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On pins and needles

Central bankers worried aloud about the outlook for the global economy vowing to use monetary policy as a tool to counter stresses in financial markets and keep their economies growing. In particular, the Federal Reserve announced that extraordinarily stimulative policy will likely be needed until late 2014 in order for its mandate of price stability and full employment to be achieved. The Bank of Canada, in its quarterly forecast update, argued that the outlook for the world economy had deteriorated and uncertainty increased since early December 2011. While growth beat expectations in the second half of 2011, the Bank projected a more moderate pace ahead reflecting global challenges, which suggests that policy in Canada will remain at its current stimulative level for the remainder of 2012. To be sure, the uncertainty about the ability of Europeans to find a credible resolution to the sovereign-debt crisis and, in the immediate-term, tackle Greece's funding requirements is weighing on confidence and keeping central bankers in a state of heightened alert. Recent economic reports, however, show that the global economy has been able to stay on a moderate growth path and has so far avoided another sharp decline.

Slow progress, but progress nonetheless

The European Summit resulted in 25 to 27 member states agreeing to a fiscal compact aimed at strengthening fiscal discipline by legislating surveillance and implementing sanctions should governments fail to meet the balanced budget rule. On Greece, financial markets appear to accept that a deal is at hand that will allow Greece to restructure its debt and put its finances on track to achieve the medium-term goal that will trigger the next round of bailout funds being

Central bank near-term bias

Bias three-months out



The BoC held rates steady at 1.00% in January. We expect that the current stance of 'considerable monetary policy stimulus' will remain in place until risks to the outlook dissipate.



The FOMC extended its "extended period" language in January, noting conditions "are likely to warrant exceptionally low levels of the federal funds rate at least through late 2014."



With the BoE's Asset Purchase Programme set to reach its current target in early February, we expect that the MPC will announce a further £50 billion in gilt purchases at next week's meeting.



We continue to think that economic conditions make a strong case for further monetary easing in the euro area and expect cuts of 25bp each in February and April.



Soft employment and inflation readings give the RBA scope to move to a more accommodative monetary policy stance. We expect a 25bp cut in the OCR next week.



The RBNZ delivered a steady rate decision following its January meeting. The accompanying statement hinted that policy will remain on hold this year.

Highlights

▲ Fed worries aloud about effect of slowing global economy on outlook...

▲ ...and contends that exceptionally low rates will likely be needed “at least until late 2014.”

▲ US economy showing sustained momentum in early 2012.

▲ Interest rate forecasts lowered for 2012 after release of the Fed’s rate forecasts and as expectations of QE3 increase.

▲ IMF make significant cuts to world growth forecasts for 2012 and 2013.

released. The European Central Bank’s (ECB) first three-year Long-Term Refinancing Operation (LTRO) was successful in loosening up funding markets, and with another tranche coming at the end of February, the financial system is likely to retain these improvements. While these are steps in the right direction and have alleviated near-term concerns about a disorderly break-up of the euro zone, there are no easy fixes, and we expect that the combination of uncertainty and required austerity that pushed the region into recession will see the ECB cut rates further in the months ahead.

IMF downgrades growth forecasts

The International Monetary Fund’s (IMF) semi-annual forecast update proved a dour affair with all but the US growth forecast being revised lower for 2012. In the US, the IMF maintained its 1.8% projection for 2012, staying below the consensus forecast for a 2.2% gain this year. Heightened concerns about developments in Europe resulted in 1.6 percentage points being lopped off the 2012 forecast, which now stands at -0.5%. While most other forecasts saw smaller downgrades, the IMF’s message was clear: the world economy is on fragile footing, and the 2012 global expansion is likely to be the slowest since 2009.

US economic data point to momentum being sustained

The wave of austerity measures in the euro zone and UK, and the weakening momentum in China and other emerging nations all point to weaker growth in the near term. In the US, the economy accelerated in the fourth quarter of 2011, and recent reports point to this stronger momentum being maintained in early 2012. The ISM manufacturing report indicated that the manufacturing industry continued to expand in the first month of 2012. The details of the report were encouraging in showing that all components except inventories remained in expansionary territory. The US labour market surprised on the upside as non-farm payrolls rose by a sharp 243,000 in January and the unemployment rate fell to 8.3%. These indicators bode well for the quicker pace of expansion established in the fourth quarter of last year to be maintained.

