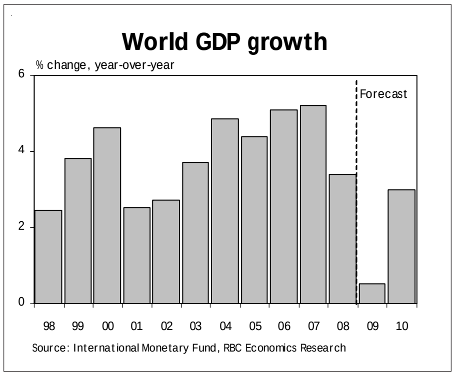
ECONOMIC & FINANCIAL MARKET OUTLOOK

March 2009



Fasten your seatbelts, 2009 is going to be a bumpy ride!

- ▲ Advanced economies to contract in 2009, while emerging economies likely to grow at the slowest pace in more than a decade.
- ▲ Inflation concerns fade as economic slack grows and commodity prices slump.
- ▲ Central bankers and government officials aim policies at restoring the financial system to health and putting the economy on the road to recovery.
- ▲ Aggressive policy actions to foster recovery in 2010.
- ▲ U.S. recession deepens as confidence erodes and consumers and businesses retrench.
- ▲ Weakening global economy puts downward pressure on exports.
- ▲ Obama Administration unveils US$787-billion fiscal stimulus plan.
- ▲ Fed to maintain extraordinarily low funds rate and support distressed markets.
- ▲ Canada succumbs to downward pressure and dips into recession.
- ▲ Households face job losses and balance sheet concerns.
- ▲ Falling commodity prices and sapped auto demand present problems for two key areas of Canadian business.
- ▲ Government of Canada gets worried and provides plan to help economy through the downturn.
- ▲ Bank of Canada cuts policy rate to record low and provides support to credit markets.
- ▲ Canada's recovery to start in second half of 2009 and gain momentum in 2010.

Ranks of economies in recession swell

More countries joined the U.S. recession party in late 2008 and early 2009 including Canada, which suffered the biggest quarterly contraction in real output in 17 years in the final quarter of 2008. The IMF revised its world growth forecast and is now looking for real GDP to increase by just one-half of one percent in 2009 (with recent comments suggesting this could be revised lower to show a decline), the slowest pace of increase in the post-war period. The combination of the collapse in world exports, a fractured financial system, tightening credit conditions and damaged confidence saw the momentum in the global economy fade and an increasing number of countries sink into recession.

The IMF forecasts that the advanced economies will contract by 2% this year, a downgrade to their previous prediction that these economies would eke out a marginal 0.3% gain. The emerging economies' outlook was also downgraded, with growth expected to average 3.3% this year, much slower than 2008's 6.3% and 2007's 8.3% pace. The growing slack in the global economy and plummeting commodity prices are exerting downward pressure on prices, resulting in headline inflation rates falling into negative territory, although core rates, which exclude food and energy prices, will remain mildly positive.

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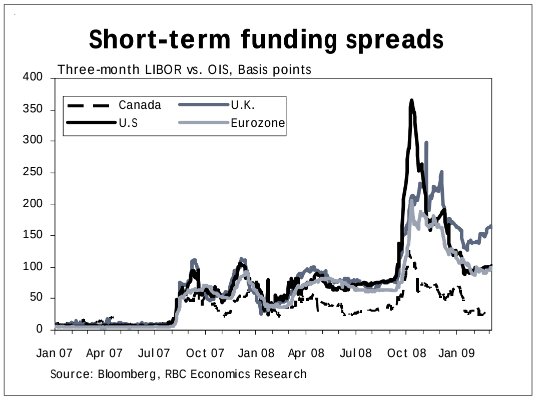
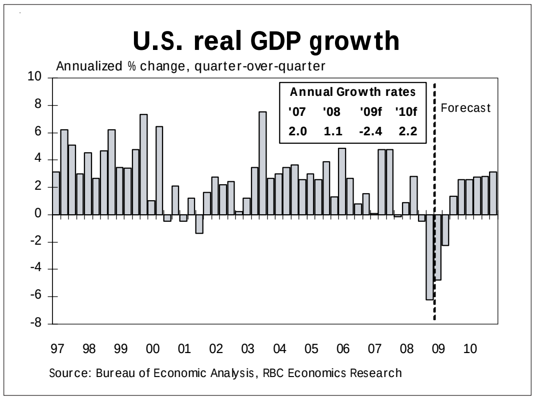
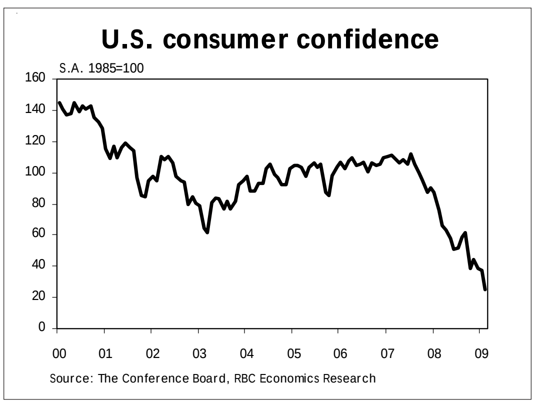
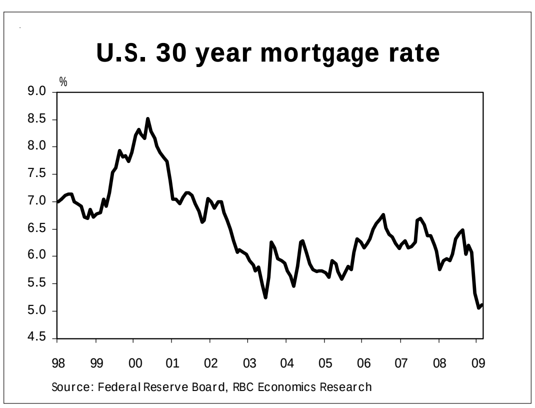








