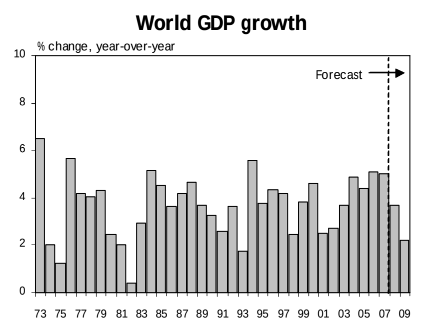
ECONOMIC & FINANCIAL MARKET OUTLOOK

December 2008



Source: International Monetary Fund, RBC Economics Research

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Aggressive policy actions confront deepening economic malaise

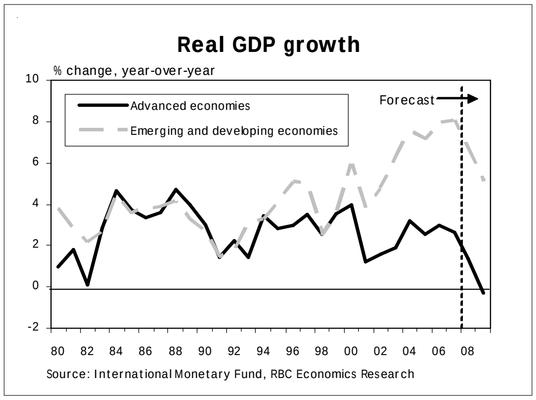
- ▲ The dramatic worsening in financial markets since mid-September and the attendant credit tightening are expected to impede global growth for the remainder of this year and going into 2009.
- ▲ Commodity prices dive.
- ▲ Inflation concerns recede as worries about health of the global economy dominate outlook.
- ▲ Central banks aggressively ease monetary policy.
- ▲ Fiscal stimulus packages from around the globe have been announced with more on the way.
- ▲ Tentative signs that illiquidity in some financial market strains are starting to ease.
- ▲ Investor confidence in tatters.
- ▲ U.S. recession deepening.
- ▲ Fed and U.S. government aggressively responding to crisis.
- ▲ Fed cuts funds rate to lowest level on record with quantitative easing to increasingly provide more of the stimulus.
- ▲ U.S. downturn and high cost of capital to lead to Canadian recession.
- ▲ Slowdown in Canada to be less severe compared to other countries.
- ▲ Inflation rate to fall temporarily below Bank of Canada's lower limit of 1%.
- ▲ Overnight rate cut to 50-year low and policy expected to remain accommodative throughout 2009.
- ▲ Eventual easing in credit spreads to support recovery late next year.

The turbulence in financial markets picked up pace since early September with global stock markets dropping 34%, more write-downs and losses reported by financial companies, and risk aversion rising to unprecedented levels. The shock to the financial system from the bankruptcy of Lehman Brothers resulted in interbank rates soaring as lenders worried about the risk that one of their counterparties would suffer a similar fate. The rise in these spreads translated into higher lending costs and further constrained the amount of available capital. In turn, the credit crisis hit the economy hard with its tentacles reaching beyond U.S. borders to countries worldwide.

Signs the global economy is tipping into recession irrefutable

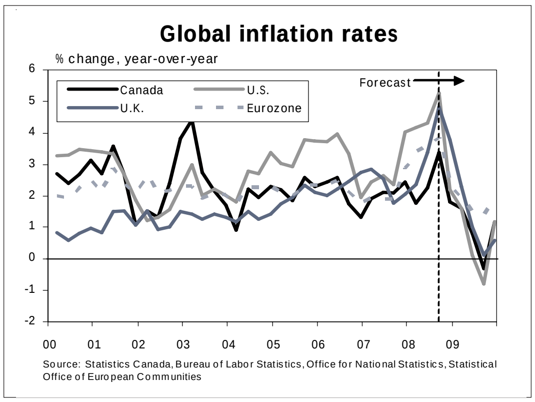
Economic reports have been accumulating that signal a broad-based weakening in both the advanced and developing economies. The IMF slashed their 2009 forecast for world GDP growth to 2.2% in early November, a fair-sized cut to their 3.9% forecast made in July. Growth rate forecasts for both the advanced and developing economies were cut back significantly, although the advanced nations will bear the brunt of the weakness in 2009.

The IMF projects that real GDP for advanced economies will contract by about one-quarter of one percentage point next year, while the developing economies will grow at a 5.1% pace — the slowest since 2002. The contraction in the developed economies as a group would be the first in the postwar period.



Eurozone, United Kingdom join the United States on recession-watch

The European and U.K. economies slipped into recession during the summer months. In the Eurozone, real GDP contracted in both the second and third quarters, while the United Kingdom's contraction in the third quarter looks likely to be followed by a more substantial decline in the fourth. A slumping housing market, waning consumer confidence and the credit crisis gripping the United Kingdom are likely to result in the economy contracting by 1.4% in 2009. In the Eurozone area, the German economy entered recession in the third quarter. Germany's once resilient economy is now displaying the weakness that has been evident for some time in the region's periphery and is consistent with our call that Eurozone GDP will contract by one-half of one percentage point next year.