Fed unveils new communications tools

In January, the Fed made some significant changes to their communications strategy including interest rate forecasts in its quarterly summary of economic projections and announcing a medium-term inflation target. These changes were aimed at providing more transparency to markets and decision-makers about the likely course of monetary policy. To this end, the Fed released the Committee members’ projections of the timing of the first interest rate increase and the level of the Fed funds target at each year end. As expected, there was a significant dispersion in the forecasts provided with 11 of 17 members expecting the first rate increase to occur in 2014 or beyond, and the policy rate forecast at 1% or less at the end of that year. One-third of members thought that the first rate hike would occur in 2012 or 2013, although only two expected the rate to be above 1% by the end of 2013.

The Fed’s inclusion of a medium-term inflation target of 2% in the personal consumption expenditure (PCE) deflator met less fanfare as this only addresses one-half of the Fed’s mandate. Furthermore, Chairman Bernanke made it clear that the Fed is not a pure inflation-targeting central bank, like the Bank of Canada, but it maintains a dual mandate and as such gives equal weight to price stability and full employment.

Low rates warranted “at least through late 2014”

In the final analysis, the Fed concluded that in order to achieve its mandate, the very low level of the policy rate may be warranted “at least through late-2014.” This extended the time horizon from mid-2013 as indicated in the previous statement. The Fed’s assessment of current conditions (economy has been expanding moderately) and projections for growth (downgraded slightly from November) were partly responsible for this lower-for-longer profile especially when overlaid with the Fed’s assessment that the global economy is slowing.

Just an input into the policy machine

These rate projections and more defined inflation target are just ‘inputs’ into the decision making process by the Federal Open Market Committee (FOMC) and are subject to revision according to Chairman Bernanke. Doing a back-to-back comparison of our forecast with the Fed’s shows that our baseline view is for growth at the upper end of the Fed’s central tendency forecast range, and similarly, we expect a gradual decline in the unemployment rate over this forecast horizon. At the end of the day, we view the US economy as having raised its game in late 2011. Our 2012 forecast for GDP growth of 2.4% assumes that the payroll tax cut and emergency unemployment benefits will be extended throughout 2012 and that financial market pressures associated with the European debt crisis will be contained. Against this backdrop, we look for the pace of job creation to run at about 170,000 per month, which would be stronger than 2011’s 152,000 average gain. This will only be strong enough to exert mild downward pressure on the unemployment rate and, therefore, is unlikely to turn the dial for policy makers this year. In 2013, our forecast is for the US economy to grow at a 3.0% rate, as the stimulative effects of monetary policy offset the drag from fiscal restraint. All told, incorporating the new information provided by the Fed makes us more confident in our view that the funds target will remain in the 0% to 0.25% range throughout 2012 and 2013.

A boring year for bond traders

The Fed’s announcement and growing expectation that the Fed will announce another round of quantitative easing via purchases of mortgage-backed securities have led us to pare back our interest rate forecasts for US Treasury yields. 10-year rates, which stand at 1.92% today, are forecasted to be 2.25% at year-end 2012 with two-year rates holding around 0.25%. In 2013, with our expectations of firmer growth and persistent job gains, we believe that interest rates will grind higher. Having said that, the massive amount of slack in the US economy will keep price pressures at bay and, combined with unchanged monetary policy, points to increases in term rates being limited. Our revised forecast is for the two-year US Treasury bond yield to rise to 0.75% and the 10-year rate to 2.90%.

Data run hot and cold in Canada

Canadian GDP fell in November 2011 in part due to transitory factors that will eventually be reversed for December and January. The decline, however, was unexpected, and thus, fourth-quarter 2011 growth looks like it will be slower than we previously estimated. Specifically, we expect real GDP growth of 1.5% at an annual rate in the final quarter of 2011. This is much slower than the 3.5% gain recorded in the third quarter and echoes the pattern in the first half of the year. The one-off factors that weighed on activity late in the year will provide a much needed bump to activity when they reverse in early 2012. This pattern was also evident in the labour data with strength in the third quarter followed by a significant slowing in late 2011 and into 2012.

External risks, data make case for steady rates in 2012

The Bank of Canada reiterated its deep-seated concerns about the effect of external events on the economic outlook in its quarterly forecast update. The Bank largely maintained its growth forecasts for Canada and judged that the risks to the outlook were “roughly balanced.” Heightened concerns about the global outlook, the Fed firmly on hold, and volatility in domestic data set up for the Bank to maintain the overnight rate at 1%. With our base case forecast that both the Canadian and US economies will prove stronger than the Bank expects in 2012 and that the effect of the European crisis will be contained, we expect the Bank to raise its policy rate, although it is more likely that this will occur in 2013 than any time this year.

