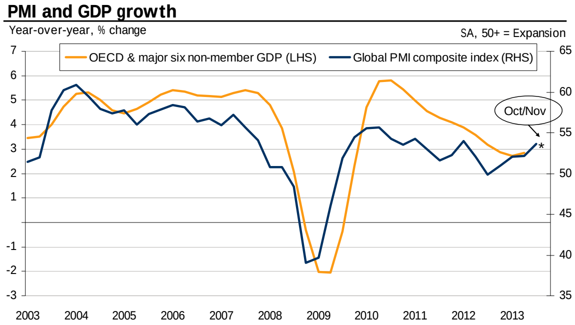
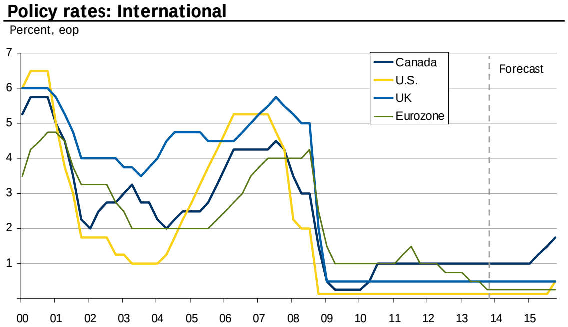
PMI and GDP growth



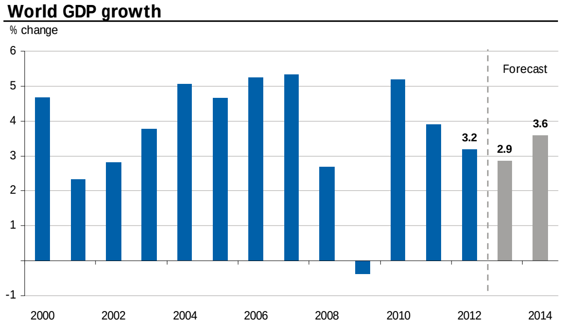
Source: Organization for Economic Cooperation & Devt, JP Morgan, Markit, RBC Economics Research

Policy rates: International



Source: Bank of England, European Central Bank, Federal Reserve, Bank of Canada, RBC Economics Research

World GDP growth



Source: International Monetary Fund, RBC Economics Research

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ECONOMIC AND FINANCIAL MARKET OUTLOOK

December 2013

AS HEADWINDS DISSIPATE, GLOBAL ECONOMY'S PROSPECTS BRIGHTEN

Taking it all in stride

The global economy accelerated in the third quarter of 2013 with October and November reports suggesting that the momentum was maintained in the final quarter of the year. This was surprising given that the US government injected another dose of policy uncertainty into the global landscape when it failed to reach an agreement on spending resulting in a partial shutdown in government services and reviving concerns about that country's credit rating. These developments roiled financial markets, although only temporarily, as a 2.2% drop in the MSCI world stock index in first nine days of October was more than fully reversed in the latter part of the month.

Central banks keep calm

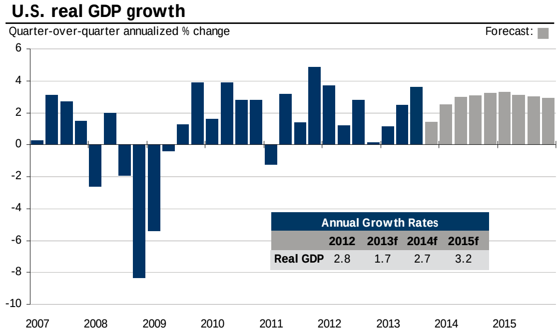
Central banks worked to inject calm into markets with the US Federal Reserve delaying the start of the tapering of its securities purchase program; the Bank of Canada removing its tightening bias and the European Central Bank cutting the policy rate. In all, central bank actions signalled that policy will remain extraordinarily accommodative until the pace of expansion accelerates sufficiently to exhaust spare capacity in the global economy and halt the downward pressure being exerted on inflation. Thus, central banks are unlikely to raise policy interest rates in 2014 and rely on tweaks to non-traditional policy measures to make any needed adjustments in the year ahead.

The strengthening in economic activity in the second half of the year is keeping the global economy on track to expand by 2.9% in 2013 despite undergoing a significant dose of fiscal restraint over the course of the year. Further, it provides a strong hand-off to 2014 that together with a lessening in contractionary fiscal policy measures set up for a firming in the global growth rate to 3.6%. This forecast assumes that the agreement on the budget reached in mid December will be passed. However until Congress and the Administration have passed it along with the need for the debt ceiling to be raised in the spring, the risk of another bout of political uncertainty and attendant pressures in financial markets cannot be completely discounted.

US government hiccup won't derail economy

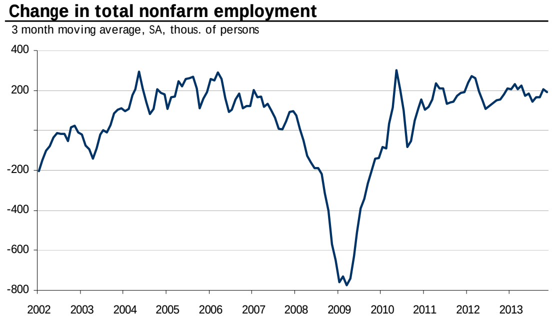
The US economy posted a solid 3.6% annualized gain in the third quarter, albeit with the help of an outsized increase in inventories. The economy maintained its momentum in the fourth quarter as indicated by the composite ISM index, a barometer of conditions in the manufacturing and non-manufacturing

U.S. real GDP growth



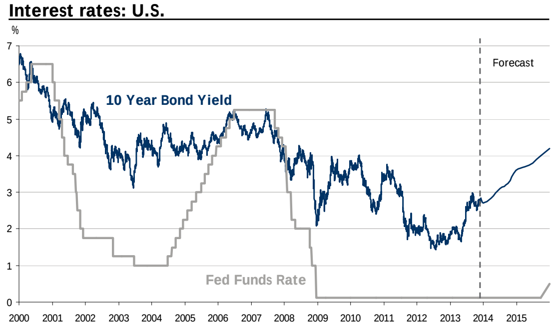
Source: Bureau of Economic Analysis, RBC Economics Research

Change in total nonfarm employment



Source: Bureau of Labor Statistics

Interest rates: U.S.



