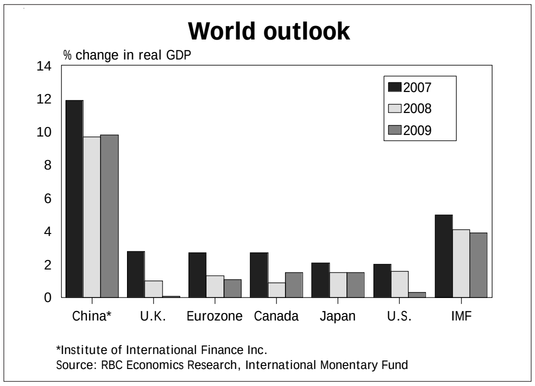


ECONOMIC & FINANCIAL MARKET OUTLOOK

October 2008

Global economic outlook takes a turn for the worse

▲ The dramatic worsening in financial markets in mid-September and the attendant credit tightening is expected to impede global growth for the remainder of this year and going into 2009.

▲ The U.S. economy is likely falling into recession and the U.K. and Eurozone economies are slipping.

▲ In response, central banks around the globe have been both pumping liquidity into the system and trying to shore up faltering financial institutions. The U.S. administration has passed an aggressive (US$700 billion) package to buy various distressed assets held by financial institutions.

▲ The U.S. economy was the second quarter's growth leader, but momentum is fading fast as support from tax rebates wanes and the credit crisis takes its toll.

▲ Growth in the U.S. economy is expected to turn negative during the second half of this year, with declines continuing into the first quarter of 2009.

▲ Rescue package and other policy actions are expected to ease credit tightening, thus allowing modest growth to return during the last three quarters of next year.

▲ The U.S. housing market is showing signs of sales bottoming, although prices are declining at record rates.

▲ Consumers are hamstrung by falling net worth, high energy and food costs, and restrictive lending standards.

▲ Export growth has been a lifeline for the U.S. economy, but support will dwindle as trading partners flag and the U.S. dollar revives.

▲ Concerns about the high headline inflation rate are likely to dissipate as economic growth slows.

▲ The Fed is expected to ease policy again in October and December. Persistent financial system stress means that Fed will also maintain liquidity provisions.

▲ Canada's weaker-than-expected overall GDP rate in the first half of 2008 masked continuing strong domestic demand.

▲ Early signs of moderating housing and labour demand have tempered the outlook for growth in second half but do not point to a recession ahead.

▲ However, the trade sector will continue to constrain GDP growth in the second half of 2008 as a result of the expected greater weakness in the U.S. economy.

▲ The first half's disappointing growth performance, weakness in the U.S. economy and tight credit are generating clear downside risks to the economic outlook.

Craig Wright
Chief Economist (416) 974-7457
craig.wright@rbc.com

Paul Ferley
Assistant Chief Economist (416) 974-7231
paul.ferley@rbc.com

Dawn Desjardins
Senior Economist (416) 974-6919
dawn.desjardins@rbc.com

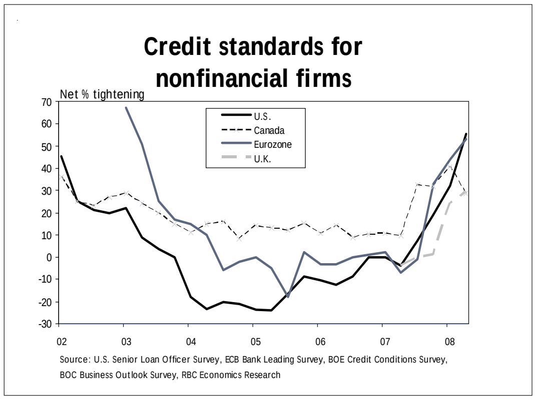
▲ Canada's headline inflation rate doubled between April and August, but the core rate remained in the lower end of the Bank of Canada's target band.

▲ We expect the Bank of Canada to ease 50 basis points by the end of this year.

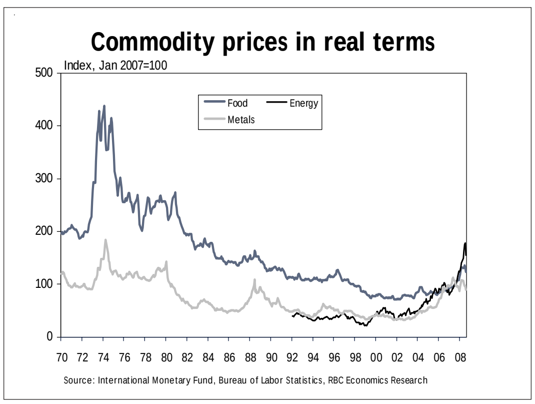
▲ The Canadian dollar is likely to remain range-bound for the remainder of this year before depreciating next year.

