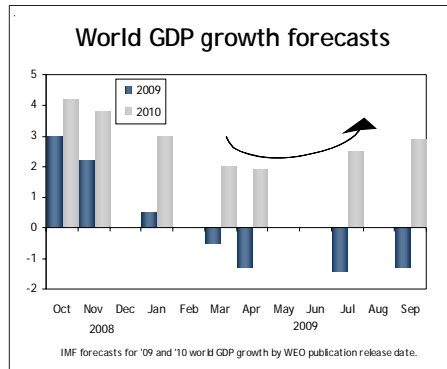


## ECONOMIC & FINANCIAL MARKET OUTLOOK

September 2009



### Waiting for a global recovery...patiently

- ▲ The global economy posted a sharp decline in early 2009, but the economic downturn slowed in the second quarter.
- ▲ The global economy is now exiting recession, with recovery expected in the coming quarters.
- ▲ “Cash-for-clunkers”-type rebates give a lift to growth, both directly and indirectly, in the United States, Germany, France and Canada.
- ▲ The staying power of the recovery is still a risk, but momentum is likely to build as financial markets continue to recover and stimulus flows.
- ▲ Central banks to keep policy accommodative until the recovery is well entrenched and unemployment starts to retreat.
- ▲ Interest rates to remain low in 2009; gradual increases are expected in 2010.
- ▲ U.S. economy contracted in the second quarter, but at the slowest pace in more than a year.
- ▲ Spending on durable goods and inventory rebuilding to support economic growth.
- ▲ Core inflation to ease given excess capacity in the economy.
- ▲ Unemployment rate to peak in late 2009 and remain high in 2010.
- ▲ Canada gets a lift from U.S. auto demand, thus positioning the economy for positive third-quarter growth.
- ▲ Modest growth in 2010 is likely to result in only a slight improvement in labour markets.
- ▲ Inflation worries are on the backburner as continuing slack in the economy wards off upward price pressures.
- ▲ Bank of Canada policy rate to hold at extraordinarily low level until mid-2010.

The global economy is inching its way out of recession, with indicators migrating from “less bad” to “stable” and, in some cases, to “good.” Financial markets have been moving in fits and starts as investors try to discern whether a true recovery is at hand. Our view is that the global economy has turned the corner, with the substantial backing from central banks and governments supporting an improvement in sentiment and activity. To be sure, the road to recovery will be fraught with potholes that may see the rebound temporarily skid off course and test the patience of those looking for a quick revival.

Leading indicators of global activity have picked up pace, with the ISM manufacturing index lurching above the expansion/contraction nexus in July for the first time since May 2008 and even higher in August. This increase was accompanied by a less robust improvement in the services sector, although the index did cross into expansionary territory in August. The OECD leading indicator similarly showed an improvement during the past

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four months. Global stocks (according to the World MSCI) have gained 12% since our last report in June, commodity prices are up and there are signs that investors are more confident that a global recovery is at hand and are prepared to add risk to their portfolios.

### Ready, set, go for growth!

The global economy showed some signs of life in the second quarter with China's economy picking up speed, Japan posting a rebound after four quarters of declines and the U.S. economy showing the smallest quarterly contraction in a year. While this still wasn't enough to swing global economic growth back into the positive column, third-quarter data hint of a stronger pick-up. We expect the global economy to emerge from recession in the second half of this year, build momentum in 2010 and exhibit even stronger growth in 2011 when the weight from the deleveraging in the global financial system lifts.

### U.S. economy poised for growth

Our monitoring of U.S. data points to the third quarter as being the first in the past five to show positive real GDP growth. The "cash-for-clunkers" auto rebate program has boosted consumer spending on durable goods, with businesses expected to slow the pace of inventory reduction. These two factors along with signs of a smaller drag from residential construction have led us to revise our forecast for third-quarter growth up to 2%, with the fourth quarter's expansion moderating to 1.8% due to a slower pace of spending on durable goods late in the year. Looking forward, we expect that the economy's momentum will build in 2010 as most of the fiscal stimulus hits, although the dismal state of household balance sheets will likely restrain the pace of expansion. Our forecast is that real U.S. GDP will expand by an average 2.2% in 2010 following an expected 2.7% drop in 2009.