Central banks and governments implement rescue operation

Globally, central banks have been aggressively easing interest rates, with many countries boasting the lowest policy rates on record. Governments announced substantial fiscal stimulus packages, putting budget balances considerably in the red as policymakers aim at righting the financial system and underpinning a recovery in the global economy. This combination of fiscal and monetary policy stimulus is likely to sow the seeds for a recovery later in the year. While financial markets are still reeling from the implosion in the U.S. banking system, there have been tentative signs that the policy measures are starting to gain traction. LIBOR rates are gravitating toward policy rates, implying a smaller risk premium is being demanded for financial institutions to lend to each other; volatility has moderated; and investors have become less averse to taking on risk. Still, conditions remain strained compared to the days before the announcement of the Lehman Brothers bankruptcy, meaning that the policy stimulus has some way to go before victory can be declared.

U.S. recession deepens

The U.S. recession deepened markedly in late 2008 with real GDP contracting at a whopping 6.2% annualized pace in Q4. Both consumers and businesses retrenched, which, combined with a sharp pull-back in trade flows, caused a serious decline in output. There were few bright spots, with only an increase in government spending worth mentioning. Data released for January and February gave scant indication that the seeds of recovery are being sown and we forecast another hefty contraction in the first quarter of 4.8% at an annualized rate. Our assessment is that the cocktail of fiscal and monetary policy stimulus measures will contain the financial market storm and ultimately lend support to the economy, although a substantive improvement is unlikely until the second half of the year.

Job losses, financial market uncertainty keep consumers from spending

The U.S. consumer has long been the bastion of hope for the economy as personal expenditures account for 70% of economic activity. After 66 consecutive quarters of growth, consumer spending contracted at a 4.1% annualized pace in the second half of 2008 and we expect it will continue to contract in the first half of 2009. The pressures on the U.S. consumer have yet to abate with 4.4 million jobs lost since the beginning of last year, resulting in the unemployment rate rising to the highest level since 1983. Additionally, balance sheets remain under downward pressure with households having racked up debt amounting to 187% of their income and the value of household assets eroding as housing prices slide and investment portfolios crumble.

Housing market — When will it bottom?

Housing market statistics have become increasingly volatile with sales of new homes continuing to trend lower in December, although the larger, resale market rebounded. In January, both measures of sales activity declined. Price growth remains firmly planted in negative territory and the inventory of homes for sale is sky-high. There have been some encouraging signs around the edges with mortgage rates falling to record lows, applications for mortgage refinancing loans rising and homebuilders' sentiment stabilizing, albeit at a very low level. President Obama's plan that will grant government subsidies to lenders who agree to allow distressed mortgage-holders to modify their mortgage contracts and provide aid to mortgage-holders who need to refinance are expected to curb the number of homes that fall into foreclosure. Still, it is too soon to read a lot into these modest improvements and we expect that prices will remain under moderate downward pressure until there are clear signs that the worst for the credit crisis has passed and the downward pressure on the job market eases.

Businesses retrench under the pressure of tight financial conditions and slumping demand

Like households, businesses face a myriad of negative forces with profits slumping, order books contracting on fading demand, lending standards tight and credit spreads wide. For companies that can get access to financing, it is the punitive level of spreads that have dampened demand as indicated by the Senior Loans Officer survey taken earlier this year. The survey showed a marginal easing in lending standards, suggesting that the steady deterioration in supply-side conditions has stopped. However, a hefty 55% of institutions reported weaker demand for commercial real estate loans and about 60% indicated slower commercial and industrial loan demand. The uncertain backdrop and relatively high cost of capital is likely to constrain investment activity as businesses pare back on capital goods purchases and increasing spare capacity limits the building of new plants and facilities.

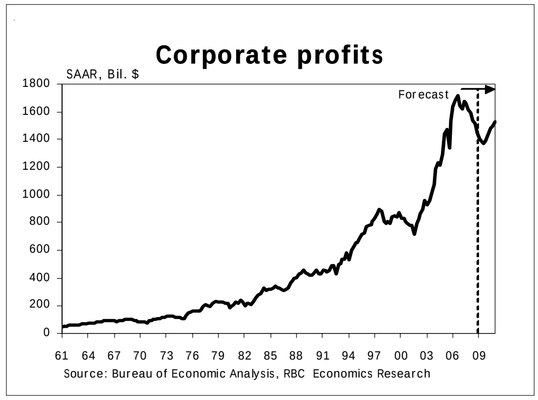
As we look at the major trading partners of the United States, we see that the majority of these countries were in recession in late 2008 with Canada, Mexico, the United Kingdom, Eurozone and Japan all posting negative growth rates, while China's economy geared down to post the slowest growth since late 2001. As a result, demand for U.S. exports collapsed after five years of increases. Import demand continued to spiral lower with the strong 16% drop in the fourth quarter marking the sixth decline in the past eight quarters. With both imports and exports slumping, the net trade deficit is likely to amount to 3% of U.S. GDP in 2009 and act as a small lift to growth this year.