▲ Canada’s economy contracted in November 2011 reflecting transitory factors.

▲ Economy likely grew at a modest 1.5% annualized pace in Q4/11, which was much slower than 3.5% rise in Q3/11.

▲ As transitory factors that weighed on growth in November 2011 reverse, the economy is forecasted to return to an above-potential pace.

▲ The Bank of Canada remains concerned about the effect of external developments on the economy’s outlook and will likely hold the policy rate at 1.0% in 2012.

Highlights

▲ The ECB is expected to cut rates by 25bp at next week's meeting.

▲ Muted growth and inflation mean that the MPC will likely expand its asset purchases in February 2012.

▲ Soft inflation readings give the RBA scope to cut rates, with a 25bp cut expected next week.

▲ The RBNZ signalled that it is content to stay on the sidelines.

Price stability helps case for further monetary easing by ECB

While the negotiations regarding the details of the fiscal compact and the private-sector involvement in Greece's debt restructuring continue to dominate headlines out of the euro area, survey data have quietly turned less pessimistic and suggest that economic headwinds, while still challenging, may no longer be quite as intense. January purchasing managers' index (PMI) data point to a stabilization of economic activity and provide some early upside risk to our forecast 0.2% contraction in output in the first quarter of 2012. As well, the indicator of overall economic sentiment for the region increased in the month for the first time since last February. On the inflation front, the 'flash' harmonized index of consumer prices (HICP) showed a 2.7% annual increase in January, and we expect price pressures to fall sharply in the coming months such that inflation falls to a level consistent with the ECB's definition of price stability by the second quarter of 2012. These well anchored inflation expectations provide the central bank with the capacity to further loosen monetary policy to support the fragile economy; however, the timing of the next such move is a matter of debate. We remain of the view that the ECB will cut rates by 25 basis points at next week's meeting, although we acknowledge that some members of the Governing Council could argue in favour of delaying the move until after the next three-year LTRO (February 29). We anticipate that the ECB's long-held argument that liquidity measures should be viewed as separate from monetary policy will push the balance but note that a delay until March cannot be ruled out.

UK getting its boarding pass ready for another trip on QE

After the Bank of England's Monetary Policy Committee (MPC) spent much of the last two years balancing opposing risks to inflation stemming from rising external price pressures and sagging domestic demand, recent developments suggest that policy debates in 2012 may be less contentious. The UK economy continues to struggle to gain meaningful momentum with real GDP posting a weaker than expected non-annualized 0.2% decline in the fourth quarter of 2011. While we anticipate that a technical recession will be avoided, growth is expected to be lacklustre over the near term and average a paltry 0.1% quarterly growth rate through the first half of 2012. On the other hand, price pressures moderated further in December with CPI registering a 4.2% annual increase, down from 4.8% in the previous month and a full percentage point below the recent peak seen in September. With last January's valued-added tax (VAT) hike falling out of the calculation and excess capacity in the economy expected to restrict domestic price pressures, we forecast inflation to fall below 3% by the second quarter of 2012 and maintain a downward trajectory to close in on the central bank's 2% target by the end of 2013. The combination of muted growth and inflation make it likely that the MPC will announce a further £50 billion in quantitative easing at its meeting next week.

Australians open to accommodative policy stance

Australia's fourth-quarter 2011 inflation data provided some validation for the Reserve Bank of Australia's (RBA) decision to ease monetary policy through 25 basis point rate cuts in November and December, as it indicated underlying price pressures were running at the bottom of the central bank's target range at the end of 2011. The recent softening in employment that saw annual gains wiped out by declines in the final two months of 2011 indicates a build up of slack in the economy that, combined with a strong currency, suggests that disinflationary forces will prevail in 2012 and provides the RBA with the scope to move toward an accommodative policy stance. As such, we expect that the central bank will reduce rates from its current neutral level with a 25 basis point cut at next week's meeting followed by further 25 basis point cuts in the second and third quarters to bring the Official Cash Rate (OCR) to 3.50% by the end of 2012.

RBNZ renews season tickets for its sideline seats

The Reserve Bank of New Zealand (RBNZ) left the OCR unchanged at 2.50% at its January policy meeting, and the short accompanying statement maintained a mildly dovish tone. While we do not view that Governor Bollard is signaling that the central bank is preparing to undertake further easing, in omitting the previously used words "for now" from the final sentence ("it remains prudent to keep the OCR on hold at 2.5%"), the RBNZ is likely indicating that it is prepared to stay on the sidelines. We do not expect policy normalization to begin until 2013.