Global economy weakens as credit tightens further

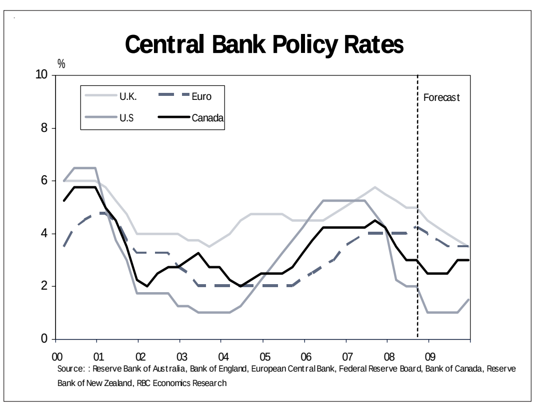
Momentum in the global economy started to fade in the second quarter of 2008 despite a surprisingly strong jump in growth in the United States. The weakness globally reflected a combination of tight credit conditions, rising capital costs and high commodity prices that weighed heavily on spending by households and businesses. Stimulative fiscal policy provided a temporary offset in the United States in the second quarter. Funding spreads, which had started to recede in the late spring, widened back out as persistently bad news from financial institutions injected another dose of uncertainty into financial markets.



This rise in uncertainty produced a double-whammy for the global economy translating not only into higher borrowing costs but also constraining the amount financial institutions were willing to lend. This combination resulted in a sharp rise in the cost of credit weighing on global growth. These pressures have intensified going into the third quarter, prompting aggressive actions by various central banks. In the United States, the Administration has passed a sizeable US$700 billion rescue package that will fund the purchase of various distressed assets of financial institutions with significant operations in the United States.



Second-quarter economic reports showed that the U.K. economy has likely moved into the early stages of a recession, while Japan's economy posted the sharpest decline in GDP growth in seven years and the Eurozone economy contracted after a stronger-than-expected first quarter. Canada's economy showed a mild improvement in the second quarter after an unexpected contraction in the first, but growth was still anaemic at 0.3%. Surprisingly, the U.S. economy was the bright spot on the global scene, recording growth of 2.8% at an annual rate in the period from April to June partly due to the payment of US$78 billion of the US$107-billion fiscal stimulus package in the quarter, which spurred consumer spending.



High commodity prices boost inflation rates

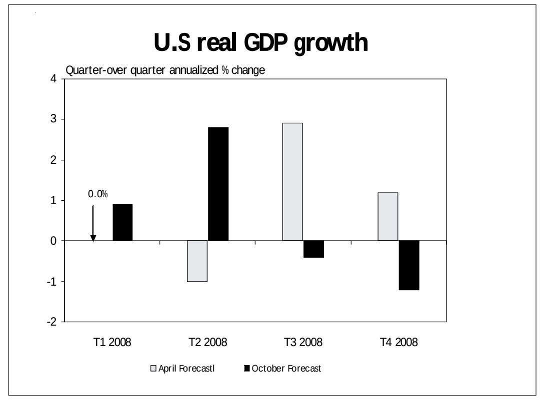
The weakening momentum in most industrialized economies was compounded by the elevated level of commodity prices, which boosted headline inflation rates and increased the proportion of incomes being spent on food and energy. Since January 2007, oil prices have increased 56% in real terms with food prices rising by 23%. Headline inflation rates have soared in most major industrialized countries and the world inflation rate is now expected to increase at the fastest pace since 1999. However, the recent tightening in credit conditions and the attendant weakening in economic growth will increasingly provide an offset to upward inflation pressures. As a result, monetary policy will be directed more to countering the downside risks to economic growth.

U.S. economy headed for weaker second-half growth

The U.S. economy grew at a stronger-than-expected 1.9% average pace in the first six months of 2008 with the second quarter's growth rate boosted by the government's fiscal stimulus package, which delivered three-quarters of the

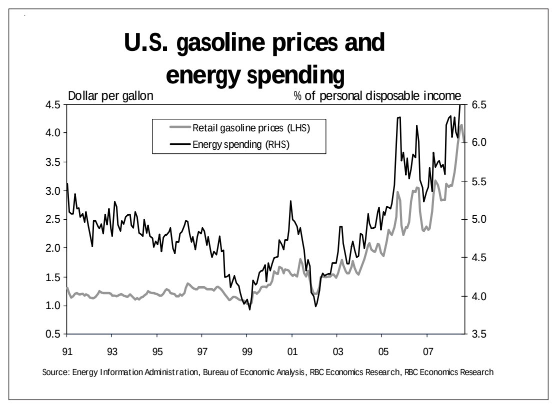
US$107 billion worth of tax rebate cheques to U.S. households in the period from late April to June. The influx of cash saw consumer spending accelerate from the first quarter's subdued pace and real GDP expand at a 2.8% annualized pace in the second quarter, contrary to projections made earlier in the year that the U.S. economy would post no growth or contract slightly in the quarter.

Even though the U.S. economy proved stronger than expected in the first half of the year, we have lowered our forecast for second-half growth as a result of the recent pronounced deterioration in financial markets that is keeping borrowing costs elevated and the dampening effect on consumer spending of the unwinding of the fiscal stimulus package. These factors are now expected to contribute to a decline in economic activity in the second half of this year and the first quarter of 2009. We are assuming that the government rescue program will be sufficiently successful in easing credit conditions that positive growth can be maintained for the remainder of 2009. The impact of the tax rebates on consumer spending in the second quarter has contributed to 2008 overall annual growth of 1.5%; in contrast, the impact of the credit tightening will be more evident in 2009 and, as a result, we have lowered our 2009 growth forecast to 0.2% from 2% previously.