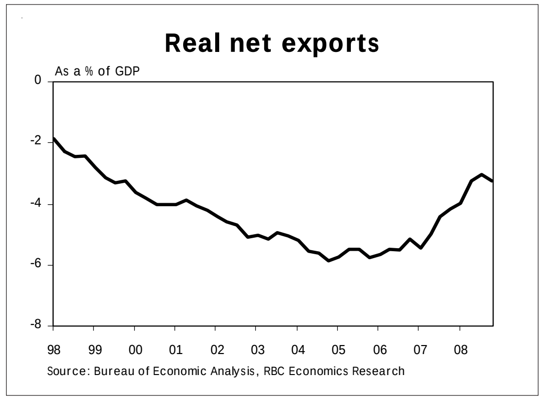
Fiscal stimulus is on the way!

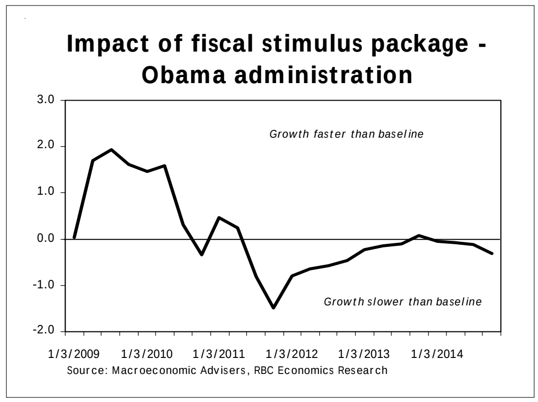
One of the first acts of the Obama Administration was to pass the US$787 billion American Recovery and Reinvestment Act. The Act provides tax relief, funds for infrastructure spending and money for states, health and education and is aimed at limiting the downturn in the labour market by boosting spending. The Congressional Budget Office forecasts that the package will add between 1.4% and 3.8% to real GDP in 2009 and 1.1% to 3.3% in 2010 and will limit the uptick in the unemployment rate. The steady drip of tax relief contained in this plan, rather than the one-shot hit that occurred in early 2008, is expected to support a gradual increase in consumer spending, especially if the erosion in the labour market is contained. At the same time, increased spending on infrastructure projects and aid to state governments are forecast to spur demand for goods and labour and help push the economy out of recession.

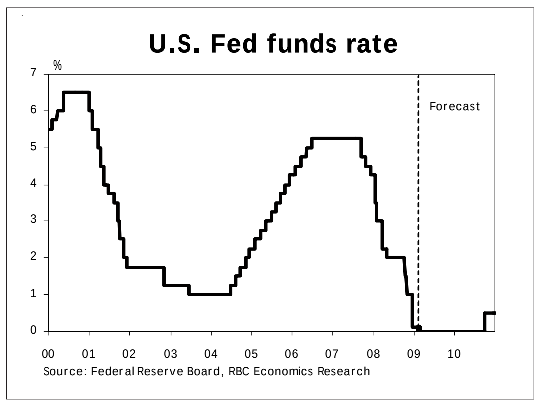
Fed takes aggressive action — but is it enough?

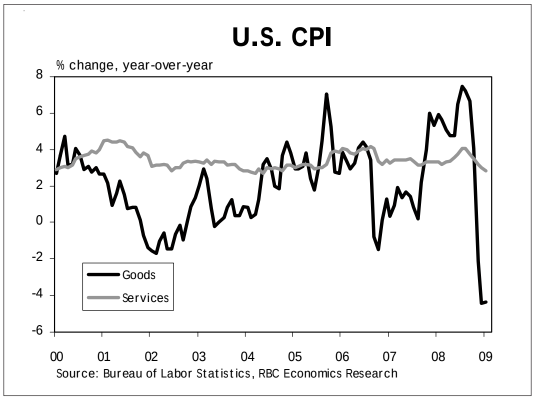
The Fed set the funds rate at a target range of zero to 0.25% in mid-December and reconfirmed their commitment to supporting the financial system and the economy. The Fed also committed to maintaining "exceptionally low levels of the federal funds rate for some time", which we expect means that they will maintain this range throughout 2009 and most of 2010. Policymakers have also engaged in other initiatives geared to ensuring that households and businesses have

