite for corporate debt in the near term; however, this will not derail the investment cycle that is underway as corporates have other sources of funds. As a result, we do not anticipate any serious hiccup on spending on equipment and software during the forecast horizon. Investment in non-residential structures is likely to remain lacklustre as vacancy rates are high and sales are going through at heavily discounted prices. We expect non-residential construction activity gradually to accelerate in 2012 as the pace of growth picks up and business confidence improves.

Bottom line on US economy

The US economy is still imperilled by the excesses of the past with the housing sector working down supply, consumers working on paring back debt, and governments working to repair their balance sheets. These segments of the economy will make modest contributions to growth compared to past periods. The turbulent external environment will directly affect US export demand and indirectly affect confidence as financial markets gyrate. Business investment will carry the day by making substantive contributions to growth in 2012 and 2013. Our forecast is for real GDP to expand by 2.5% in 2012 and 3.0% in 2013.

Slower growth means output gaps persist longer

The only upside to economies growing at a subpar pace is that it alleviates pressure on central bankers to guard against a sustained pick up in inflation. As long as slack exists, upward pressure on wages will be limited therein lessening the need for businesses to boost prices. Headline inflation rates in both the US and Canada have been running around 3% in large part due to elevated costs for commodity products. Commodity prices have eased and will exert less upward pressure on prices going forward. Excluding the volatile commodity components, price pressures have been running at about 2%, which is concomitant with price stability.

Bank of Canada committed to inflation target, recognizing external risks

The Bank of Canada reaffirmed its 2% inflation target for the next five years in November and made a very subtle acknowledgement that in the current environment, policymakers need to be flexible. To the Bank's credit, it adopted this stance during the financial market crisis ensuring that Canada's economy navigated through the worst of the downturn. In October, the Bank downgraded its forecast for growth by pointing to the deterioration in the external environment. In line with the slower growth outlook, the Bank expects the output gap will not close until late 2013 thereby resulting in a lower profile for inflation. The incorporation of the risk that the global economy will damage Canadian growth made an imminent return to tightening mode very unlikely. By the same token, the Bank expects modest growth ahead that will dampen the chances it will cut rates. RBC's forecast is for Canada's economy to grow 2.5% in 2012, which is stronger than the Bank's 1.9% based on our assumption that the US economy will get a lift from additional fiscal stimulus via the extension of the payroll tax holiday. As a result, the Bank's next move is likely to be an interest rate increase although such is unlikely until the latter part of 2012 and only if the global turbulence has eased. At the end of 2012, the overnight rate is forecasted at 1.5% with another 100 basis points of tightening expected in 2013.

Canada fiscal outlook - government opting for greater flexibility

Canada's fiscal deficit ballooned as governments tried to fend off a deeper recession thereby causing an increase in the debt-to-GDP ratio; however, financial markets remained unconcerned in large part because of Canada's record of fiscal discipline. Importantly, unlike many others, Canada's government has the full faith of the investment community and has set up a credible deficit-elimination program. The fact that the timing of the return to surplus was extended one year in the recent Fiscal Update did not cause ripples in financial markets. Two reasons come to mind for this lack of reaction: the deficit projections do not include the \$4 billion in spending cuts that are slated to be announced in early 2012, and Canada's net debt-to-GDP ratio is the lowest among the G7 countries.

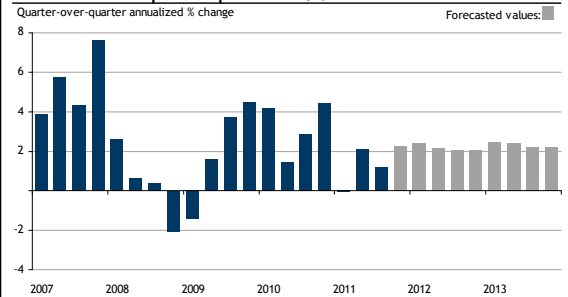
Government turns off the switch, private sector turns it on

Fiscal restraint will weigh on the pace of growth in 2012 and 2013 to the tune of 0.8 and 0.6 percentage points, respectively, thereby leaving private-sector demand to do the heavy lifting. Since the recovery began, it has largely been the consumer that has supported growth. Combining spending on goods and services and residential construction accounts for almost 80% of 2010's 3.2% rise. In 2011, businesses also kicked in with spending on machinery and equipment and non-residential real estate accounting for two-thirds of the annual growth rate. In 2012 and 2013, business investment will continue to be a contributor to the expansion alongside consumer spending on goods and services. The biggest change to the composition of growth will come from net exports, which are forecasted to swing to be a support for the economy after two years of weighing on growth.

