ECONOMICS | **RESEARCH**

ECONOMIC AND FINANCIAL MARKET OUTLOOK

September 2010

Global economy catches its breath

- Global growth projections cut back as U.S. economy stumbles.
- Sluggish labour market and fallback in housing raises concerns about longevity of U.S. recovery.
- RBC cuts U.S. growth forecasts for 2010 and 2011 mildly to reflect weakening trend in third-quarter data and disappointing Q2.
- Fed pledges to keep policy support in place.
- Low interest rates will play key role in keeping the U.S. economy on track as support from inventory restocking and fiscal stimulus fades.
- Canada's domestic economy proved strong in the second quarter masked by slower than expected rise in real GDP.
- Growth forecasts pared by 0.3% in 2010 and 2011.
- Bank of Canada ups policy rate to 1% in September; now it is likely to pause to assess the effect of rate increases and global uncertainty on Canada's growth prospects.
- Little evidence of capacity pressures building and core inflation remains well behaved thereby giving the Bank latitude to shift of sidelines.
- Canadian dollar is in a weak spell but is forecasted to recover once global recovery looks more assured.

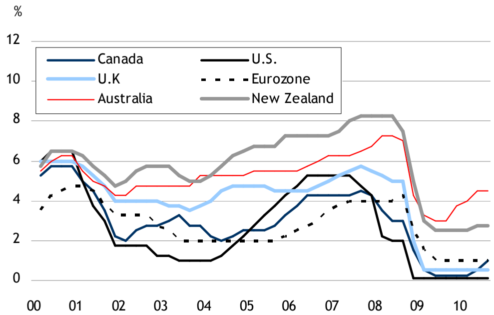
The world economy looked to be on an established growth path three months ago with forecasters revising up real GDP projections. The recent string of data reports provided a somewhat different picture with the U.K. and Eurozone economies producing much stronger than expected results while Canada's momentum eased and the U.S. economy stumbled. China's economy also slowed although it continued to run at a double-digit annual growth rate.

After the robust 5.2% annualized gain in real GDP in the first quarter of 2010, global economic indicators point to a broad-based moderation in the pace of growth. The purchasing managers' indices of global manufacturing and services activity edged lower, and the OECD's index of leading indicators turned down suggesting that the peak pace for global growth passed earlier in the year. Despite the moderation in these measures, they still point to the expansion continuing. Extremely easy monetary policy will provide support to the recovery as fiscal policy support subsides. To-date, financial conditions have not been severely damaged by the European sovereign-debt crisis and uncertainty about the growth outlook, nor have financial institutions tightened lending standards. With central banks pledging to do whatever is necessary to keep the recovery on track, interest rates will remain low thereby supporting business and consumer spending once confidence is restored.

U.S. Growth Forecasts Revised Lower

The consensus forecast for U.S. growth in 2010 and 2011 has been steadily pared back since May. The sharp weakening in real GDP in the second quarter of 2010, and dismal reports on the housing and labour markets into the summer months saw RBC adjust down our forecasts as well. We now expect the U.S. economy to expand by 2.7% in 2010 and 3.0% in 2011. These estimates compare to 3.1% and 3.4% three-months ago. These downgrades to the pace of growth will put even less downward pressure on the unemployment rate

Central bank policy rates



Source: Bank of Canada, Federal Reserve Board, Bank of England, European Central Bank, Australian Bureau of Statistics, Statistics New Zealand, RBC Economics Research

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meaning that inflation will remain quiescent, providing the Fed with the opportunity to continue to focus on reviving growth.

Inventory Rebuilding and Fiscal Stimulus

One of the factors that helped the U.S. economy in recent quarters has been the rebuilding of inventories that were cut back during the recession. In the first half of this year, inventories provided substantial support to the quarterly growth rates resulting in the inventory-to-sales ratio rising from its all-time low recorded in March/April this year. This rebuilding is likely to slow in the second half of the year given the uncertainty about the near-term outlook although we expect the restocking to resume in 2011 as the level of inventories relative to sales remains close to a historic low.

Another factor that supported the recovery has been government fiscal stimulus programs. The spending associated with the American Recovery and Reinvestment Act weighed against falling consumer and business activity in 2009 and added significantly to the pace of growth in 2010. Going forward, the support will diminish meaning that private demand will need to take up the mantle if the recovery is to survive. Our forecast is that final sales to private domestic purchasers, in other words, consumers and businesses, will rise by just 1.8% in 2010 and almost double that rate in 2011 supported by low interest rates.

Housing Market Bites the Dust…Again

The news on the housing market has been grim, with existing home sales dropping to a cyclical low in July and new home sales following suit. The expiry of the homebuyers' tax credit dampened activity even with affordability levels historically attractive and mortgage rates at all-time lows.

The abrupt drop in housing activity saw inventories relative to the pace of sales surge to a record level although the number of homes (in units) available for sale was 12.9% below the all-time high reported two-years earlier. The percentage of mortgages seriously delinquent (more than 90 days past due) moderated in the second quarter although remained historically high thereby perpetuating the risk of more houses coming onto the market. The depressed level of new home sales is likely to keep housing starts activity under wraps in the near term. We forecast for a modest increase in the pace of starts in 2010 and 2011 with residential construction acting as a support for growth rather than the substantial drag of the previous four years. Even with the forecasted increase, however, the level of starts will be the second and third-lowest annual levels on record following 2009's severely depressed reading.