Interest rate outlook

%, end of period

	<i>Actuals</i>				<i>Forecast</i>							
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4
Canada												
Overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00
Three-month	1.10	0.90	0.80	1.10	0.90	0.95	1.05	1.30	1.60	1.80	2.05	2.10
Two-year	1.85	1.42	0.88	1.00	1.05	1.15	1.20	1.25	1.50	1.75	1.95	2.20
Five-year	2.65	2.06	1.39	1.50	1.40	1.55	1.70	1.85	2.05	2.30	2.40	2.55
10-year	3.25	2.91	2.15	2.30	2.00	2.10	2.20	2.40	2.45	2.60	2.80	2.95
30-year	3.85	3.42	2.77	3.10	2.60	2.70	2.80	3.00	3.15	3.30	3.45	3.60
United States												
Fed funds	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Three-month	0.15	0.03	0.02	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Two-year	0.70	0.41	0.25	0.30	0.25	0.25	0.25	0.25	0.40	0.50	0.55	0.75
Five-year	2.10	1.45	0.96	1.10	0.75	0.80	0.85	0.95	1.10	1.25	1.40	1.60
10-year	3.45	2.92	1.92	2.15	1.85	1.95	2.05	2.25	2.40	2.55	2.75	2.90
30-year	4.50	4.27	2.92	3.20	3.00	3.20	3.40	3.65	3.75	3.90	4.05	4.15
United Kingdom												
Bank rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25
Two-year	1.30	0.70	0.60	0.70	0.30	0.30	0.40	0.40	0.50	0.80	1.10	1.40
10-year	3.65	3.13	2.44	2.45	2.20	2.40	2.40	2.60	2.60	2.80	3.00	3.00
Eurozone												
Refi rate	1.00	1.25	1.50	1.00	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Two-year	1.75	1.34	0.66	0.65	0.25	0.50	0.50	0.50	0.60	0.70	0.80	0.90
10-year	3.30	2.83	1.90	2.20	2.20	2.25	2.25	2.50	2.60	2.70	2.80	2.95
Australia												
Cash target rate	4.75	4.75	4.75	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.75	4.00
Two-year	5.00	4.65	3.63	3.15	3.00	3.10	3.20	3.40	3.70	4.00	4.30	4.50
10-year	5.55	5.05	4.22	4.05	3.75	3.75	3.75	3.85	4.00	4.15	4.45	4.70
New Zealand												
Cash target rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.25
Three-year	3.25	3.22	2.88	2.85	2.95	3.10	3.35	3.50	3.60	3.70	3.80	3.90
10-year	5.50	5.02	4.39	4.25	4.30	4.30	4.40	4.50	4.65	4.85	5.15	5.40
Yield curve												
Canada	140	149	127	130	95	95	100	115	95	85	85	75
United States	275	251	167	185	160	170	180	200	200	205	220	215
United Kingdom	235	243	184	175	190	210	200	220	210	200	190	160
Eurozone	155	149	124	155	195	175	175	200	200	200	200	205
Australia	55	40	59	90	75	65	55	45	30	15	15	20
New Zealand	225	180	151	140	135	120	105	100	105	115	135	150

* Two-year/10-year spread in basis points **New Zealand's yield curve: 10-year vs. three-year

Source: Reuters, RBC Economics Research

Central bank policy rate

%, end of period

		Current	Last				Current	Last	
United States	Fed funds	0.0-0.25	1.00	Dec. 16, 2008	Eurozone	Refi rate	1.00	1.25	Dec. 14, 2011
Canada	Overnight rate	1.00	0.75	Sep. 8, 2010	Australia	Cash rate	4.25	4.50	Dec. 7, 2011
United Kingdom	Bank rate	0.50	1.00	Mar. 5, 2009	New Zealand	Cash rate	2.50	3.00	Mar. 10, 2011