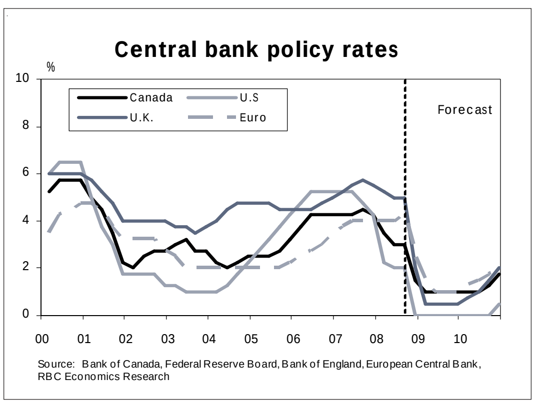


Faltering growth prospects hit commodity markets

The burgeoning global slowdown took the wind out of the sails of commodity markets, with energy prices slumping 46% from their recent highs and food prices off approximately 31% as measured by the IMF's commodity indices. The drop in commodities is good news because it reduces the amount that households and firms have to pay and, in turn, allays inflation concerns, but it presents significant downside risks to the outlook for commodity-producing countries.

Lower inflation gives central banks room to manoeuvre

The slowing pace of growth in the world economy and falling commodity prices have led to a sharp reduction in inflation forecasts. Inflation rates in Canada, the United States, the United Kingdom and Eurozone countries are forecast to fall to 0.5% to 2% range after hovering between 3.5% to 5.5% this summer. The prospect that inflation pressures will continue to abate has opened the door for central banks to skew policy to tackling the problem of a sustained slowing in economic growth by cutting interest rates. After a co-ordinated 50 basis-point rate cut on October 8, central banks of all four countries continued to ease independently. While some central banks are near the end of the rate-cutting cycle, there is more scope for the ECB and the Bank of England to ease monetary policy further in an attempt to limit the downward pressure on their economies and temper the effect of tight credit conditions. Central banks have also continued to inject liquidity into financial markets to stem the rise in interbank rates.



Governments work to shore up economies

Concerns that the credit markets' seizure will paralyze their economies have led governments to actively develop programs aimed at stanching the financial market malaise. From guaranteeing interbank loans to providing capital injections for financial institutions, governments have been working to restore confidence and nurse the financial services sector back to health. Additional support from sizeable fiscal stimulus measures has also been announced by the governments of the United States, Germany, Japan and China with others expected to follow suit soon. The size of this support to date has been immense and more is likely to be forthcoming. The combination of interest rate cuts, liquidity injections and government initiatives saw interbank funding rates start to ease in the latter part of October – a first step toward stability in financial markets. Going forward, the key will be whether the recent decline in these funding rates signals an improvement in confidence and is laying the groundwork for credit spreads to narrow and for banks to eventually get back to the business of lending. Although many of the advanced economies are on track to contract in late 2008 and the first half of 2009, the combination of accommodative monetary policy and an anticipated narrowing in spreads is expected to be sufficient to put growth back on an improving trend beyond that point, with the global economy likely to be on a firm recovery path in 2010.

U.S. economy slipping off the brink

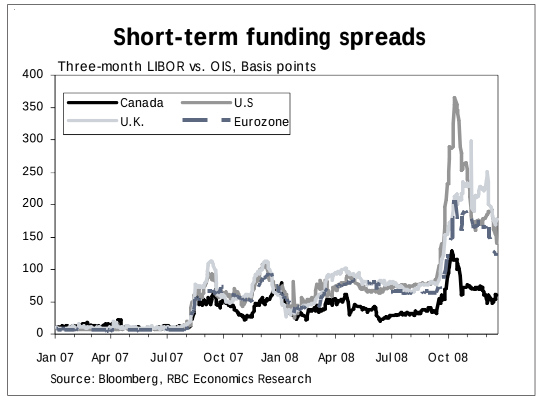
The U.S. economy contracted by one-half of one percentage point in the third quarter with consumer spending declining at the steepest pace in 28 years and business spending softening. Export growth slowed and the widespread weakening in global economic activity sets up for a further deterioration in the fourth quarter of this year. The tightening in lending standards that is making borrowing more difficult and expensive is setting the stage for consumer and business spending to contract further. Consumers are also facing deteriorating balance sheets and growing job losses. With these conditions persisting early in the fourth quarter, we expect an even heftier decline in real GDP in that quarter. This would mark two consecutive quarters of declining activity, although the National Bureau of Economic Research (NBER) did not bother to wait and has already indicated that the U.S. recession commenced December of last year on the basis of weakening labour markets since the start of 2008.

