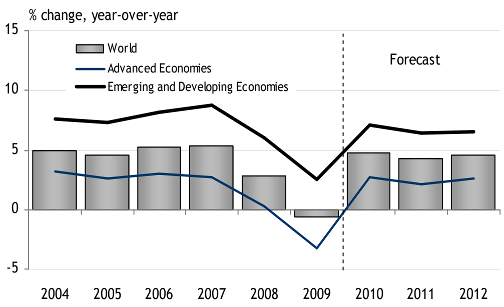
ECONOMIC AND FINANCIAL MARKET OUTLOOK

December 2010

Advanced and emerging economies GDP growth



Source: IMF, RBC Emerging Markets, RBC Economics Research

Global economy regains its balance

- Growth scare comes to an end
- European sovereign debt crisis won't derail recovery
- Emerging economies are still hot and driving the global economy
- US gains speed making the likelihood of a double dip remote
- Federal Reserve's loose monetary policy and government tax package to spur faster growth in 2011 and 2012
- Inventory rebuilding will no longer be a driver of US growth
- US business and consumer spending to kick it up a notch next year
- Canada's economy blasted out of recession with growth slowing in more recent quarters
- The transition to private demand from public support is underway and Canada looks to be further ahead than the US
- Inflation pressures are muted and the Bank will be in no hurry to raise the policy rate as long as risks to Canada's trading partners persist
- Canadian dollar to appreciate against the US dollar breaching parity early in 2011

Another wave of European troubles hit up against the shores of the global economy with worries about the solvency of Ireland, Spain and Portugal taking centre stage. While the great divide between the performance in the peripheral and core European economies did not prevent another decent quarter for growth, the chasm between the two areas remains deep. Overall European growth is forecast to continue as both business and consumer indicators are consistent with expansion although gains are likely to be moderate going forward. Our forecast is that the Eurozone economies will expand by 1.7% in 2010, 1.8% in 2011 and 1.9% in 2012.

The UK also surprised to the upside in recent quarters and is on track to grow by 1.8% this year. In 2011, we forecast growth of 2.1% as private demand fills the void created by the government's austerity measures. The economy will grow at a faster 2.4% in 2012. The real story for global growth is flowing from the emerging economies led by China where growth is forecast at 9.7% in 2010 and 8.8% in 2011. The IMF forecasts emerging economies will grow by 7.1% this year and 6.4% in 2011 while the advanced economies grow by 2.7% and 2.2% respectively. Overall the world economy is projected to grow by 4.8% this year, 4.2% in 2011 and 4.5% in 2012.

The US economy shows renewed vigour

The downdraft in US growth in the middle of the year looks to have come to an end with the number of upside surprises in the economic data solidly outpacing downside surprises. The consensus forecast is for the US economy to grow by 2.7% in 2010, in line with RBC's call but down from June's 3.3% projection. The consensus call for 2011 growth has been edging up from November's forecast of 2.4%. Similarly, RBC's call is that the economy will expand by 3.3% in 2011, an upgrade from our September forecast for growth of 3.0%. In 2012, the end of the deleveraging by households and businesses will support stronger growth even as the period of government retrenchment begins with RBC forecasting that the US economy will grow by 3.6%.

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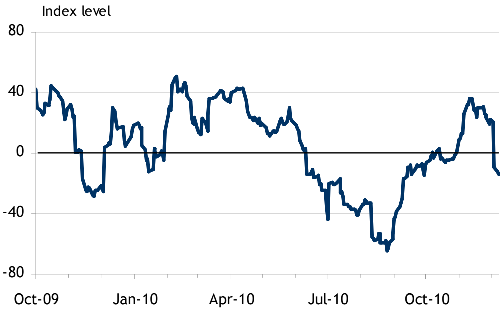
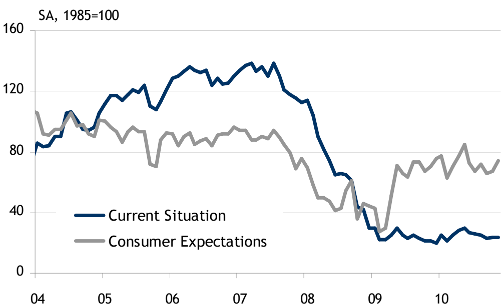
Economic surprise index