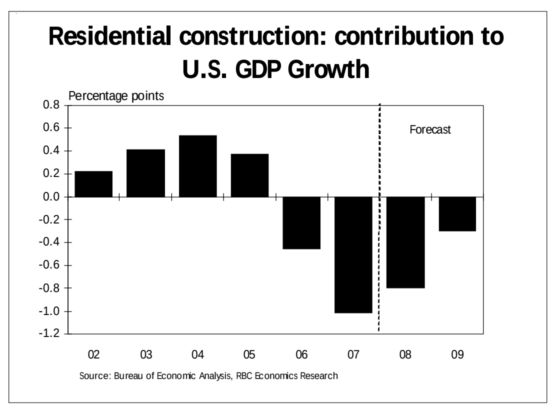


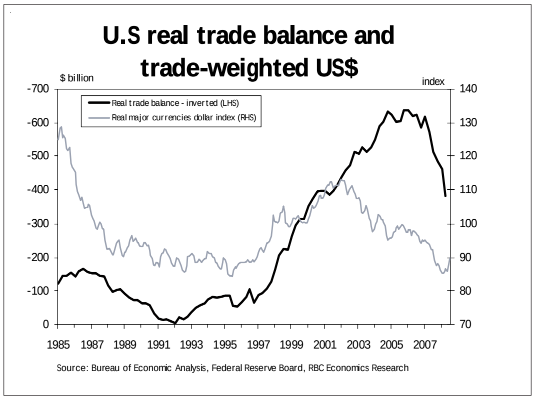
U.S. consumer face triple threat

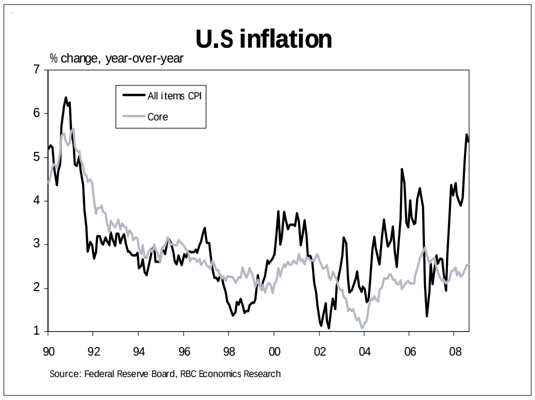
Consumers hit the stores in the second quarter aided by the inflow of the tax rebate cheques into their bank accounts. It is estimated that about 30% of this income boost will be spent, with the remaining 70% either saved or used to pay down debt. This was a big support to the economy in the second quarter, accounting for 0.9 of the 2.8 percentage-point increase. However, with the boost to spending from the tax rebates only temporary, consumption has already started to slump early in the third quarter. This weakening is being exacerbated by high gasoline prices, a softening labour market and an erosion in consumers' net worth. Spending on energy products accounted for 6.4% of disposable income in the second quarter, up from less than 5% in 2004. The recent drop in energy prices may provide some modest relief in the months ahead. Still, job losses continue to mount with non-farm payrolls being cut for nine consecutive months for a total of 760,000 jobs lost. The unemployment rate, at 6.1%, stands at its highest level since the fall of 2003 — and is still rising — and the pace of wage gains has slowed to 3.4% from 4.3% in December 2006. The spike in the inflation rate due to climbing energy and food prices means that, in inflation-adjusted terms, wages are actually falling.

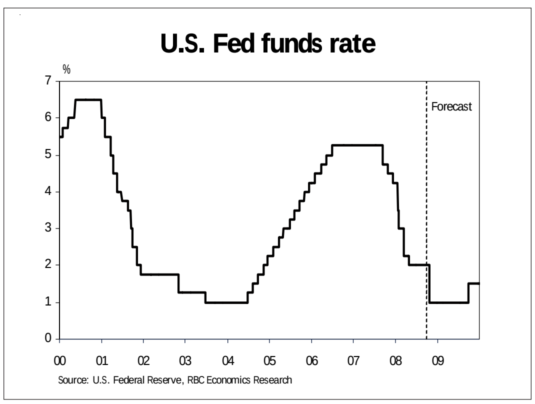


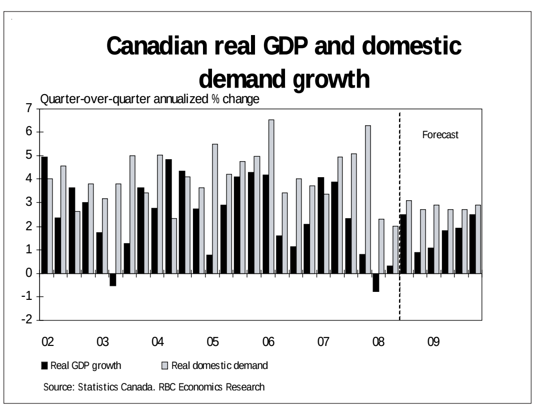
Consumers must also contend with a housing market recession that is still under way and continues to cut into their net worth. Sales of both new and existing homes continued to fall at double-digit rates compared to year-earlier levels but showed signs of bottoming through the summer months. Prices were also running below year-ago levels with the pace of decline hitting record rates. The stock of homes on the market to be sold remains extremely high by historical standards as the rising number of foreclosures adds to the inventories of homes for sale. Until these inventory levels are pared back, the U.S. housing market will remain under downward pressure and we expect that this segment of the U.S. economy will trim almost another full percentage point off the economy's growth rate this year.