Source: Federal Reserve, RBC Economics Research

sectors easing only slightly from the third quarter's elevated level. Further, stronger than expected gains in non-farm payroll employment in October and November suggest that the hit to US firms' confidence was less than feared. While US policymakers were able to avert a full-scale government shutdown and debt default, it was because they pushed forward the timeline for a budgetary compromise to be reached. The bipartisan budget deal reached on December 10 still needs to be voted on by the Congress and passed by the Administration. We anticipate the deal will pass as lawmakers will not want to jeopardize the US credit rating or cause a downturn in the economy due to another shutdown in government services or further deterioration in consumer and business confidence. This sentiment is also expected to contribute to the raising of the debt ceiling in 2014.

Underpinnings for growth pickup in place

Outside of concerns about government budget issues, conditions are ripe for the US economy to pick up pace in 2014. Household net worth hit an all-time high in the first half of 2013, a product of sharply lower debt levels and rising assets values. Delinquency rates fell to the lowest since mid-2008. Financial asset values hit a new high in the second quarter while real estate values are within 16% of the pre-crash peak. As a result, households' equity in real estate rose to 50% recovering from the recession-driven drop to 37%. Employment gains are running close to 200,000 on a 3-month trend basis and the unemployment rate slipped to 7.0% in November, a 5-year low.

Fed exercises caution and delays tapering

The gradual improvement in economic conditions over the summer raised the prospect that the Federal Reserve would pullback on policy stimulus by reducing the amount of securities it purchased each month. In reaction, yields on longer-dated government bonds rose 130 basis points from May to early September. However, in September the Federal Reserve decided to delay tapering the size of its monthly purchase program on concerns that the rapid rise in yields and corresponding tightening in financial conditions risked slowing the economy's momentum. These concerns were compounded by the uncertain effect that the negotiations in Washington were going to have on consumer and business confidence. The decision to maintain the size of the purchase program at $85 billion per month resulted in ten-year government bonds reversing course and then stabilizing at the higher levels.

The stronger-than-expected improvement in labour market conditions in September through November increased the likelihood that the Fed will reduce the size of its monthly securities purchase program. However residual uncertainty about the next round of fiscal policy negotiations in Washington and the changing of the Chairmanship at the Fed early next year makes it likely that the Fed will wait until late in the first quarter of 2014 before initializing the process. A subsequent tightening in monetary policy via increases in the Federal Funds target range will be slower to materialize given that the Fed's stated thresholds of an unemployment rate closer to 6.5% and inflation closer to 2.0%, are unlikely to be achieved until the middle of 2015.

Housing market recovery underway

Home sales activity continued at a strong clip in the third quarter. Year-to-date sales are 10% higher than 2012's average pace. At the same time, the stock of homes available for sale fell to the lowest level since 2005 leading to a strengthening in building activity. Through August, the pace of housing starts was the fastest since 2007 at 907,000. While this marked a significant improvement, starts are still running notably below the 1.2 million rate of household formation. Housing affordability was squeezed as mortgage rates jumped in August however even after accounting for the increase in borrowing costs, houses were more affordable than they were over the previous decade. Financial institutions continued to ease lending standards in the second half of 2013 with the largest proportion of banks since before the housing market crash signalling an increased willingness to make loans. After two years of very strong increases, demand for mortgages, according to the Senior Loan Officer survey, weakened in the fourth quarter in reaction to the rise in mortgage rates. This easing in demand is likely to prove temporary as strengthening labour markets and rising personal incomes more than compensate for the mild increase in mortgage costs.

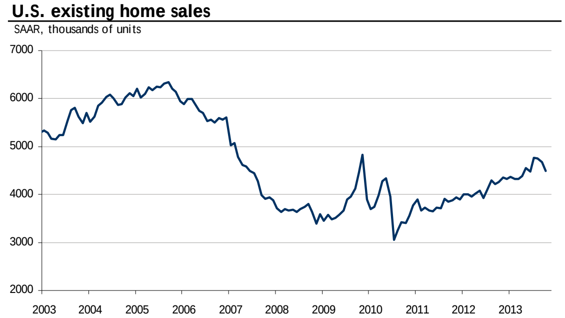
Consumers in position to spend

Compared to past recoveries, US consumer spending has been relatively subdued. Given the large role that the consumer plays in the US economy, an acceleration in spending activity sets up for a better year for overall growth. The easing in lending standards, low interest rates, improved balance sheets and strengthening labour market conditions will support a solid increase in consumption of both goods and services in 2014 which in conjunction with another year of housing market recovery will account for three quarters of the 2.7% annualized increase in real GDP.

