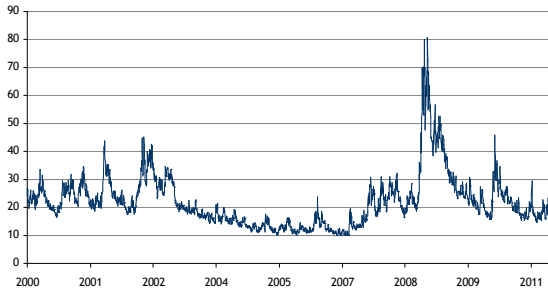


## ECONOMIC AND FINANCIAL MARKET OUTLOOK

September 2011

### Volatility Index

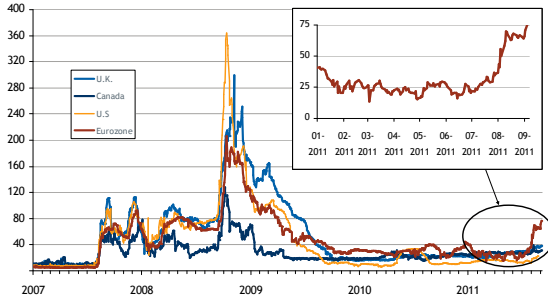
Market volatility index, (VIX)



Source: Wall Street Journal, RBC Economics Research

### Short term funding spreads

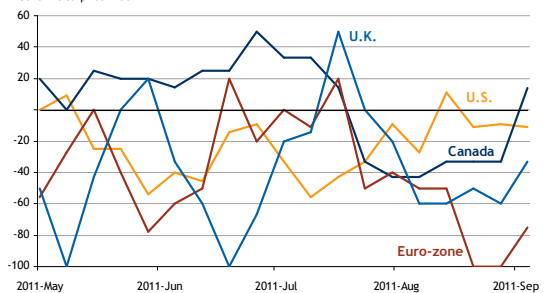
Basis points



Source: Bloomberg, RBC Economics Research

### Economic surprises

Economic surprise index



Source: RBC Economics Research

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### Just when we thought it was safe

- World economies are hit with financial market volatility as investors worry about sovereign-debt levels.
- Global growth forecasts are cut back, and aggressive action is needed to avert another downturn.
- Central bankers provide a united front and will keep the system flush with cash and interest rates low.
- Key factor for the outlook is confidence—can the global economy keep it together?

Financial markets showed policymakers that they have no time for complacency in dealing with the high level of government indebtedness. Investors ran for cover on concerns about the lack of government action to combat debt issues successfully. This resulted in a sharp rise in volatility, falling equity markets and commodity prices, and a rally in government bonds. Global interest rates fell to levels at or below those last seen during the recession and financial market crisis. Unlike during the 2008 episode, funding spreads remained relatively well behaved with the outlier being the euro zone where spreads widened to close to 75 basis points from 25 basis points. Compared to the more than 200 basis point level recorded in 2008, however, European financial markets are showing greater resiliency.

### Data run hits the skids

The tone in world economic data has soured with the preponderance of data surprises being to the downside. Despite these downside surprises, however, the global purchasing managers' index remained above the key 50 mark indicating continued growth in August. Both manufacturing and service sector activity slowed resulting in a decline in the overall index to 51.5 from 52.5. Looking at the relationship between growth and the global PMI indicates that while activity levels have slowed, they remain in expansionary territory.

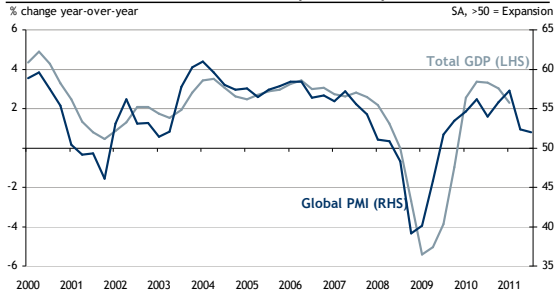
### Help from emerging economies?

Growth in the emerging economies continues to be faster than in the advanced nations. In China, the year-over-year increase in real GDP slowed to 9.5% in the second quarter of 2011. China's August manufacturing purchasing managers' index held below the key 50 mark; however, the underlying details suggest a moderation in growth and do not point to a hard landing for the Chinese economy. The key question is whether China and the other emerging countries can support the advanced economies should growth in the latter slow more meaningfully. Our emerging markets team's assessment is that the emerging markets already spent a lot of their stimulus bullets in 2008-2009 leaving them with higher deficits relative to GDP, lower interest rates, and firmer currencies. As such, there does not appear to be a lot of fire power left to resuscitate global demand should the recent spate of weakness deepen.