Net exports to lift growth

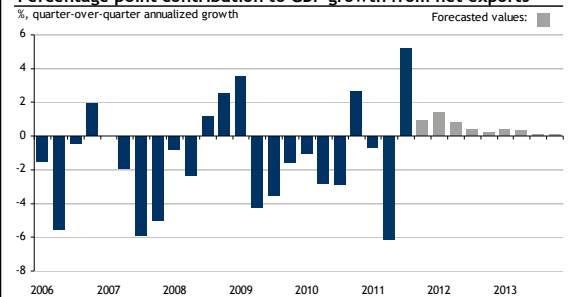
Canada's trade sector has performed reasonably well considering the disruptions coming from Europe and the stop-and-go US economy. After a horrendous year in 2009, export growth averaged 5.4% in 2010 and 2011 with the pace forecasted to accelerate in 2012 and 2013. A more robust US expansion, rising demand for auto and energy products will be the key drivers. Canadian imports are also forecasted to increase; however, the pace is expected to moderate from the 10% average of the past two years. The strong Canadian dollar

Personal consumption expenditures: Canada



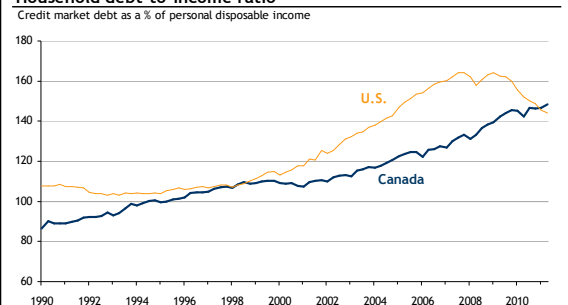
Source: Statistics Canada, RBC Economics Research

Percentage point contribution to GDP growth from net exports



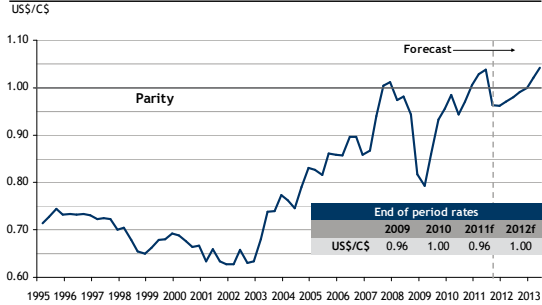
Source: Statistics Canada, RBC Economics Research

Household debt-to-income ratio



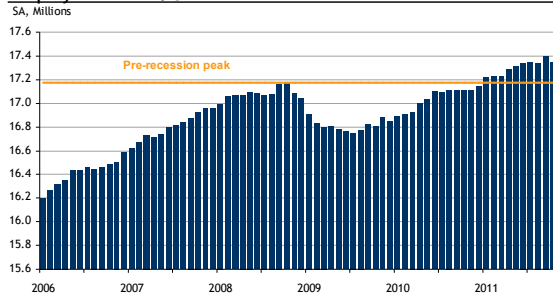
Source: Statistics Canada, Bureau of Economic Analysis, RBC Economics Research

Canadian dollar forecast



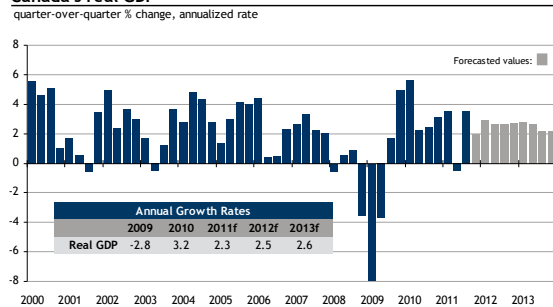
Source: Bank of Canada, RBC Economics Research

Employment level: Canada



Source: Statistics Canada, RBC Economics Research

Canada's real GDP



Source: Statistics Canada, RBC Economics Research

cut the cost of imported machinery and equipment for Canadian companies thereby providing an incentive to buy productivity-improving capital goods. Healthy balance sheets will support investment in 2012 and 2013; however, slower profit growth augurs for the pace to slow with imports of machinery and equipment following suit. The Canadian dollar is forecasted to be range-bound during the forecast horizon as the benefits of elevated commodity prices and higher short-term interest rates face off against the persisting safe-haven flows into the US dollar.