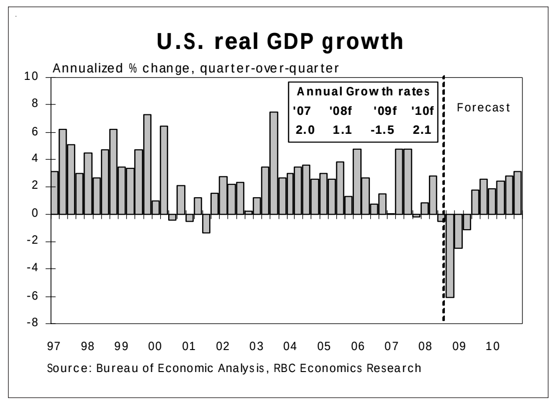
Banks tighten credit standards; Issuance more expensive

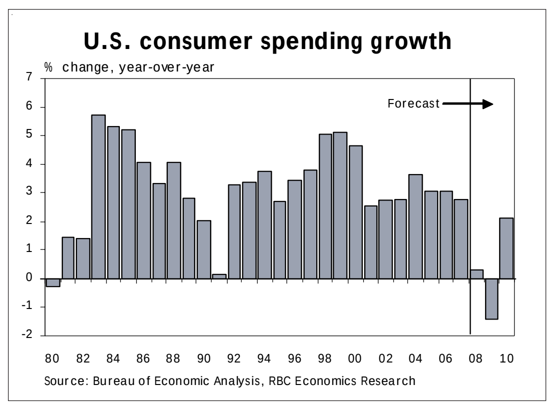
U.S. businesses are facing a harsh reality with both domestic and foreign demand weakening, the cost of borrowing high and banks making it increasingly difficult for firms to get loans. After several quarters of strong investment in real estate, we expect non-residential investment spending to start to contract following the lead of investment spending on machinery and equipment, which has already fallen for three consecutive quarters. U.S. payrolls are likely to continue to be pared back as well. From January to November, U.S. companies cut almost two million employees and the unemployment rate jumped to 6.7% in November from 4.7% one year earlier. The steady deterioration in labour market conditions is taking its toll on consumer confidence, which slumped to an all-time low according to the Conference Board's measure in October before recovery marginally in November. We expect that consumer spending will fall by 1.4% in 2009, marking the first annual decline since 1980. The housing market remains under pressure and although it's still too early to declare the recession in housing over, the pace of decline is likely to slow going forward especially after the government's announcement that it would purchase debt and mortgage securities, which saw mortgage rates fall by about three-quarters of a percentage point.

U.S. GDP forecast lowered for 2009; Economic recovery expected late next year

We expect declining activity to persist through the second quarter of 2009. We maintain the view, however, that the eventual narrowing in credit spreads, combined with accommodative monetary and fiscal policy, will provide enough stimulus to the economy in the latter part of next year to support a modest recovery. Still, U.S. real GDP is projected to contract by 1.5% on average in 2009 with a tepid growth recovery of 2.1% expected in 2010. The weaker growth profile



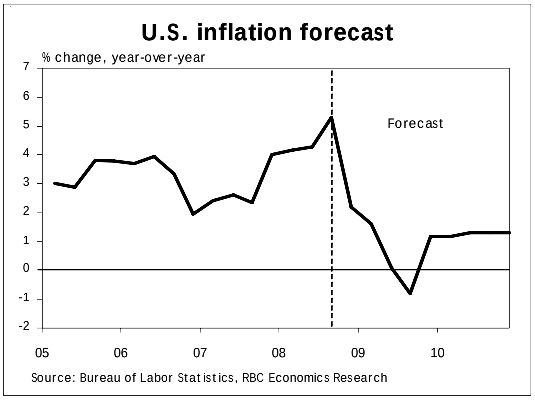




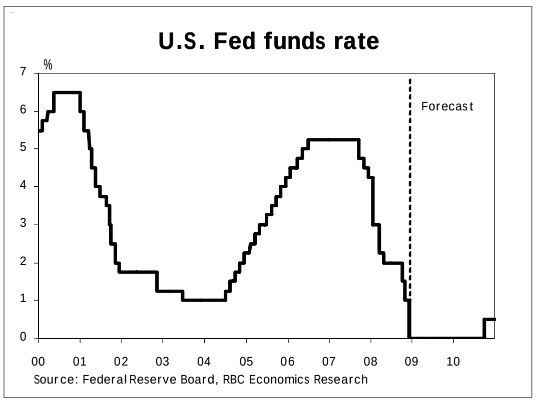
combined with the recent slippage in commodity prices means that inflation pressures will moderate more than we previously forecast. Our updated inflation forecast is for the all-items inflation rate to average 0.5% in 2009, well down from this year's 4.0% average rate.

Fed to keep monetary policy extremely accommodative and target troubled areas

The combination of a deepening recession and rapidly declining inflation rates saw the Fed move quickly and aggressively by cutting the policy rate to 1% in late October. However as pressures in both financial markets and the economy intensified, the Fed upped the ante in early December cutting the policy rate again to a target range of zero to one quarter of a percent. The Fed's actions were aimed at limiting the depth and duration of the recession as well as lending support to financial markets. The policy change was accompanied by a commitment to leaving the funds rate at this extremely low level for "some time" as well as indications that the Fed is prepared to pursue a policy of "quantitative easing" which essentially means easing by directly injecting money into the system.