Businesses stayed on the sidelines; getting ready to put money to work

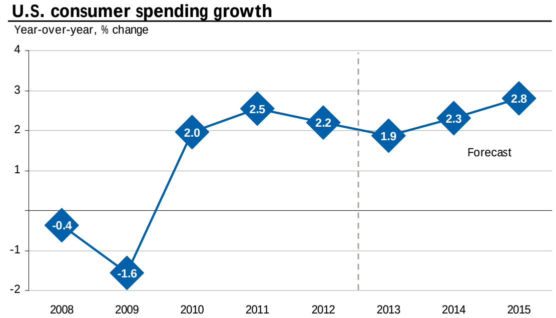
After tightening modestly over the summer, financial conditions eased again in September and October. Banks also eased lending standards, according to the Senior Loans Officer Survey, for businesses looking for commercial/industrial loans or mortgages. Even with this improvement in borrowing conditions, demand for loans remained tepid. This likely reflects, at least in part, nervousness about how the fiscal landscape will play out. Business balance sheets remain healthy with liquid balances well above their historic norms and companies reporting an elevated return on assets. Against this backdrop, the impediment to investment does not seem to reflect financial constraints but rather lingering uncertainty about the fiscal outlook and what this will mean for demand in early 2014.

U.S. existing home sales



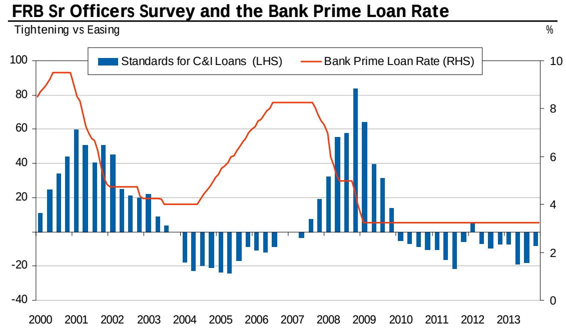
Source: National Association of Realtors, RBC Economics Research

U.S. consumer spending growth



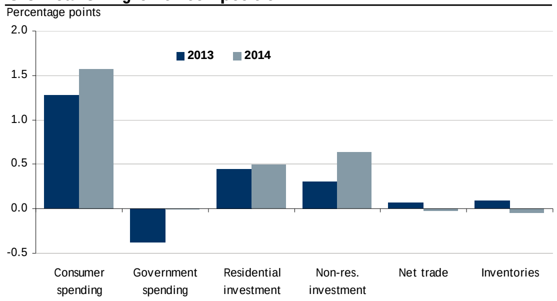
Source: Bureau of Economics Analysis, RBC Economics Research

FRB Sr Officers Survey and the Bank Prime Loan Rate



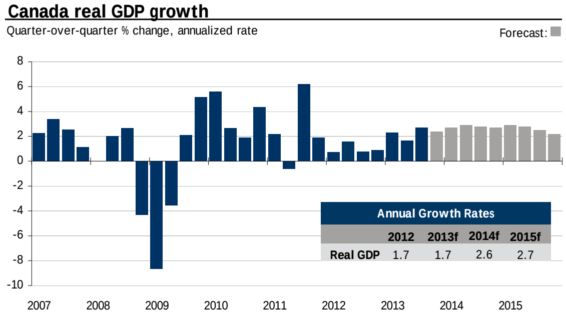
Source: Federal Reserve Board, RBC Economics Research

U.S. real GDP growth composition



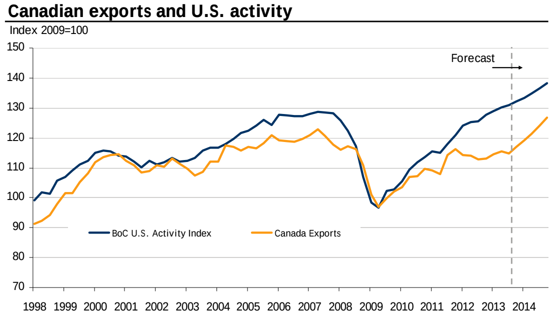
Source: Bureau of Economics Analysis, RBC Economics Research

Canada real GDP growth



Source: Statistics Canada, RBC Economics Research

Canadian exports and U.S. activity



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

Underlying our US forecast is the assumption that Washington will be able to successfully negotiate a package of spending and tax changes that will rein in the deficit and prevent a US credit rating downgrade. The US government deficit fell to 6.8% of GDP in 2012 from 10% in 2010 and fell to 4.1% in 2013. The $80 billion in spending cuts plus reversal of the social security tax cut in 2013 put the US government closer to getting its fiscal house in order. Even if there are further expenditure cuts on tap for 2014, the magnitude is likely to fall well short of the 1.5ppts hit to growth experienced this year. The lessening of fiscal restraint is likely to be viewed by businesses as kicking away one of the remaining impediments to a strengthening in demand. As such, we expect businesses to not only continue to hire in 2014 but also to put their dollars to work by investing in capital equipment and real estate.

Onward ho!

The US economy's growth rate likely slowed in the final quarter of 2013 due to the 16-day partial government shutdown, unwinding of recent inventory build and runoff effect on confidence. Our assumption that the next round of negotiations will transpire with much less disruption sets up for a resumption of the upward trend in US growth, continued employment gains and an eventual rise in inflation. Growth will come from all sectors of the economy, except government, in 2014 led by the household sector with spending on goods and services augmented by investment in real estate.

Canada's economy rallied back in second half of 2013

Canada's economy emerged from June's slump with real GDP growing at a 2.7% annualized pace in the third quarter. The rebound was a product of a solid gain in consumption plus a modest pick up in business investment. Further it occurred in spite of a 0.2 ppt hit to growth from net exports. Similar to other economies, October reports point to the economy's momentum being sustained in the fourth quarter. Housing starts, motor vehicle sales, the manufacturing PMI and employment posted solid gains in the month and the unemployment rate held at 6.9%. After accounting for the flow-through from the hit to confidence from the US government ruckus in early October, we still expect the economy to post another above-potential growth rate in the final quarter of 2013.

On net, 2013 marked another year of mediocre growth with real GDP estimated to increase by 1.7% in large part due to the weak performance of the export sector which failed to make a substantial contribution to the annual growth rate. Further, the lack of external demand weighed on business investment, limiting the annual increase in spending on capital goods and nonresidential construction projects to just under 2%.