## RBC cuts back forecasts in 2011 and 2012

RBC Economics cut growth forecasts for most of the advanced economies that we follow. One of the bigger downgrades was to US growth in 2011, which was reduced by 1.0 percentage point (pp) to 1.7%. Much of the downgrade reflected revisions to previously reported levels of GDP as the economy's contraction in 2009 proved to be much bigger than previously reported while the upward revision to 2010 GDP was only 0.1pp. Important for our 2011 forecast was the cut in first-quarter 2011 growth to 0.4% from a previously reported 1.9%. In Canada, softer growth in the US, euro zone, and UK economies, and a mild contraction in the second quarter of 2011 resulted in a downgrade of 0.8pp to our 2011 forecast to 2.4%. Europe, the UK, and Australia all suffered downgrades relative to our forecasts of June 2011. Softer demand from these large advanced countries, falling commodity prices, and financial market volatility led us to revise lower our average growth estimates in the Emerging Markets countries to 6.3% and 6.0% in 2011 and 2012, respectively (previously, RBC forecasted growth of 6.7% in both years).

### OECD total GDP vs. Global PMI: composite output



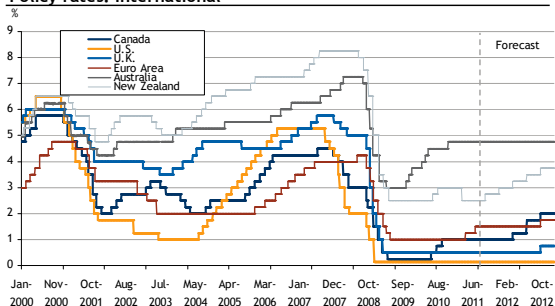
Source: OECD, JPM, RBC Economics Research

### Changes in real GDP growth forecasts

Year-over-year % change

	2011		2012	
	New	Old	New	Old
Canada	2.4	3.2	2.5	3.1
U.S.	1.7	2.7	2.5	3.4
United Kingdom	1.2	1.5	2.2	2.4
Euro Zone	1.9	2.0	1.6	1.8
Australia	1.5	2.6	3.7	3.8
New Zealand	1.9	0.7	3.5	3.5
Emerging Economies	6.3	6.7	6.0	6.7

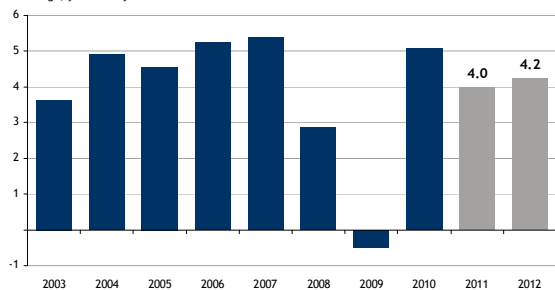
### Policy rates: International



Source: FRB, BoC, ECB, BoE, RBA, RBNZ, RBC Economics Research

### World GDP growth

% change, year-over-year



Source: International Monetary Fund WEO, RBC Emerging Markets, RBC Economics Research

## Central banks - low for loooooooooong

Central bankers appear to have embraced their role as safety nets when financial market pressures intensify. The US Fed's Bernanke provided markets with a conditional commitment to keep rates extraordinarily low until mid-2013 and made the case for additional near-term fiscal stimulus within a framework of long-term debt reduction. The Reserve Bank of Australia stepped away from another rate hike, pointing to unusual uncertainty in financial markets and the global outlook. The weakening in growth in recent months has made a European Central Bank rate hike unlikely now, even with the headline inflation rate at 2.5% while the Bank of England is likely to stay on the sidelines until late 2012 as the economy tries to cope with a round of fiscal tough love. Faced with lower commodity prices and weaker US growth, the Bank of Canada is likely to hold the overnight steady until mid-2012. The Reserve Bank of New Zealand is the only outlier with an end of year hike expected and aimed at reversing part of the earlier 50 basis point cut.

## Adding it all up

We re-estimated our forecast for world GDP growth based on changes made to RBC's forecasts for the advanced and emerging economies that we cover. The result was a 0.4pp cut to 2011 GDP growth to 4.0% and a 0.6pp cut in 2012 to 4.2%. To be sure, growth will be slower than the 5.1% pace of 2010; however, the low level of interest rates and unwinding of one-off factors, like poor weather conditions and auto industry disruptions, set up the second half of 2011 to be stronger than the early part of the year and for the global economy to avert sliding into another recession.

## US recession was deeper, recovery weaker

The revisions to US GDP showed that the recession was deeper than previously estimated with a 5.1% loss in output rather than 4.1%. The revisions also slashed the first-quarter 2011 growth rate to just 0.4% at an annualized rate from close to 2% previously. Second-quarter growth was slightly quicker at 1.0%, yet the tepid growth in the first half of 2011 meant that the economy had still not recovered all of the ground lost during the recession as of mid-2011.

This weaker performance was in part due to one-off factors like poor weather conditions cutting into non-residential construction activity, and the Japanese disasters cutting into auto production and sales, and high gasoline price sapping income to spend on other goods and services. As the weight from these factors dissipates, growth is forecasted to pick up. Indications that this is occurring came in the July industrial production data, which showed a 0.9% monthly increase backed by a 5.2% jump in the auto manufacturing component. US auto sales also rebounded in July coming in at a 12.2 million units (annualized) from an 11.5 million in June. This translated into a strong rise in personal consumption which is consistent with a pick up in real consumer spending to above 2% from the marginal 0.4% annualized gain in the second quarter. Car sales held up surprisingly well in August, therein lowering the risk that July's consumption gain will be reversed.