Source: Bloomberg, RBC Economics Research

Consumer Confidence

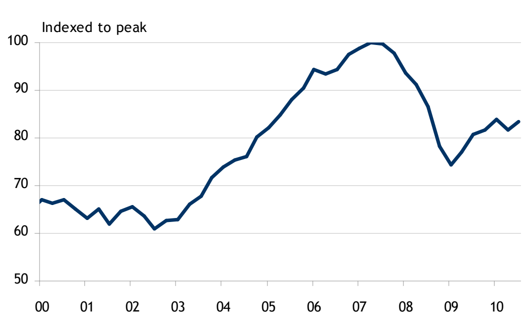


Source: The Conference Board, RBC Economics Research

Personal consumption expenditure

Source: Bureau of Economic Analysis, RBC Economics Research

U.S. net wealth



Source: Federal Reserve Board, RBC Economics Research

Consumers still worried but expect improvement ahead

Despite the round of stronger than expected activity, US consumers remain in the doldrums. The Conference Board's measure of confidence shows that consumers view current conditions as poor with 46.5% of those surveyed indicating that jobs are still hard to get. However, consumers expect conditions to be somewhat better in six months time with the expectations index rising strongly in November. In the near-term, concerns about taxes, foreclosures, medical costs and jobs continue to undermine confidence.

Consumers emerge from hibernation

The pace of consumer spending surprised to the upside in the third quarter increasing at a 2.8% annualized pace, the fastest pace of increase since late 2006. The recovery in spending on autos and parts helped propel consumption higher supplemented by an increase in spending on services. Following the extraordinary contractions recorded in 2008 and 2009, we look for consumer spending to sustain this firmer pace, a key underpinning of our above-consensus forecast for 2011. We are assuming that the tax package reached in early December will be passed largely in its current form and as such have boosted our consumption profile in 2011 by 0.4 percentage points. The extension of proposed tax cuts for all income-earners and emergency unemployment insurance benefits as well as the payroll tax cut will boost disposable incomes and support a 3.1% rise in consumer spending next year. We look for spending to accelerate further in 2012 and increase 3.4% as debt and net worth return to healthier conditions.

Waiting for a turnaround in housing

Even with efforts to modify mortgages and record low mortgage rates, the housing market has been unable to generate a self-sustaining recovery. The temporary uptick in activity on the back of the government's tax rebate scheme proved short-lived with sales falling back and housing starts easing. On the upside, recent data suggest that housing market activity is in the process of establishing a post-tax credit floor and that the sharp contraction evident in construction spending as recently as the third quarter will not be repeated. Lacklustre sales means that prices have failed to build upward moment and while prices have stabilized recently, they are still 23.5% lower than their peak level on average. Real estate equity was up 7.6% relative to its recent low while financial asset values rose 14.6% as of the end of the third quarter of 2010. On balance, households are starting to see their net wealth restored however, even with these gains just over one-third of losses had been recovered mid-year.

Fed taking out all the stops trying to support economy

The Federal Reserve has given itself a failing grade in meeting its dual mandate of achieving price stability and full employment. Inflation measures continue to move lower with the core CPI rate falling to 0.6% in October, the lowest on records back to 1959. The core PCE deflator, which is the one that the Fed monitors, stands at 0.9%, a record low and about half the pace of their assumed target of about 2%. The unemployment rate at 9.8% is a shade below its recent high and still stands well above the long-term average of 5.7% which historically reflected full employment.

What's a central bank to do?

To mitigate further downward pressure on prices, the Fed launched QE2 on November 3 promising to purchase another $600 billion of US Treasury bonds. The policy is aimed at maintaining interest rates at levels that are low enough to incent households and businesses to access financing. The Federal Funds rate is being maintained in the 0% to .25% band and given this latest injection of stimulus, we see little chance that the Fed will be comfortable raising the policy rate until 2012. More likely, the process for unwinding policy stimulus will begin with the Fed allowing maturing bonds to roll off its balance sheet with the next step being the draining of reserves and eventually the sales of some of its stock of US Treasury bonds. These policy measures will exert modest upward pressure on interest rates although increases will be limited over our forecast horizon. RBC forecasts that the yield on the 10-year US Treasury bond will be 4.00% at the end of 2011 with 2-year rates forecast to finally breach the 1% mark in Q2. In early 2012, we expect the Fed to begin the process to normalize interest rates and boost the Fed Funds target in the first quarter. By year-end 2012, we look for a Funds target of 2.25% with the yield on the 10-year US Treasury note at 4.50%.