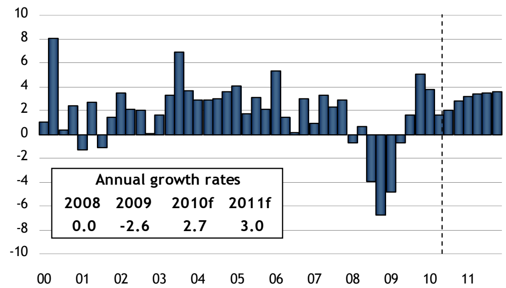
Access to Capital Improves but Labour Market Disappoints

Financial institutions are no longer tightening lending standards for borrowers according to the Federal Reserve's Senior Loans officer survey. In the third quarter of 2010, there was an overall easing in lending standards for mortgages for the first time since the third quarter of 2006. This easement was accompanied by a modest increase in demand following two very sharp declines in the previous quarters. The soft state of demand is likely related to the weak performance of the U.S. labour market this year.

Job gains in the United States have been scarce during 2010 with the number of jobs created to-date totalling 723,000. This result means that of the 8.4 million jobs lost during the recession, less than 9% have been recovered. On the plus side, average weekly and overtime hours have picked up, and the unemployment rate, while still-elevated, is off its recent high. Claims for unemployment insurance were elevated in August, and the average length of time that workers are on the unemployment rolls has risen to 34.2 weeks, about double the duration of unemployment prior to the recession. The implications of increasing long-term unemployment are negative for the economy because

U.S. real GDP

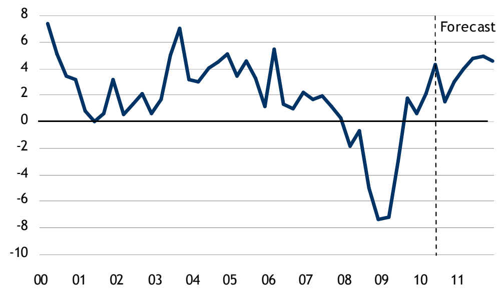
Annualized % change, quarter-over-quarter



Source: Bureau of Economic Analysis, RBC Economics Research

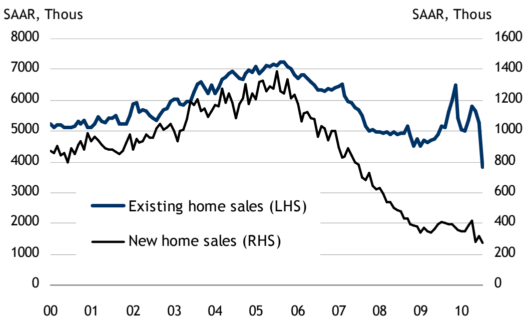
U.S. final sales to private domestic purchasers

Annualized % change, quarter-over-quarter



Source: Bureau of Economic Analysis, RBC Economics Research

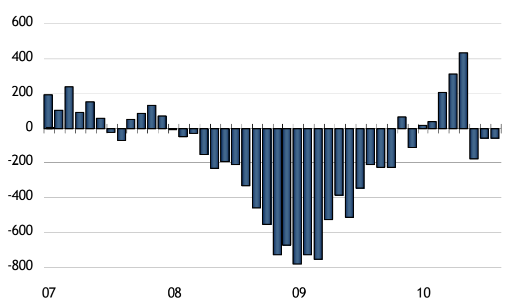
U.S. home sales



National Association of Realtors, Census Bureau, RBC Economics Research

U.S. nonfarm payroll employment growth

Change from previous month (Thous.)



Source: Bureau of Labor Statistics, RBC Economics Research workers' skills deteriorate and their consumption drops during the period that they are without work.

Also weighing on consumption is the sharp deterioration in household balance sheets that occurred during the recession and financial market crisis. Debt levels have fallen in recent quarters and asset values improved restoring about $6 trillion of household net worth; however, this falls short of the peak levels of household net worth by about $11 trillion. To that end, households have significantly boosted their savings, which made up 6.1% of income in the second quarter, a marked improvement from the 2.0% pace prior to the downturn. Furthermore, this sharp shift higher in savings limits the potential for consumers to rebalance spending and saving going forward.

Consumers started spending again in the middle of 2009 and continued in 2010 albeit at a fairly slow pace. The biggest contributor to the rise was spending on durable goods, which was helped by programs like cash-for-clunkers, which prompted a surge in auto sales in the third quarter of 2009, the cash-for-appliances program and homebuyer's tax credit that boosted spending on furnishings and household equipment. Gains in other spending categories were less robust and services consumption was lacklustre. Spending on motor vehicles and parts gave a boost to consumption growth in the second quarter as well. A significant increase in the average age of vehicles on the road, the drop in per capita sales during the recession and very low financing rates are factors that are likely to support continued strength in consumer spending on durable goods over the forecast horizon.

Consumer Recovery Will Remain Modest

Even with spending on durables expected to pick up, the recovery in overall consumption will be modest by historical standards. The disappointing labour market performance, balance sheet deleveraging and uncertainty about whether the Bush tax cuts will be maintained are keeping consumers cautious. Our assumption is that the tax rebates will expire but only for high-income earners, which will limit the hit to the economy in 2011.