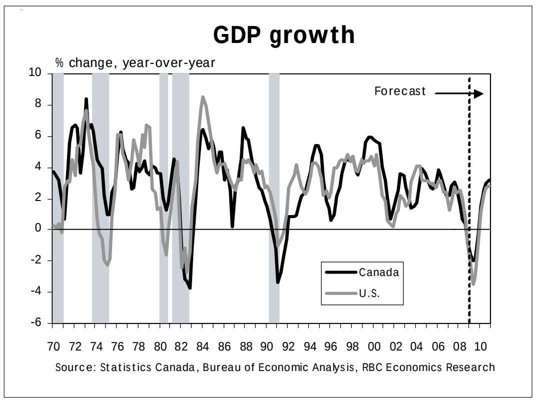


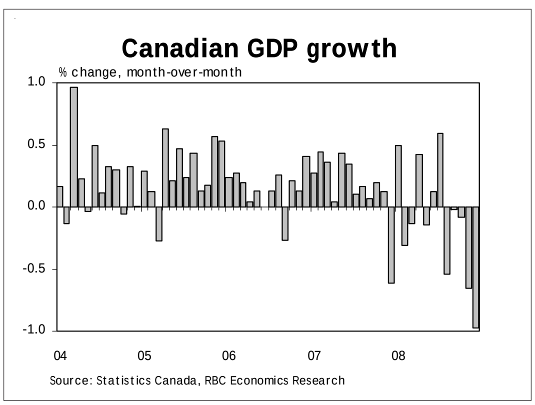












access to credit, including purchases of mortgage-backed securities and the use of a term asset-backed securities loan facility both aimed at addressing areas of financial markets that seized up during the recent crisis. In fact, the Fed has pledged to use its balance sheet to orchestrate an easing in credit conditions and may even directly purchase longer-term Treasury securities if borrowing costs do not ease sufficiently to stimulate demand.

In the near-term, we look for the Fed to maintain this policy stance and the current very low range for the policy rate. There has been some evidence that the Fed's policy plan is getting traction with the three-month LIBOR rate (the rate at which financial institutions lend to each other) gravitating toward the policy rate and longer-term credit spreads narrowing, albeit from historically wide levels. Mortgage rates have also fallen, stimulating a round of refinancing activity. Still, the LIBOR rate is about one percentage point higher than the policy rate, meaning that it remains above the 87 basis-point level that prevailed prior to the Lehman announcement. Credit spreads are punitive and access constrained, meaning that the low policy rates have yet to reach the end user. Our view is that these conditions will improve during the course of this year as the financial system stabilizes.

No inflation around here!

For policymakers the risk associated with the inflation outlook has shifted from concerns about rapid increases to worries that disinflationary pressures will persist. To be sure, the headline inflation rate is likely to be in negative territory in the near-term with commodity prices slumping and growing excess capacity dampening price pressures. Goods' prices have borne the brunt of the decline and are running 4.4% lower than a year earlier, a sea-change from the 7.7% annual increase reported six months earlier. Services' prices have also softened but are still 2.8% higher than a year earlier. We expect that, even though the headline rate is likely to print negative year-over-year readings for much of 2009, the core measure will stay in positive territory, averaging 1.3%.

Canada follows United States down recession road

The data for Canada have turned from bad to worse in the past couple of months, with the economy contracting at a 3.4% annualized rate in the fourth quarter and a record number of job cuts announced in January. The weakening in the labour market compounded the pressure on consumer confidence as Canadians worried about the implications of a deepening U.S. recession and the financial market crisis on Canada's growth prospects. This erosion in confidence weighed heavily on housing market activity, with sales falling and prices slumping. News from business wasn't any better as manufacturers, retailers and wholesalers saw sales plunge. The weakness in both the business and consumer sectors highlights the toll that the higher cost of capital and falling commodity prices are having on the economy.

Near-term weakness to persist

We see little to jolt Canada out of its economic funk in the near-term given the steady string of bad news on the jobs front and dismal reports on the state of the global economy. Companies cut a record 129,000 jobs in January, almost all of which were full-time positions. Manufacturers pared 101,000 workers from their January payrolls, which is just above one-fifth of all jobs lost in the sector since the recent peak in 2002. Service-providers trimmed a much more modest 9,000 positions in January.

Despite the slide in employment in recent months, Canada's labour market remains in better shape than in many other countries. To be sure, the unemployment rate rose to 7.2% in January and will likely head a little above 8% as the recession continues, but this is still below its historical average of 8.7%. In the United States, the long-term average unemployment rate is 6%, which has already been eclipsed at the current 8.1%, and we expect the rate will climb toward 9% before this economic slowdown is over.

The astounding weakness in the demand for autos, both in Canada and the United States, is having a damaging effect on employment. In the United States, 1.3 million of the 4.4 million jobs lost since the beginning of 2008 were in manufacturing. In Canada, manufacturing jobs were cut by 135,000, while industries outside manufacturing increased employment by 86,200 during the period.

Canadian household balance sheet — Worrying but not alarming

For consumers, the job losses are coming at a time when they are facing serious erosion in the value of assets on their balance sheets. In the third quarter, the market value of assets was 2.2% lower than in the prior quarter and just 0.8% higher than a year earlier. The value of household debt increased in the third quarter by 2.5%, meaning that households' overall net worth position deteriorated in the quarter. Furthermore, comparing the level of debt to disposable income shows that Canadians faced the highest debt burden on record at 139%. But, it isn't all bad news — even with the relatively high debt level, the cost to service this debt decreased in late 2008 due very low interest rates. Additionally, Canadian balance sheets still look favourable compared to those of the United States and the United Kingdom where the household debt-to-income ratios stand at 187% and 172%, respectively.