Business investment will be key to a sustained recovery

US businesses have engaged in two activities since the recovery began: rebuilding inventories and investing in equipment and software. These two components have accounted for between 1.4 and 3.9 percentage points of the quarterly growth rates recorded over the past five quarters. The estimated 30% jump in pre-tax corporate profits in 2010 and record high cash balances have allowed businesses to rebuild their stocks and invest in computers and software. The easing of credit standards by financial institutions as indicated in the Fed's survey of senior loans officers and low financing costs have also opened the door to business investment. The tax package that is presently winding its way through the US Senate and House includes expensing and bonus depreciation programs that will be supportive of business investment. To account for these changes, we increased our 2011 forecast for non-residential investment by 1.9 percentage points in 2011 and 2.5 percentage points in 2012 to 12.7% and 14.6% respectively.

Slow and winding road back to full employment

Private sector payrolls have recovered 1.2 million of the 8.5 million jobs lost during the recession resulting in only a minor decline in the unemployment rate. There are, however, indications that the pace of job gains is set to accelerate as businesses may be hitting the limits in terms of utilizing their current workforce. The average workweek has lengthened and overtime hours for manufacturing are up. One of the more significant developments has been the steady increase in the hiring of temporary workers. Temporary workers accounted for about 26% of the new hiring to-date. The hiring of temporary workers typically leads full-time hiring by 3 months. Initial claims for unemployment insurance have also trended lower in recent months. These factors support our call for an acceleration in the pace of job gains in 2011. However even if payrolls increase at a monthly pace of about 240,000 next year as we expect, the immense slack in labour market conditions means this will only reduce the unemployment rate to 9.0% by the end of next year. Additional job gains in 2012 are expected to result in the unemployment rate falling to 8.4% by the end of that year.

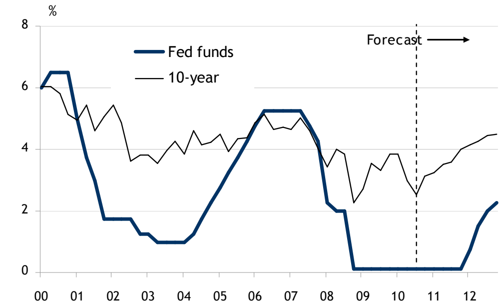
Recovery will keep trade flowing

US import demand has been strong despite the steady weakening in the US dollar. Export demand also picked up, recording double-digit gains in the early days of the recovery. On balance, the trade sector acted as a drag on the economy's growth rate and is likely to continue to weigh on growth in 2011 and 2012. As the domestic economy establishes a firmer growth trajectory, we look for import growth to remain firm. Continued US import demand will be an important factor supporting the global recovery going foward. Outside the US, economies that are facing fiscal constraints will likely limit purchases of US goods especially if the US dollar trends higher against their currencies as we expect.

Canada's economy taps on the brakes

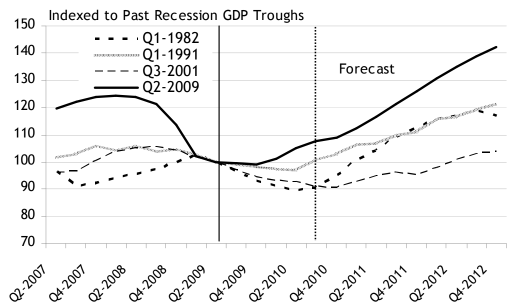
After being one of the leading advanced economies moving out of recession (Canada's GDP rose above its pre-recession peak in the third quarter), real

U.S. interest rate forecast



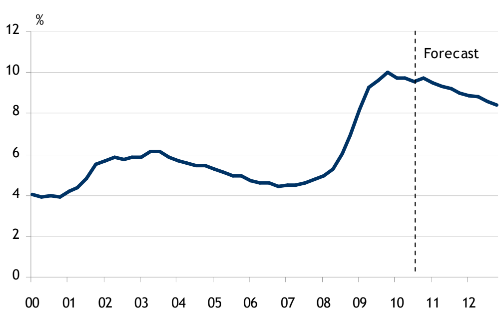
Source: Federal Reserve Board, RBC Economics Research

U.S. nonresidential investment



Source: Bureau of Economic Analysis, RBC Economics Reseach

U.S unemployment rate

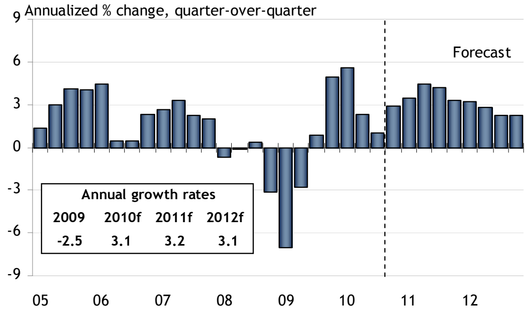


Source: Bureau of Labor Statistics, RBC Economics Research

U.S. real exports and imports

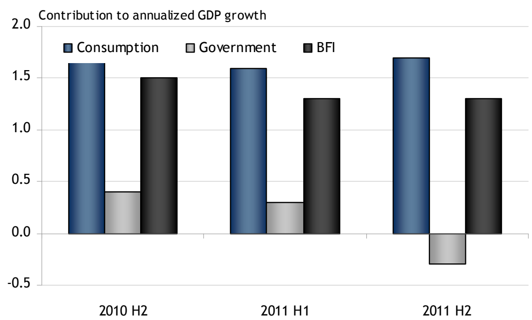
Source: Bureau of Economic Analysis, RBC Economics Research