Consumer balance sheets come under the microscope

Rapid increases in consumer debt during the early days of the recovery resulted in Canada's household debt-to-income ratio rising above the US ratio raising eyebrows of investors, governments, and the Bank of Canada. Since hitting a peak pace in March 2010, household credit growth has consistently eased and at 6% in August ran below its long-term average pace. Debt accumulation, however, has not slowed enough to cause a turnaround in the debt-to-income ratio. At the same time, the debt-to-asset ratio is set to rise, as the gains in real estate values were more than offset by falling financial assets in the third quarter of 2011. The debt situation has made the economy more vulnerable to a sharper downturn should there be any unexpected shock such as a deterioration in the labour market, a drop in housing prices, or spike in interest rates. In the near term, however, the catalyst for these outcomes is not obvious. Rather, against a backdrop of low interest rates and a stable labour market, households will be able to finance their heavier debt loads.

Labour market takes a breather

The pace of job gains decelerated sharply in the latter part of 2011 with 17,000 jobs cut between August and November; however, this followed a seven-month period where the average monthly increase was 28,000 and in 2010 that saw a 25,000 average monthly rise. On net, there are 152,000 more employed than before the recession thereby pushing the unemployment rate down to 7.4%. Despite the robust recovery in employment, wage gains have been limited, and hours worked have trended lower. The labour numbers have been extraordinarily volatile; even on a three-month running basis, job gains petered out in early autumn. The economy's disappointing performance in the second quarter combined with the steady flow of worrying news out of the euro zone and US were likely in part responsible for this change. Our expectation that the worst of the global debt crisis will pass in early 2012 and that the US economy has re-established its stronger growth profile is consistent with hiring picking up again in early 2012. The unemployment rate is forecasted to decline gradually to 6.9% by mid-2013 at which point labour shortages will become more of an issue, and wage pressures are likely to pick up.

Canada tops list in 2011 and will retain a top position in 2012

It has been a volatile year for Canada's economy with the second quarter's unexpected contraction followed by a sharp rebound in the third quarter. One-off events such as the natural disasters in Japan that reduced auto industry activity temporarily derailed Canada's strong growth story. While this sparked some talk of a double-dip recession, the release of the third-quarter data proved otherwise. The risks to the global economy are many; however, with commodity prices staying historically high, US demand recovering, and the Bank of Canada working to insulate the economy from the events in Europe by keeping policy accommodative, real GDP growth is forecasted at a 2.5% clip in 2012 and 2.6% in 2013.

Economic forecast detail – Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual			Forecast								Actual		Forecast			
	2011			2012				2013				year-over-year % change					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012	2013
Consumer spending	-0.1	2.1	1.2	2.3	2.4	2.2	2.1	2.1	2.5	2.4	2.2	2.2	0.4	3.3	1.9	2.1	2.3
Durables	-6.5	2.1	-1.5	6.0	4.3	4.3	4.3	4.2	5.8	5.4	5.1	4.8	-1.9	4.4	0.6	3.7	5.0
Semi-Durables	0.2	-1.0	4.1	1.0	2.5	1.5	1.7	1.7	2.8	2.5	1.5	1.5	-2.3	5.0	1.4	1.9	2.1
Non-durables	-0.8	0.2	1.8	1.0	2.3	1.8	1.7	1.7	2.1	2.1	1.9	2.0	0.8	1.8	0.8	1.7	1.9
Services	1.6	3.3	1.1	2.2	2.0	2.0	1.8	1.8	1.9	1.9	1.9	1.9	1.1	3.5	2.8	2.0	1.9
Government expenditures	-0.8	0.9	0.0	-2.9	-1.1	0.0	0.7	1.2	0.2	0.2	0.2	0.2	4.3	4.7	1.2	-0.6	0.5
Residential investment	6.7	1.6	10.9	3.1	-2.1	-1.7	0.6	1.2	0.5	0.8	2.3	3.3	-8.0	10.2	2.6	1.3	0.9
Business investment	12.3	14.6	-3.6	7.2	6.1	7.1	6.8	6.7	7.9	7.0	6.9	6.9	-20.8	7.3	12.0	5.8	7.1
Non-residential structures	10.3	-0.9	4.4	8.8	8.1	8.3	8.1	8.1	8.1	7.5	7.0	7.0	-22.2	2.8	9.9	7.2	7.8
Machinery & equipment	14.5	32.7	-11.0	5.5	4.0	5.8	5.5	5.3	7.7	6.4	6.7	6.7	-19.5	11.8	14.2	4.4	6.4
Final domestic demand	1.5	3.1	0.9	1.6	1.6	1.9	2.2	2.3	2.4	2.3	2.3	2.3	-2.1	4.5	2.8	1.8	2.3
Exports	6.2	-6.4	14.4	7.4	9.4	7.3	6.9	6.5	5.9	6.7	6.3	5.9	-13.8	6.4	4.6	7.7	6.4
Imports	8.4	13.6	-3.2	4.1	4.7	4.4	5.4	5.5	4.3	5.5	5.8	5.8	-13.4	13.1	6.6	4.2	5.2
Inventories (change in \$b)	9.9	20.8	10.3	8.3	8.0	7.5	7.7	8.1	7.9	8.0	7.4	7.0	-0.5	8.9	12.3	7.8	7.6
Real gross domestic product	3.5	-0.5	3.5	2.0	2.9	2.6	2.6	2.7	2.8	2.6	2.2	2.2	-2.8	3.2	2.3	2.5	2.6