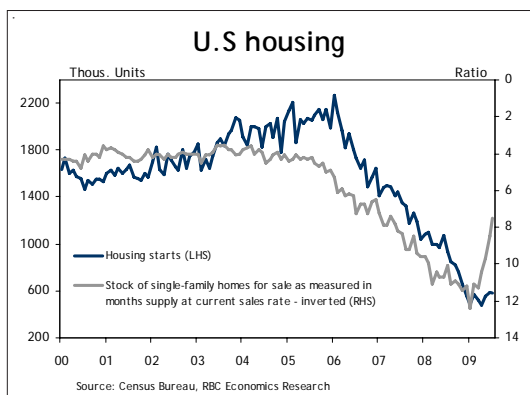
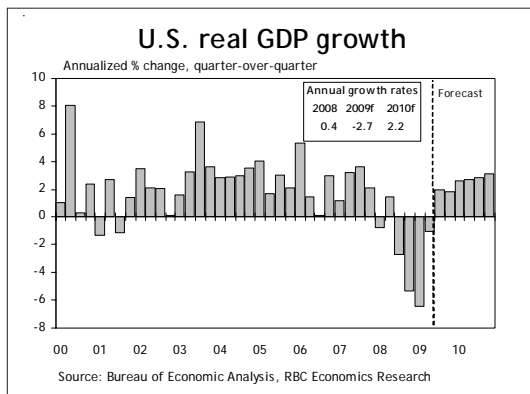
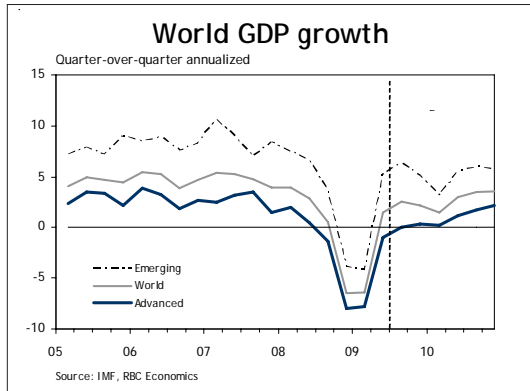
### U.S. housing market starts to turn around

Single-family housing starts have risen in each of the past five months, sales of new and existing homes have increased for four months running and the inventory of unsold homes has edged lower. Supply and demand remains out of sync, although the bottom in the U.S. housing market likely occurred earlier this year, with the recent improvement consistent with the drag from this sector evaporating by year-end.

The lowest adjustable rate mortgage rate on record, fixed 30-year mortgage rates about 50 basis points from their low, combined with median prices that are running about 21% below their highs, have bumped up activity in recent months. The government's first-time homebuyer's tax credit and loan modification schemes are also supporting activity. However, with unemployment up sharply, household balance sheets under repair and the lagged impact of the end of the industry's moratorium on foreclosures boosting the number of homes available for sale, activity in this sector will remain sluggish.

### Unemployment rate to keep going higher into year-end

The recession has generated excess capacity as evidenced by the near-record low capacity utilization rate and the rise in the unemployment rate to a 26-year high. Even with the economy forecast to grow in the second half of this year, the



pace will be below the economy's long-run average rate, resulting in a persistently large output gap and limited demand for labour. As a consequence, we see further upward pressure being exerted on the unemployment rate, which is forecast to rise to 10% in the final quarter of the year. Our assessment that the unemployment rate will only drift marginally under 10% by the end of 2010 will contain the upturn in consumer spending going forward.

Household balance sheets also point to a sustained period of moderate consumption given the elevated debt-to-asset ratio. The U.S. household debt-to-income ratio is off six percentage points from its all-time high but still stood at 180.6% at the end of the first quarter. Low interest rates have made the cost to service this debt the lowest since the second quarter of 2003, but uncertainty in labour markets is keeping household demand for new credit soft.

### Cash-for-clunkers drives auto sales higher

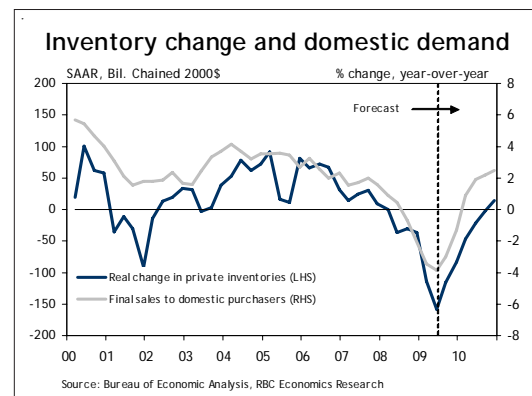
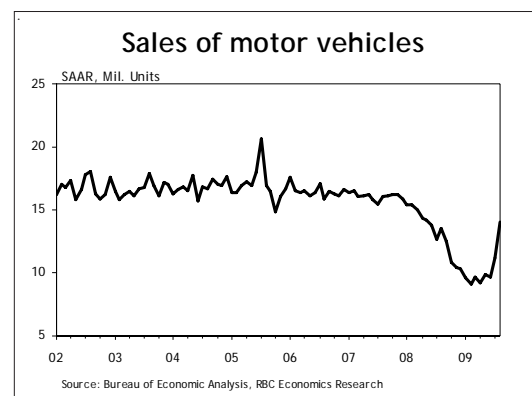
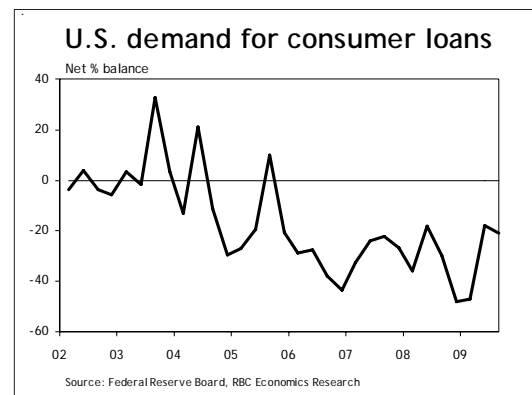
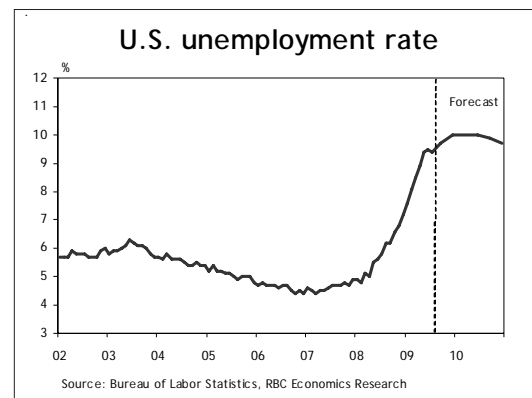
Government aid in the form of an auto rebate program geared to take inefficient vehicles off the road was so successful that US\$2 billion in government funds were added to the US\$1 billion initial offering. Sales of motor vehicles rose 16% in July to an 11.2 million annualized unit pace, breaching the 10-million unit mark for the first time this year. Sales picked up further in August to 14.1 million units at an annual rate as the second tranche of funds became available. The heightened demand cleared inventory levels and generated a rebound in production by auto makers. Industrial production of motor vehicles and parts rose by 20% in July, which curtailed downward pressure on employment by auto producers.