The weakness in exports defied the historically tight relationship between growth in key sectors of the US economy and Canadian sales abroad. Strengthening in US housing and auto sales typically results in increased Canadian exports of lumber and motor vehicles and parts. During the most recent recovery, these market segments underperformed past recovery periods. However the underperformance was not just contained to these particular industries but also occurred in others, like energy and industrial machinery. To be sure, the slow and subpar recovery in the US economy and sector specific issues (increased US natural gas production leading to lower demand for Canadian product) accounted for the bulk of Canada's export sector underperformance. However this was exacerbated by the relative increase in Canadian unit labour costs and relatively strong Canadian currency.

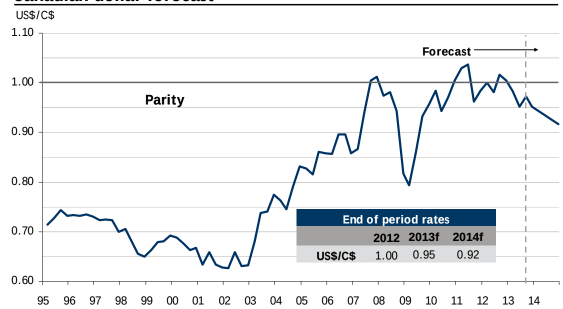
Exports to provide jolt to Canada's economy in 2014

Looking ahead to 2014, a persistent strengthening in US growth is likely to translate into firmer demand for Canadian exports especially as the expansion fans out and consumer spending and business investment pick up pace. Additional support is expected to come from a weakening in the Canadian dollar over the course of next year. After hitting a weak point in early 2009 as commodity prices dove and the global economic crisis hit a fever pitch, Canada's currency appreciated 20% against the US dollar. More recently, the stalling out of the commodity price rally and reduced expectations that the Bank of Canada will raise its policy rate ahead of the US Federal Reserve took some of the lustre off the Canadian dollar. However losses were limited as foreign investors purchased Canadian assets viewing the market as a safe place to invest. In 2014, the flow of foreign purchases is likely to slow as nonresident holdings of Canadian assets are already at market weight in global portfolios. Additionally, neither the Bank of Canada nor the Fed is likely to adjust the policy rate next year meaning short-term interest rate spreads will hold steady. With the supports for another round of C$ appreciation falling away and the US economy poised to enter a stronger growth phase, we estimate that the exchange rate will move from 95 US cents at year end 2013 to 92 US cents by the end of 2014.

External demand to support business investment

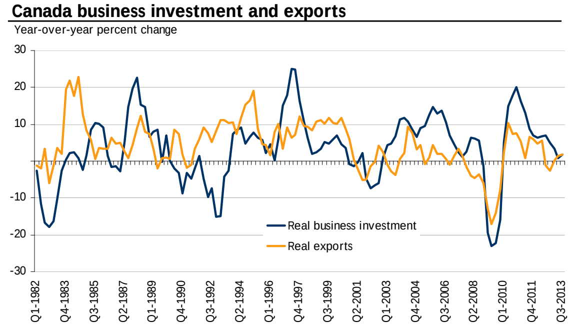
We expect Canadian export growth in 2014 to outpace imports resulting in the trade sector adding the most to economy's annual growth rate in more than a decade. Balance sheets of Canadian nonfinancial corporations continue to be cash-heavy with almost 12% of total assets in liquid balances. Profits slipped in 2012 and the first half of 2013 though inched up in the third quarter. Financial conditions continue to be amenable to investment with the Bank of Canada's outlook survey indicating that both lenders and borrowers did not view lending standards as having tightened in the fourth quarter. Business loan growth continues to run at an elevated rate compared to its historical average putting businesses in position to invest as demand heats up. Historically, external demand has been a key driver of business investment in both manufacturing and mining, oil and gas sectors. Our expectation that demand for Canadian exports will firm in 2014 is forecast to coincide with a rebound in investment activity in these sectors following the weak 2013.

Canadian dollar forecast



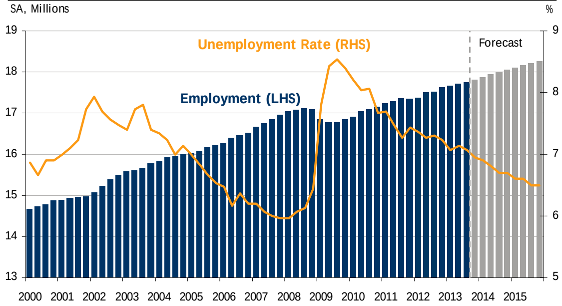
Source: Bank of Canada, RBC Economics Research Forecasts

Canada business investment and exports



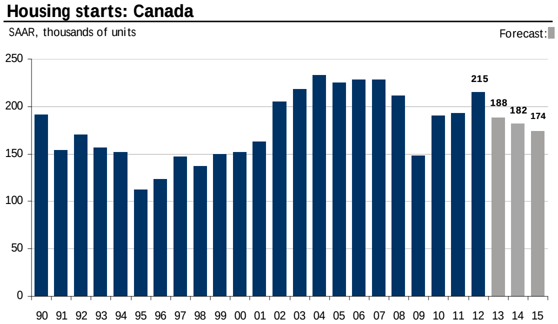
Source: Statistics Canada, RBC Economics Research

Labour market: Canada



Source: Statistics Canada, RBC Economics Research

Housing starts: Canada



Source: Canada Mortgage and Housing Corporation, RBC Economics Research

Don't count the consumer out!