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																	
Productivity	0.7	0.5	0.6	0.9	0.9	1.8	1.5	1.1	1.0	1.1	1.0	1.0	0.6	1.3	0.6	1.3	1.0
Pre-tax corporate profits	13.0	15.1	17.0	9.7	10.1	15.2	13.7	15.0	13.1	13.2	12.9	12.3	-33.1	21.2	13.6	13.5	12.9
Unemployment rate (%)*	7.8	7.5	7.2	7.3	7.3	7.2	7.1	7.1	7.0	7.0	6.9	6.9	8.3	8.0	7.5	7.2	7.0
Inflation																	
Headline CPI	2.6	3.4	3.0	2.7	1.9	1.5	1.8	1.8	1.9	2.1	2.1	2.1	0.3	1.8	2.9	1.7	2.1
Core CPI	1.3	1.6	1.9	2.0	1.9	1.8	1.8	1.8	1.9	1.9	2.0	2.0	1.7	1.8	1.7	1.8	2.0
External trade																	
Current account balance (\$b)	-41	-65	-49	-43	-33	-30	-28	-27	-23	-22	-22	-22	-45	-51	-49	-29	-22
% of GDP	-2.4	-3.8	-2.8	-2.5	-1.9	-1.7	-1.6	-1.5	-1.3	-1.2	-1.2	-1.1	-3.0	-3.1	-2.9	-1.6	-1.2
Housing starts (000s)*	178	192	205	198	187	185	185	184	183	183	183	183	149	190	193	185	183
Motor vehicle sales (mill., saar)*	1.61	1.62	1.60	1.63	1.64	1.64	1.65	1.65	1.67	1.69	1.71	1.72	1.48	1.58	1.62	1.64	1.70