Source: Bloomberg, Reuters, RBC Economics Research

Economic outlook

Growth outlook

% change, quarter-over-quarter in real GDP

	<u>11Q1</u>	<u>11Q2</u>	<u>11Q3</u>	<u>11Q4</u>	<u>12Q1</u>	<u>12Q2</u>	<u>12Q3</u>	<u>12Q4</u>	<u>13Q1</u>	<u>13Q2</u>	<u>13Q3</u>	<u>13Q4</u>	<u>2010A</u>	<u>2011F</u>	<u>2012F</u>	<u>2013F</u>
Canada*	3.5	-0.5	3.5	1.5	2.5	2.6	2.7	2.9	2.9	2.7	2.2	2.2	3.2	2.3	2.3	2.7
United States* **	0.4	1.3	1.8	2.8	2.4	2.6	2.6	3.2	3.2	3.0	3.0	3.5	3.0	1.7	2.4	3.0
United Kingdom**	0.4	0.0	0.6	-0.2	0.1	0.1	0.7	0.3	0.5	0.5	0.5	0.5	2.1	0.9	0.8	1.8
Eurozone	0.8	0.2	0.1	-0.3	-0.2	0.1	0.3	0.3	0.3	0.4	0.4	0.4	1.8	1.5	-0.1	1.3
Australia	-0.7	1.4	1.0	0.6	1.0	0.9	0.5	0.6	0.9	1.0	1.1	1.1	2.7	1.9	3.4	3.4
New Zealand	0.7	0.1	0.8	0.3	0.6	0.6	0.8	1.0	0.9	0.8	0.7	0.6	1.3	1.5	2.4	3.3

*Seasonally adjusted annualized rates, **11Q4 value is the first estimate

Inflation outlook

% change, year-over-year

	<u>11Q1</u>	<u>11Q2</u>	<u>11Q3</u>	<u>11Q4</u>	<u>12Q1</u>	<u>12Q2</u>	<u>12Q3</u>	<u>12Q4</u>	<u>13Q1</u>	<u>13Q2</u>	<u>13Q3</u>	<u>13Q4</u>	<u>2010A</u>	<u>2011F</u>	<u>2012F</u>	<u>2013F</u>
Canada	2.6	3.4	3.0	2.6	2.0	1.5	1.8	1.6	1.8	2.1	2.1	2.1	1.8	2.9	1.7	2.0
United States	2.1	3.4	3.8	3.3	2.5	2.0	1.8	1.8	1.9	1.9	1.8	1.9	1.6	3.2	2.0	1.9
United Kingdom	4.1	4.4	4.7	4.6	3.2	2.7	2.4	2.3	2.3	2.2	2.1	2.0	3.3	4.5	2.6	2.1
Eurozone	2.5	2.8	2.7	2.9	2.6	2.1	2.0	1.8	1.6	1.6	1.7	1.7	1.6	2.7	2.1	1.6
Australia	3.3	3.6	3.5	3.1	2.1	2.0	2.8	3.5	3.8	3.6	3.0	3.1	2.8	3.4	2.6	3.4
New Zealand	4.5	5.3	4.6	1.9	1.6	1.1	1.2	2.1	2.2	2.3	2.4	2.3	2.3	4.0	1.5	2.3

Source: Statistics Canada, Bureau of Labor Statistics, Bank of England, European Central Bank, Reserve Bank of Australia, Reserve Bank of New Zealand, RBC Economics Research

Inflation tracking

Inflation Watch

	<u>Measure</u>	<u>Current period</u>	<u>Month ago</u>	<u>Year ago</u>	<u>Three-month trend</u>	<u>Six-month trend</u>
Canada	Bank of Canada core CPI ¹	Dec.	-0.2	1.3	1.8	1.3
United States	Core PCE ²	Dec.	0.2	1.8	1.1	1.9
United Kingdom	All-items CPI	Dec.	0.4	4.2	3.9	3.8
Eurozone	All-items CPI	Dec.	0.1	2.8	1.8	2.0
Australia	Trimmed mean	Q4	0.4	2.4	N/A	N/A
New Zealand	CPI	Q4	0.4	4.6	N/A	N/A

¹ Seasonally adjusted measurement

² Personal consumption expenditures less food and energy price indices

Source: Statistics Canada, US Bureau of Labor Statistics, Bank of England, European Central Bank, Reserve Bank of Australia, Reserve Bank of New Zealand, RBC Economics Research

Currency outlook

Level, end of period

	Actuals				Forecast					
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2
Canadian dollar	0.97	0.96	1.05	1.02	0.98	0.99	1.00	1.00	0.98	0.96
Euro	1.42	1.45	1.34	1.30	1.33	1.29	1.28	1.27	1.26	1.26
U.K. pound sterling	1.60	1.61	1.56	1.55	1.58	1.55	1.56	1.59	1.59	1.62
New Zealand dollar	0.76	0.83	0.76	0.78	0.85	0.84	0.83	0.82	0.81	0.80
Japanese yen	83.1	80.6	77.0	77.0	75.0	74.0	73.0	71.0	70.0	71.0
Chinese renminbi	6.55	6.46	6.38	6.29	6.30	6.25	6.20	6.10	6.05	6.00
Australian dollar	1.03	1.07	0.97	1.03	1.08	1.06	1.04	1.02	1.00	0.99
Mexican peso	11.9	11.7	13.9	14.0	14.0	13.5	13.3	13.0	12.8	12.8