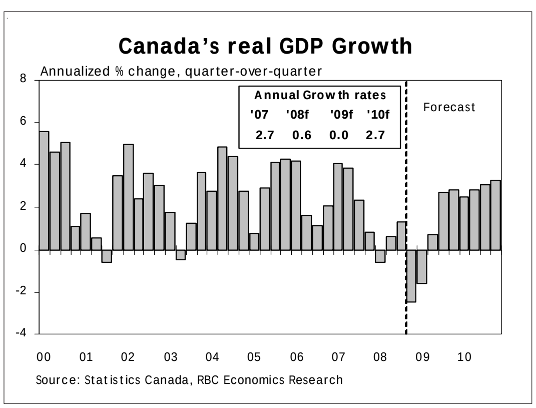


There have been some signs of an easing in the three-month LIBOR rate indicating that seized-up funding markets are starting to thaw in response to efforts to provide liquidity directly. While this is encouraging, until there is evidence that financial institutions are willing and able to make loans to both businesses and households, downside risks to the economy will remain. Our baseline forecast is that the Fed will hold its policy rate at the current extremely low levels through 2009 and that spreads will continue to narrow as policymakers directly support areas of the market that are in distress.



More government aid

Additional fiscal stimulus is expected to come in early 2009 as the new Obama Administration takes office. The details are unclear, but we are assuming that the package will be at least $300 billion, although the risks are for a much larger package. This second fiscal package will clearly be much bigger than this year's $170-billion outlay, with the focus split between quick lifts to households and businesses and medium-term infrastructure spending. Regardless of the composition, the new administration is talking about taking action quickly, which is another supportive factor for the economy in mid-2009 and an upside risk to growth in 2010.



A rocky road for Canada

Projected weak U.S. growth and moderately tight credit conditions will likely see Canada's economy contract in both the fourth quarter of 2008 and the first quarter of 2009. A moderate, although sustained, recovery is expected in the second half of next year as these restraining factors ease. We forecast that the price of oil price will increase modestly next year from today's level, although prices are likely to remain below 2008's average rate. Canada's economy is forecast to eke out a mild 0.6% gain this year, down from our previous forecast for a 0.9% increase and to decelerate modestly such that no growth is expected in 2009, significantly slower than our prior forecast of 1.5%. The weaker pace of growth and falling commodity prices have lessened concerns about price pressures and we now forecast that the inflation rate will average 0.8% next year, down from the 2.3% expected for 2008. (This drop in the inflation rate will be tempered by the fact that the GST cut introduced in January 2008 will fallout of the annual inflation calculation starting in January 2009.)

Domestic income to falter, but not crash

The sharp decline in commodity prices during the past three months will likely cut domestic income in 2009 after six years of very strong gains. This income supported consumer, business and government spending, the lifeblood of Canada's strong economic performance in recent years in the face of deteriorating exports. In 2009, the combination of falling domestic income growth, tighter credit conditions and a rising debt-to-asset ratio is expected to curb consumer spending activity. However, unlike other downturns, we expect that the residual support from Canada's terms of trade improvement will limit the deterioration in the labour market, which will give consumers the means to spend in 2009, but at a slower pace than in previous years. As well, we are assuming that commodity prices will remain at historically high levels reflecting continuing, albeit slowing, demand from emerging economies. One final factor, a weaker Canadian dollar will help temper the drop in commodity prices quoted in US$ terms.

Households continue to accumulate debt, with household credit growth rising at a double-digit pace while asset values have come under downward pressure. Housing prices have turned solidly negative, with the average price down almost 10% in October compared to a year earlier while the TSX recorded a 39% loss in the year to mid-December. The expected erosion in household net worth is likely to restrain spending in early 2009. The recent slide in housing prices and sales comes after six years of solid gains and has knocked prices back to the level of late 2006. This has resulted in an improvement in affordability after a sustained period of steadily eroding conditions. While the supply of unsold new homes remains well contained, the weaker tone in sales will likely see builders cut back construction activity in 2009, with housing starts expected to fall by about 42% compared to their recent peak level. While this sounds like a hefty cut, it compares favourably to the significant weakening in U.S. housing starts which fell to the lowest level on records back to 1959 in November.

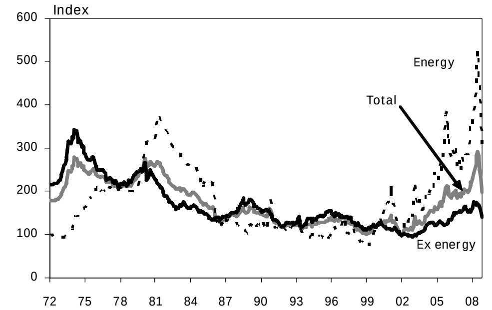
Canadian dollar stumbles as commodity prices slide and U.S. dollar demand rises

We have revised our year-end C$/US$ forecast following the record 13.9% monthly decline in October amid a dramatic collapse in commodity prices and broad-based U.S. dollar strength. We anticipate that Canada's currency will remain under downward pressure near-term and will bottom out in the first half of 2009 as foreign exchange markets anticipate a cyclical improvement in the economies of both the United States and Canada. With most of Canada's economic fundamentals in better shape than the United States, a refocusing on fundamentals, as opposed to cyclical factors, should see the C$ strengthen in the second half of next year back to 80 U.S. cents and 87 U.S. cents by the end of 2010.