*Period average

Source: Statistics Canada, RBC Economics Research forecasts

Economic forecast detail – United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual			Forecast									Actual		Forecast		
	2011			2012			2013			year-over-year		% change					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012	2013
Consumer spending	2.1	0.7	2.3	2.8	2.3	2.7	2.7	3.0	2.9	2.9	3.1	3.2	-1.9	2.0	2.3	2.5	2.9
Durables	11.8	-5.3	5.5	14.6	4.0	8.2	7.7	7.3	6.9	7.1	6.9	6.7	-5.4	7.2	8.1	6.9	7.2
Non-durables	1.6	0.2	-0.7	2.2	2.5	2.0	2.0	3.0	2.8	2.8	3.5	4.0	-1.8	2.9	1.8	1.8	2.9
Services	0.8	1.9	2.9	1.1	2.0	2.0	2.2	2.2	2.3	2.3	2.3	2.4	-1.4	0.9	1.6	2.0	2.3
Government spending	-5.9	-0.9	-0.1	-0.8	-1.1	-1.3	-1.2	-1.0	-1.0	-1.0	-0.9	-0.9	1.7	0.7	-1.9	-1.0	-1.0
Residential investment	-2.5	4.2	1.6	5.0	6.5	10.1	11.5	11.0	11.2	10.7	10.2	9.8	-22.2	-4.3	-1.7	7.0	10.8
Business investment	2.1	10.3	14.8	5.2	7.2	9.0	8.3	8.6	8.5	8.4	8.3	8.4	-17.9	4.4	8.7	8.5	8.5
Non-residential structures	-14.4	22.6	12.6	3.0	10.4	10.2	9.2	9.0	8.4	7.5	7.5	7.8	-21.2	-15.8	4.6	9.7	8.4
Equipment & software	8.7	6.3	15.6	6.0	6.0	8.5	8.0	8.5	8.6	8.7	8.6	8.6	-16.0	14.6	10.3	8.0	8.5
Final domestic demand	0.4	1.3	3.0	2.4	2.2	2.7	2.7	2.9	2.9	2.9	3.0	3.1	-3.6	1.8	2.0	2.5	2.9
Exports	7.9	3.6	4.3	7.0	8.8	9.2	9.7	9.8	9.0	9.3	9.8	10.1	-9.4	11.3	6.9	7.8	9.5
Imports	8.3	1.4	0.5	8.0	7.8	8.5	9.3	9.3	7.1	6.8	7.3	7.1	-13.6	12.5	5.1	6.9	7.8
Inventories (change in \$b)	49.1	39.1	-8.5	22.6	43.8	46.3	49.1	64.3	72.5	71.2	64.9	71.6	-144.9	58.8	25.6	50.9	70.0
Real gross domestic product	0.4	1.3	2.0	3.0	2.8	2.6	2.6	3.2	3.2	3.0	3.0	3.5	-3.5	3.0	1.8	2.5	3.0

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																	
Productivity	1.0	0.7	0.6	0.6	1.3	1.5	1.3	1.2	1.3	1.4	1.4	1.5	2.4	4.1	0.7	1.3	1.4
Pre-tax corporate profits	8.8	8.5	7.9	9.0	9.1	6.8	5.9	5.2	5.6	6.0	6.3	6.6	9.1	32.2	8.5	6.7	6.1
Unemployment rate (%)*	8.9	9.1	9.1	8.8	8.9	8.8	8.7	8.6	8.5	8.3	8.2	8.1	9.3	9.6	9.0	8.8	8.3
Inflation																	
Headline CPI	2.1	3.4	3.8	3.3	2.5	2.0	1.8	1.8	1.9	1.9	1.8	1.9	-0.4	1.6	3.2	2.0	1.9
Core CPI	1.1	1.5	1.9	2.0	1.9	1.6	1.6	1.8	1.8	1.7	1.7	1.8	1.7	1.0	1.6	1.7	1.8
External trade																	
Current account balance (\$b)	-478	-472	-435	-445	-467	-475	-485	-496	-500	-497	-493	-488	-377	-471	-458	-481	-494
% of GDP	-3.2	-3.2	-2.9	-2.9	-3.0	-3.0	-3.1	-3.1	-3.1	-3.0	-3.0	-2.9	-2.7	-3.2	-3.0	-3.1	-3.0
Housing starts (000s)*	582	572	610	625	649	707	753	797	849	898	947	996	554	585	597	727	922
Motor vehicle sales (millions, saar)*	13.0	12.1	12.4	13.3	13.4	13.7	14.0	14.2	14.3	14.6	14.8	14.9	10.4	11.6	12.7	13.8	14.7