Canadian household balance sheets came under pressure as debt loads increased faster than asset values and incomes. Canada's debt-to-income ratio hit an all-time high in the second quarter. Further, the growth in asset values and net worth was outpaced by that of credit on a percentage basis in the quarter, resulting in the household credit market debt-to-asset and net worth ratios rising for the first time in a year. That said, the rise in borrowing in the quarter reflected a seasonal bounce in mortgage loans in the spring associated with rising volume of housing market activity during the peak home sales season. The pace of household credit growth eased in the third quarter to the slowest pace since late 1995 while household net worth and income grew.

Canada's labour market has been resilient with 148,000 jobs created so far in 2013 and the unemployment rate falling to a cycle low of 6.9%. More than half of the jobs created were full-time positions. With the persistent increase in employment, wage gains averaged 2.0% so far in 2013. Although this marked a slowing from 2012's pace, it was well above the average 0.9% rate of inflation. Real wage gains will continue to fuel consumer spending with motor vehicle sales expected to maintain their recent rapid pace. The combination of income growth and improving balance sheets is forecast to be sufficient to support consumption of 2.5% in 2014 up from 2.2% this year.

Housing market's balancing act

After the sharp run up in home sales from March to September, activity faltered in October as affordability conditions deteriorated mildly. That said, sales were higher than a year earlier when changes to mortgage insurance rules exerted a significant dampening effect on market activity. Demand-supply conditions tightened slightly in the fall and price increases accelerated. The cooling in market activity in October likely represents a turning point after a rush by some homebuyers to lock-in low mortgage rates buoyed activity. Further this decline is likely to ease concerns that a bubble is developing in Canada's housing market. We expect home sales to stabilize near current levels, although some further modest pullback may occur in the months ahead as payback for sales that may have been advanced during the rush to lock-in lower rates.

The divergence in affordability conditions in the condo market relative to the single-family home market widened in the third quarter. In 2014, we expect this gap to remain historically wide given that the significant number of condo units that are due to be completed will likely weigh on prices in this segment. Single-family home prices are expected to remain relatively firm as supply/demand conditions are unlikely to change by any significant degree. Overall we expect affordability in Canada's housing market to continue to deteriorate in 2014 as longer-term interest rates gradually increase.

Bank of Canada frets about inflation outlook

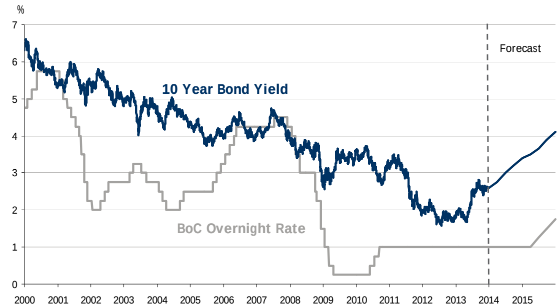
The Bank of Canada maintained the policy rate at 1.0% in 2013 but removed its tightening bias in October on the back of worries about the persistently low level of inflation. By December, the Bank's concern about the inflation backdrop was heightened by the headline inflation rate dipping to 0.7% in October, below the bottom end of the 1% to 3% target range. That said the Bank still viewed the overall risks to the outlook as balanced and anticipated that the economy would reach its productive capacity on schedule in late 2015.

We expect the Bank to maintain the policy rate at 1.0% throughout 2014 awaiting confirmation that growth in the domestic economy is being augmented by a recovery in exports. Until that time, policy stimulus will be needed to support domestic demand. As indicated above, we are of the view that the US economy is on the cusp of a period of stronger growth that will stimulate demand for Canadian exports aided by a weaker Canadian dollar. Increased demand for exports will be a key factor in boosting the economy's growth rate above its potential in 2014 with the output gap likely to be eliminated in the second half of 2015 at which time the inflation rate will hit the Bank's 2.0% target. While we expect no change in the Bank of Canada's overnight policy rate in 2014, longer-term interest rates are likely to rise in line with the gradual, upward shift in US Treasury yields. Having said that, even though interest rates are expected to move higher, the level will be historically low and the pace of increase will be gradual enough to ensure that this does not destabilize the economy and the housing market in particular.

Canada's economy to make headway in reducing output gap in 2014

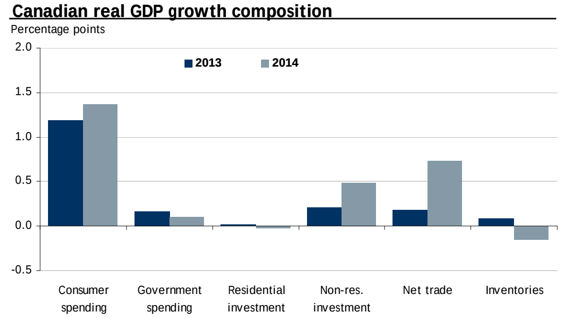
The combination of firm consumer spending and accelerating export demand will support business investment in 2014 as capacity levels become stressed. This sets up for a widespread increase in economic activity, further tightening in labour market conditions and an eventual pick up in inflation toward the Bank of Canada's 2% target. Our forecast for real GDP growth of 2.6% in 2014 and 2.7% in 2015 means that much of the output gap will be eliminated by the third quarter of 2015 resulting in the inflation rate rising to the 2% target. The Bank of Canada will remain on the sidelines until this occurs meaning 2014 will be another year of historically low interest rates.