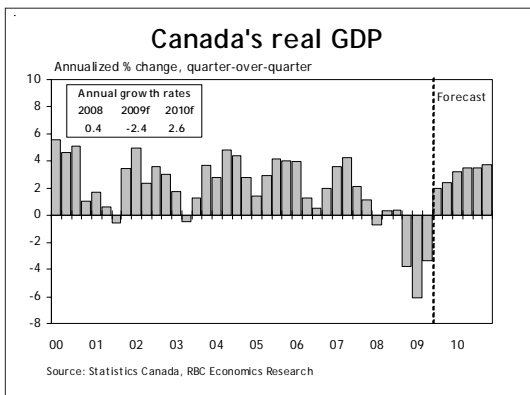
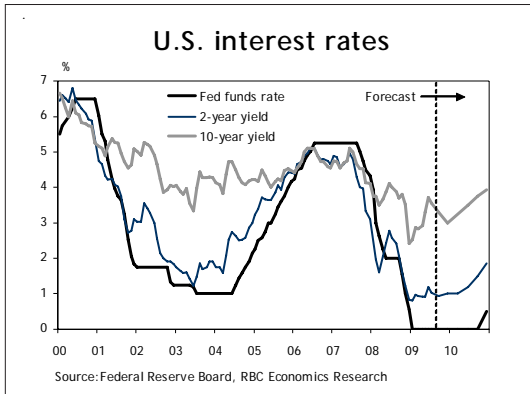
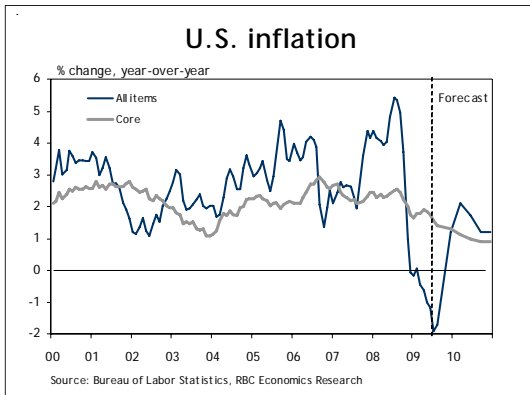
### Borrowing growth from the future?

The surge in the production and purchase of motor vehicles will help to prop up the U.S. economy in the third quarter, but more important is whether this program will be the catalyst that sets the economy on a sustained firming growth path. We expect the recovery will prove durable in part due to the ramping up of additional fiscal measures, but also reflecting the low interest rate environment and the end of the housing market recession. These factors will be enough to bring consumers out of hiding after unprecedented back-to-back declines in consumer spending in 2008 and 2009. In 2010, we expect consumer spending to rise by 1.6%, a modest recovery by historical standards. This pick-up in demand, albeit moderate, will require a rebuilding in inventory levels after the drawdown that took place during the recession. Furthermore, improved access to capital markets and narrowing corporate bond spreads are expected to spur a pick-up in fixed investment as the profit outlook turns around.

### Inflation concerns stay on backburner

The U.S. headline inflation rate was negative in July for the fifth consecutive month, falling to a 59½-year low as gyrations in energy prices weighed on the year-over-year calculation. Excluding energy, consumer prices were 1.5% higher than a year earlier, down from 3.1% in August 2008. The growing slack in the economy is expected to exert additional downward pressure on core prices in the near-term, although the headline rate will likely move back into positive territory as the energy price effect reverses. Based on our forecast of a continuing high unemployment rates in both 2009 and 2010, we expect that the core measure will continue to ease into 2010. Against this backdrop, the Federal Reserve will





maintain an extremely stimulative policy stance aimed at preventing the economy from dipping back into recession, with the funds rate forecast to hold in the zero to 0.25% range until late 2010.