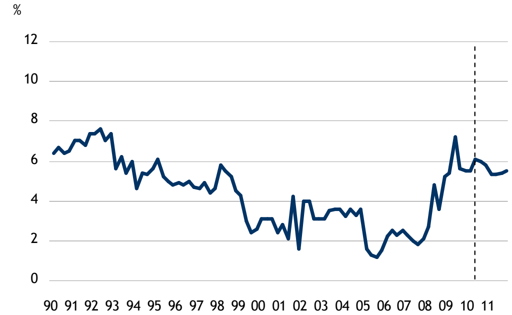
Businesses Have Means But Are Hesitant to Invest

Fixed investment to-date has been concentrated in purchases of equipment and software with real estate flows still contracting. The pop in capital goods purchases in the past three quarters largely reflected purchases of computer equipment with a smattering of transportation equipment purchases thrown in. Easier standards for commercial and industrial loans, for both large and more recently smaller businesses, and narrowing credit spreads lent support to these investment flows. Conversely, lending standards for commercial real estate loans are still tightening, and given the oversupply on the market, investment in non-residential structures is likely to remain in the doldrums until later in the cycle.

Low Rates for Longer

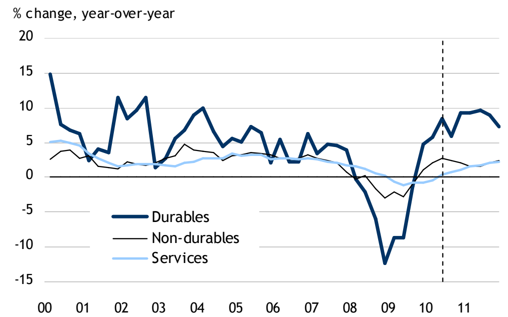
We remain confident that the U.S. economy will continue to grow in the latter part of 2010 and during 2011. The pace will likely be slower than we previously thought, and the output gap will take longer to close resulting in a higher unemployment rate and less upward pressure on inflation. Against this backdrop, the Fed is likely to keep policy easier for longer than we projected in our earlier forecast. Rather than being in position to raise the policy rate in the second quarter of 2011, the persistent output gap and risk of deflation are reasons enough for the Fed to keep policy as stimulative as possible. We now expect that the Funds rate will remain in the 0% to 0.25% range until the third quarter of 2011. The uncertain backdrop will likely see investors stay in bonds, meaning that interest rates across the maturity spectrum will be low, and we have adjusted down our forecasts in line with our updated economic and central bank forecasts.

U.S. savings rate



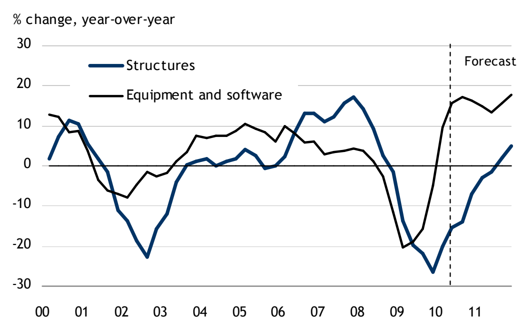
Source: Bureau of Economic Analysis, RBC Economics Research

U.S. consumer spending



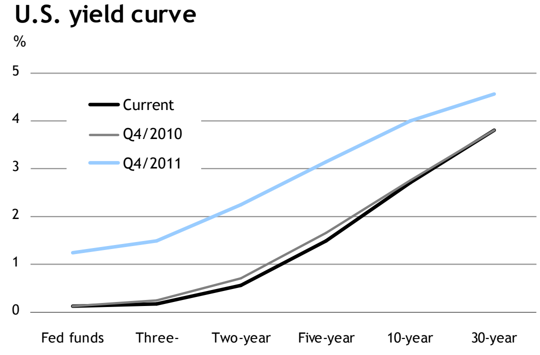
Source: Bureau of Economic Analysis, RBC Economics Research

U.S. business investment



Source: Bureau of Economic Analysis, RBC Economics Research

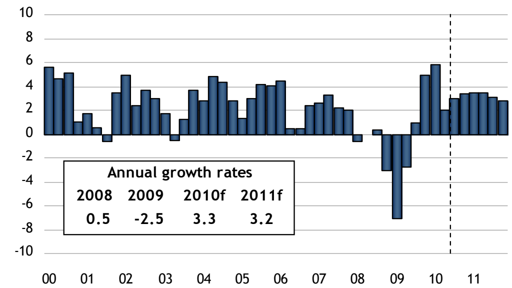
U.S. yield curve



Source: Federal Reserve Board, RBC Economics Research

Canada's real GDP

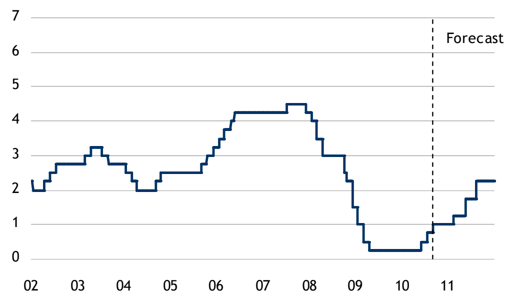
Annualized % change, quarter-over-quarter