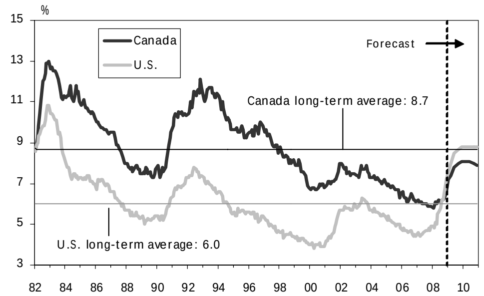
Risk of falling housing prices a concern

Even with Canada's balance sheets holding up reasonably well compared to other countries, the risk of a further deterioration cannot be discounted. The TSX, the barometer of equity values, continues to slide and home values have come under pressure. The housing market started to sag in 2008, with sales falling and prices dropping below year earlier levels. The Canadian Real Estate Association's data showed that the number of units sold fell steadily from May 2007's record pace, but that the pace of decline picked up significantly in the fourth quarter of last year. Prices peaked in December 2007 and were off 13% from that peak a year later. While prices and sales are likely to continue to weaken in 2009, we do not look for a U.S.- or U.K.- style retrenchment as neither the stock of homes available for sale stands at excessive levels nor is the market plagued by under-collateralized mortgages. Still, weakening sales activity led to a significant reduction in construction activity in late 2008 and early 2009, with starts falling to 134,600 units in February after averaging more than 200,000 units per month in the first 10 months of last year. Given the current state of the economy and damaged consumer confidence, we project that the average pace of housing starts will be 26.5% lower than in 2008.

No area of the economy left unscathed

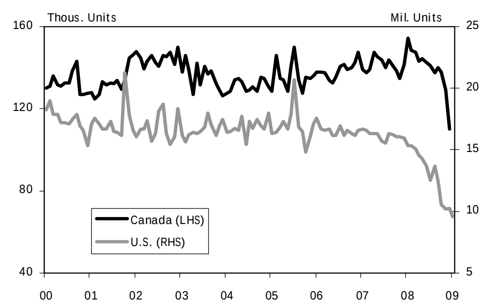
Canada's trade sector is suffering, with the volume of both exports and imports faltering. In the fourth quarter, the trade data showed that the slumping U.S. economy weighed heavily on exports, while the volume of Canadian imports

Unemployment rate



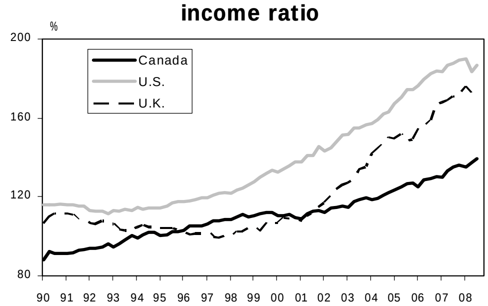
Source:Statistics Canada, Bureau of Labor Statistics, RBC Economics

Motor Vehicles Sales

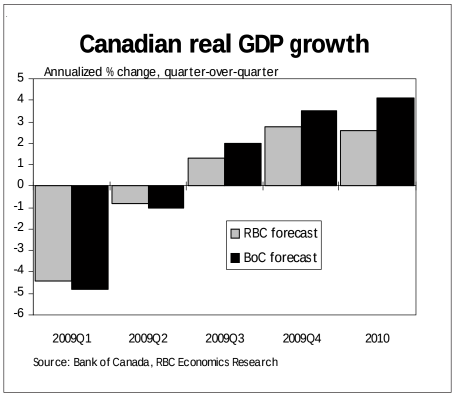


Source: Statistics Canada, Autodata Corporation, RBC Economics Research

Household debt to personal disposable income ratio

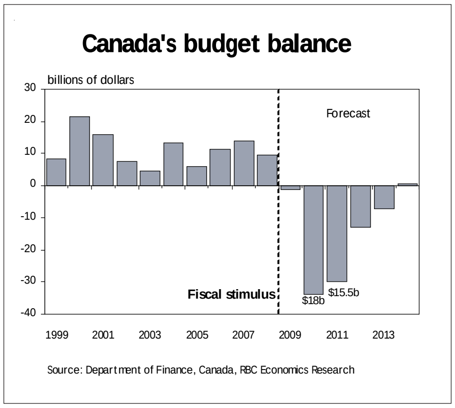


Source: Statistics Canada, Federal Reserve Board, RBC Economics Research suffered an even greater decline due to the weakening in domestic demand. As a result, the net export balance's drag the economy lessened in the fourth quarter, one of only a few positive contributions to growth in the quarter. Nonetheless, deteriorating trends on both sides of the trade equation are a sign of weakness and, along with the scaling back of inventories, are expected to contribute to the economic malaise extending into mid-year.