### Low government yields to grease wheels of recovery

Short-term interest rates remain at historically low levels with limited expectations of a near-term tightening in policy. Longer-term yields, however, are about 150 basis points above their January lows. The rise in long-term rates has stemmed from growing optimism that a global recovery is at hand, which supported a rise in risk appetite that has shifted funds out of bonds and into stocks. Supply concerns have also weighed on the bond market as the government finances its record fiscal deficit on the back of sinking tax revenues and as the stimulus package is paid out. Our expectation that the recovery will be modest points to short-term rates staying low, with 10-year yields forecast to slide back toward 3% before the year is out. Confidence that the recovery is durable needs to be evident before yields will begin to rise on a sustained basis, something our forecast does not assume until 2010.

### U.S. dollar blues

So far this year, the trade-weighted U.S. dollar has given up more than 50% of its 2008 gains and has been under constant selling pressure since March. The initial weakness largely reflected an increase in risk appetite as funds moved out of the safety of U.S.-dollar denominated assets. Going forward, further U.S. dollar weakness seems likely in the face of significant increase in U.S. government debt and the dependence on foreign investors to help finance that debt. Although we expect further U.S. dollar weakness into 2010, a resurgence in risk-averse behaviour could limit the currency's slide during the remainder of 2009.

### Canada – Tide is turning

Canada's economy showed signs of life late in the second quarter as activity levels were bumped up. Wholesale, retail, housing and manufacturing sales increased in June, contributing to the first rise in real GDP output in 10 months. However, large declines early in the second quarter still resulted in the economy contracting at an average 3.4% pace in the quarter. However, indications of a sharp rebound in auto production in July are setting the course for Canada to be on a firm growth path in the second half of the year.

Better functioning financial markets, low borrowing rates and government stimulus are projected to lift Canada's economy back onto the positive side of the ledger, with growth forecast to average 2.2% in the second half of 2009 and 2.6% in 2010. Based on this forecast, we expect that Canada's recession will turn out to be the shallowest and shortest of the past three even after the consecutive hefty drops in GDP output in late 2008 and early 2009.

### Low interest rates bolster housing demand

One area of the economy that is showing solid signs of a recovery is the housing market. Sales were up 61% in July compared to their December 2008 low and the average sales price is within striking distance of its all-time high. The current interest rate environment is one of the factors that contributed to the revival in home sales. Additional support for the housing market is coming from the government's Support for Homeownership and the Housing Industry programs that

include the Renovation Tax Credit. New construction activity lagged the improvement in the resale market, although the sector made a positive contribution to growth in the second quarter on the back of sales commissions and renovation activity. Stronger construction activity in the second half of 2009 will see this segment contribute to growth for the remainder of the year.

### Labour market slide slowing

The cuts to employment in eight of the past 10 months and the 2.3 percentage point rise in the unemployment rate to 8.7% weighed on consumer spending activity in late 2008 and early 2009. The slowing pace of job cuts and an improvement in consumer confidence as the prospects of a global recovery became more firmly entrenched led to a modest recovery in consumption in the second quarter. Going forward, Canadian household balance sheets will exert some restraint on overall economic activity, although it is likely to be more muted than in the United States where the deterioration has been sharper.

### U.S. policy gives Canadian automakers a shot in the arm

The U.S. cash-for-clunkers rebate program has provided a clear boost to activity north of the border, giving auto manufacturers a lift. The sharp jump in U.S. auto sales in July and August spurred production as inventories in both Canada and the United States were depleted. With motor vehicle and parts manufacturing production making up less than one-half of its historical share of manufacturing output, the resurgence in activity south of the border will likely see this segment regain ground and make a solid contribution to the economy's performance in the second half of the year.

### Credit conditions easing

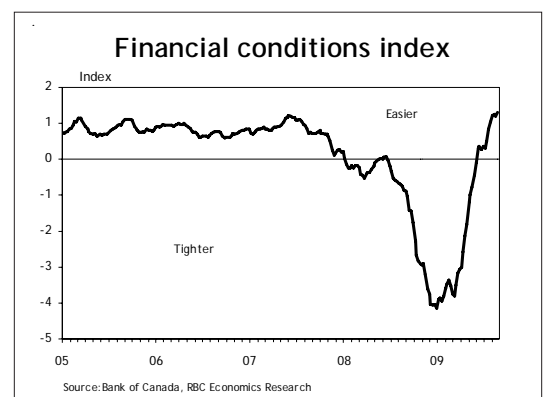
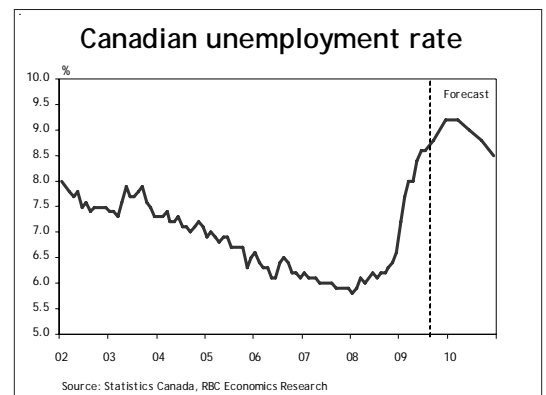
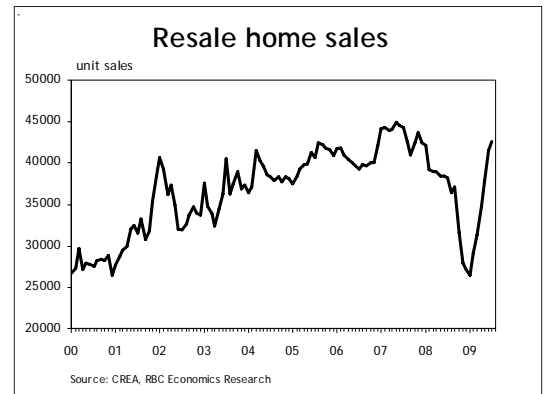
The impact of the low rate environment will pack a bigger punch in early 2010 as a more stable labour market boosts confidence and puts an end to the hiatus in consumer spending. To be sure, the improvement in confidence has been muted so far and the unemployment rate is likely to continue to edge higher into year-end. However, the sharp easing in financial conditions will go a long way in reducing the likelihood of the economy slipping back into a deep recession, with both households and businesses forecast to start spending again.