### Market volatility creates downside risk to US outlook

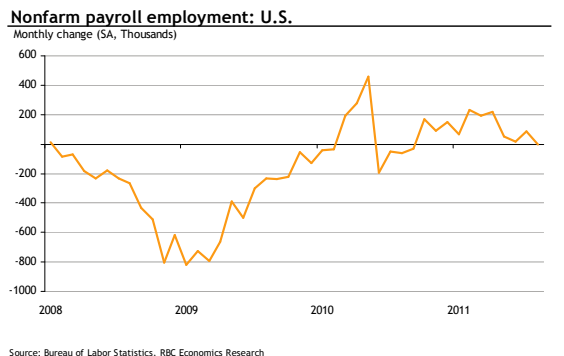
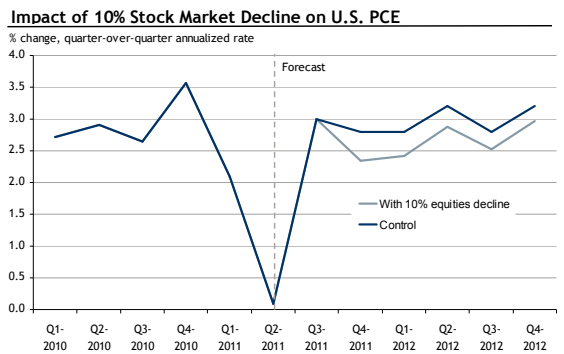
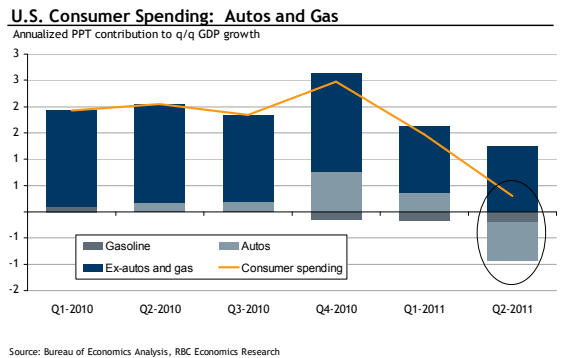
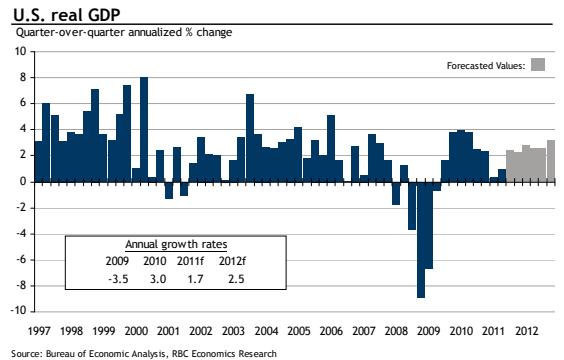
Investors conveyed their concerns about the effect of elevated debt levels on the world economy through a sharp 6.1% decline in the S&P in August. The downgrading of US government debt by S&P drove home the point that policymakers have to deliver a credible long-term solution to bring debt levels down relative to the size of the economy. By our reckoning, each sustained 10% drop in equity net wealth will reduce consumer spending by 0.3ppt in 2012. While our base case forecast assumes a gradual recovery of recent equity market declines, the risk for consumer spending to be slower in 2011 and 2012 than our forecasts of 2.2% and 2.5% growth is clearly present.

This downside risk is amplified by the stifled recovery in the labour market that is keeping consumer confidence under downward pressure. July's payroll report provided a ray of hope that the labour market was building steam with employment rising by 85,000 following two months when the average gain was 36,500. In August, however, the pace of employment growth stalled partly because of a strike that temporarily took 46,000 workers off of company payrolls and continued government sector job cuts. Even excluding these factors, the economy only generated 63,000 jobs in the month, which is not enough to exert downward pressure on the unemployment rate nor enough to ensure that the economy will build stronger momentum.

The poor labour market performance has increased the necessity for policy-makers to forge a stimulus package that will sustain growth in 2012. Ideally, this will include both monetary and fiscal policy actions. President Obama's American Jobs Act has the potential to boost hiring in the near term once it be passed by Congress.