Canada's real GDP



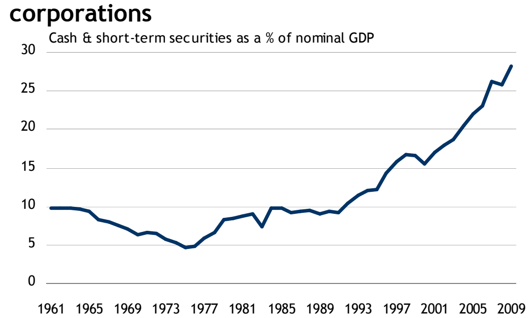
Source: Statistics Canada, RBC Economics Research

Consumer and business spending



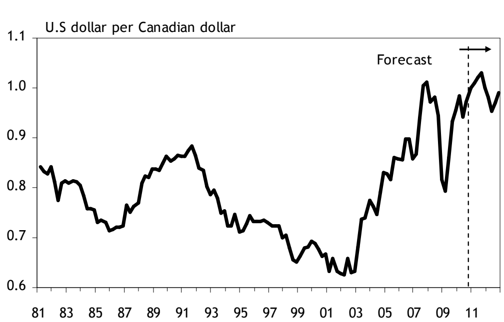
Source: Statistics Canada, RBC Economics Research

Liquidity at Canadian private non-financial corporations



Source: Statistics Canada, RBC Economics Research

Canadian dollar forecast



Source: Bank of Canada, RBC Economics Research

output hit a rough patch during the summer months resulting in growth of just 1.0% in the third quarter. This was a sharp slowing from the 5.25% average pace recorded in late 2009 and early 2010. Still, industrial production stands more than 8% higher than a year earlier and the number of employed is back to its pre-recession high. For the year, Canada's economy is projected to grow by 3.1% in 2010. In 2011 and 2012, RBC forecasts gains of 3.2% and 3.1%.

Shifting down a gear but staying in drive

The mid-year slowdown reflected a pullback in housing investment which fell after five consecutive quarterly increases and a mild downturn in exports which resulted in net trade trimming 4.0 and 3.5 percentage points off the second and third quarters' growth rates respectively. Financial conditions remain easy and supportive of domestic growth which will be the main engine of the expansion going forward. The support from inventory rebuilding and government investment is clearly on the decline and will fade out completely in 2011. Consumers have been a mainstay of the recovery to-date. Going forward the pace of consumer spending is likely to slow from 2010's solid clip with the slack being taken up by business investment in capital goods, and to a lesser extent, non-residential structures.

Business to be at helm of growth going forward

Large Canadian firms are facing an embarrassment of riches with profits rising at a double-digit pace, cash balances at all-time highs, improved access to financing and interest rates at very attractive levels. To-date, businesses have rebuilt their work force and invested in machinery and equipment. Conditions in the non-residential construction market have also improved although the pace of investment is running well below its pre-recession peak. Looking ahead, survey data shows that businesses are planning to continue to invest in capital equipment to take advantage of lower prices for imported goods resulting from the strengthening in the Canadian dollar. Even with increases in recent quarters, business investment has fallen short of the previous recovery reflecting the significant levels of unused capacity (the capacity utilization rate stands 3.9 percentage points below its long-term average). As the recovery matures and demand returns to more normal levels, business investment is expected to make a more substantial contribution to the economy's growth momentum.

Canadian dollar strength spurs import demand

While the terms of trade boost to national income falls well short of the gains generated in the pre-recession days of sustained increases in commodity prices, conditions are much more favourable than during the dark days of the financial market crisis. Import prices are lower than in early 2009 and export prices have started to rise. The persistent strengthening in the Canadian dollar from its early 2009 low maps closely with the decline in import prices which have fallen by 8% as the Canadian dollar gained 19.4% against the US dollar. As a result, import growth has solidly outpaced exports resulting in the trade sector acting as a weight on the overall level of GDP output for most of 2010. In 2011, we expect Canada's dollar will outperform the US dollar once again although the gains are likely to be relatively limited with C$1 buying US$1.02 by mid-year. Commodity prices are forecast to remain firm in line with global growth setting up for export growth to accelerate. Import demand, in contrast, is likely to slow from the heady increases recorded in recent quarters. As a result, the drag from net exports is forecast to lessen and turn to support in 2011 and 2012.