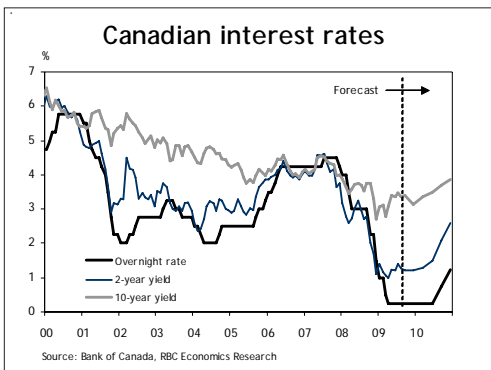
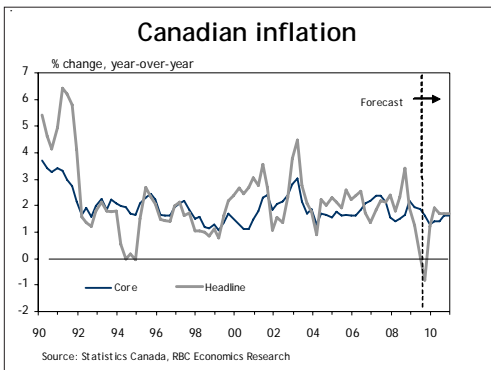
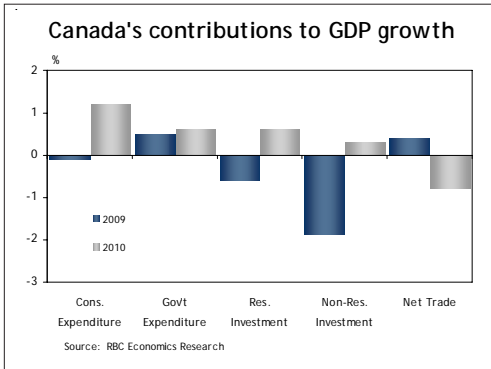
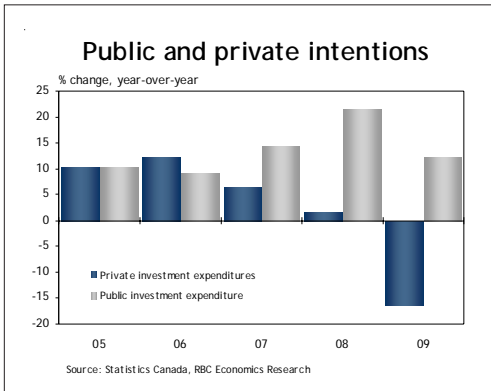
### Business spending plans buckle, but improved access to credit to quell downturn

Canadian private businesses made further cuts to their 2009 investment plans this spring, while public organizations boosted their planned outlays in part due to governments' fiscal stimulus payouts. Private companies intend to reduce their spending on structures and machinery/equipment by 16.3% in 2009, while public organizations are slated to increase spending by 12.1%. Improved access to capital market financing and narrowing spreads are lessening the barriers to investment, while the strengthening Canadian dollar has cut the cost of imported machinery and equipment. The weakened profits picture will likely limit near-term spending, although high cash balances may see some companies resume capital-building activities before year-end.

### The hand-off from public spending to private demand

Key to the outlook for 2010 will be the rotation of demand from the public to the private sector. Our assessment is that households and businesses will become





increasingly active as the world economy picks up speed, thus bolstering commodity prices and Canadian exports. Additional support will come from the rebuilding of inventories after two years of aggressive destocking. Against this backdrop, we expect the labour market to stabilize and the unemployment rate to head lower — a positive for consumer confidence and spending.

### Slack in the economy points to temporary disinflation

The headline inflation rate fell further into negative territory in July largely due to plunging energy prices compared to a year earlier and, to a lesser degree, an easing in core price inflation. With Canada's economy running at a sub-potential rate consistently since the second half of 2007, spare capacity has accumulated. This has shown up in the rising unemployment rate and the low capacity utilization rate. With the output gap topping four percentage points, price pressures in Canada will continue to ease and we forecast that the Bank of Canada's core measure will slip toward the lower end of the 1% to 3% target range. The headline rate will largely reflect movements in energy prices, pointing to a positive inflation rate later this year.