Weaker currency and tighter lending standards to crimp investment spending

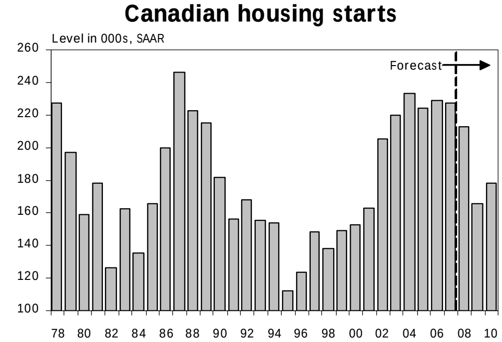
The drop in the Canadian dollar is taking some of the shine off imported machinery and equipment, especially against the backdrop of a more challenging financing environment and higher borrowing costs. For corporate Canada, this combination spells a period of slower investment spending in 2009, with machinery and equipment investment expected to slide after six years of gains. The weaker demand will cut into import growth next year. Exports are likely to remain

Commodity prices in real terms



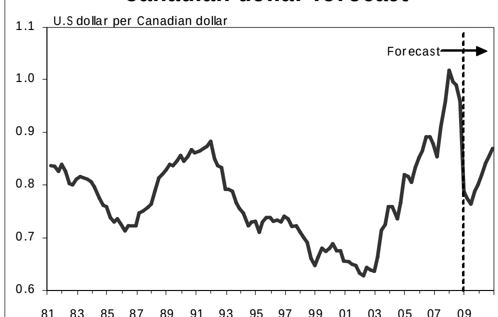
Source: Bank of Canada, RBC Economics Research

Canadian housing starts



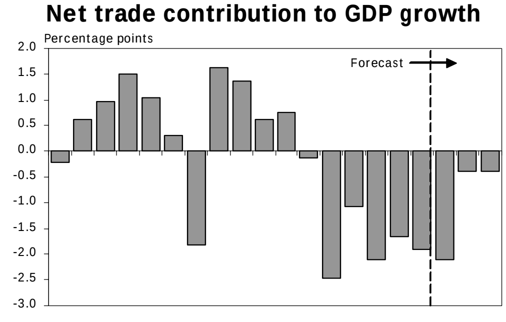
Source: CMHC, RBC Economics Research

Canadian dollar forecast



Source: Bank of Canada, RBC Economics Research

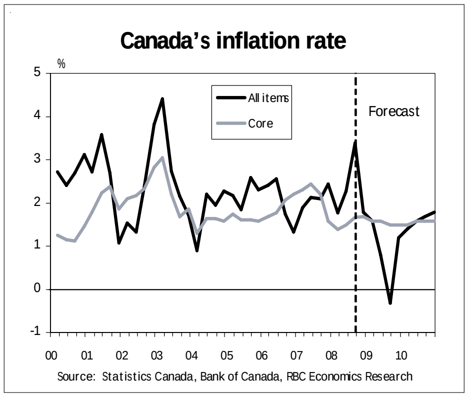
Net trade contribution to GDP growth

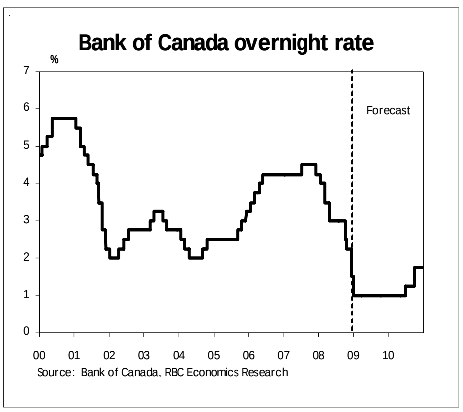


Source: Statistics Canada, RBC Economics Research lacklustre with the U.S. economy in recession early in the year and then expanding at only a tepid pace. With both imports and exports under pressure, the drag from the trade sector on the overall pace of growth will likely continue next year but will be much less pronounced than the two to three percentage-point subtraction of the past several years.

Falling into recession

Underpinning our view that Canada's economy will experience a less severe recession compared to the United States is our thesis that the amount of credit tightening and spread widening was more contained in Canada. We expect credit spreads will continue to narrow as investors and financial institutions regain confidence, allowing the aggressive easing by the Bank of Canada to finally reach households and businesses. As of early December, Canada's interbank rate has fallen close to 200 basis points from its recent high but still remains relatively high compared to the expected policy rate, signalling that funding costs are an obstacle of borrowers. Mortgage rates also remain sticky and, while down from recent highs of a year ago, are still elevated compared to the marked decline in the Bank of Canada's policy rate.





No fiscal stimulus package yet!

The Government of Canada provided a Fiscal and Economic Update in late November but did not announce any explicit fiscal stimulus measures. In fact, the package was mildly restrictive as the government tried to prevent falling into a deficit position. However, in the face of weakening economic data and growing criticism about government inaction to contain this weakness, the federal government has promised a more stimulative budget package at the end of January with our forecast assuming a package of at least $10 billion. There are growing indications that it will include various initiatives, such as: accelerating planned infrastructure spending, improving opportunities for workers and sectors affected by current economic conditions, strengthening financial markets and improving competitiveness.