Export growth fuels stronger second-quarter growth

Along with the consumer, the other bright spot for the U.S. economy in the second quarter was the export sector with sales to countries outside the United States rising at a 12.3% annualized pace. The weak U.S. dollar's impact on trade flows was clearly sustained in the first half of 2008, although the slowing in some overseas' economies combined with the recent recovery in the U.S. currency may curtail export strength going forward. Net exports accounted for almost three percentage points of the second quarter's growth rate and, although we expect this sector may back off in the final quarters of this year, it will likely remain a support for the economy reflecting the lagged impact of the U.S. dollar's sustained decline.

Inflation fears abetted as headline rate rises to 17-year high

An additional risk to the economic outlook is whether the sharp pick-up in the headline inflation rate due to the rise in food and energy prices will percolate through to core prices. The producer price inflation rate rose to 9.7% on average during July and August, the fastest pace of increase since the early 1980s. The core producer rate was a much lower 3.6% but still stood at its highest level since 1991. The consumer price inflation rate also picked up during the same period with the headline rate at 5.5%; the core measure, at 2.5%, remains in the middle of its 2.1% to 2.9% range established in early 2006. Inflation expectations have trended higher but have not broken out of their recent range, thus providing some solace to policymakers who remain wary that the rise in the headline inflation will work into the broader economy.

Fed to lower Fed funds further

The Fed faces a complicated landscape as it tries to deal with the crisis in the financial services industry, weakening economic outlook and a high inflation rate. For now, the most likely course is that it will continue to supply liquidity to financial markets while closely monitoring the risks to the economy and inflation outlooks. On the interest rate front, we expect another 100 basis points in reductions before the end of the year, sending Fed funds down to a near-term low of 1.00%. There is the risk of additional cuts if the credit tightening does not abate.

Canada's weak GDP growth mask firm domestic demand

Canada's growth reports have been disappointing with real GDP contracting at a 0.8% annualized rate in the first quarter and eking out only a mild 0.3% annualized growth rate from April through June. Hiding beneath these soft overall growth numbers, however, Canada's domestic economy remained firm. Final domestic demand growth averaged 2.2% during the six-month period, slower than 2007's 4.2% pace but much stronger than the rate for the overall economy. (Final domestic demand measures spending by consumers, businesses and government and omits the trade sector and inventory adjustments.)

Terms of trade gains still in play

One of the key supports for Canada's domestic economy has been the significant rise in the economy's gross domestic income (GDI) that accompanied the strong rise in commodity prices. Since the beginning of the commodity cycle, Canada's GDI has outstripped its GDP growth, providing support to the strong increases in consumer spending, business investment and import demand. Despite the weaker tone in commodity prices recently, Canada's economy continues to enjoy the benefits of a positive terms of trade position. This is expected to continue through the forecast period. Nevertheless, the slower-than-expected overall growth in Canada during the first two quarters of this year has prompted a downward revision to our 2008 annual growth forecast to 0.9% from the 1.4% projected last quarter. We have also downgraded our call for 2009 to 1.5% from 2.5% previously on the basis of the weaker outlook in the United States. The stronger economic performance in Canada relative to the United States next year largely reflects the supportive impact of Canada's positive terms of trade position. The run-up in commodity prices has been a key factor responsible for the sharp rally in the Canadian dollar during the past six years with the currency having run up from 62.2 U.S. cents in 2002 to above US$1.10 at its peak in November 2007.

Housing market slower but not crashing

Canada's housing market is showing signs of simmering down after a period of unprecedented strength. Resale housing transactions posted the fourth consecutive quarterly decline in the second quarter of 2008, although even at this more moderate level of activity seasonally adjusted sales continue to run above the average pace of the past 20 years.

Since 2002, strong demand for housing supported annual average price gains of about 10% each year from 2002 to 2007 for existing homes, with this pace slowing to less than 1% by mid-2008. New house price gains have also slowed from 12.1% in August 2006 to 2.6% in July of 2008. The slowing in the housing market — both in volume and price terms — was expected and, to some degree desired, as affordability became increasingly strained throughout 2007.

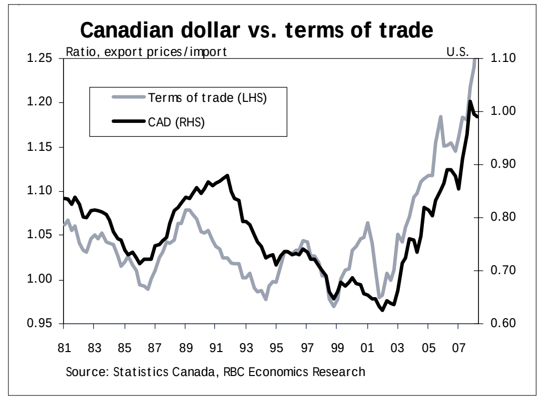
On the supply-side, the high level of demand supported construction activity with housing starts running at a historically fast rate. Starts exceeded 200,000 units each year from 2002 to 2007 and continued to run at a blistering 228,000-unit average pace in the first half of 2008. Regionally some of the "uber-hot" markets in the west, like Alberta, have started to cool, although other provinces, such as Saskatchewan, have started to take off.