Housing market started out strong and then stumbled

Home sales maintained strong momentum in the early days of 2010 as households raced to beat the implementation of tax changes (in two of the largest provinces) and a mild tightening in mortgage rules. Expectations that interest rates would eventually head higher also buoyed activity and the pace of sales continued at a near-record clip. By April however much of this demand had been satisfied and the pace of sales slowed as did prices. Our view is that housing activity has returned to more sustainable levels with both sales and prices forecast to post only small increases in 2011. Affordability has improved in recent months reflecting the combination of slower price gains and the persistence of very low interest rates which will be enough to stave off a round of sharp declines next year.

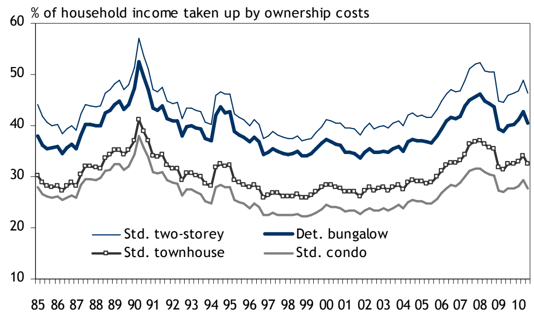
Household debt alert!

The sharp rally in the housing market in 2009 and early 2010 resulted in Canadian consumer debt levels reaching an all-time high relative to income in the third quarter of 2010. Both mortgage and consumer credit growth increased at an above-trend clip although the low interest rate environment prevented a rise in the cost to service this debt. With conditions in the labour market improving, and nearly all of the net wealth losses that occurred during the economic and financial market downturn being recovered early in the year, Canadian households continued to take on debt. We expect interest rates will move higher in 2011 although remain low relative to historical averages which will limit the pressure on household balance sheets. After raising the overnight rate by 75 basis points from its 0.25% trough in the period from June through September, the Bank held its policy rate at 1% in the fourth quarter pointing to weaker global growth, softer domestic output and a lack of inflation pressures. Our baseline forecast that the economic recoveries in both the U.S. and Canada will be solidly in place and worries about their sustainability will ease sufficiently by the second quarter of 2011, sets up for the Bank to resume gradually increasing the policy rate. With inflation quiescent, the Bank will be in no hurry to remove policy stimulus and we look for a cumulative increase in the overnight rate of 100 basis points in 2011 to 2.0% with another 150 basis points in increases to 3.5% in 2012. Term rates will also move higher, although like the policy rate, we expect only modest increases with the 10-year rate forecast to end 2011 at 3.8% and 2012 at 4.15%.

Inflation won't be an issue through 2012

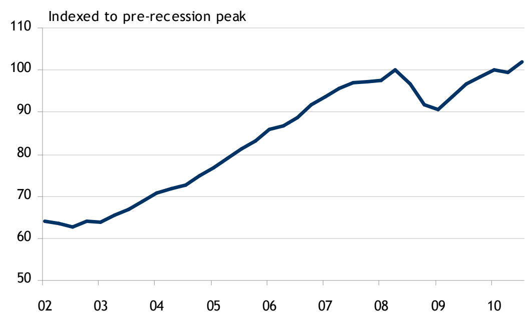
The headline inflation rate has been volatile in recent months reflecting the pass-through from the harmonization of sales taxes in Ontario and BC and movements in energy prices. As of October, the core rate, which excludes these factors, stood at 1.8% and the all-items inflation rate rose to 2.4%. The excess capacity that was generated during the economic downturn is slowly being whittled away and our profile for Canadian growth in 2011 and 2012 is consistent with the output gap being eliminated in the middle of 2012. With the output gap persisting in the near term, there is limited scope for a significant pickup in the core inflation rate.