Bank of Canada gets policy rate to 1.5% with another cut likely in early 2009

The Bank of Canada aggressively cut the overnight rate by a cumulative 75 basis points in the month of October to 2.25%, joining other central banks in a 50 basis-point ease on October 8 and following up with another 25 basis-point cut on October 21. The rapid easing reflected increased concerns about the economic outlook with the Bank slashing its 2009 forecast for growth to 0.6% from 2.3% and the 2008 forecast to 0.6% from 1%. The Bank also lowered its forecast for inflation on the back of the sharp drop in energy prices, giving policymakers the leeway to cut interest rates despite the fact that the current inflation rate stood above the upper end of its target band

Against the backdrop of ebbing price pressures at the headline level and an acknowledgement that the economy was likely to fall into recession, the Bank of Canada made another aggressive 75 basis-point cut to the overnight rate to 1.50% when they met in December. With the economic data showing a significant weakening in the economy in late 2008, the Bank is likely to lower rates further early next year with another 50 basis points cut to 1% expected when policymakers meet in late January. It is likely however, that this will be the last reduction in the policy rate as the combination of the stimulative effect from the weakening in the Canadian dollar and a potential fiscal stimulus package sets up for stronger growth in the second half of next year. Interest rate are likely to remain low throughout 2009, with the 10-year Canada bond yield forecast to trade around 2.5% in early 2009 and then gradually increase toward 3% by year-end as the economy gets back on firmer footing and risks to the downside for inflation abate. Short-term government yields are forecast to be around 1.00%, with the two-year rate gradually rising toward 1.75 % by the end of next year.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual			Forecast									Act.	Forecast		
	2008				2009				2010				Annual average			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009	2010
Consumer spending	2.5	2.0	0.7	0.4	0.6	1.0	2.4	2.9	2.6	2.7	2.9	3.2	4.5	3.4	1.1	2.6
Durables	17.1	1.0	0.3	-0.6	-0.5	0.1	1.6	2.1	3.9	5.6	5.9	6.6	7.1	7.1	0.2	3.8
Non-durables	-0.6	-0.2	-0.7	-0.2	0.4	1.2	2.4	3.1	2.8	1.2	1.3	1.5	3.3	1.0	0.7	2.1
Services	0.4	2.7	0.9	1.0	0.9	1.1	2.6	3.1	2.1	2.4	2.5	2.7	4.3	3.4	1.4	2.4
Government spending	3.1	3.9	0.4	3.2	2.6	3.0	3.7	3.6	3.0	3.0	3.2	3.1	4.2	3.9	2.8	3.2
Business investment	-0.5	0.3	0.5	-5.7	-5.3	-1.8	2.7	3.1	3.4	3.9	3.8	3.8	3.4	1.2	-2.2	3.1
Residential construction	-6.9	-3.8	-0.1	-4.1	-4.9	-3.1	0.4	0.8	1.2	1.0	1.5	1.7	3.0	-1.6	-2.7	0.8
Non-residential structures	4.9	6.0	2.7	-1.5	-3.1	-0.8	3.6	3.5	3.2	3.7	3.6	3.6	-0.4	0.8	0.1	3.2
Machinery & equipment	2.1	-0.3	-0.8	-8.5	-6.5	-1.5	3.4	4.2	4.6	5.5	5.0	4.9	7.1	4.7	-3.0	4.2
Final domestic demand	2.0	2.1	0.6	-0.2	0.1	0.9	2.7	3.1	2.8	3.0	3.1	3.3	4.2	3.0	0.9	2.9
Exports	-4.2	-5.2	-5.4	-0.9	-5.9	-1.4	1.7	2.4	2.5	2.7	3.3	3.2	1.0	-4.2	-2.6	2.3
Imports	-9.0	2.8	-6.1	-5.5	-1.4	0.9	2.9	3.7	2.7	2.8	3.1	3.2	5.5	1.2	-1.3	2.9
Inventories (change in $b)	4.2	10.2	12.0	-2.8	-2.4	-0.2	1.1	1.9	1.1	0.7	0.6	0.9	13.2	5.9	0.1	0.8
Real gross domestic product	**-0.6**	**0.6**	**1.3**	**-2.5**	**-1.6**	**0.7**	**2.7**	**2.8**	**2.5**	**2.8**	**3.1**	**3.3**	**2.7**	**0.6**	**0.0**	**2.7**

Other indicators

Year-over-year % change unless otherwise indicated

	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2007	2008	2009	2010
Business and labour																
Productivity*	-0.7	-0.6	-0.6	-1.2	-0.5	-0.1	-0.1	1.0	1.4	1.5	1.2	1.0	0.7	-0.8	0.1	1.3
Pre-tax corporate profits	4.5	12.3	17.4	10.2	0.4	-11.1	-14.9	-7.7	1.3	5.9	5.3	6.7	3.3	11.1	-8.6	4.8
Unemployment rate (%)	5.9	6.1	6.1	6.4	7.0	7.2	7.4	7.4	7.4	7.4	7.4	7.3	6.0	6.1	7.3	7.4
Inflation																
Headline CPI	1.8	2.3	3.4	1.8	1.6	0.8	-0.3	1.2	1.4	1.6	1.7	1.8	2.1	2.3	0.8	1.6
Core CPI	1.4	1.5	1.6	1.7	1.6	1.6	1.5	1.5	1.5	1.6	1.6	1.6	2.1	1.6	1.5	1.6
Personal savings rate	3.5	3.2	3.0	3.8	3.5	3.3	3.1	3.1	3.5	3.7	4.3	4.5	2.7	3.4	3.3	4.0
External trade																
Current account balance ($ billions)	19.4	32.8	22.6	1.3	-11.8	-8.6	-7.9	-5.1	-8.9	-4.4	-3.4	1.3	13.6	19.0	-8.4	-3.9
% of GDP	1.2	2.0	1.4	0.1	-0.7	-0.5	-0.5	-0.3	-0.5	-0.3	-0.2	0.1	0.9	1.2	-0.5	0.0
Housing starts (000s)	234	220	210	186	165	162	166	169	170	172	181	189	228	213	166	178
Motor vehicle sales (millions, saar)	1.80	1.72	1.68	1.67	1.65	1.62	1.59	1.62	1.65	1.68	1.71	1.75	1.69	1.72	1.62	1.70