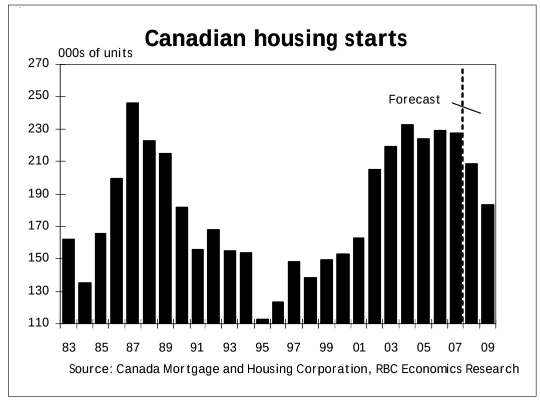
Healthy balance sheets shield Canadian households for now

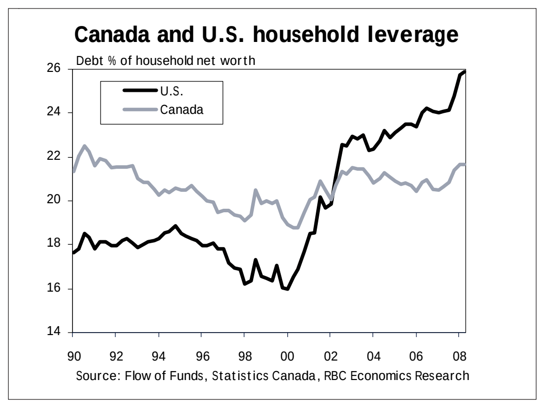
Unlike the United States, Canada is not experiencing a significant increase in the number of mortgage delinquencies or personal bankruptcies. Part of the reason may be that Canadian households have not leveraged up their balance sheets to the same degree as their U.S. counterparts. Gains in asset values in Canada have started to slow but haven't completely stalled as they have in the United States. Measuring household leverage as the ratio of debt outstanding to net worth shows that, while Canadian households are starting to see an increase in this ratio, the level remains well below that of the beleaguered U.S. household sector. However, with the pace of house price appreciation slowing and credit concerns weighing on equities, Canadian household balance sheets may come under more intense pressure in the quarters ahead.

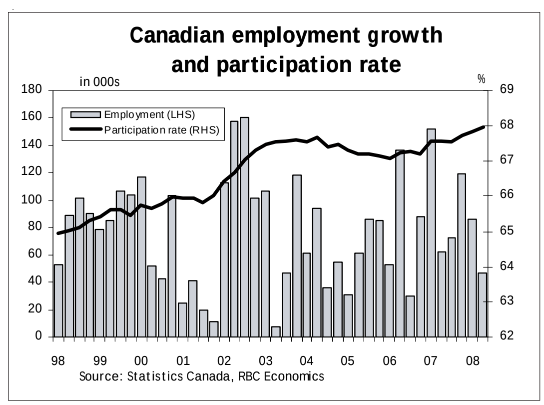
Labour market taking a breather

After a sustained period of Canada's labour market yielding upside surprises to forecasts, fatigue appears to have finally set in. After generating 320,000 new positions on average from 2002 to 2007, the pace of job gains slowed to 127,000 in the first six months of 2008 followed by a massive 40,000 net loss of jobs in July and August. To be sure, the softening in labour market conditions com-

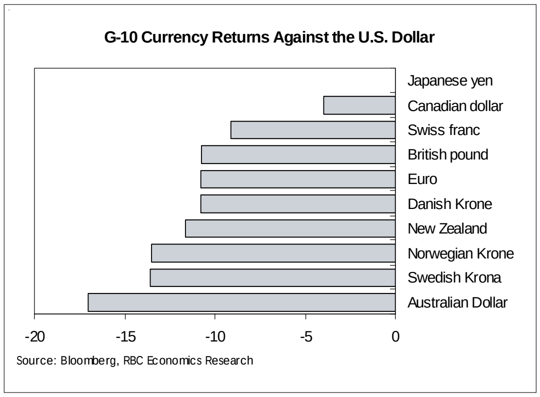


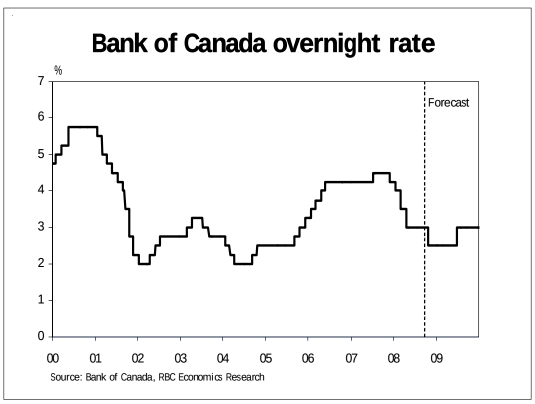






bined with tighter credit conditions and uncertainty about the global outlook will weigh on consumer spending going forward, but the degree of slowing is likely to be limited as the terms of trade-related income boost remains.