Source: Statistics Canada, RBC Economics Research

BoC overnight rate

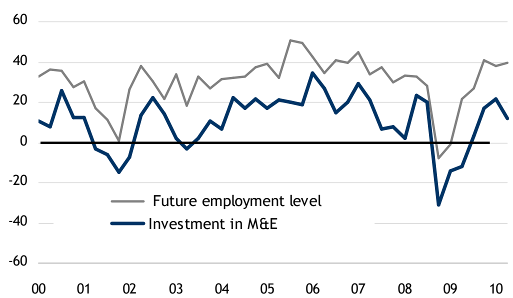
%



Source: Bank of Canada, RBC Economics Research

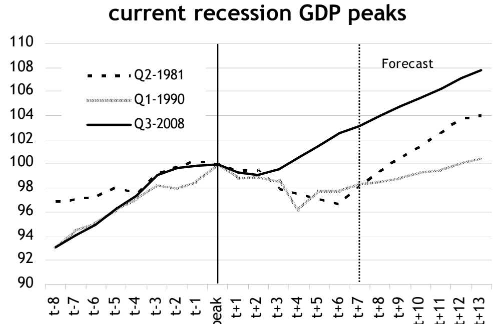
BoC business outlook survey

Balance of opinion (%)



Source: Bank of Canada, RBC Economics Research

Canada real consumption: indexed to past and current recession GDP peaks



Source: Statistics Canada, RBC Economics Research

Canada's Recovery Stays on the Rails

Canada's economy put in a stellar performance in late 2009 and early 2010 with growth averaging 5.4% in the six month period. The rapid pace of expansion produced a narrowing in output gap, big job gains and a decline in the unemployment rate. The momentum faded a bit in the second quarter although the 2.0% increase put the level of real GDP very close to its pre-recession high. More worrying is the outlook for the second half of the year given the deterioration in the U.S. outlook and nervousness about the ability of global economy to weather the implementation of strident fiscal tightening. Similar to the United States, forecasters have been adjusting their forecasts for Canadian growth lower. The consensus forecast for 2010 real GDP was pared back marginally with a more substantial cut to 2011's growth rate. Our updated forecast for U.S. growth and a slightly weaker performance in Canada in the second quarter than in our baseline view translated into a reduction in our 2010 forecast to 3.3% from 3.6% and a 0.3ppt shave to our 2011 forecast to 3.2%.

Support from Rebuilding of Inventories and Stimulus Spending Helped In Transition but Likely to Fade

The federal government's fiscal stimulus package equalled 2.9% of GDP to be spent during fiscal years 2009 and 2010 with no further support for the economy thereafter. While the final dollars of the infrastructure program will be spent in first calendar quarter of 2011, the spending will stop there, leaving the economy to rely on private sector demand. The rapid rebuilding of inventories in first half of 2010 also provided a significant boost to the economy's growth rate as businesses rebuilt their depleted stocks. As in the United States, the biggest bump from inventory correction has likely already occurred because inventory-to-sales ratios are back to more normal levels. With both of these transitory factors fading in 2011, private sector demand must fill the void to keep the economy growing.

Low Interest Rates — the Bedrock for the Recovery

The Bank of Canada raised the overnight rate by 25 basis points (bps) at the June, July, and September meetings. At 1.0%, the Bank's main policy rate remains historically low and continues to be stimulative for the economy. Despite the rise in the official policy rate, interest rates across the yield curve are lower than three-months ago as growing uncertainty about the world economic outlook saw investors buy bonds. The drop in interest rates on government bonds translated into lower borrowing rates for both consumers and business and provided a bedrock for interest rate sensitive spending.

Businesses Looking to Invest and Hire

The low interest rate environment, substantial profit recovery, high cash balances and improved access to financing supported a more positive outlook for businesses according to the Bank of Canada's *Business Outlook Survey* conducted this summer. The survey showed that businesses saw a significant rise in sales in the previous three months, and the majority of firms expect that sales will continue to accelerate in the current quarter. These companies also intend to increase payrolls and investment in machinery and equipment.

The survey results point to the rapid increases in capital goods spending in the early days of the recovery continuing, although we expect the pace of increase to slow in the quarters ahead. The outlook for the commercial real estate market is less positive because the market is running with excess capacity and vacancy rates are high. The improvement in financing conditions will likely prompt a modest increase in investment in non-residential real estate in 2011 as businesses start to brush up against capacity constraints.

Canada's Star — the Consumer

Consumer spending has been a leader during the recovery period, accounting for almost half of the quarterly GDP increases. Spending has been more broadly based than in the United States although spending on durables has also made a significant contribution north of the border. The combination of low interest rates and consistent access to capital as well as the snapback in the labour market provided Canadian consumers with the wherewithal to spend.

The labour market has recovered 94% of the jobs lost during the recession, solidly outperforming past recovery periods, and has in turn fed the rise in consumer spending, which has recovered much more rapidly and outpaced the previous two recovery periods by a significant margin. From a balance sheet perspective, this buying binge resulted in household debt to personal disposable income running to an all-time high supplemented by strong mortgage and consumer credit gains. The low interest rate environment pushed debt service costs down, meaning that households were able to accumulate debt but did not face a meaningful pickup in their financing costs. Going forward, should the Bank of Canada continue to raise the policy rate gradually, this virtuous circle of rising debt and lower service costs will breakdown, thereby leaving Canadian households vulnerable if the economy sputters or labour markets start to deteriorate.