Interest rates: Canada



Source: Bank of Canada, RBC Economics Research Forecasts

Canadian real GDP growth composition



Source: Statistics Canada, RBC Economics Research

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual			Forecast									Actual	Forecast		
	2013				2014				2015				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014	2015
Household Consumption	1.1	3.6	2.2	2.4	2.6	2.5	2.4	2.3	2.3	2.2	2.2	2.2	1.9	2.2	2.5	2.3
Durables	2.2	12.7	-0.6	6.0	3.7	2.4	2.4	2.4	2.4	2.6	2.5	2.5	2.6	3.7	3.6	2.4
Semi-Durables	0.1	1.6	6.3	2.5	2.6	3.2	2.8	2.5	2.5	2.6	2.5	2.5	2.1	2.0	3.1	2.6
Non-durables	-0.8	1.5	2.1	2.0	2.6	3.2	2.8	2.5	2.5	2.3	2.3	2.3	0.7	1.6	2.5	2.5
Services	1.9	2.9	2.4	1.8	2.3	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.1
NPISH consumption	4.8	1.7	0.3	2.4	2.6	2.5	2.4	2.3	2.3	2.2	2.2	2.2	1.2	3.3	2.1	2.3
Government expenditures	0.0	1.7	0.4	0.2	0.4	0.4	0.4	0.4	0.8	0.8	1.0	1.0	1.1	0.8	0.4	0.7
Government fixed investment	-3.3	-5.2	2.7	0.5	0.6	0.6	0.6	1.0	1.2	1.2	1.5	1.5	0.5	-0.1	0.5	1.1
Residential investment	-4.4	6.8	2.4	-0.4	-0.4	-1.6	-3.4	-2.1	-0.6	0.6	-0.2	0.0	6.1	0.2	-0.3	-1.0
Non-residential investment	1.4	-1.3	2.2	3.9	4.6	6.6	6.9	5.6	4.6	5.0	4.7	4.3	6.2	1.9	4.5	5.3
Non-residential structures	1.9	-1.9	2.1	4.5	4.5	6.8	7.2	6.0	4.5	5.1	4.8	4.4	6.9	2.2	4.6	5.4
Machinery & equipment	0.7	-0.2	2.5	3.0	4.8	6.3	6.5	4.9	4.7	4.9	4.4	4.2	5.2	1.5	4.4	5.0
Intellectual property	-3.0	-10.2	3.2	3.5	4.7	6.6	6.9	5.5	4.6	5.0	4.6	4.3	-1.5	-2.9	3.9	5.2
Final domestic demand	0.3	2.2	1.8	1.9	2.1	2.2	2.1	1.9	2.0	2.1	2.1	2.0	2.3	1.5	2.0	2.0
Exports	4.8	3.4	-2.0	7.5	7.9	7.4	9.3	9.4	8.3	7.8	7.2	6.7	1.5	1.6	6.4	8.2
Imports	2.8	1.4	-1.4	3.3	4.5	4.7	6.5	7.0	5.5	5.5	5.5	5.3	3.1	1.0	3.8	5.8
Inventories (change in $b)	10.2	5.4	10.2	7.1	5.7	5.5	5.3	6.0	6.4	6.4	6.4	5.4	6.8	8.2	5.6	6.1
Real gross domestic product	**2.3**	**1.6**	**2.7**	**2.4**	**2.7**	**2.9**	**2.8**	**2.7**	**2.9**	**2.8**	**2.5**	**2.2**	**1.7**	**1.7**	**2.6**	**2.7**

Other indicators

Year-over-year % change unless otherwise indicated

	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2012	2013	2014	2015
Business and labour																
Productivity	-0.5	0.4	1.1	1.2	1.4	1.4	1.3	1.4	1.5	1.5	1.5	1.4	0.0	0.5	1.4	1.5
Pre-tax corporate profits	-10.2	-8.2	-1.1	1.1	0.5	7.3	3.7	4.8	6.7	6.4	5.1	4.3	-4.9	-4.8	4.0	5.6
Unemployment rate (%)*	7.1	7.1	7.1	6.9	6.9	6.8	6.7	6.7	6.6	6.6	6.5	6.5	7.2	7.1	6.8	6.6
Inflation																
Headline CPI	0.9	0.8	1.1	1.0	1.2	1.6	1.6	1.7	1.8	1.9	1.9	2.0	1.5	0.9	1.5	1.9
Core CPI	1.3	1.2	1.3	1.3	1.3	1.5	1.6	1.8	1.8	1.9	1.9	2.0	1.7	1.3	1.6	1.9
External trade																
Current account balance ($b)	-59.1	-63.7	-61.9	-45.9	-45.2	-44.2	-42.6	-41.8	-40.1	-39.2	-38.4	-37.8	-62.2	-57.6	-43.5	-38.9
% of GDP	-3.2	-3.4	-3.3	-2.4	-2.3	-2.3	-2.2	-2.1	-2.0	-1.9	-1.9	-1.8	-3.4	-3.1	-2.2	-1.9
Housing starts (000s)*	175	190	193	196	190	184	178	178	176	176	173	173	215	188	182	174
Motor vehicle sales (mill., saar)*	1.71	1.79	1.80	1.81	1.79	1.80	1.80	1.81	1.81	1.82	1.83	1.83	1.72	1.78	1.80	1.82