Restraint from the trade sector not lifting yet!

The unexpected narrowing in Canada's real trade balance in the first quarter was not sustained in the second quarter as import demand rallied back after souring early in the year. The cheapening effect of Canada's relatively strong dollar on the prices of consumer and investment goods supported the rebound in import demand while exports were curtailed by weak U.S. demand for autos, machinery and equipment and forestry products. The deterioration in net exports weighed on GDP in the quarter, keeping overall growth relatively weak. Canadian trade flows in the second half of the year will continue to come under downward pressure in the face of a slowing U.S. economy.

Canadian dollar flounders against the U.S. dollar but still outperforms most other G-10 currencies

The U.S. dollar rallied against most of its major trading partners in the summer months as downside risks to the economic outlook migrated from being a "made-in-the–USA" story to concerns about a sharp global slowdown. The downshifting in the growth rates in the Eurozone countries, the United Kingdom and Japan led to a weakening in their currencies as investors shifted some of their assets back into U.S. dollars. In Canada, the lowering of growth expectations was less prevalent, but the slide in commodity prices weighed on the currency against a generally stronger U.S. dollar. The Canadian dollar, however, still recorded gains against most G-10 currencies during the third quarter as the market primarily focused on the relative changes in growth prospects. Our forecast calls for Canada's currency to hold at current levels around US$0.945 for the remainder of this year as weakening commodity prices are offset by concerns about U.S. economic growth. By next year, the former is expected to dominate as the U.S. economy starts to trend higher. By the fourth quarter of 2009, we expect the loonie to depreciate to US$0.885.

Bank of Canada monitoring the risks

The Bank of Canada had earlier been challenged by an inflation rate that was above its target band but an economy that was barely growing. Canada's headline inflation rate continued to plod higher over the summer' although the Bank's core measure remained secured below the mid-point of its target band. However, the re-emergence of tighter credit conditions has pushed the downside risks to growth to the fore. With the United States likely falling into recession, we expect that the Bank of Canada will lower the overnight rate a further 50-basis points before the end of this year.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual						Forecast						Act.	Forecast	
	2007				2008				2009				Annual average		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009
Consumer spending	3.8	5.8	4.2	7.5	3.1	2.4	2.8	2.6	2.6	2.8	2.8	3.0	4.5	4.0	2.7
Durables	4.6	15.0	-1.4	11.5	17.6	-1.2	-0.6	-0.5	0.9	1.5	1.7	1.9	7.1	6.7	0.6
Non-durables	5.1	5.3	2.2	3.9	0.2	0.5	3.2	3.1	3.2	3.4	3.4	3.5	3.3	2.1	3.1
Services	2.2	4.3	5.8	8.8	0.9	3.4	3.5	3.3	3.0	3.1	3.0	3.1	4.3	4.1	3.2
Government spending	3.0	2.7	7.2	5.8	2.4	5.1	4.3	3.5	2.6	2.8	2.8	2.8	3.7	4.4	3.2
Business investment	1.9	3.9	4.5	4.2	-1.2	-2.3	2.2	2.0	2.4	2.0	2.0	2.6	3.4	1.2	1.9
Residential construction	11	4.7	4.1	1.8	-6.7	-3.9	-5.5	-3.8	-2.0	-1.0	-1.6	-1.0	3.0	-2.3	-2.6
Non-residential structures	-3.1	-7.7	-4.3	-3.5	3.3	-1.7	2.0	3.7	2.8	2.3	2.7	3.4	-0.4	-0.8	2.5
Machinery & equipment	-2.2	14.2	13.2	14.0	1.2	-1.2	7.1	4.6	4.6	3.4	3.5	4.0	7.1	6.2	4.1
Final domestic demand	3.3	4.9	5.1	6.3	2.3	2.0	3.1	2.7	2.9	2.7	2.7	2.9	4.2	3.6	2.7
Exports	0.8	2.5	-1.1	-7.4	-4.1	-5.9	-2.0	0.1	0.5	1.2	1.9	2.5	1.0	-3.8	0.1
Imports	1.1	4.9	20.6	8.6	-9.0	2.3	3.4	3.2	3.0	3.2	3.3	3.8	5.5	2.9	3.2
Inventories (change in $b)	5.9	5.7	20.5	20.6	2.9	8.4	13.2	11.3	9.8	9.5	9.1	9.8	13.2	8.9	9.5
Real gross domestic product	**4.1**	**3.9**	**2.3**	**0.8**	**-0.8**	**0.3**	**2.5**	**0.9**	**1.1**	**1.8**	**1.9**	**2.5**	**2.7**	**0.9**	**1.5**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour															
Productivity (y/y %)*	0.9	0.7	1.0	0.3	-0.6	-0.7	-0.5	-0.4	0.0	0.4	0.1	0.5	0.7	-0.5	0.3
Pre-tax corporate profits (y/y %)	4.3	3.7	2.2	3.1	4.5	11.9	6.2	-0.4	-2.1	1.3	2.0	1.8	3.3	5.6	0.8
Unemployment rate (%)	6.1	6.1	6.0	5.9	5.9	6.1	6.1	6.3	6.5	6.6	6.7	6.8	6.0	6.1	6.7
Inflation															
Headline CPI (y/y %)	1.8	2.1	2.1	2.4	1.8	2.3	3.4	3.2	3.2	2.2	1.6	1.8	2.1	2.7	2.2
Core CPI (y/y %)	2.3	2.4	2.1	1.6	1.4	1.5	1.6	1.9	2.1	2.0	1.9	1.9	2.1	1.6	2.0
Personal savings rate (y/y %)	3.9	2.3	2.5	1.9	3.1	2.8	2.4	1.5	1.3	1.0	0.8	0.7	2.7	2.5	1.0
External trade															
Current account balance ($ billions)	15.8	28.5	7.0	3.1	17.8	27.0	19.8	16.7	14.0	10.9	8.8	6.7	13.6	20.3	10.1
% of GDP	1.1	1.9	0.5	0.2	1.1	1.7	1.2	1.0	0.9	0.7	0.5	0.4	0.9	1.3	0.6
Housing starts (000s)	226	228	243	214	234	220	193	188	186	185	180	181	228	209	183
Motor vehicle sales (millions, saar)	1.66	1.75	1.70	1.66	1.80	1.72	1.68	1.64	1.66	1.68	1.69	1.72	1.69	1.71	1.69