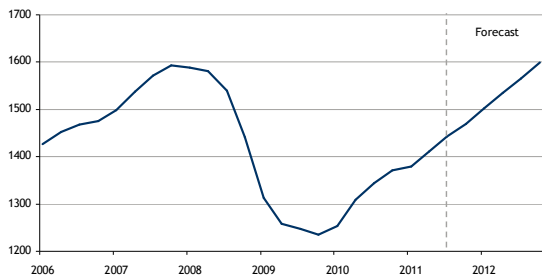
### US businesses have the means to keep investing

US businesses' balance sheets continue to look good with high levels of liquid balances following a year of very solid profit growth, limited signs of financial stress within the financial system, and low borrowing rates. Non-residential business investment stands 14% above its recession low although has only recovered half the ground lost from the pre-recession peak. Backed by the strength of balance sheets, we expect investment spending on non-residential structures, and machinery and equipment to fill in for tepid consumer spending



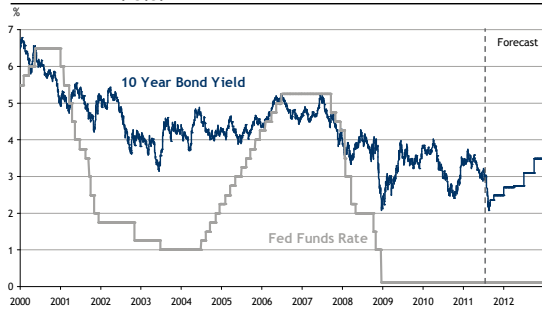
### Real private nonresidential fixed investment: U.S.

SAAR, Billions of chained 2005\$



Source: Bureau of Economic Analysis, RBC Economics Research

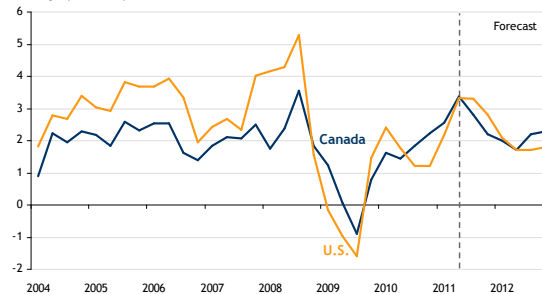
### Interest rates: U.S.



Source: Federal Reserve, RBC Economics Research

### Headline inflation: Canada and U.S.

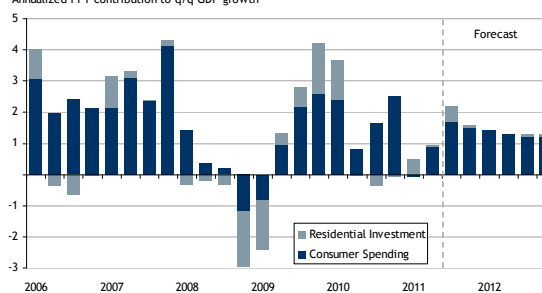
% change, year-over-year



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

### Contribution to Canadian GDP: consumer spending & res investment

Annualized PPT contribution to q/q GDP growth



Source: Statistics Canada, RBC Economics Research

growth and depressed housing market activity. Heavy oversupply in the housing market is keeping prices under downward pressure and discouraging sales. In the single-family housing market, sales ran 8% lower in the first six months of 2011 relative to the same period a year earlier. The souring of confidence in August means that even with mortgage rates near all-time lows, housing market conditions are likely to remain depressed. Policies to address the issues in the housing market would be a useful component of any new fiscal package.

## Absence of further stimulus = fiscal restraint

While the net effect on economic growth from government policy was negligible in 2011, the bite from fiscal retrenchment will be between 0.8–1.0pp for the next couple of years unless the government brokers a new stimulus package. The ending of the American Recovery and Reinvestment Act's expenditures will provide a persistent downward hit to the economy as will the spending reduction package that came out of the debt ceiling negotiations.

For its part, the Federal Reserve made it clear that it will keep monetary policy easy. In the August statement, the Federal Open Market Committee committed to maintain the extraordinarily low interest rates until at least mid-2013 and indicated that there remains policy tools that could be used to increase policy support. To that end, we expect that the Fed will employ a two-step approach to extending the maturity of the debt that it is holding, beginning in September. While this may have limited effect in terms of lowering yields further (they are already a rock-bottom lows), it will communicate the Fed's commitment to providing on-going support to the economy by aiming at improving confidence. Sustained policy stimulus will keep rates across the yield curve low, thereby allowing households and businesses to borrow at consistently low rates. Our forecast that yields on US government bonds will remain about 75 basis points below the average of the prior decade will help bolster a gradual pick up in credit demand as confidence returns to both households and businesses.

## Inflation takes a backseat

The abrupt change in risk appetite saw commodity prices dive with West Texas Intermediate oil prices falling about 10% in the month of August, suggesting that energy costs will provide less upward pressure on the headline inflation rate going forward. The US core rate has drifted higher in recent months but remains below the Fed's 2% threshold and is likely to top out slightly above the current 1.7% as the indirect effect of falling commodity prices ripples through the economy.

Canada's inflation performance mirrored that of the US, with the headline rate running above the upper-end of the Bank of Canada's 1–3% range for a four-month stint; however, the annual rate of increase in the CPI slipped to 2.7% in part reflecting the effect of tax changes a year earlier dropping out of the index. The headline rate is forecasted to drift even lower given the declines in commodity prices that occurred in August. The rebound in Canada's core inflation rate in July was in large part a reflection of overstated weakness in June being reversed. We expect Canada's core inflation rate to remain within the Bank's target range providing no pressure for tightening in the near term.