### Bank of Canada "cautiously optimistic"

The Bank of Canada upgraded their economic forecast for 2009 and 2010 in July, citing an improvement in confidence, easier financial conditions and rising commodity prices. The Bank expects that the stimulus from both monetary and fiscal policy will be sufficient to return Canada's economy to positive growth in the third quarter, with the pace accelerating thereafter. The Bank acknowledged risks to the outlook from the strengthening in the Canadian dollar and potential "setbacks" for the global economy. RBC's outlook for growth is consistent with the Bank making no changes to the policy rate until the second half of 2010. The risk of the economy underperforming the Bank's forecast if the recovery in financial markets falters is enough for policymakers to maintain the current ultra-easy policy rate. We still think the next move will be a rate increase rather than the addition of stimulus via quantitative easing, but only once the recovery has proven to be durable and sustainable.

### Interest rates range bound

Our interest rate forecasts incorporate these views, with short-term rates expected to remain historically low, although with continued uncertainty about the recovery keeping longer-term yields volatile through the end of this year. We expect that the yield on the 10-year Government of Canada bond will trade in a 3.15% to 3.65% range for the remainder of 2009 before rising to 3.85% by the end of 2010 as both the domestic and global recoveries become more assured.

### Canadian dollar plays catch-up

The Canadian dollar outperformed all other G-10 currencies in July and traded in a new, higher range in August. The fortunes of the currency will be dictated by commodity prices and risk appetite in the near-term. Our baseline view is that we are likely to see another bout of risk aversion that will benefit the large, liquid U.S. dollar and weigh on currencies like the Canadian dollar, especially if the data turn from outperforming expectations to underperformance. Longer-term, rising demand for commodities as the global economy rebuilds momentum will likely see the Canadian dollar rally to 95 U.S. cents by the end of 2010 from slightly less than the 92 U.S. cents expected for the end of this year.

## Economic forecast detail – Canada

### Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual						Forecast						Forecast		
	2008						2009		2010				2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010
Consumer spending	2.5	1.1	0.6	-3.1	-1.2	1.8	2.1	1.5	1.9	2.3	2.3	2.7	3.0	-0.1	2.0
Durables	16.7	-3.0	-0.8	-11.6	-8.4	6.0	11.5	4.4	7.6	6.9	6.1	6.4	5.6	-2.1	7.0
Non-durables	0.1	0.8	-0.2	-1.4	1.4	0.7	0.5	1.1	1.1	1.8	1.7	2.0	1.5	0.4	1.3
Services	0.1	1.7	1.0	-1.4	-0.2	1.7	1.0	1.2	1.2	1.5	1.9	2.3	2.9	0.4	1.4
Government spending	7.4	5.6	1.0	3.4	3.1	5.0	5.1	4.4	3.4	2.2	2.2	2.0	4.8	3.7	3.4
Business investment	-1.7	-2.1	-0.4	-18.6	-28.1	-9.7	0.1	3.8	6.2	7.5	6.3	6.2	-0.8	-13.0	4.2
Residential construction	-6.1	-1.3	-4.9	-23.0	-21.2	6.2	2.1	10.7	12.7	9.9	7.6	6.3	-2.7	-9.1	9.0
Non-residential structures	1.5	1.0	7.6	-1.3	-24.1	-17.8	-7.8	-2.9	1.7	5.1	4.7	4.8	-0.1	-10.4	-0.6
Machinery & equipment	0.2	-5.8	-2.9	-28.5	-37.6	-16.1	5.8	3.6	4.1	7.4	6.7	7.5	0.5	-19.2	4.0
Final domestic demand	2.8	1.5	0.5	-4.9	-6.0	0.4	2.4	2.7	3.1	3.2	3.1	3.2	2.6	-1.8	2.8
Exports	-2.3	-4.1	-4.1	-17.7	-30.4	-19.3	14.2	6.4	7.9	7.1	8.7	9.5	-4.7	-14.4	6.5
Imports	-4.7	3.0	-3.4	-23.4	-38.9	-8.5	20.3	8.5	9.0	7.9	9.1	8.9	0.8	-15.1	8.9
Inventories (change in \$b)	9.2	14.5	15.0	10.3	-8.9	-10.5	-5.1	-3.7	-2.1	-0.2	1.8	3.2	12.2	-7.1	0.7
Real gross domestic product	-0.7	0.3	0.4	-3.7	-6.1	-3.4	2.0	2.4	3.2	3.5	3.5	3.7	0.4	-2.4	2.6