* 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

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual			Forecast									Act.	Forecast		
		2008			2009				2010				Annual average			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009	2010
Consumer spending	0.9	1.2	-3.7	-3.6	-1.6	-0.9	1.0	2.3	2.4	2.3	2.8	3.0	2.8	0.3	-1.4	2.1
Durables	-4.3	-2.8	-15.2	-15.1	-3.3	-2.5	0.5	1.0	1.5	2.0	2.9	3.6	4.8	-3.9	-6.3	1.4
Non-durables	-0.4	3.9	-6.9	-5.7	-3.9	-2.1	1.0	2.7	2.2	2.1	2.7	2.7	2.5	-0.3	-2.8	1.9
Services	2.4	0.7	0.0	0.5	0.0	0.1	1.1	2.4	2.7	2.5	2.9	3.0	2.6	1.4	0.4	2.3
Government spending	1.9	3.9	5.3	1.6	1.2	1.5	2.9	3.0	1.9	1.9	1.9	1.9	2.1	2.9	2.3	2.2
Business investment	-5.6	-1.7	-5.6	-13.3	-9.3	-5.6	0.2	1.7	0.1	1.6	3.0	4.4	-3.1	-4.4	-6.7	0.9
Residential construction	-25.0	-13.3	-17.6	-19.0	-13.0	-8.3	-0.7	0.3	0.3	0.9	1.5	3.0	-17.9	-20.7	-11.8	0.0
Non-residential structures	8.7	18.4	6.6	-5.4	-6.2	-3.8	0.3	1.5	0.3	0.9	2.1	3.3	12.7	11.1	-1.4	0.8
Machinery & equipment	-0.5	-5.0	-5.6	-12.7	-8.8	-5.2	0.5	2.1	0.0	2.0	3.7	5.1	1.7	-1.6	-6.5	1.3
Final domestic demand	0.1	1.3	-2.3	-4.2	-2.2	-1.1	1.2	2.3	2.0	2.1	2.7	3.0	1.7	0.1	-1.5	1.9
Exports	5.1	12.3	3.4	-18.1	-8.5	-3.9	3.2	5.0	4.6	4.8	4.6	4.5	8.4	6.7	-4.8	4.0
Imports	-0.8	-7.3	-3.2	-7.5	-3.1	-2.2	2.4	3.3	4.3	3.7	3.9	3.6	2.2	-2.8	-3.0	3.3
Inventories (change in $b)	-10.2	-50.6	-29.1	-44.3	-33.5	-26.0	-10.0	-7.0	-7.5	-3.3	-1.0	-1.0	-2.5	-33.6	-19.1	-3.2
Real gross domestic product	**0.9**	**2.8**	**-0.5**	**-6.1**	**-2.5**	**-1.1**	**1.8**	**2.6**	**1.9**	**2.4**	**2.8**	**3.1**	**2.0**	**1.1**	**-1.5**	**2.1**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009	2010
Business and labour																
Productivity*	3.4	3.0	1.9	0.5	0.2	-0.7	-0.4	0.9	1.3	1.7	1.7	1.7	1.5	2.2	0.0	1.6
Pre-tax corporate profits	-1.5	-8.3	-9.0	-7.1	-9.0	-7.1	-5.7	-2.0	4.8	8.7	9.1	9.8	-1.6	-6.5	-6.0	8.1
Unemployment rate (%)	4.9	5.3	6.0	6.7	7.5	8.1	8.3	8.4	8.5	8.6	8.6	8.6	4.6	5.7	8.1	8.6
Inflation																
Headline CPI	4.1	4.4	5.3	2.2	1.6	0.1	-0.8	1.2	1.2	1.3	1.3	1.3	2.9	4.0	0.5	1.3
Core CPI	2.4	2.3	2.5	2.2	1.9	1.7	1.5	1.3	1.3	1.3	1.2	1.2	2.3	2.3	1.6	1.2
External trade																
Current account balance ($b)	-703	-733	-696	-688	-417	-368	-383	-371	-435	-489	-501	-505	-731	-703	-385	-483
% of GDP	-5.0	-5.1	-4.8	-4.9	-2.9	-2.6	-2.7	-2.6	-3.0	-3.3	-3.4	-3.4	-5.3	-4.9	-2.7	-3.3
Housing starts (000s)	1053	1025	876	682	650	657	671	717	791	829	841	859	1341	909	674	830
Motor vehicle sales (millions, saar)	15.2	14.1	12.9	10.2	10.1	10.0	10.9	11.5	11.9	12.0	12.3	12.5	16.1	13.1	10.6	12.2