Affordability Canada



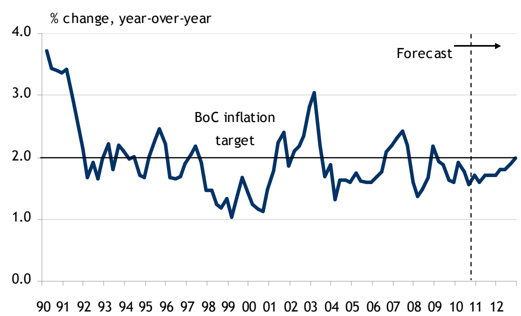
Source: Statistics Canada, Royal LePage, RBC Economics Research

Canadian net wealth



Source: Statistics Canada, RBC Economics Research

Canadian core inflation



Source: Statistics Canada, RBC Economics Research

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

				Forecast										Forecast		
	2010				2011				2012				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012
Consumer spending	4.1	2.3	3.5	2.6	2.6	3.0	3.0	2.5	2.2	2.2	2.2	2.2	0.4	3.4	2.8	2.4
Durables	3.7	-4.5	3.4	6.2	5.6	6.3	6.3	5.5	4.7	4.7	5.2	5.1	-1.5	5.2	5.0	5.2
Semi-Durables	19.8	-4.8	6.4	2.0	2.5	2.8	3.5	2.2	1.2	1.5	1.4	1.4	-2.2	5.0	2.6	1.8
Non-durables	2.9	3.4	4.9	2.5	2.3	3.0	3.0	2.1	1.8	1.8	1.7	1.7	0.7	2.3	2.9	2.1
Services	2.6	4.4	2.5	2.0	2.1	2.3	2.3	2.1	2.0	2.0	1.8	1.8	1.1	3.3	2.3	2.0
Government spending	1.3	2.7	0.9	2.2	1.3	0.3	0.1	0.1	0.4	0.1	0.5	1.0	3.5	3.3	1.1	0.3
Business investment	14.7	9.7	9.4	7.4	7.4	7.0	7.7	7.7	5.7	5.1	4.0	3.9	-16.0	7.1	7.8	6.0
Residential construction	20.0	1.0	-5.3	-0.6	3.0	1.6	3.0	3.2	1.5	1.4	0.6	0.5	-8.2	10.3	0.9	1.8
Non-residential structures	5.4	0.9	10.9	9.0	8.5	9.9	10.1	10.9	9.5	8.8	7.6	7.5	-19.5	-2.8	9.0	9.3
Machinery & equipment	17.8	32.7	28.7	16.5	12.1	11.2	11.5	10.4	7.6	6.3	5.0	4.8	-20.3	13.9	15.5	8.0
Final domestic demand	5.0	3.5	3.8	3.3	3.1	3.0	2.7	2.3	2.1	2.2	2.1	2.2	-1.8	4.2	3.1	2.3
Exports	10.1	5.6	-5.0	6.8	13.4	12.3	12.1	12.0	9.9	8.7	7.8	6.9	-14.2	5.8	8.8	10.0
Imports	13.2	19.8	6.4	5.8	7.5	7.8	7.4	8.0	6.3	6.0	5.8	5.8	-13.9	13.5	7.8	6.7
Inventories (change in $b)	4.8	15.0	17.5	15.5	11.7	12.3	13.0	12.7	13.0	12.7	11.4	10.6	-2.9	13.2	12.4	11.9
Real gross domestic product	**5.6**	**2.3**	**1.0**	**2.9**	**3.5**	**4.4**	**4.2**	**3.3**	**3.2**	**2.8**	**2.2**	**2.2**	**-2.5**	**3.1**	**3.2**	**3.1**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012
Business and labour																
Productivity	1.6	0.8	1.0	0.4	0.5	1.5	1.9	1.6	1.5	1.2	1.0	1.1	0.9	0.9	1.4	1.2
Pre-tax corporate profits	15.2	26.3	16.0	13.1	9.2	14.0	16.7	14.2	13.8	13.0	12.1	11.3	-32.3	17.4	13.5	12.5
Unemployment rate (%)**	8.2	8.0	8.0	7.8	7.8	7.7	7.5	7.4	7.3	7.2	7.1	7.0	8.3	8.0	7.6	7.2
Inflation																
Headline CPI	1.6	1.4	1.8	2.3	2.2	2.6	2.3	1.6	1.6	1.9	2.1	2.2	0.3	1.8	2.2	2.0
Core CPI	1.9	1.8	1.6	1.7	1.6	1.7	1.7	1.7	1.8	1.8	1.9	2.0	1.7	1.7	1.7	1.9
External trade																
Current account balance ($b)	-36.7	-51.9	-70.1	-63.5	-51.2	-46.7	-42.2	-38.2	-34.3	-31.7	-29.7	-28.5	-43.5	-55.6	-44.6	-31.1
% of GDP	-2.3	-3.2	-4.3	-3.9	-3.1	-2.7	-2.5	-2.2	-1.9	-1.8	-1.6	-1.6	-2.8	-3.4	-2.6	-1.7
Housing starts (000s)**	198	199	192	176	180	182	182	184	182	181	179	177	149	191	182	180
Motor vehicle sales (mill., saar)**	1.58	1.55	1.60	1.63	1.64	1.65	1.67	1.68	1.68	1.69	1.70	1.70	1.48	1.59	1.66	1.69