* Productivity is calculated as total real GDP divided by employment.

Source: Statistics Canada, RBC Economics Research forecasts

Economic forecast detail — United States

Real growth in the economy

Period-over-period annualized % change unless otherwise indicated

Quarter-over-quarter annualized % change	Actual						Forecast						Act.	Forecast	
	2007				2008				2009				Annual average		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009
Consumer spending	3.9	2.0	2.0	1.0	0.9	1.2	-2.3	-0.7	-0.6	0.9	1.5	2.2	2.8	0.7	0.0
Durables	9.2	5.0	2.3	0.4	-4.3	-2.8	-11.0	-5.0	-5.0	-1.4	0.8	1.1	4.8	-2.7	-3.9
Non-durables	3.5	1.9	1.2	0.3	-0.4	3.9	-3.0	-1.0	-0.5	0.6	0.7	2.0	2.5	0.5	-0.1
Services	3.1	1.4	2.4	1.4	2.4	0.7	0.4	0.6	0.4	1.6	2.1	2.5	2.6	1.5	1.0
Government spending	0.9	3.9	3.8	0.8	1.9	3.9	1.0	1.5	0.8	0.7	0.8	1.3	2.1	2.3	1.2
Business investment	-3.4	3.0	-0.9	-6.2	-5.6	-1.7	-5.6	-11.6	-7.6	-3.7	-1.8	-1.1	-3.1	-4.3	-6.0
Residential construction	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-18.0	-19.0	-10.0	-6.3	-4.0	-1.8	-17.9	-20.8	-11.2
Non-residential structures	11.2	18.3	20.6	8.6	8.7	18.4	-2.2	-11.0	-6.5	-3.4	-1.2	-0.7	12.7	9.5	-3.9
Machinery & equipment	0.0	6.9	3.6	1.0	-0.5	-5.0	-2.0	-9.0	-7.0	-2.8	-1.3	-1.0	1.7	-0.9	-4.8
Final domestic demand	2.20	2.5	1.9	-0.1	0.1	1.3	-2.3	-1.9	-1.4	0.2	0.9	1.6	1.8	0.2	-0.7
Exports	0.60	8.8	23.0	4.4	5.1	12.3	4.5	3.8	3.5	4.0	5.0	5.0	8.4	8.4	4.6
Imports	7.70	-3.7	3.0	-2.3	-0.8	-7.3	-2.5	-0.1	0.0	1.0	2.4	3.3	2.2	-2.2	-0.1
Inventories (change in $b)	-15.00	-2.8	16.0	-8.1	-10.2	-50.6	-24.0	-16.7	-6.0	0.0	10.0	13.0	-2.5	-25.4	4.3
Real gross domestic product	**0.00**	**4.8**	**4.8**	**-0.2**	**0.9**	**2.8**	**-0.4**	**-1.2**	**-0.6**	**0.8**	**1.6**	**1.9**	2.0	1.5	0.2

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour															
Productivity (y/y %)*	-0.10	0.7	2.8	2.8	3.4	3.2	1.0	1.1	0.7	0.1	0.3	0.8	1.5	2.2	0.5
Pre-tax corporate profits (y/y %)	-1.00	-0.5	-2.7	-2.0	-1.5	-8.3	-3.5	-4.0	-1.0	1.2	1.3	1.3	0.7	-16.7	0.7
Unemployment rate (%)	4.50	4.5	4.7	4.8	4.9	5.3	6.0	6.5	6.8	7.0	7.1	7.2	4.6	5.7	7.0
Inflation															
Headline CPI (y/y %)	2.40	2.7	2.4	4.0	4.1	4.4	5.4	4.4	3.6	2.3	1.5	1.9	2.9	4.6	2.3
Core CPI (y/y %)	2.60	2.3	2.2	2.3	2.4	2.3	2.5	2.5	2.3	2.1	1.9	1.8	2.3	2.4	2.0
External trade															
Current account balance ($b)	-788	-776	-692	-669	-703	-733	-719	-711	-704	-695	-683	-671	-731	-716	688
% of GDP	-5.8	-5.7	-5.0	-4.8	-5.0	-5.1	-5.0	-4.9	-4.9	-4.8	-4.6	-4.5	-5.3	-5.0	-4.7
Housing starts (000s)	1453	1460	1298	1151	1053	1025	940	900	890	890	900	920	1341	980	900
Motor vehicle sales (millions, saar)	16.30	16.1	15.9	16.0	15.2	14.1	12.9	13.1	13.2	13.4	13.5	13.6	16.1	13.8	13.4

* Productivity is calculated as total real GDP divided by employment.