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates

%, end of period

	Actual			Forecast									Actual		Forecast		
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	2009	2010	2011	2012	2013
Canada																	
Overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.50	0.25	1.00	1.00	1.50	2.50
Three-month	1.10	0.90	0.80	1.10	1.15	1.15	1.30	1.60	1.85	2.15	2.40	2.65	0.30	0.97	1.10	1.60	2.65
Two-year	1.85	1.42	0.88	1.00	1.20	1.25	1.50	1.75	2.00	2.25	2.50	2.75	1.20	1.71	1.00	1.75	2.75
Five-year	2.65	2.06	1.39	1.50	1.90	2.10	2.30	2.50	2.65	2.90	3.15	3.30	2.77	2.46	1.50	2.50	3.30
10-year	3.25	2.91	2.15	2.30	2.60	2.65	2.75	2.90	3.00	3.25	3.40	3.60	3.45	3.16	2.30	2.90	3.60
30-year	3.80	3.42	2.77	3.10	3.35	3.40	3.35	3.45	3.60	3.75	3.90	3.90	4.00	3.55	3.10	3.45	3.90
Yield curve (10s-2s)	140	149	127	130	140	140	125	115	100	100	90	85	225	145	130	115	85
United States																	
Fed funds	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.50	0.13	0.13	0.13	0.13	0.50
Three-month	0.15	0.03	0.02	0.05	0.10	0.10	0.10	0.10	0.10	0.15	0.25	0.60	0.10	0.12	0.05	0.10	0.60
Two-year	0.70	0.41	0.25	0.30	0.30	0.35	0.50	0.60	0.85	1.05	1.15	1.35	0.75	0.61	0.30	0.60	1.35
Five-year	2.10	1.45	0.96	1.10	1.30	1.60	1.75	1.80	2.10	2.25	2.35	2.50	2.69	2.01	1.10	1.80	2.50
10-year	3.45	2.92	1.92	2.15	2.25	2.40	2.50	2.70	3.00	3.20	3.35	3.50	3.40	3.30	2.15	2.70	3.50
30-year	4.50	4.27	2.92	3.20	3.45	3.50	3.55	3.75	3.95	4.10	4.25	4.35	4.35	4.34	3.20	3.75	4.35
Yield curve (10s-2s)	275	251	167	185	195	205	200	210	215	215	220	215	265	269	185	210	215
Yield spreads																	
Three-month T-bills	0.95	0.87	0.78	1.05	1.05	1.05	1.20	1.50	1.75	2.00	2.15	2.05	0.20	0.85	1.05	1.50	2.05
Two-year	1.15	1.01	0.63	0.70	0.90	0.90	1.00	1.15	1.15	1.20	1.35	1.40	0.45	1.10	0.70	1.15	1.40
Five-year	0.55	0.61	0.43	0.40	0.60	0.50	0.55	0.70	0.55	0.65	0.80	0.80	0.08	0.45	0.40	0.70	0.80
10-year	-0.20	-0.01	0.23	0.15	0.35	0.25	0.25	0.20	0.00	0.05	0.05	0.10	0.05	-0.14	0.15	0.20	0.10
30-year	-0.70	-0.85	-0.15	-0.10	-0.10	-0.10	-0.20	-0.30	-0.35	-0.35	-0.35	-0.45	-0.35	-0.79	-0.10	-0.30	-0.45

Exchange rates

%, end of period

		Actual			Forecast						Actual		Forecast		
		11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	2009	2010	2011	2012
Australian dollar	AUD/USD	1.03	1.07	0.97	1.04	1.03	1.03	1.02	1.01	1.00	0.99	0.69	0.92	1.04	1.01
Brazilian real	USD/BRL	1.63	1.56	1.88	1.80	1.80	1.83	1.85	1.85	1.85	1.85	2.32	1.78	1.80	1.85
Canadian dollar	USD/CAD	0.97	0.96	1.05	1.04	1.03	1.02	1.01	1.00	0.98	0.96	1.26	1.02	1.04	1.00
Renminbi	USD/CNY	6.55	6.46	6.38	6.25	6.15	6.05	5.95	5.85	5.80	5.75	6.83	6.83	6.25	5.85
Euro	EUR/USD	1.42	1.45	1.34	1.31	1.30	1.29	1.28	1.27	1.26	1.26	1.33	1.35	1.31	1.27
Yen	USD/JPY	83	81	77	74	73	70	73	75	77	79	99	93	74	75
Mexican peso	USD/MXN	11.91	11.71	13.90	13.00	12.75	12.50	12.50	12.50	12.50	12.50	14.17	12.36	13.00	12.50
New Zealand dollar	NZD/USD	0.76	0.83	0.76	0.78	0.78	0.79	0.77	0.77	0.77	0.77	0.56	0.71	0.78	0.77
Swiss franc	USD/CHF	0.92	0.84	0.91	0.94	0.95	0.97	0.98	0.99	1.00	1.01	1.14	1.05	0.94	0.99
U.K. pound sterling	GBP/USD	1.60	1.61	1.56	1.54	1.55	1.55	1.56	1.59	1.59	1.62	1.43	1.52	1.54	1.59

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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