**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		
	2010				2011				2012				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012
Consumer spending	1.9	2.2	2.8	2.5	3.0	3.7	3.7	3.6	3.6	3.2	2.8	3.2	-1.2	1.7	3.1	3.4
Durables	8.8	6.8	7.4	10.1	8.9	10.1	10.3	9.1	8.5	6.7	6.7	6.7	-3.7	6.9	9.2	8.2
Non-durables	4.2	1.9	1.8	2.4	2.3	2.6	2.8	2.9	2.8	2.8	2.1	2.8	-1.2	2.5	2.4	2.7
Services	0.1	1.6	2.5	1.4	2.3	3.0	3.0	3.0	3.1	2.8	2.5	2.8	-0.8	0.6	2.4	2.9
Government spending	-1.6	3.9	4.0	2.1	1.0	0.0	-0.4	-0.8	-1.1	-0.9	-0.4	-0.1	1.6	1.3	1.3	-0.7
Business investment	3.4	18.9	1.7	4.0	11.5	16.5	17.5	16.2	14.8	13.9	13.0	10.7	-18.3	3.8	11.2	14.8
Residential construction	-12.3	25.6	-27.5	0.0	7.0	17.6	19.5	15.3	13.6	14.2	16.9	13.2	-22.9	-3.2	5.5	15.4
Non-residential structures	-17.8	-0.5	-5.8	-0.5	-1.5	6.4	9.5	9.5	10.5	11.1	10.5	11.5	-20.4	-14.4	1.7	10.1
Equipment & software	20.5	24.8	16.8	6.9	17.7	19.8	19.8	19.0	16.7	14.9	12.6	9.5	-15.3	15.4	16.7	16.3
Final domestic demand	1.3	4.3	2.9	2.6	3.6	4.4	4.5	4.2	4.0	3.6	3.4	3.4	-3.1	1.9	3.7	3.9
Exports	11.4	9.1	6.3	5.7	10.8	9.1	8.5	9.9	9.3	9.7	9.7	8.7	-9.5	11.5	8.5	9.4
Imports	11.2	33.5	16.8	3.5	6.9	9.9	9.8	10.3	10.1	10.5	9.9	7.5	-13.8	13.9	10.0	10.0
Inventories (change in $b)	44.1	68.8	111.5	88.5	77.1	75.0	73.2	72.2	74.2	72.7	67.0	68.5	-113.1	78.2	74.4	70.6
Real gross domestic product	**3.7**	**1.7**	**2.5**	**2.2**	**3.6**	**4.1**	**4.1**	**3.9**	**3.7**	**3.2**	**3.0**	**3.5**	**-2.6**	**2.7**	**3.3**	**3.6**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	6.3	3.7	2.6	1.6	1.4	2.6	2.5	2.5	2.2	1.8	1.6	1.7	3.5	3.5	2.3	1.8
Pre-tax corporate profits	37.6	37.0	27.8	18.8	10.2	9.7	9.0	9.1	8.1	6.9	5.8	5.8	-0.4	29.6	9.5	6.6
Unemployment rate (%)**	9.7	9.7	9.6	9.7	9.5	9.3	9.2	9.0	8.9	8.8	8.6	8.4	9.3	9.7	9.3	8.7
Inflation																
Headline CPI	2.4	1.8	1.2	1.2	1.4	2.0	2.0	1.6	1.4	1.5	1.5	1.5	-0.4	1.6	1.8	1.5
Core CPI	1.3	0.9	0.9	0.7	1.0	1.1	1.2	1.2	1.2	1.2	1.3	1.3	1.7	1.0	1.1	1.3
External trade																
Current account balance ($b)	-437	-493	-501	-499	-498	-516	-535	-552	-571	-590	-612	-624	-378	-482	-525	-599
% of GDP	-3.0	-3.4	-3.4	-3.3	-3.3	-3.4	-3.4	-3.5	-3.6	-3.7	-3.8	-3.8	-2.7	-3.3	-3.4	-3.7
Housing starts (000s)**	617	602	584	553	616	659	738	785	864	933	1002	1071	554	589	699	968
Motor vehicle sales (millions, saar)	11.0	11.3	11.6	12.3	12.6	13.1	13.4	13.7	13.9	14.0	14.2	14.3	10.4	11.5	13.2	14.1

**Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates

%, end of period

		Forecast										Forecast		
	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	2009	2010	2011	2012
Canada														
Overnight rate	1.00	1.00	1.00	1.50	2.00	2.00	2.50	3.00	3.50	3.50	0.25	1.00	2.00	3.50
Three-month T-bills	0.87	1.00	1.10	1.50	2.00	2.05	2.55	3.05	3.50	3.60	0.19	1.00	2.05	3.60
Two-year GoC bonds	1.36	1.65	1.95	2.50	2.75	3.10	3.20	3.45	3.65	4.00	1.47	1.65	3.10	4.00
Five-year GoC bonds	2.01	2.60	2.80	3.00	3.25	3.55	3.50	3.75	4.00	4.05	2.77	2.60	3.55	4.05
10-year GoC bonds	2.75	3.30	3.35	3.35	3.50	3.80	3.95	4.05	4.15	4.15	3.61	3.30	3.80	4.15
30-year GoC bonds	3.33	3.80	4.00	4.05	4.30	4.40	4.45	4.50	4.50	4.55	4.07	3.80	4.40	4.55
Yield curve (10s-2s)	139	165	140	85	75	70	75	60	50	15	214	165	70	15
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	0.75	1.50	2.00	2.25	0 to 0.25	0 to 0.25	0 to 0.25	2.25
Three-month T-bills	0.16	0.15	0.15	0.20	0.25	0.30	0.60	1.40	2.00	2.30	0.06	0.15	0.30	2.30
Two-year bonds	0.42	0.55	0.80	1.25	1.45	1.85	2.00	2.30	2.60	3.05	1.14	0.55	1.85	3.05
Five-year bonds	1.27	1.75	1.90	2.25	2.40	2.85	3.00	3.25	3.50	3.75	2.69	1.75	2.85	3.75
10-year bonds	2.53	3.15	3.25	3.50	3.60	4.00	4.15	4.25	4.45	4.50	3.85	3.15	4.00	4.50
30-year bonds	3.69	4.35	4.55	4.55	4.75	4.85	4.90	4.95	5.00	5.05	4.63	4.35	4.85	5.05
Yield curve (10s-2s)	211	260	245	225	215	215	215	195	185	145	271	260	215	145
Yield spreads														
Three-month T-bills	0.71	0.85	0.95	1.30	1.75	1.75	1.95	1.65	1.50	1.30	0.13	0.85	1.75	1.30
Two-year	0.94	1.10	1.15	1.25	1.30	1.25	1.20	1.15	1.05	0.95	0.33	1.10	1.25	0.95
Five-year	0.74	0.85	0.90	0.75	0.85	0.70	0.50	0.50	0.50	0.30	0.08	0.85	0.70	0.30
10-year	0.22	0.15	0.10	-0.15	-0.10	-0.20	-0.20	-0.20	-0.30	-0.35	-0.24	0.15	-0.20	-0.35
30-year	-0.36	-0.55	-0.55	-0.50	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.56	-0.55	-0.45	-0.50

Exchange rates

%, end of period

		Forecast										Forecast		
	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	2009	2010	2011	2012
Australian dollar	0.97	0.98	0.97	0.96	0.95	0.94	0.92	0.90	0.93	0.95	0.90	0.98	0.94	0.95
Brazilian real	1.70	1.71	1.73	1.75	1.77	1.78	1.78	1.78	1.78	1.78	1.74	1.71	1.78	1.78
Canadian dollar	1.03	1.00	0.99	0.98	0.97	1.00	1.02	1.05	1.03	1.01	1.05	1.00	1.00	1.01
Chinese renminbi	6.69	6.60	6.50	6.40	6.30	6.20	6.20	6.20	6.20	6.20	6.83	6.60	6.20	6.20
Euro	1.36	1.31	1.29	1.25	1.22	1.20	1.18	1.17	1.20	1.25	1.43	1.31	1.2	1.25
Japanese yen	84	83	81	83	88	95	100	105	100	95	93	83	95	95
Mexican peso	12.59	12.25	11.75	11.75	12.00	12.00	12.00	12.00	12.00	12.00	13.10	12.25	12.00	12.00
New Zealand dollar	0.73	0.74	0.75	0.76	0.75	0.73	0.71	0.70	0.73	0.74	0.73	0.74	0.73	0.74
Swiss franc	0.98	0.99	1.00	1.03	1.04	1.06	1.08	1.10	1.09	1.07	1.04	0.99	1.06	1.07
U.K. pound sterling	1.57	1.56	1.57	1.60	1.58	1.56	1.53	1.50	1.54	1.58	1.62	1.56	1.56	1.58

Source: Reuters, RBC Economics Research forecasts