Bank of Canada sees deep slump now to be followed by strong rebound in 2010

The Bank of Canada cut the policy rate to an extraordinarily low 0.5% in March and vowed to maintain it "at this level or lower" until the economy is sufficiently strong to close the output gap and thereby mitigate the downside risks to the inflation outlook. The Bank included a reference to quantitative and credit easing, indicating that policy-makers are keeping their options open and that should the economy continue to disappoint, they are ready to follow the lead of the United States, the United Kingdom and others in moving to more innovative ways to attack the problem. In their forecast update, the Bank projected a sharp contraction in the economy in early 2009 with the the recession continuing into mid-year. However, policymakers remained optimistic that the stimulus from low interest rates and government spending initiatives will support a recovery in the second half of 2009 and then pick up significant momentum in 2010. The shift to highly stimulative fiscal policy not only in Canada but globally augurs well for a rebound in activity. At the same time, the economic downturn, plus falling prices for commodities like energy, have dampened concerns about the upside risks to the inflation outlook and given the Bank the leeway to address the downside risks to growth. In other policy actions, the Bank announced measures to support financial markets by expanding the list of securities that it will accept as collateral to include higher-rate corporate bonds. The Bank's goal is to engineer an easing in credit conditions to ensure that households and businesses gain access to low-cost credit.



Government of Canada honours pledge to G20 Action Plan

The federal government announced a fiscal stimulus package in early 2009 when it became increasingly clear that the economy's momentum was fading as consumers and businesses pulled back on spending and that government support for the economy was needed. The package aims to provide stimulus that amounts to about 1% of GDP in 2009 and 2010. The budget initiatives total C$33.5 billion in stimulus (C$18 billion in 2009-10 and C$15.5 billion in 2010-11). About two-thirds of this stimulus reflects spending initiatives with the remainder in the form of tax reductions in line with the G20 Action Plan whereby governments would implement policies to boost domestic demand. Additionally, a component of the budget is meant to directly address the credit tightening by providing funds to various markets dealing in securitized products. Our forecast assumes that these monies will be spent relatively quickly with tax changes targeted at households who will spend and the infrastructure funds having a finite shelf-life, which means that provincial governments and municipalities have the incentive to put projects in place quickly if they are to benefit from the federal government's largesse.

Darkest before the dawn

There's no denying that the current economic environment is troubling and that the timing of a return to prosperity is difficult to pinpoint. Central banks are committed to keeping interest rates low and governments to providing stimulus so the question is whether or not the current dose of stimulus will be enough to bolster consumer and business confidence and lead to a recovery in spending. We believe that these policies will be successful and that a full-fledged recovery will be under way in 2010, but acknowledge that this period of unprecedented uncertainty will make for a bumpy ride!

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual				Forecast								Forecast			
	2008				2009				2010				Annual average			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009	2010
Consumer spending	2.4	1.4	0.6	-3.3	-2.1	0.9	1.5	2.4	2.5	2.5	2.1	2.4	4.5	3.0	-0.8	2.2
Durables	16.8	-3.4	-0.7	-12.1	-16.1	-3.0	2.1	3.7	3.6	3.1	2.9	2.9	7.1	5.2	-7.0	2.8
Non-durables	-0.2	0.4	-0.4	-1.7	-1.4	1.5	1.4	2.3	2.6	2.7	1.3	1.7	3.3	1.2	-0.1	2.1
Services	0.1	2.4	1.1	-1.4	0.9	1.5	1.4	2.2	2.3	2.2	2.1	2.5	4.3	3.1	0.8	2.1
Government spending	1.5	3.9	-0.2	2.8	2.5	2.9	3.4	3.3	2.8	3.0	3.0	3.0	3.7	3.4	2.5	3.0
Business investment	-0.5	-1.8	0.8	-17.6	-18.1	-10.2	-1.1	0.9	2.4	2.7	4.6	4.9	3.4	0.0	-10.2	1.3
Residential construction	-5.6	-4.6	-2.2	-22.1	-24.6	-7.1	8.5	5.8	5.7	4.8	5.3	5.0	3.0	-2.9	-11.6	5.0
Non-residential structures	4.9	3.8	7.9	-0.1	-15.1	-13.8	-6.1	-5.1	-0.9	-0.5	3.5	4.3	-0.4	1.1	-6.6	-2.3
Machinery & equipment	0.4	-3.6	-2.4	-26.8	-14.5	-10.1	-5.9	1.6	2.3	3.5	4.8	5.3	7.1	2.0	-12.2	1.0
Final domestic demand	1.8	1.3	0.5	-4.9	-4.2	-0.8	1.4	2.3	2.6	2.6	2.8	3.1	4.2	2.5	-1.7	2.2
Exports	-4.6	-3.2	-3.4	-17.5	-12.9	-4.8	1.3	3.8	3.7	3.8	4.3	4.3	1.0	-4.7	-7.9	3.0
Imports	-7.6	3.6	-3.7	-23.3	-15.4	-5.3	0.5	3.6	3.3	3.1	3.9	3.8	5.5	0.8	-9.7	2.5
Inventories (change in $b)	7.0	12.0	12.6	9.4	5.7	5.2	4.0	5.1	5.9	7.2	7.7	7.9	13.2	10.3	5.0	7.2
Real gross domestic product	**-0.9**	**0.6**	**0.9**	**-3.4**	**-4.4**	**-0.8**	**1.3**	**2.8**	**3.0**	**3.2**	**3.1**	**3.3**	**2.7**	**0.5**	**-1.4**	**2.6**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity*	-0.7	-0.6	-0.6	-1.5	-0.8	-0.4	-0.2	1.0	1.4	1.3	1.1	0.9	0.7	-0.8	-0.1	1.2
Pre-tax corporate profits	4.3	12.5	16.1	-7.3	-9.3	-17.9	-22.0	-7.2	2.2	6.9	9.9	13.0	3.3	6.4	-14.6	7.9
Unemployment rate (%)	5.9	6.1	6.2	6.4	7.4	7.8	8.0	8.1	8.1	8.1	8.0	7.9	6.0	6.1	7.8	8.0
Inflation																
Headline CPI	1.9	2.3	3.4	1.9	1.1	0.0	-0.7	1.2	1.7	1.2	1.4	1.5	2.1	2.4	0.4	1.4
Core CPI	1.4	1.5	1.6	2.2	1.7	1.4	1.1	1.2	1.3	1.5	1.6	1.6	2.1	1.7	1.3	1.5
External trade																
Current account balance ($b)	22.3	34.1	14.5	-29.9	-40.1	-33.1	-21.3	-12.1	-1.2	2.3	9.5	14.8	13.6	10.2	-26.6	6.3
% of GDP	1.4	2.1	0.9	-1.9	-2.6	-2.1	-1.4	-0.8	-0.1	0.1	0.6	0.9	0.9	0.6	-1.7	0.0
Housing starts (000s)	235	218	208	185	142	152	162	164	167	169	175	179	228	211	155	173
Motor vehicle sales (mill., saar)	1.80	1.72	1.68	1.51	1.32	1.28	1.31	1.34	1.39	1.44	1.46	1.48	1.69	1.68	1.31	1.44