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates

%, end of period

	Actual							Forecast					Annual		
	Q107	Q207	Q307	Q407	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	2007	2008	2009
Canada															
Overnight rate	4.25	4.25	4.50	4.25	3.50	3.00	3.00	2.50	2.50	2.50	3.00	3.00	4.25	2.50	3.00
3-month T-bills	4.17	4.43	3.96	3.82	1.87	2.48	1.89	1.25	1.75	2.00	2.50	3.00	3.82	1.25	3.00
2-Year GoC bonds	3.98	4.58	4.07	3.74	2.58	3.24	2.78	2.40	2.60	3.00	3.25	3.75	3.74	2.40	3.75
5-Year GoC bonds	4.01	4.55	4.20	3.87	2.91	3.45	3.17	2.95	3.25	3.60	3.75	4.00	3.87	2.95	4.00
10-Year GoC bonds	4.11	4.55	4.34	3.99	3.45	3.74	3.75	3.60	3.90	4.00	4.20	4.25	3.99	3.60	4.25
30-Year GoC bonds	4.21	4.56	4.50	4.18	3.96	4.05	4.13	4.10	4.40	4.50	4.70	4.75	4.18	4.10	4.75
Yield Curve (10's-2's)	13	-3	27	25	87	50	97	120	130	100	95	50	25	120	50
United States															
Fed Funds rate	5.25	5.25	4.75	4.25	2.25	2.00	2.00	1.00	1.00	1.00	1.00	1.50	4.25	1.00	1.50
3-month T-bills	5.08	4.74	3.99	3.07	1.28	1.89	1.15	0.85	0.90	1.00	1.25	1.75	3.07	0.85	1.75
2-Year bonds	4.57	4.98	4.01	3.12	1.62	2.77	2.08	1.50	1.75	2.00	2.35	2.50	3.12	1.50	2.50
5-Year bonds	4.48	5.03	4.20	3.49	2.48	3.49	2.88	2.25	2.60	2.85	3.25	3.75	3.49	2.25	3.75
10-Year bonds	4.56	5.10	4.52	4.10	3.51	4.10	3.69	3.65	3.85	4.00	4.25	4.50	4.10	3.65	4.50
30-Year bonds	4.72	5.20	4.79	4.53	4.39	4.70	4.27	4.10	4.30	4.50	4.75	5.00	4.53	4.10	5.00
Yield Curve (10's-2's)	-1	12	51	98	189	133	161	215	210	200	190	200	98	215	200
Yield Spreads															
3-month T-bills	-0.91	-0.31	-0.03	0.75	0.59	0.59	0.74	0.40	0.85	1.00	1.25	1.25	0.75	0.40	1.25
2-Year	-0.59	-0.40	0.06	0.62	0.96	0.47	0.70	0.90	0.85	1.00	0.90	1.25	0.62	0.90	1.25
5-Year	-0.47	-0.48	0.00	0.38	0.43	-0.04	0.29	0.70	0.65	0.75	0.50	0.25	0.38	0.70	0.25
10-Year	-0.45	-0.55	-0.18	-0.11	-0.06	-0.36	0.06	-0.05	0.05	0.00	-0.05	-0.25	-0.11	-0.05	-0.25

Exchange rates

%, end of period

	Actual							Forecast					Actual	Forecast	
	Q107	Q207	Q307	Q407	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	2007	2008	2009
Australian dollar	0.81	0.85	0.89	0.88	0.91	0.96	0.79	0.73	0.73	0.74	0.74	0.74	0.88	0.73	0.74
Canadian dollar	1.15	1.07	0.99	1.00	1.03	1.02	1.06	1.10	1.12	1.13	1.14	1.15	1.00	1.10	1.15
Chinese renminbi	7.73	7.62	7.51	7.30	7.01	6.85	6.82	6.70	6.60	6.50	6.45	6.40	7.30	6.70	6.40
Euro	1.34	1.35	1.43	1.46	1.58	1.58	1.41	1.33	1.31	1.29	1.28	1.28	1.46	1.33	1.28
Japanese yen	118	123	115	112	100	106	106	105	107	109	110	110	112	105.00	110.00
Mexican peso	11.05	10.81	10.94	10.90	10.64	10.31	10.94	11.25	11.30	11.40	11.50	11.60	10.91	11.25	11.60
New Zealand dollar	0.71	0.77	0.76	0.77	0.79	0.76	0.67	0.63	0.62	0.60	0.60	0.60	0.77	0.63	0.60
U.K. pound sterling	1.97	2.01	2.05	1.99	1.98	1.99	1.78	1.74	1.72	1.72	1.73	1.73	1.98	1.74	1.73

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