Canadian dollar cross-rates

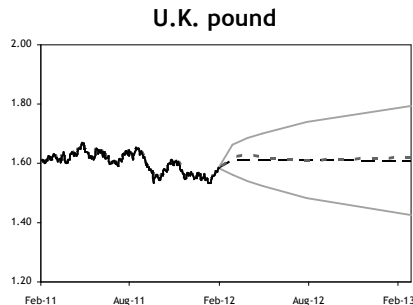
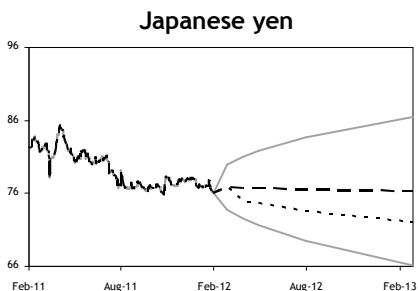
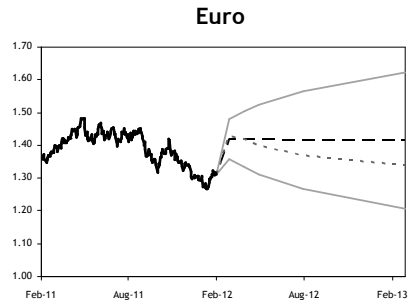
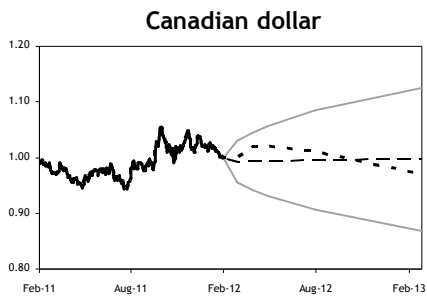
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2
EUR/CAD	1.37	1.40	1.41	1.32	1.30	1.28	1.28	1.27	1.23	1.21
GBP/CAD	1.56	1.55	1.64	1.58	1.55	1.54	1.56	1.59	1.56	1.55
NZD/CAD	0.74	0.80	0.80	0.79	0.83	0.83	0.83	0.82	0.79	0.77
CAD/JPY	85.6	83.6	73.3	75.7	76.5	74.7	73.0	71.0	71.4	74.0
AUD/CAD	1.00	1.03	1.01	1.04	1.06	1.05	1.04	1.02	0.98	0.95

Rates are expressed in currency units per US\$ and currency units per C\$, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US\$ per currency unit and C\$ per currency unit.

Source: Bloomberg, RBC Economics Research

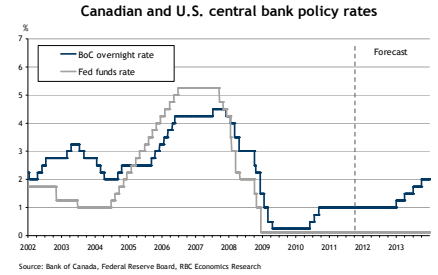
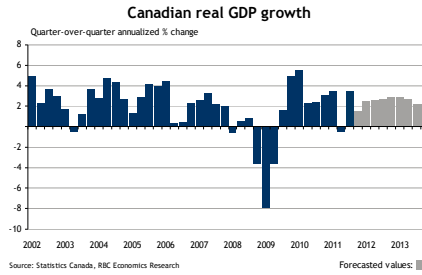
RBC Economics outlook compared to the market

The following charts track historical exchange rates plus the forward rate (dashed line) compared to the RBC Economics forecast (dotted line) out one year. The cone for the forecast period frames the forward rate with confidence bounds using implied option volatilities as of the date of publication.



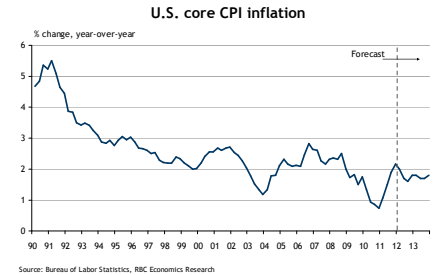
Bank of Canada

- Canadian real GDP unexpectedly dipped in November 2011 as declines in mining, oil and gas extraction, utilities, and construction more than offset minimal increases from the service sector.
- The BoC acknowledged stronger growth in H2/11 and expects some moderation ahead reflecting the effect of elevated external risks.