* Productivity for forecast 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								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	-3.8	-4.3	-2.0	-0.3	0.9	2.2	1.9	2.2	2.1	2.4	2.8	0.2	-1.5	1.8
Durables	-4.3	-2.8	-14.8	-22.1	-10.5	1.9	1.3	4.1	7.9	3.9	1.9	1.9	4.8	-4.3	-8.6	4.1
Non-durables	-0.4	3.9	-7.1	-9.2	-4.5	-3.5	0.5	1.9	1.2	1.8	2.1	2.3	2.5	-0.6	-4.1	1.2
Services	2.4	0.7	-0.1	1.4	0.5	0.9	1.1	2.1	1.3	2.1	2.2	2.5	2.6	1.5	0.9	1.7
Government spending	1.9	3.9	5.8	1.6	1.7	1.8	2.8	3.0	1.8	1.9	1.8	1.9	2.1	2.9	2.6	2.2
Business investment	-5.6	-1.7	-5.3	-21.3	-22.7	-15.8	-2.3	1.3	2.2	3.5	2.5	3.3	-3.1	-4.9	-14.1	0.6
Residential construction	-25.0	-13.3	-16.1	-22.2	-25.1	-3.3	9.9	8.2	12.3	11.8	6.3	4.5	-17.9	-20.8	-13.1	8.9
Non-residential structures	8.7	18.4	9.6	-5.9	-23.1	-20.2	-9.1	-4.1	-2.8	1.1	1.5	2.5	12.7	11.5	-10.6	-3.5
Machinery & equipment	-0.5	-5.0	-7.5	-28.8	-21.4	-19.1	-4.1	1.2	0.4	1.0	1.3	3.1	1.7	-3.0	-16.6	-1.0
Final domestic demand	0.1	1.3	-2.2	-5.7	-4.1	-2.0	0.9	2.3	1.9	2.3	2.1	2.4	1.7	0.0	-2.4	1.7
Exports	5.1	12.3	3.0	-23.6	-13.5	-9.5	0.1	1.5	3.1	4.0	3.1	4.5	8.4	6.2	-9.0	1.8
Imports	-0.8	-7.3	-3.5	-16.0	-12.8	-7.9	0.5	2.8	3.5	4.3	3.9	4.6	2.2	-3.3	-8.6	2.5
Inventories (change in $b)	-10.2	-50.6	-29.6	-19.9	-51.0	-63.0	-47.8	-33.3	-10.3	4.1	27.3	51.7	-2.5	-27.6	-48.8	18.2
Real gross domestic product	**0.9**	**2.8**	**-0.5**	**-6.2**	**-4.8**	**-2.3**	**1.4**	**2.6**	**2.6**	**2.7**	**2.8**	**3.1**	**2.0**	**1.1**	**-2.4**	**2.2**

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	2.7	0.6	0.1	0.7	1.8	2.0	1.7	0.9	0.5	1.6	2.7	0.8	1.3
Pre-tax corporate profits	-1.5	-8.3	-9.2	-10.1	-12.0	-10.1	-9.4	-4.1	2.0	7.4	9.1	9.8	-1.6	-7.3	-9.0	7.0
Unemployment rate (%)	4.9	5.4	6.1	6.9	8.0	8.5	8.7	8.8	8.8	8.8	8.8	8.8	4.6	5.8	8.5	8.8
Inflation																
Headline CPI	4.1	4.4	5.3	1.6	0.1	-1.3	-2.2	0.6	1.0	1.1	1.2	1.2	2.9	3.8	-0.7	1.1
Core CPI	2.4	2.3	2.5	2.0	1.7	1.4	1.1	1.0	1.0	1.1	1.1	1.1	2.3	2.3	1.3	1.1
External trade																
Current account balance ($b)	-703	-724	-696	-548	-439	-391	-402	-419	-428	-441	-472	-501	-731	-668	-413	-460
% of GDP	-5.0	-5.1	-4.8	-3.9	-3.1	-2.8	-2.8	-2.9	-3.0	-3.0	-3.2	-3.4	-5.3	-4.7	-2.9	-3.2
Housing starts (000s)	1053	1025	876	661	497	572	689	636	709	748	759	780	1341	904	599	749
Motor vehicle sales (millions, saar)	15.2	14.1	12.9	10.3	9.2	9.5	9.7	10.2	11.0	11.4	11.6	11.8	16.1	13.1	9.7	11.5