Housing Market's Reversal of Fortune

The remarkable rebound in Canada's housing market in 2009 ended in early 2010 because the pent-up demand generated during the economic downturn was satisfied, and the run of buying ahead of the implementation of the Harmonized Sales Tax (HST) and tighter mortgage rules was spent. The pace of sales slowed early in the year with the rate of decline picking up as the summer months approached. In July, when two of Canada's largest provinces harmonized the provincial and federal sale taxes, sales fell another 6.8%. After recording double-digit gains early in the year, prices were only 2.1% higher in July than a year earlier.

The deterioration in the housing market prompted talk of Canada's housing bubble having burst. Our assessment is that the sales pace has returned to more sustainable levels after one-off factors supported a period of unexpectedly strong activity. In the near term, we expect that sales will continue to moderate with more stable conditions to follow in 2011 as firming labour market conditions and population growth offset the effect of a gradual increase in interest rates. Our forecast for house prices follows a similar pattern although the very rapid increases reported early in this year are unlikely to be completely unwound, meaning that on average prices will be 8% higher in 2010 than in 2009. While impressive, this amount represents a significant slowing from the close to 20% pace recorded early in the year.

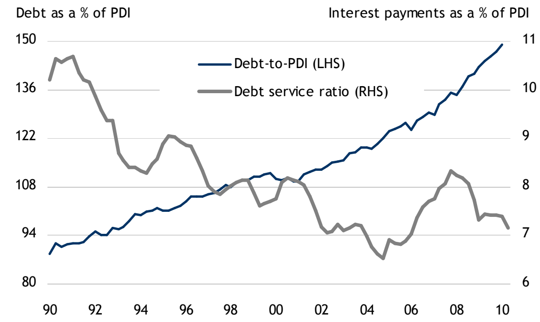
Fundamentals Do Not Support Bursting Bubble Thesis

Affordability was stretched by the strong price gains in early 2010; however, the level remains below the pre-recession high and the level in the early 1990s when Canada was headed into a major housing market downturn. Market conditions are balanced as indicated by the level of sales relative to new listings and the months' supply of homes on the market while homeowners' equity stands at just less than 70%.

Firming Labour Market and Narrowing Output Gap Implied Limited Deflation Risk

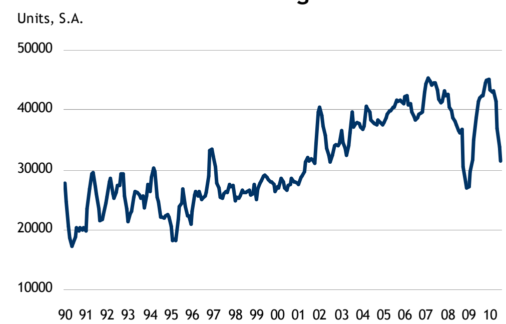
To-date, the recovery has cut Canada's output gap in half and returned the economy close to its pre-recession high in terms of GDP output. Our forecast that the economy will stay on its above-potential growth path sets up for the output gap to be completely eliminated by mid-2012. At the same time, the unemployment rate is expected to decline to 7.3% by the end of 2011 from 8.0% currently. Core inflation has been remarkably stable during the economic downturn and the subsequent recovery, explained in large part by inflation

Canadian household debt service & debt-to-PDI



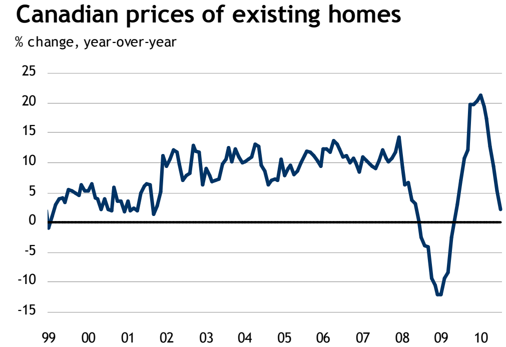
Source: Statistics Canada, RBC Economics Research

Canadian sales of existing homes



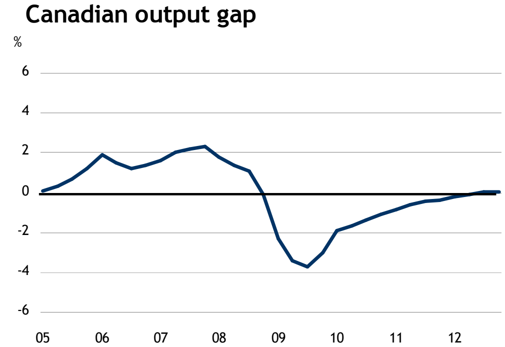
Source: CREA, RBC Economics Research

Canadian prices of existing homes



Source: CREA, RBC Economics Research

Canadian output gap



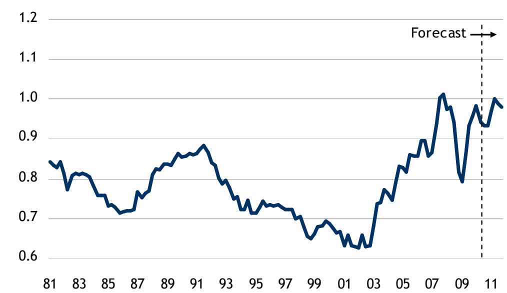
Source: Statistics Canada, RBC Economics Research

Canadian unemployment rate

Source: Statistics Canada, RBC Economics Research

Canadian dollar

U.S dollar per Canadian dollar



Source: Bank of Canada, RBC Economics Research

expectations being anchored around the Bank of Canada's 2% mid-range target.