### Other indicators

Year-over-year % change unless otherwise indicated

Business and labour															
Productivity	-0.7	-0.8	-0.7	-0.5	0.5	0.6	1.1	1.4	1.6	1.8	1.6	1.7	-0.6	0.9	1.6
Pre-tax corporate profits	6.2	13.0	15.7	-11.7	-30.8	-42.9	-42.6	-21.5	1.1	16.9	16.1	16.4	5.7	-35.3	12.4
Unemployment rate (%)**	5.9	6.1	6.2	6.4	7.6	8.3	8.8	9.2	9.2	9.0	8.8	8.5	6.2	8.5	8.9
Inflation															
Headline CPI	1.8	2.4	3.4	1.9	1.2	0.1	-0.8	1.2	1.9	1.7	1.7	1.7	2.4	0.4	1.8
Core CPI	1.4	1.5	1.7	2.2	1.9	1.9	1.6	1.3	1.4	1.4	1.6	1.6	1.7	1.7	1.5
External trade															
Current account balance (\$b)	23.5	27.0	13.0	-31.0	-30.9	-44.8	-47.0	-44.9	-42.0	-41.7	-40.5	-37.3	8.1	-41.9	-40.4
% of GDP	1.5	1.7	0.8	-2.0	-2.0	-3.0	-3.1	-2.9	-2.7	-2.6	-2.5	-2.3	0.5	-2.7	-2.5
Housing starts (000s)**	235	218	208	185	140	128	145	157	169	173	178	182	211	142	176
Motor vehicle sales (mill., saar)**	1.84	1.72	1.65	1.49	1.42	1.45	1.50	1.51	1.54	1.55	1.57	1.58	1.67	1.47	1.56

\*\*Quarterly 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								Forecast		
	2008				2009				2010				2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010
Consumer spending	-0.6	0.1	-3.5	-3.1	0.6	-1.0	1.7	0.3	2.0	2.3	2.5	2.5	-0.2	-0.8	1.6
Durables	-8.9	-5.7	-11.7	-20.3	3.9	-5.8	16.8	-5.2	11.5	14.3	15.2	13.3	-4.5	-4.7	8.8
Non-durables	-3.0	2.2	-5.6	-4.9	1.9	-2.2	-2.5	0.9	1.0	1.0	1.1	1.4	-0.8	-1.7	0.4
Services	1.8	0.4	-1.3	0.5	-0.3	0.2	0.8	0.9	0.9	0.9	1.1	1.3	0.7	0.1	0.9
Government spending	2.6	3.6	4.8	1.2	-2.6	6.4	2.0	3.3	2.1	1.6	1.5	1.7	3.1	2.0	2.4
Business investment	-6.2	-2.7	-8.3	-20.2	-39.0	-13.5	-3.7	-1.0	2.6	4.5	5.8	7.8	-5.1	-19.1	1.1
Residential construction	-28.2	-15.8	-15.9	-23.2	-38.2	-22.8	-4.0	11.8	9.8	6.9	8.6	10.7	-22.9	-22.1	5.3
Non-residential structures	6.7	14.5	-0.1	-7.2	-43.6	-15.1	-15.8	-9.9	-2.9	-1.0	0.5	1.0	10.3	-18.7	-5.8
Machinery & equipment	-0.5	-5.0	-9.4	-25.9	-36.4	-8.4	3.3	-1.1	2.8	6.6	7.8	10.5	-2.6	-18.0	3.2
Final domestic demand	-0.9	0.3	-2.7	-4.9	-6.4	-1.2	1.1	0.7	2.1	2.4	2.7	3.0	-0.4	-2.9	1.7
Exports	-0.1	12.1	-3.6	-19.5	-29.9	-5.0	17.2	6.5	6.5	7.1	9.9	10.5	5.4	-10.7	7.8
Imports	-2.5	-5.0	-2.2	-16.7	-36.4	-15.0	19.4	7.5	8.1	9.1	10.4	10.3	-3.2	-14.6	8.3
Inventories (change in \$b)	0.6	-37.1	-29.7	-37.4	-113.9	-159.2	-108.2	-63.9	-36.1	-15.5	-3.8	4.1	-25.9	-111.3	-12.8
Real gross domestic product	-0.7	1.5	-2.7	-5.4	-6.4	-1.0	2.0	1.8	2.6	2.7	2.8	3.1	0.4	-2.7	2.2

### Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	2.7	2.6	1.3	1.1	1.1	1.9	3.3	4.0	4.7	3.5	2.6	2.2	1.9	2.6	3.2	
Pre-tax corporate profits	-4.9	-12.0	-5.4	-25.1	-19.0	-10.9	-10.1	17.8	13.3	7.9	5.1	6.0	-11.8	-6.9	7.9	
Unemployment rate (%)**	4.9	5.4	6.1	6.9	8.1	9.3	9.7	10.0	10.0	10.0	9.9	9.7	5.8	9.3	9.9	
Inflation																
Headline CPI	4.1	4.4	5.3	1.6	0.0	-1.2	-1.7	1.2	2.1	1.7	1.2	1.2	3.8	-0.5	1.5	
Core CPI	2.4	2.3	2.5	2.0	1.7	1.8	1.4	1.3	1.1	1.0	0.9	0.9	2.3	1.5	1.0	
External trade																
Current account balance (\$b)	-717	-751	-737	-620	-406	-371	-414	-433	-450	-473	-489	-505	-706	-406	-479	
% of GDP	-5.1	-5.3	-5.1	-4.4	-2.9	-2.6	-2.9	-3.0	-3.1	-3.2	-3.3	-3.4	-4.9	-2.8	-3.2	
Housing starts (000s)**	1059	1017	868	658	528	539	582	598	617	632	661	693	900	562	651	
Motor vehicle sales (millions, saar)**	15.3	14.1	12.9	10.5	9.5	9.6	11.8	10.4	10.8	11.4	12.1	12.7	13.2	10.3	11.8	