* Productivity for forecast 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									Forecast	
	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	2008	2009	2010
Canada															
Overnight rate	3.50	3.00	3.00	1.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.50	1.50	0.50	1.50
Three-month T-bills	1.87	2.48	1.89	0.83	0.80	0.75	1.00	1.10	1.25	1.40	1.65	2.00	0.83	1.10	2.00
Two-year GoC bonds	2.58	3.24	2.78	1.09	1.10	1.25	1.50	1.75	1.90	2.05	2.35	2.75	1.09	1.75	2.75
Five-year GoC bonds	2.91	3.45	3.17	1.69	2.00	1.90	2.10	2.50	2.60	2.75	2.95	3.25	1.69	2.50	3.25
10-year GoC bonds	3.45	3.74	3.75	2.69	2.75	2.50	2.55	2.60	3.00	3.15	3.20	3.35	2.69	2.60	3.35
30-year GoC bonds	3.96	4.05	4.13	3.45	3.50	3.25	3.05	3.10	3.40	3.55	3.60	3.75	3.45	3.10	3.75
Yield curve (10s-2s)	87	50	97	160	165	125	105	85	110	110	85	60	160	85	60
United States															
Fed funds rate	2.25	2.00	2.00	0.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.13	0.00	0.50
Three-month T-bills	1.28	1.89	1.15	0.03	0.25	0.35	0.50	0.65	0.75	0.85	1.00	1.10	0.03	0.65	1.10
Two-year bonds	1.62	2.77	2.08	0.82	1.00	0.75	0.75	1.00	1.10	1.25	1.35	1.60	0.82	1.00	1.60
Five-year bonds	2.48	3.49	2.88	1.52	1.75	1.60	1.50	1.75	1.90	2.00	2.00	2.25	1.52	1.75	2.25
10-year bonds	3.51	4.10	3.69	2.42	2.75	2.30	2.20	2.00	2.05	2.15	2.25	2.50	2.42	2.00	2.50
30-year bonds	4.39	4.70	4.27	2.90	3.35	3.10	2.90	2.80	2.80	2.90	3.00	3.30	2.90	2.80	3.30
Yield curve (10s-2s)	189	133	161	160	175	155	145	100	95	90	90	90	160	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	0.80	0.45	0.90
Two-year	0.96	0.47	0.70	0.27	0.10	0.50	0.75	0.75	0.80	0.80	1.00	1.15	0.27	0.75	1.15
Five-year	0.43	-0.04	0.29	0.17	0.25	0.30	0.60	0.75	0.70	0.75	0.95	1.00	0.17	0.75	1.00
10-year	-0.06	-0.36	0.06	0.27	0.00	0.20	0.35	0.60	0.95	1.00	0.95	0.85	0.27	0.60	0.85
30-year	-0.43	-0.65	-0.14	0.55	0.15	0.15	0.15	0.30	0.60	0.65	0.60	0.45	0.55	0.30	0.45

Exchange rates

%, end of period

	Actual				Forecast									Forecast	
	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	2008	2009	2010
Australian dollar	0.91	0.96	0.79	0.70	0.58	0.50	0.53	0.58	0.61	0.64	0.65	0.65	0.70	0.58	0.65
Brazilian real	1.76	1.30	1.91	2.31	2.65	2.60	2.55	2.50	2.50	2.45	2.40	2.40	2.31	2.50	2.40
Canadian dollar	1.03	1.02	1.06	1.23	1.29	1.31	1.27	1.25	1.22	1.19	1.17	1.15	1.23	1.25	1.15
Chinese renminbi	7.01	6.85	6.82	6.84	6.85	6.85	6.85	6.85	6.80	6.70	6.60	6.50	6.84	6.85	6.50
Euro	1.58	1.58	1.41	1.35	1.25	1.18	1.15	1.15	1.16	1.18	1.20	1.22	1.35	1.15	1.22
Japanese yen	100	106	106	91	95	96	97	98	97	95	94	93	91	98	93
Mexican peso	10.64	10.31	10.94	13.10	15.00	15.00	14.50	14.00	13.75	13.50	13.25	13.00	13.10	14.00	13.00
New Zealand dollar	0.79	0.76	0.67	0.58	0.45	0.38	0.40	0.45	0.50	0.52	0.55	0.55	0.58	0.45	0.55
Swiss franc	0.99	1.02	1.12	1.07	1.20	1.31	1.36	1.37	1.38	1.34	1.30	1.27	1.07	1.37	1.27
U.K. pound sterling	1.98	1.99	1.80	1.48	1.40	1.37	1.35	1.37	1.36	1.39	1.41	1.44	1.48	1.37	1.44

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

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