* 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		
	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	2007	2008	2009	2010
Canada																
Overnight rate	3.50	3.00	3.00	1.50	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75	4.25	1.50	1.00	1.75
Three-month T-bills	1.87	2.48	1.89	0.90	0.75	0.75	1.00	1.10	1.25	1.40	1.65	2.00	3.82	0.90	1.10	2.00
Two-year GoC bonds	2.58	3.24	2.78	1.25	1.10	1.25	1.50	1.75	1.90	2.05	2.35	2.75	3.74	1.25	1.75	2.75
Five-year GoC bonds	2.91	3.45	3.17	1.90	1.75	1.90	2.10	2.50	2.60	2.75	2.95	3.25	3.87	1.90	2.50	3.25
10-year GoC bonds	3.45	3.74	3.75	2.90	2.50	2.40	2.65	2.90	3.00	3.15	3.35	3.75	3.99	2.90	2.90	3.75
30-year GoC bonds	3.96	4.05	4.13	3.60	3.10	2.95	3.15	3.40	3.40	3.55	3.75	4.15	4.18	3.60	3.40	4.15
Yield curve (10s-2s)	87	50	97	165	140	115	115	115	110	110	100	100	25	165	115	100
United States																
Fed funds rate	2.25	2.00	2.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	4.25	0.00	0.00	0.50
Three-month T-bills	1.28	1.89	1.15	0.10	0.20	0.35	0.50	0.65	0.75	0.85	1.00	1.10	3.07	0.10	0.65	1.10
Two-year bonds	1.62	2.77	2.08	0.60	0.50	0.60	0.75	1.00	1.10	1.25	1.35	1.60	3.12	0.60	1.00	1.60
Five-year bonds	2.48	3.49	2.88	1.25	1.10	1.35	1.50	1.75	1.90	2.00	2.00	2.25	3.49	1.25	1.75	2.25
10-year bonds	3.51	4.10	3.69	2.10	1.50	1.55	1.75	2.00	2.05	2.15	2.25	2.50	4.10	2.10	2.00	2.50
30-year bonds	4.39	4.70	4.27	2.60	2.00	2.05	2.25	2.50	2.50	2.60	2.70	2.95	4.53	2.60	2.50	2.95
Yield curve (10s-2s)	189	133	161	150	100	95	100	100	95	90	90	90	98	150	100	90
Yield spreads																
Three-month T-bills	0.59	0.59	0.74	0.80	0.55	0.40	0.50	0.45	0.50	0.55	0.65	0.90	0.75	0.80	0.45	0.90
Two-year	0.96	0.47	0.70	0.65	0.60	0.65	0.75	0.75	0.80	0.80	1.00	1.15	0.62	0.65	0.75	1.15
Five-year	0.43	-0.04	0.29	0.65	0.65	0.55	0.60	0.75	0.70	0.75	0.95	1.00	0.38	0.65	0.75	1.00
10-year	-0.06	-0.36	0.06	0.80	1.00	0.85	0.90	0.90	0.95	1.00	1.10	1.25	-0.11	0.80	0.90	1.25
30-year	-0.43	-0.65	-0.14	1.00	1.10	0.90	0.90	0.90	0.90	0.95	1.05	1.20	-0.35	1.00	0.90	1.20

Note: Rates are at the end of quarter

Exchange rates

%, end of period

				Forecast									Actual	Forecast		
	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	2007	2008	2009	2010
Australian dollar	0.91	0.96	0.79	0.63	0.60	0.55	0.60	0.62	0.64	0.66	0.67	0.68	0.88	0.63	0.62	0.68
Canadian dollar	1.03	1.02	1.06	1.27	1.29	1.31	1.27	1.25	1.22	1.19	1.17	1.15	1.00	1.27	1.25	1.15
Chinese renminbi	7.01	6.85	6.82	6.80	6.85	6.90	6.95	6.95	6.80	6.70	6.60	6.50	7.30	6.80	6.95	6.50
Euro	1.58	1.58	1.41	1.23	1.20	1.18	1.15	1.15	1.16	1.18	1.20	1.22	1.46	1.23	1.15	1.22
Japanese yen	100	106	106	96	97	98	98	98	97	95	94	93	112	96	98	93
Mexican peso	10.64	10.31	10.94	12.25	13.00	12.60	12.80	13.00	13.25	13.00	12.75	12.50	10.91	12.25	13.00	12.50
New Zealand dollar	0.79	0.76	0.67	0.56	0.48	0.43	0.48	0.51	0.55	0.57	0.58	0.59	0.77	0.56	0.51	0.59
U.K. pound sterling	1.98	1.99	1.78	1.57	1.45	1.48	1.49	1.53	1.55	1.57	1.60	1.63	1.98	1.57	1.53	1.63

Rates are expressed in currency units per U.S. dollar except the Euro, U.K. pound sterling, Australian dollar which are expressed in U.S. dollar per currency unit.

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