## Bite from energy costs to lessen

The softening in energy prices will take some of the weight off consumers' pocketbooks. The sharp decline in energy prices in early 2009 saw costs associated with energy spending fall to 5.6% of personal disposable income. In the second quarter of 2011, these costs accounted for 6.6% of income, meaning that households had less money to spend on other goods and services. The drop in oil prices in August sets up households to spend proportionately less on energy. Consumer spending was a strong support for Canada's economy in 2010 and accounted for two-thirds of the rise in GDP. Consumers pulled back in early 2011, therein reflecting the high level of debt that was put on their balance sheets during the recovery period and constraints on auto purchases due to the supply disruptions, which resulted in some models being unavailable. We expect spending on durable goods to reaccelerate as the auto industry shifts back into high gear, while low interest rates and lower energy costs spur consumption of other goods and services.

## Household debt burden heavy but still manageable

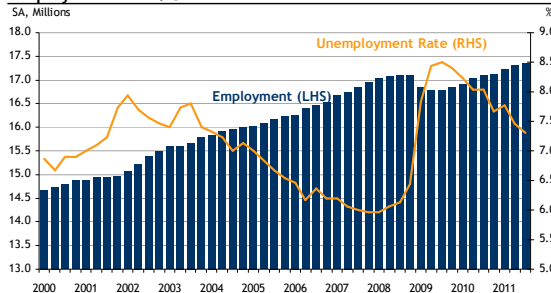
Canadian households increased their debt levels during the recovery as they took advantage of low interest rates. A firm and improving labour market provided underlying support for this pick up in credit demand. Unlike its US counterpart, Canada's labour market has more than fully recovered the jobs lost during the economic downturn, and it did so rapidly relative to past recoveries. As of August 2011, the economy had 164,000 more people employed than at the pre-recession peak. In 2011, all jobs created were full-time positions with part-time employment falling marginally. Additionally, comparing the percentage of jobs lost relative to jobs generated by wage level indicates that the highest proportion of jobs lost were middle-wage earners while the biggest concentration of jobs created were higher-wage positions.

This positive backdrop provided households with the confidence to spend on goods and services as indicated by the 3.3% jump in consumer spending in 2010. At the same time, housing market activity ramped up with sales revisiting levels recorded prior to the economic downturn. The heady pace of sales kept upward pressure on prices that hit an all-time high in March 2011. The rise in prices and marginally higher mortgage rates reduced affordability in both the first and second quarters of 2011. Despite the deterioration, housing markets in most areas of the country are not suffering from severe strain with the [RBC Housing Affordability](#)\* measure standing close to its long-term average. This is true for most areas of the country; however, there are pockets where conditions have eroded substantially and bear watching going forward such as the Vancouver market.

## Low rates kept debt service costs under control

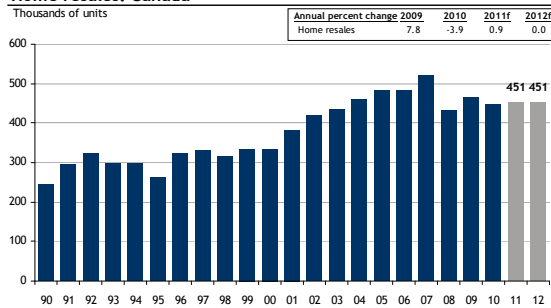
The low interest rate backdrop has kept the cost of servicing the growing debt burden under control. Debt service costs stand in the lower end of the range established in the past 20 years. To be sure, the large stock of debt has created some risks for household balance sheets if interest rates rise significantly or the economy suffers an unanticipated shock that hurts, the labour market, the housing market, or both. On the interest rate outlook, conditions have changed significantly since June with the rise in volatility creating uncertainties about the

Employment level: Canada



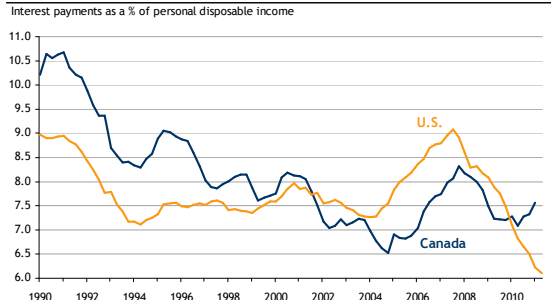
Source: Statistics Canada, RBC Economics Research

Home resales: Canada



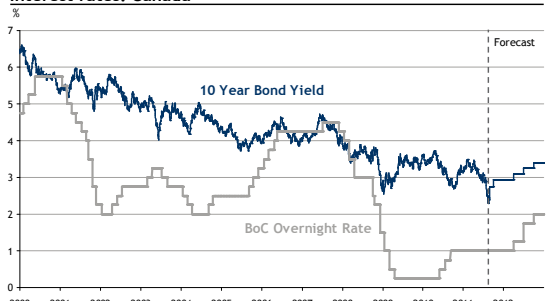
Source: Canada Mortgage and Housing Corporation, RBC Economics Research