\*\*Quarterly average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

## Financial market forecast detail

### Interest rates

%, end of period

	Actual						Forecast						Forecast		
	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	2008	2009	2010
<b>Canada</b>															
Overnight rate	3.50	3.00	3.00	1.50	0.50	0.25	0.25	0.25	0.25	0.75	1.25	1.50	0.25	1.25	
Three-month T-bills	1.87	2.48	1.89	0.83	0.39	0.24	0.30	0.35	0.50	0.75	1.25	1.85	0.35	1.85	
Two-year GoC bonds	2.58	3.24	2.78	1.09	1.07	1.20	1.20	1.20	1.30	1.50	2.10	2.60	1.20	2.60	
Five-year GoC bonds	2.91	3.45	3.17	1.69	1.75	2.46	2.65	2.75	2.80	2.85	3.10	3.40	2.75	3.40	
10-year GoC bonds	3.45	3.74	3.75	2.69	2.79	3.36	3.40	3.15	3.35	3.50	3.70	3.85	3.15	3.85	
30-year GoC bonds	3.96	4.05	4.13	3.45	3.74	3.91	3.95	4.00	4.00	4.25	4.45	4.75	4.00	4.75	
Yield curve (10s-2s)	87	50	97	160	172	216	220	195	205	200	160	125	195	125	
<b>United States</b>															
Fed funds rate	2.25	2.00	2.00	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0.50	0 to 0.25	0 to 0.25	0.50
Three-month T-bills	1.38	1.90	0.92	0.11	0.21	0.19	0.18	0.20	0.25	0.30	0.40	1.00	0.11	0.20	1.00
Two-year bonds	1.62	2.63	2.00	0.76	0.81	1.11	0.95	1.00	1.00	1.20	1.50	1.85	0.76	1.00	1.85
Five-year bonds	2.46	3.34	2.98	1.55	1.67	2.54	2.50	2.25	2.25	2.50	2.60	3.00	1.55	2.25	3.00
10-year bonds	3.45	3.99	3.85	2.25	2.71	3.53	3.30	3.00	3.25	3.50	3.75	3.95	2.25	3.00	3.95
30-year bonds	4.30	4.53	4.31	2.69	3.56	4.32	4.25	4.40	4.25	4.50	4.75	5.00	2.69	4.40	5.00
Yield curve (10s-2s)	183	136	185	149	190	242	235	200	225	230	225	210	149	200	210
<b>Yield spreads</b>															
Three-month T-bills	0.49	0.58	0.97	0.72	0.18	0.05	0.12	0.15	0.25	0.45	0.85	0.85	0.72	0.15	0.85
Two-year	0.96	0.61	0.78	0.33	0.26	0.09	0.25	0.20	0.30	0.30	0.60	0.75	0.33	0.20	0.75
Five-year	0.45	0.11	0.19	0.14	0.08	-0.08	0.15	0.50	0.55	0.35	0.50	0.40	0.14	0.50	0.40
10-year	0.00	-0.25	-0.10	0.44	0.08	-0.17	0.10	0.15	0.10	0.00	-0.05	-0.10	0.44	0.15	-0.10
30-year	-0.34	-0.48	-0.18	0.76	0.18	-0.41	-0.30	-0.40	-0.25	-0.25	-0.30	-0.25	0.76	-0.40	-0.25

### Exchange rates

%, end of period

	Actual						Forecast						Forecast		
	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	2008	2009	2010
Australian dollar	0.91	0.96	0.79	0.70	0.69	0.81	0.80	0.86	0.88	0.89	0.90	0.90	0.70	0.86	0.90
Brazilian real	1.76	1.30	1.91	2.31	2.32	1.95	1.85	1.80	1.75	1.75	1.70	1.65	2.31	1.80	1.65
Canadian dollar	1.03	1.02	1.06	1.23	1.26	1.16	1.14	1.09	1.08	1.07	1.05	1.05	1.23	1.09	1.05
Chinese renminbi	7.01	6.85	6.82	6.84	6.83	6.83	6.83	6.83	6.80	6.67	6.60	6.50	6.84	6.83	6.50
Euro	1.58	1.58	1.41	1.35	1.33	1.40	1.38	1.42	1.44	1.45	1.51	1.52	1.35	1.42	1.52
Japanese yen	100	106	106	91	99	96	92	90	88	87	85	85	91	90	85
Mexican peso	10.64	10.31	10.94	13.10	14.17	13.19	13.10	12.75	12.50	12.25	12.00	11.75	13.10	12.75	11.75
New Zealand dollar	0.79	0.76	0.67	0.58	0.56	0.65	0.67	0.70	0.71	0.72	0.72	0.72	0.58	0.70	0.72
Swiss franc	0.99	1.02	1.12	1.07	1.14	1.09	1.12	1.09	1.09	1.09	1.05	1.05	1.07	1.09	1.05
U.K. pound sterling	1.98	1.99	1.80	1.46	1.43	1.65	1.68	1.75	1.80	1.84	1.91	1.92	1.46	1.75	1.92

Source: Bank of Canada, Federal Reserve Board, Reuters, RBC Economics Research forecasts

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