*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		
	2013				2014				2015				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014	2015
Consumer spending	2.3	1.8	1.4	2.5	2.3	2.5	2.6	2.7	2.9	3.0	2.9	2.7	2.2	1.9	2.3	2.8
Durables	5.8	6.2	7.7	5.1	6.1	6.0	6.0	6.2	6.3	6.5	6.4	6.1	7.7	7.1	6.1	6.3
Non-durables	2.7	1.6	2.4	2.9	1.8	2.3	2.4	2.5	2.8	3.1	2.8	2.5	1.4	1.9	2.3	2.7
Services	1.5	1.2	0.0	1.9	1.9	2.1	2.1	2.2	2.3	2.4	2.3	2.2	1.6	1.0	1.7	2.3
Government spending	-4.2	-0.4	0.4	-2.3	1.1	0.1	0.4	0.4	1.0	1.0	1.3	1.5	-1.0	-2.0	0.0	0.8
Residential investment	12.5	14.2	13.0	12.8	17.2	18.4	16.6	14.1	11.2	10.1	9.0	7.9	12.9	14.0	15.6	12.1
Non-residential investment	-4.6	4.7	3.5	6.2	3.5	7.0	8.0	8.6	8.4	8.4	7.9	7.9	7.3	2.5	5.9	8.2
Non-residential structures	-25.7	17.6	13.7	6.5	3.5	4.4	5.8	7.0	6.5	6.5	6.0	6.8	12.7	1.8	6.8	6.3
Equipment & software	1.6	3.2	0.0	6.0	3.5	8.3	9.1	9.5	9.4	9.3	8.8	8.4	7.6	2.8	5.5	9.1
Intellectual property	3.8	-1.5	1.7	4.6	4.6	4.6	4.6	4.6	4.0	4.0	4.1	4.3	3.4	2.7	3.8	4.3
Final domestic demand	0.5	2.1	1.8	2.3	2.8	3.0	3.2	3.2	3.3	3.3	3.2	3.1	2.4	1.5	2.6	3.2
Exports	-1.3	8.0	3.7	8.9	8.3	8.4	8.4	8.4	9.0	9.0	8.2	8.3	3.5	2.6	7.9	8.6
Imports	0.6	6.9	2.7	5.7	6.7	8.3	8.2	7.8	7.5	8.0	8.2	8.2	2.2	1.7	6.6	7.9
Inventories (change in $b)	42.2	56.6	116.5	70.1	58.1	62.1	65.1	71.1	71.1	64.1	63.1	62.5	57.6	71.4	64.1	67.4
Real gross domestic product	**1.1**	**2.5**	**3.6**	**1.4**	**2.5**	**3.0**	**3.1**	**3.3**	**3.3**	**3.1**	**3.0**	**2.9**	**2.8**	**1.7**	**2.7**	**3.2**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.5	0.6	0.5	0.9	1.1	0.9	0.9	1.3	1.5	1.5	1.5	1.5	1.4	0.6	1.0	1.5
Pre-tax corporate profits	2.1	4.5	5.6	4.4	6.9	4.3	3.6	4.3	4.0	3.9	3.5	2.8	7.0	4.1	4.8	3.6
Unemployment rate (%)*	7.7	7.6	7.3	7.1	7.1	7.0	6.9	6.8	6.7	6.6	6.5	6.4	8.1	7.4	7.0	6.6
Inflation																
Headline CPI	1.7	1.4	1.6	1.3	1.5	1.9	1.7	1.8	1.9	1.9	1.9	2.0	2.1	1.5	1.7	1.9
Core CPI	1.9	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.1	1.8	1.8	1.9
External trade																
Current account balance ($b)	-420	-396	-390	-383	-377	-385	-394	-399	-399	-402	-411	-419	-440	-397	-389	-408
% of GDP	-2.5	-2.4	-2.3	-2.3	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.7	-2.4	-2.2	-2.2
Housing starts (000s)*	957	869	905	989	1115	1197	1267	1329	1387	1439	1485	1521	783	930	1227	1458
Motor vehicle sales (millions, saar)*	15.3	15.5	15.7	15.8	15.9	16.0	16.1	16.3	16.4	16.6	16.7	16.9	14.4	15.5	16.1	16.6

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates—North America

%, end of period

	Actual			Forecast									Actual	Forecast		
	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	2012	2013	2014	2015
Canada																
Overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75	1.00	1.00	1.00	1.75
Three-month	0.98	1.02	1.00	0.95	1.00	1.05	1.10	1.10	1.10	1.35	1.60	1.85	1.05	0.95	1.10	1.85
Two-year	1.00	1.22	1.20	1.15	1.20	1.30	1.50	1.65	1.85	2.15	2.55	2.70	1.05	1.15	1.65	2.70
Five-year	1.30	1.80	2.00	1.80	1.95	2.15	2.40	2.70	2.80	3.00	3.30	3.50	1.30	1.80	2.70	3.50
10-year	1.88	2.44	2.65	2.60	2.75	3.00	3.20	3.40	3.50	3.65	3.90	4.10	1.75	2.60	3.40	4.10
30-year	2.50	2.90	3.15	3.15	3.30	3.45	3.70	3.90	3.95	4.05	4.20	4.40	2.40	3.15	3.90	4.40
Yield curve (10s-2s)	88	122	145	145	155	170	170	175	165	150	135	140	70	145	175	140
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	0.50
Three-month	0.07	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.10	0.20	0.09	0.05	0.05	0.20
Two-year	0.25	0.36	0.35	0.30	0.35	0.40	0.60	0.85	1.05	1.30	1.65	2.05	0.25	0.30	0.85	2.05
Five-year	0.77	1.41	1.45	1.40	1.60	1.90	2.10	2.50	2.70	2.90	3.10	3.35	0.70	1.40	2.50	3.35
10-year	1.87	2.52	2.60	2.70	2.85	3.10	3.25	3.60	3.70	3.80	4.00	4.20	1.70	2.70	3.60	4.20
30-year	3.10	3.52	3.70	3.75	3.85	4.00	4.05	4.35	4.45	4.55	4.70	4.90	2.90	3.75	4.35	4.90
Yield curve (10s-2s)	162	216	225	240	250	270	265	275	265	250	235	215	145	240	275	215
Yield spreads																
Three-month T-bills	0.91	0.98	0.95	0.90	0.95	1.00	1.05	1.05	1.05	1.30	1.50	1.65	0.96	0.90	1.05	1.65
Two-year	0.75	0.86	0.85	0.85	0.85	0.90	0.90	0.80	0.80	0.85	0.90	0.65	0.80	0.85	0.80	0.65
Five-year	0.53	0.39	0.55	0.40	0.35	0.25	0.30	0.20	0.10	0.10	0.20	0.15	0.60	0.40	0.20	0.15
10-year	0.01	-0.08	0.05	-0.10	-0.10	-0.10	-0.05	-0.20	-0.20	-0.15	-0.10	-0.10	0.05	-0.10	-0.20	-0.10
30-year	-0.60	-0.62	-0.55	-0.60	-0.55	-0.55	-0.35	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.60	-0.45	-0.50