Debt service ratio



Source: Statistics Canada, Bureau of Economic Analysis, RBC Economics Research

Interest rates: Canada



Source: Bank of Canada, RBC Economics Research

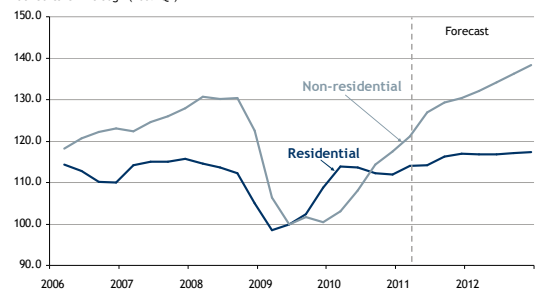


\* see Housing Trends and Affordability August 2011 (<http://www.rbc.com/economics/market/pdf/house.pdf>)



### Canadian investment

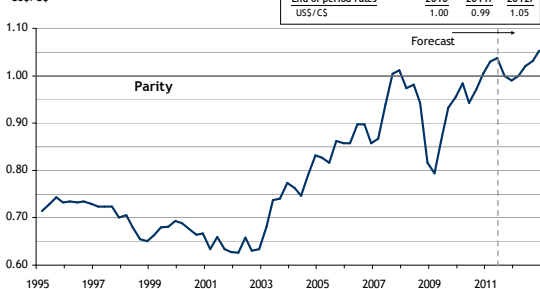
Indexed to GDP trough (2009-Q2)



Source: Statistics Canada, RBC Economics Research

### Canadian dollar forecast

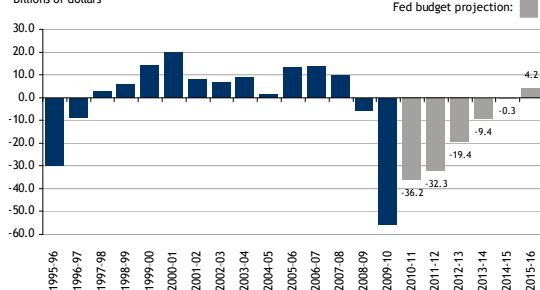
US\$/C\$



Source: Bank of Canada, RBC Economics Research

### Federal government budgetary balance

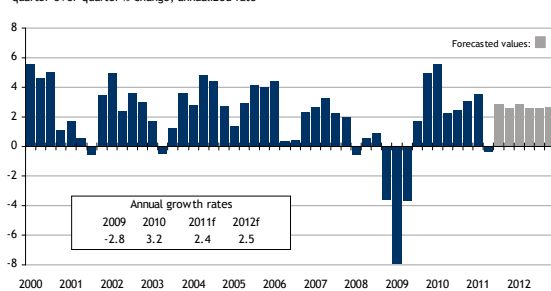
Billions of dollars



Source: Department of Finance, RBC Economics Research

### Canada's real GDP

quarter-over-quarter % change, annualized rate



Source: Statistics Canada, RBC Economics Research

momentum in the global economy. Additionally, the US Fed has committed to keep its policy rates very low for a sustained period to ward off any additional weakening in the pace of expansion. Faced with reduced expectations about the pace of US growth, a mild contraction in GDP in the second quarter of 2011, and benign inflation pressures, the Bank of Canada is likely to maintain its policy rate at 1.0%, thereby gearing policy toward supporting fragile business and consumer confidences. We now expect the next rate hike to come in mid-2012. Interest rates in Canada will likely remain low across the yield curve, with our forecast for 10-year yields at the end of 2012 at 3.40%, about 90 basis points below the average rate of the previous decade.

## Business investment cycle underway

Like their US counterparts, Canadian businesses have cash available to put to work, improved profits, and supportive financial conditions. This backdrop resulted in business investment growing at double-digit rates in 2010 and the first half of 2011. The Bank of Canada's summer survey of businesses showed that 48% of respondents expect to increase spending on capital goods in the next 12 months. The firm currency, no doubt, has been a key support for this rise in investment because the price of imported machinery and equipment dropped 18% relative to early 2009. This occurred in lockstep with the rally in the Canadian dollar against its US counterpart. Recently, the slide in commodity prices and falling rate hike expectations took the shine off of Canada's dollar. Additionally, the recent bout of risk aversion saw investors seek markets that were large and liquid. Our view that the economies of both Canada and the US will rebound in the second half of the year, global growth will buoy commodity prices, and fears of rate cuts will turn into expectations of rate hikes are consistent with the Canadian dollar appreciating again in 2012.

Import growth ran faster than export demand in the early stages of the recovery. More recently, export demand softened reflecting one-off factors like maintenance shutdowns in the oil and gas industry and the Japanese supply-chain disruptions dampening auto exports. Import growth conversely powered on resulting in net exports taking a large bite out of growth in the second quarter of 2011. As the dampening effects of these one-off factors recede, Canadian exports are forecasted to rise while import growth is likely to slow from the rapid 10% pace recorded in the first half of the year. This tees up for net exports to act as a driver of growth going forward.