For the Bank of Canada, the strength of the domestic economy and labour markets will be eyed for signs that capacity pressures are building, a harbinger to rising wages and prices. To-date, there is little evidence that these pressures are building; nevertheless, that does not mean that the emergency low level of interest rates is still warranted. The sluggish U.S. recovery combined with uncertainty about the degree of slowing in the UK and Eurozone will likely keep the Bank of Canada cautious. In particular, signs that commodity prices are turning lower on the back of a deteriorating export outlook will alter the forecast for Canada's economy in 2011, meaning that policy will need to be stimulative enough to support a firming in domestic demand if the trade sector flags. The most likely case is that the Bank will pause and leave the overnight at 1% into the first quarter of next year, watching for proof that the world economy is bearing up. Should the outlook unfold as we expect, the Bank will begin to raise the policy rate again in early 2011.

Canadian Dollar — Weakened But Not forever

Canada's currency has been riding the wave of investor risk appetite, and, until the risk of another downturn in the global economy dissipates, commodity-related currencies are likely to remain under pressure. Our forecast that the slowing in global growth will be short lived sets up for investors to return to riskier assets especially in countries where the central bank is in position to raise interest rates. Our forecast is for the Canadian dollar to end 2010 at 93.45 U.S. cents and to trade toward parity by mid-2011.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

							Forecast								Forecast	
	2009				2010				2011				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	2011
Consumer spending	-1.1	2.2	3.8	3.9	4.3	2.6	3.2	2.9	2.9	3.0	3.0	2.8	2.9	0.4	3.5	2.9
Durables	-9.9	5.5	13.9	13.1	4.1	-5.3	7.1	4.8	5.0	5.3	5.8	4.8	5.4	-1.5	5.5	4.7
Semi-Durables	-6.6	-1.0	1.2	1.6	19.9	-3.7	4.0	2.3	2.8	2.5	1.7	1.7	3.6	-2.2	5.0	2.2
Non-durables	2.8	0.3	1.8	-0.4	3.1	3.9	3.1	3.0	3.1	2.8	2.8	2.5	1.5	0.7	2.2	3.0
Services	0.0	2.8	3.0	4.2	2.8	4.8	2.2	2.5	2.3	2.6	2.6	2.7	2.8	1.1	3.4	2.6
Government spending	3.1	1.5	6.6	6.9	1.7	1.5	2.3	2.2	1.3	0.3	0.1	0.1	3.9	3.5	3.3	1.2
Business investment	-35.6	-13.3	3.9	2.6	11.3	9.1	-3.6	4.4	4.7	5.6	5.7	5.7	0.8	-16.0	4.3	4.2
Residential construction	-21.5	5.9	9.1	26.3	21.6	1.2	-15.9	0.1	0.8	3.4	3.8	3.2	-3.7	-8.2	9.1	-0.6
Non-residential structures	-41.9	-27.4	-13.0	-11.4	-1.1	1.0	3.7	5.3	5.5	5.1	5.1	5.3	7.7	-19.5	-5.3	4.8
Machinery & equipment	-41.3	-15.9	17.6	-8.1	11.3	29.7	5.6	9.1	9.0	9.2	8.8	9.3	-0.9	-20.3	8.5	9.8
Final domestic demand	-7.6	-0.2	5.3	5.0	4.9	3.5	1.8	2.9	2.8	2.7	2.4	2.3	2.8	-1.8	3.9	2.6
Exports	-31.5	-15.9	9.5	13.8	10.7	6.0	5.5	10.0	9.3	9.6	10.4	9.6	-4.6	-14.2	7.7	9.0
Imports	-38.7	-1.9	27.3	12.4	13.9	16.4	4.9	5.1	7.3	7.5	7.6	7.2	1.2	-13.9	12.8	7.2
Inventories (change in $b)	-6.9	-1.8	-1.6	-1.2	5.6	12.7	16.1	13.2	14.0	14.7	14.5	14.2	9.0	-2.9	11.9	14.3
Real gross domestic product	**-7.0**	**-2.8**	**0.9**	**4.9**	**5.8**	**2.0**	**3.0**	**3.4**	**3.5**	**3.5**	**3.1**	**2.8**	0.5	-2.5	3.3	3.2