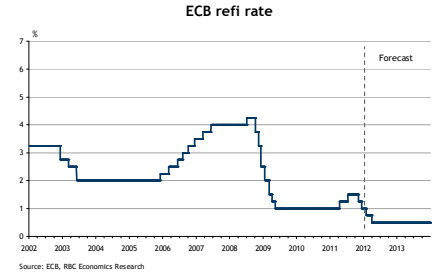
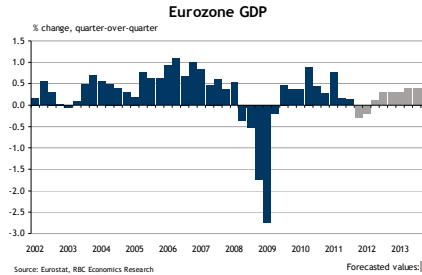
Federal Reserve

- US real GDP rose an annualized 2.8% in Q4/11, up from a 1.8% increase in Q3/11, with much of the gain resulting from an outsized add to growth from inventory, though stronger consumer spending and residential investment also provided support.
- The FOMC surprised markets by saying the low funds rate was likely to be warranted until “at least through late 2014.”



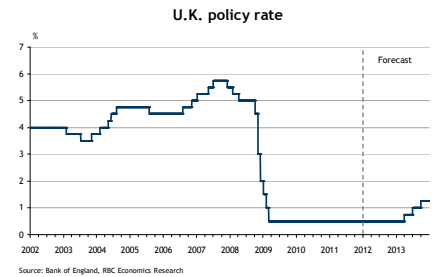
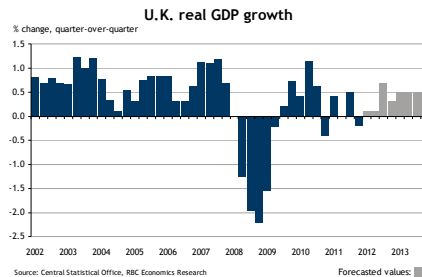
European Central Bank

- The ‘flash’ PMI readings for January provide evidence that economic activity in the euro area is stabilizing, although the levels are still consistent with a contraction in output in Q1/12.
- Weak economic conditions will likely see the ECB cut key rates by 25bp at next week’s policy meeting although a delay until March 2012 should not be ruled out.



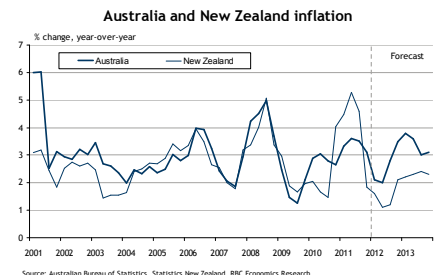
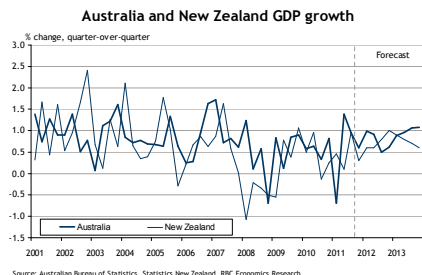
Bank of England

- UK real GDP declined by a greater than expected non-annualized 0.2% in Q4/11, although the details of the report were not as bleak as the headline suggests.
- The MPC is expected to announce a further £50 billion in asset purchases next week to be spread out over the following three months.