Interest rates—International

%, end of period

	Actual			Forecast									Actual	Forecast		
	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	2012	2013	2014	2015
United Kingdom																
Repo	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Two-year	0.21	0.41	0.30	0.40	0.50	0.60	0.70	0.70	0.80	1.00	1.20	1.50	0.20	0.40	0.70	1.50
10-year	1.78	2.46	2.50	2.65	2.75	2.85	2.90	3.00	3.10	3.20	3.30	3.40	1.70	2.65	3.00	3.40
Euro Area																
Refinancing rate	0.75	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	0.25	0.25	0.25
Two-year	-0.02	0.20	0.15	0.20	0.30	0.30	0.35	0.40	0.45	0.55	0.65	0.75	0.00	0.20	0.40	0.75
10-year	1.29	1.73	1.70	1.85	2.00	2.10	2.15	2.25	2.25	2.30	2.40	2.50	1.50	1.85	2.25	2.50
Australia																
Cash target rate	3.00	2.75	2.50	2.50	2.50	2.25	2.25	2.25	2.25	2.50	2.75	3.00	3.00	2.50	2.25	3.00
Two-year swap	2.83	2.58	2.45	2.70	2.70	2.70	2.85	3.30	3.50	3.75	4.00	4.30	2.75	2.70	3.30	4.30
10-year swap	3.42	3.76	3.81	4.20	4.30	4.40	4.55	5.00	5.10	5.30	5.50	5.70	3.00	4.20	5.00	5.70
New Zealand																
Cash target rate	2.50	2.50	2.50	2.50	2.75	3.00	3.00	3.25	3.50	3.50	3.75	3.75	2.50	2.50	3.25	3.75
Two-year	2.85	2.85	3.42	3.40	3.50	3.60	3.80	3.90	4.00	4.20	4.40	4.60	2.60	3.40	3.90	4.60
10-year	3.96	4.16	4.86	5.00	5.20	5.30	5.60	5.80	6.00	6.10	6.30	6.50	3.80	5.00	5.80	6.50

Growth outlook

% change, quarter-over-quarter in real GDP

	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	2012A	2013F	2014F	2015F
Canada*	2.3	1.6	2.7	2.4	2.7	2.9	2.8	2.7	2.9	2.8	2.5	2.2	1.7	1.7	2.6	2.7
United States*	1.1	2.5	3.6	1.4	2.5	3.0	3.1	3.3	3.3	3.1	3.0	2.9	2.8	1.7	2.7	3.2
United Kingdom	0.4	0.7	0.8	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.2	1.4	2.3	2.0
Eurozone	-0.1	0.0	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	-0.6	-0.4	1.0	1.2
Australia	0.5	0.7	0.6	0.7	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8	3.6	2.4	2.6	3.0
New Zealand	0.4	0.2	0.7**	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.7	2.5	2.5	2.4

*annualized, **forecast

Inflation outlook

% change, year-over-year

	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	2012A	2013F	2014F	2015F
Canada	0.9	0.8	1.1	1.0	1.2	1.6	1.6	1.7	1.8	1.9	1.9	2.0	1.5	0.9	1.5	1.9
United States	1.7	1.4	1.6	1.3	1.5	1.9	1.7	1.8	1.9	1.9	1.9	2.0	2.1	1.5	1.7	1.9
United Kingdom	2.8	2.7	2.7	2.2	2.3	2.5	2.5	2.5	1.9	1.9	2.0	2.0	2.8	2.6	2.4	1.9
Eurozone	1.8	1.4	1.3	0.8	0.8	1.0	0.8	1.2	1.2	1.2	1.2	1.2	2.5	1.3	0.9	1.2
Australia	2.5	2.4	2.2	2.8	3.2	3.4	2.8	2.5	2.4	2.5	2.6	2.8	1.8	2.5	3.0	2.6
New Zealand	0.9	0.7	1.4	1.7	1.8	1.9	1.9	2.0	2.2	2.3	2.3	2.4	1.1	1.2	1.9	2.3

Exchange rates

%, end of period

	Actual							Forecast					Actual	Forecast	
	12Q1	**12Q2**	**12Q3**	**12Q4**	**13Q1**	**13Q2**	**13Q3**	**13Q4**	**14Q1**	**14Q2**	**14Q3**	**14Q4**	**2012**	**2013**	**2014**
Australian dollar	1.03	1.02	1.04	1.04	1.04	0.91	0.93	0.98	0.95	0.91	0.92	0.94	1.04	0.98	0.94
Canadian dollar	1.00	1.02	0.98	0.99	1.02	1.05	1.03	1.05	1.06	1.07	1.08	1.09	0.99	1.05	1.09
Euro	1.33	1.27	1.29	1.32	1.28	1.30	1.35	1.36	1.35	1.32	1.30	1.27	1.32	1.36	1.27
Yen	83	80	78	87	94	99	98	95	92	89	95	100	87	95	100
New Zealand dollar	0.82	0.80	0.83	0.83	0.84	0.77	0.83	0.88	0.86	0.82	0.83	0.84	0.83	0.88	0.84
Swiss franc	0.90	0.95	0.94	0.92	0.95	0.95	0.90	0.90	0.92	0.94	0.96	0.98	0.92	0.90	0.98
U.K. pound sterling	1.60	1.57	1.62	1.62	1.52	1.52	1.62	1.62	1.67	1.69	1.71	1.69	1.62	1.62	1.69

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