## Fiscal situation under control and will stay that way

Although Canada's fiscal situation is much better than many of its trading partners, the federal government is not expected to provide additional support to the economy. In fact, in 2011, as the infrastructure expenditure programs came to an end and deficit reduction plans began, the government sector is likely to trim 0.2pp off of the annual GDP growth rate. Ongoing fiscal restraint sets up for a 0.8pp and 0.6pp drag in 2012 and 2013, respectively.

## Turbulence will not sink the economy

Financial market volatility certainly took a toll on confidence this summer; however, early indications that the global economy will avert another downturn jammed the brakes on the slide in equity markets and commodity prices. The forecasted improvement in Canada's growth outlook is predicated on these trends continuing.

## Economic forecast detail – Canada

### Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	2010				2011				Forecast 2012				Forecast year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012
Consumer spending	4.2	1.4	2.8	4.4	-0.1	1.6	3.0	2.6	2.4	2.2	2.1	2.1	0.4	3.3	2.1	2.4
Durables	4.0	-7.4	1.6	11.0	-5.2	1.5	3.5	6.0	4.7	4.7	5.2	5.1	-1.9	4.4	1.4	4.7
Semi-Durables	19.1	-4.5	5.6	2.9	0.1	-3.2	4.4	1.5	2.5	1.5	1.4	1.4	-2.3	5.0	1.0	1.8
Non-durables	1.7	2.7	2.6	0.9	-1.3	-0.3	3.5	2.0	2.3	1.8	1.7	1.7	0.8	1.8	0.8	2.0
Services	3.4	3.7	2.9	4.8	1.4	3.1	2.5	2.3	2.0	2.0	1.8	1.8	1.1	3.5	2.9	2.2
Government spending	-0.4	3.3	0.5	2.7	0.0	1.6	0.1	0.1	0.4	0.1	0.5	1.0	3.6	2.4	1.1	0.5
Residential investment	19.8	-0.4	-5.1	-0.9	7.5	0.7	7.7	2.1	-0.9	-0.2	0.7	0.5	-8.0	10.2	2.2	1.2
Business investment	11.9	17.9	23.5	13.5	12.9	15.5	8.3	4.8	6.1	7.1	6.8	6.7	-20.8	7.3	13.8	7.0
Non-residential structures	17.5	7.2	16.6	22.8	10.7	2.0	9.6	8.8	8.1	8.3	8.1	8.1	-22.2	2.8	11.3	8.1
Machinery & equipment	6.8	29.4	30.5	5.0	15.2	31.0	7.0	0.6	4.0	5.8	5.5	5.3	-19.5	11.8	16.4	5.8
Final domestic demand	5.3	3.9	4.3	4.8	1.8	3.0	2.9	1.4	1.7	2.1	2.2	2.3	-2.1	4.5	3.1	2.0
Exports	8.8	11.9	-1.2	8.8	7.7	-8.3	11.9	9.7	9.0	7.9	6.9	6.9	-13.8	6.4	4.4	7.7
Imports	12.3	21.8	8.4	-0.5	9.5	10.0	3.3	3.0	5.0	6.0	5.8	6.0	-13.4	13.1	7.0	5.1
Inventories (change in \$b)	6.5	13.3	15.6	0.2	9.1	19.2	10.3	7.4	7.4	7.3	7.5	8.2	-0.5	8.9	11.5	7.6
<b>Real gross domestic product</b>	<b>5.6</b>	<b>2.3</b>	<b>2.5</b>	<b>3.1</b>	<b>3.6</b>	<b>-0.4</b>	<b>2.9</b>	<b>2.6</b>	<b>2.9</b>	<b>2.6</b>	<b>2.6</b>	<b>2.7</b>	<b>-2.8</b>	<b>3.2</b>	<b>2.4</b>	<b>2.5</b>

### Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	1.8	1.2	1.4	0.8	0.8	0.9	0.8	0.8	0.7	1.3	1.2	1.3	0.6	1.3	0.8	1.1
Pre-tax corporate profits	20.4	27.2	19.0	19.1	12.9	14.8	11.6	5.8	5.8	10.8	14.2	13.4	-33.1	21.2	11.1	11.0
Unemployment rate (%)*	8.2	8.0	8.0	7.7	7.8	7.5	7.3	7.4	7.4	7.3	7.2	7.2	8.3	8.0	7.5	7.3
Inflation																
Headline CPI	1.6	1.4	1.8	2.3	2.6	3.4	2.8	2.1	1.9	1.6	2.0	2.1	0.3	1.8	2.7	1.9
Core CPI	1.9	1.8	1.6	1.6	1.3	1.6	1.7	1.7	1.7	1.7	1.7	1.8	1.7	1.8	1.6	1.7
External trade																
Current account balance (\$b)	-35	-56	-72	-41	-40	-61	-51	-42	-36	-34	-32	-31	-45	-51	-49	-33
% of GDP	-2.2	-3.5	-4.4	-2.5	-2.4	-3.6	-3.0	-2.4	-2.1	-1.9	-1.8	-1.7	-3.0	-3.1	-2.8	-1.9
Housing starts (000s)*	198	198	192	179	178	193	196	186	184	183	181	179	149	190	188	182
Motor vehicle sales (mill., saar)*	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.5	1.6	1.6	1.6