Australia and New Zealand

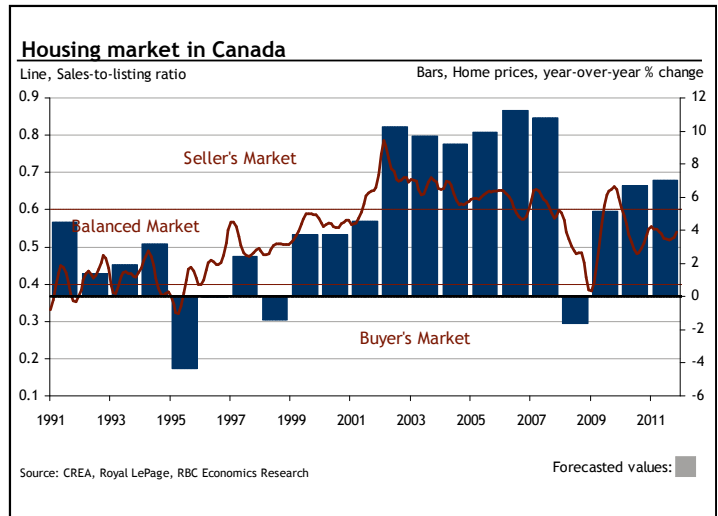
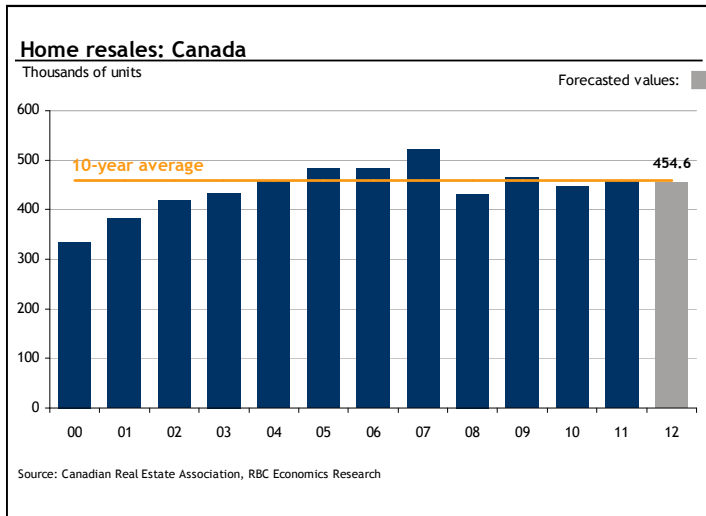
- The RBA is expected move from the current neutral stance of policy to a more accommodative position with a 25bp cut at next week’s meeting of the Reserve Bank Board.
- The RBNZ held rates at 2.50% in January 2012, and there is no doubt that the recent low inflation print has added to the central bank’s comfort in staying on the sidelines until 2013.



Canada's housing market—steady as she goes

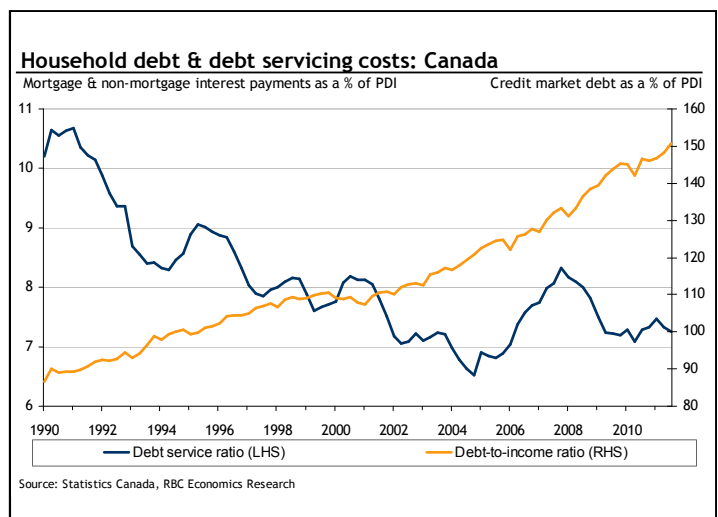
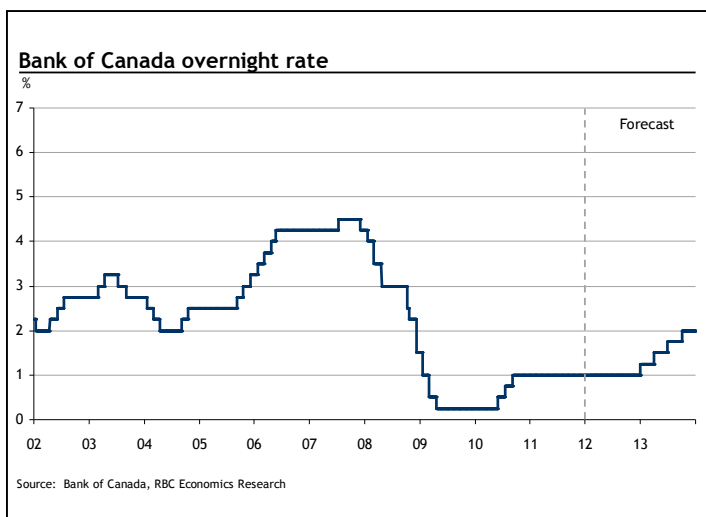
Sales ended 2011 at the fastest pace of the year; however, for the year as a whole, sales ran slightly below the average pace in past decade.

Prices rose by about 7% in 2011. Robust gains resulted in both sales and new listings rising leaving supply and demand roughly in balance.



The Bank of Canada is likely to maintain its policy stance with the overnight rate at 1.0% throughout 2012...

...this means that households will continue to be able to service the elevated level of debt accumulated.



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