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.5	1.0	0.7	1.4	1.7	1.1	1.6	1.0	0.9	1.5	1.5	1.4	-0.5	0.9	1.4	1.3
Pre-tax corporate profits	-29.8	-43.0	-39.2	-12.1	16.8	27.5	20.0	16.6	11.9	16.2	15.3	12.1	8.0	-32.3	20.0	13.8
Unemployment rate (%)**	7.8	8.4	8.5	8.4	8.2	8.0	7.9	7.8	7.7	7.6	7.4	7.3	6.1	8.3	8.0	7.5
Inflation																
Headline CPI	1.2	0.1	-0.9	0.8	1.6	1.4	1.9	1.9	2.1	2.5	2.2	1.8	2.4	0.3	1.7	2.1
Core CPI	1.9	1.9	1.6	1.6	1.9	1.8	1.7	1.8	1.8	1.8	1.8	1.9	1.7	1.7	1.8	1.8
External trade																
Current account balance ($b)	-28.4	-49.8	-55.1	-40.8	-33.8	-44.1	-41.8	-35.0	-32.0	-30.6	-28.6	-27.0	6.9	-43.5	-38.7	-29.5
% of GDP	-1.9	-3.3	-3.6	-2.6	-2.0	-2.7	-2.6	-2.1	-1.9	-1.8	-1.7	-1.6	0.4	-2.8	-2.4	-1.7
Housing starts (000s)**	132	128	156	180	198	199	183	178	182	184	185	186	212	149	189	184
Motor vehicle sales (mill., saar)**	1.41	1.45	1.53	1.55	1.59	1.54	1.60	1.62	1.62	1.62	1.63	1.63	1.67	1.48	1.58	1.63

**Period average

Source: Statistics Canada, RBC Economics Research forecasts

Economic forecast detail — United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

							Forecast								Forecast	
	2009				2010				2011				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	2011
Consumer spending	-0.5	-1.6	2.0	0.9	1.9	2.0	2.5	2.5	2.7	2.9	2.9	2.8	-0.3	-1.2	1.6	2.7
Durables	4.9	-3.1	20.1	-1.1	8.8	6.9	7.1	11.5	8.9	8.8	6.4	5.3	-5.2	-3.7	7.0	8.5
Non-durables	0.4	-0.7	1.7	3.1	4.2	2.1	1.8	1.2	1.8	2.5	2.9	2.8	-1.1	-1.2	2.4	1.9
Services	-1.6	-1.7	-0.5	0.5	0.1	1.2	2.1	1.6	2.0	2.1	2.4	2.4	0.9	-0.8	0.4	1.9
Government spending	-3.0	6.2	1.6	-1.4	-1.6	4.3	1.8	0.7	0.3	0.0	-0.4	-0.8	2.8	1.6	1.0	0.6
Business investment	-35.4	-10.1	0.7	-1.3	3.4	19.5	-4.7	5.9	11.5	15.7	16.6	15.0	-6.4	-18.3	3.1	10.4
Residential construction	-36.2	-19.7	10.6	-0.8	-12.3	27.1	-29.3	4.3	15.0	19.7	19.5	15.3	-24.0	-22.9	-3.0	8.3
Non-residential structures	-41.0	-20.2	-12.4	-29.2	-17.8	0.4	-6.1	-3.8	-1.5	6.4	7.9	7.1	5.9	-20.4	-14.4	0.7
Equipment & software	-31.6	0.2	4.2	14.6	20.5	24.9	4.8	10.5	15.5	18.1	19.1	18.1	-2.4	-15.3	14.7	15.5
Final domestic demand	-6.3	-1.2	1.8	0.2	1.3	4.3	1.6	2.6	3.2	3.8	3.8	3.5	-0.6	-3.1	1.7	3.1
Exports	-27.8	-1.0	12.2	24.4	11.4	9.2	8.1	10.2	10.8	8.6	8.5	9.9	6.0	-9.5	12.0	9.5
Imports	-35.3	-10.6	21.9	4.9	11.2	32.4	5.8	6.5	7.7	9.5	9.0	9.1	-2.6	-13.8	12.5	9.2
Inventories (change in $b)	-125.8	-161.8	-128.2	-36.7	44.1	63.2	71.0	67.8	59.4	58.3	53.5	61.5	-37.6	-113.1	61.5	58.2
Real gross domestic product	**-4.9**	**-0.7**	**1.6**	**5.0**	**3.7**	**1.6**	**2.0**	**2.8**	**3.2**	**3.4**	**3.5**	**3.6**	0.0	-2.6	2.7	3.0

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.8	2.5	4.6	6.3	6.3	3.7	2.6	1.7	1.4	2.5	2.3	2.2	1.1	3.5	3.6	2.1
Pre-tax corporate profits	-17.3	-11.4	-3.9	42.5	37.6	39.2	27.9	19.2	9.9	7.2	7.8	7.9	-16.4	-0.4	30.3	8.2
Unemployment rate (%)**	8.2	9.3	9.6	10.0	9.7	9.7	9.6	9.5	9.4	9.2	9.0	8.9	5.8	9.3	9.6	9.1
Inflation																
Headline CPI	0.0	-1.2	-1.6	1.4	2.4	1.8	1.2	1.3	1.4	2.0	2.0	1.7	3.8	-0.4	1.7	1.8
Core CPI	1.7	1.8	1.5	1.7	1.3	0.9	0.9	1.0	1.2	1.2	1.3	1.4	2.3	1.7	1.0	1.3
External trade																
Current account balance ($b)	-382	-338	-390	-404	-436	-508	-509	-507	-506	-521	-534	-541	-669	-378	-490	-526
% of GDP	-2.7	-2.4	-2.7	-2.8	-3.0	-3.5	-3.5	-3.4	-3.4	-3.4	-3.5	-3.5	-4.7	-2.7	-3.3	-3.4
Housing starts (000s)**	530	537	586	565	617	601	553	595	668	757	846	900	900	554	592	793
Motor vehicle sales (millions, saar)	9.6	9.7	11.6	10.8	11.0	11.3	11.6	12.3	12.9	13.2	13.3	13.3	13.2	10.4	11.6	13.2

**Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates

%, end of period

						Forecast							Forecast	
	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	2009	2010	2011
Canada														
Overnight rate	0.25	0.25	0.25	0.25	0.50	1.00	1.00	1.25	1.75	2.25	2.25	0.25	1.00	2.25
Three-month T-bills	0.24	0.22	0.19	0.28	0.50	0.83	0.90	1.30	1.75	2.25	2.20	0.19	0.90	2.20
Two-year GoC bonds	1.20	1.26	1.47	1.73	1.39	1.35	1.60	2.00	2.40	2.75	3.00	1.47	1.60	3.00
Five-year GoC bonds	2.46	2.57	2.77	2.90	2.32	2.15	2.45	2.80	3.20	3.40	3.60	2.77	2.45	3.60
10-year GoC bonds	3.36	3.31	3.61	3.56	3.08	2.90	3.10	3.25	3.60	3.90	4.10	3.61	3.10	4.10
30-year GoC bonds	3.91	3.84	4.07	4.07	3.65	3.60	3.65	3.95	4.15	4.25	4.30	4.07	3.65	4.30
Yield curve (10s-2s)	216	205	214	183	169	155	150	125	120	115	110	214	150	110
United States														
Fed funds rate	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0.75	1.25	0 to 0.25	0 to 0.25	1.25
Three-month T-bills	0.19	0.14	0.06	0.16	0.18	0.18	0.25	0.45	0.75	0.90	1.50	0.06	0.25	1.50
Two-year bonds	1.11	0.95	1.14	1.02	0.61	0.55	0.70	1.00	1.40	1.90	2.25	1.14	0.70	2.25
Five-year bonds	2.54	2.31	2.69	2.55	1.79	1.50	1.65	2.00	2.40	2.85	3.15	2.69	1.65	3.15
10-year bonds	3.53	3.31	3.85	3.84	2.97	2.70	2.75	3.00	3.35	3.75	4.00	3.85	2.75	4.00
30-year bonds	4.32	4.03	4.63	4.72	3.91	3.80	3.80	4.00	4.25	4.50	4.55	4.63	3.80	4.55
Yield curve (10s-2s)	242	236	271	282	236	215	205	200	195	185	175	271	205	175
Yield spreads														
Three-month T-bills	0.05	0.08	0.13	0.12	0.32	0.65	0.65	0.85	1.00	1.35	0.70	0.13	0.65	0.70
Two-year	0.09	0.31	0.33	0.71	0.78	0.80	0.90	1.00	1.00	0.85	0.75	0.33	0.90	0.75
Five-year	-0.08	0.26	0.08	0.35	0.53	0.65	0.80	0.80	0.80	0.55	0.45	0.08	0.80	0.45
10-year	-0.17	0.00	-0.24	-0.28	0.11	0.20	0.35	0.25	0.25	0.15	0.10	-0.24	0.35	0.10
30-year	-0.41	-0.19	-0.56	-0.65	-0.26	-0.20	-0.15	-0.05	-0.10	-0.25	-0.25	-0.56	-0.15	-0.25

Exchange rates

%, end of period

						Forecast							Forecast	
	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	2009	2010	2011
Australian dollar	0.81	0.88	0.90	0.92	0.84	0.88	0.83	0.82	0.81	0.80	0.80	0.90	0.83	0.80
Brazilian real	1.95	1.77	1.74	1.78	1.80	1.73	1.80	1.83	1.85	1.87	1.90	1.74	1.80	1.9
Canadian dollar	1.16	1.07	1.05	1.02	1.06	1.07	1.07	1.03	1.00	1.01	1.02	1.05	1.07	1.02
Chinese renminbi	6.83	6.83	6.83	6.83	6.78	6.70	6.60	6.50	6.40	6.30	6.20	6.83	6.60	6.20
Euro	1.40	1.46	1.43	1.35	1.22	1.25	1.22	1.15	1.10	1.09	1.09	1.43	1.22	1.09
Japanese yen	96	90	93	93	88	84	82	83	85	90	95	93	82	95
Mexican peso	13.19	13.51	13.10	12.37	12.94	12.75	12.25	11.75	11.75	12.00	12.00	13.10	12.25	12.00
New Zealand dollar	0.65	0.72	0.73	0.71	0.68	0.70	0.68	0.68	0.66	0.65	0.64	0.73	0.68	0.64
Swiss franc	1.09	1.04	1.04	1.05	1.08	1.03	1.03	1.08	1.14	1.17	1.18	1.04	1.03	1.18
U.K. pound sterling	1.65	1.60	1.62	1.52	1.49	1.56	1.56	1.49	1.45	1.42	1.42	1.62	1.56	1.42

Source: Reuters, RBC Economics Research forecasts

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