\*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

	2010				2011				Forecast 2012				Forecast year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012
	Consumer spending	2.7	2.9	2.6	3.6	2.1	0.4	2.3	2.5	2.7	2.8	2.7	3.0	-1.9	2.0	2.2
Durables	9.9	7.8	8.8	17.2	11.8	-5.1	5.4	9.1	7.5	6.7	6.0	6.7	-5.4	7.2	7.7	6.3
Non-durables	4.8	1.9	3.0	4.3	1.6	0.4	1.0	2.0	2.1	2.5	2.4	3.5	-1.8	2.9	2.0	2.0
Services	1.0	2.5	1.6	1.3	0.8	1.4	2.3	1.6	2.1	2.3	2.2	2.2	-1.4	0.9	1.4	2.0
Government spending	-1.2	3.7	1.0	-2.8	-5.9	-0.9	-0.4	-0.8	-1.1	-1.3	-1.2	-1.0	1.7	0.7	-1.9	-1.0
Residential investment	-15.3	22.8	-27.7	2.5	-2.5	3.4	4.3	6.0	9.2	11.4	12.6	9.5	-22.2	-4.3	-1.4	8.5
Business investment	6.0	18.6	11.3	8.7	2.1	9.9	9.4	7.1	9.4	8.9	8.3	8.9	-17.9	4.4	8.1	8.7
Non-residential structures	-24.7	7.4	4.2	10.6	-14.4	15.8	8.7	7.5	10.4	10.2	9.2	10.0	-21.2	-15.8	3.3	9.7
Equipment & software	21.7	23.2	14.2	8.0	8.7	7.8	9.6	7.0	9.0	8.5	8.0	8.5	-16.0	14.6	9.9	8.4
Final domestic demand	1.7	4.9	2.3	2.7	0.4	1.1	2.5	2.4	2.7	2.8	2.6	2.9	-3.6	1.8	1.8	2.5
Exports	7.3	10.0	10.0	7.8	7.9	3.1	5.9	9.9	9.3	9.7	9.7	8.7	-9.4	11.3	7.2	8.7
Imports	12.6	21.6	12.3	-2.3	8.3	1.9	7.0	8.5	8.2	8.5	8.4	7.2	-13.6	12.5	6.1	7.7
Inventories (change in \$b)	39.9	64.6	92.3	38.3	49.1	40.6	49.1	49.0	54.6	49.1	47.4	55.6	-144.9	58.8	47.0	51.7
<b>Real gross domestic product</b>	<b>3.9</b>	<b>3.8</b>	<b>2.5</b>	<b>2.3</b>	<b>0.4</b>	<b>1.0</b>	<b>2.4</b>	<b>2.3</b>	<b>2.8</b>	<b>2.6</b>	<b>2.6</b>	<b>3.2</b>	<b>-3.5</b>	<b>3.0</b>	<b>1.7</b>	<b>2.5</b>

### Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	6.2	4.4	3.3	2.4	1.0	0.6	0.6	0.6	1.5	2.0	1.7	1.8	2.4	4.1	0.7	1.8
Pre-tax corporate profits	46.7	41.5	27.4	18.2	8.8	8.3	8.2	8.0	8.6	6.9	5.6	6.3	9.1	32.2	8.3	6.8
Unemployment rate (%)*	9.7	9.6	9.6	9.6	8.9	9.1	9.1	9.0	8.9	8.8	8.7	8.6	9.3	9.6	9.0	8.8
Inflation																
Headline CPI	2.4	1.8	1.2	1.3	2.1	3.4	3.5	3.1	2.3	1.9	1.8	1.8	-0.4	1.6	3.0	1.9
Core CPI	1.3	0.9	0.9	0.7	1.1	1.5	1.8	1.8	1.8	1.6	1.6	1.8	1.7	1.0	1.5	1.7
External trade																
Current account balance (\$b)	-473	-481	-481	-449	-477	-502	-505	-514	-525	-530	-535	-537	-377	-471	-500	-532
% of GDP	-3.3	-3.3	-3.3	-3.0	-3.2	-3.3	-3.3	-3.4	-3.4	-3.4	-3.4	-3.4	-2.7	-3.2	-3.3	-3.4
Housing starts (000s)*	615	602	584	539	582	572	600	619	649	707	753	797	554	585	593	727
Motor vehicle sales (millions, saar)*	11.0	11.4	11.6	12.3	13.0	12.1	12.5	13.4	13.7	13.8	13.9	14.0	10.4	11.6	12.7	13.9

\*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts



## Financial market forecast detail

### Interest rates

%, end of period

	10Q3	10Q4	11Q1	11Q2	Forecast						2009	2010	Forecast	
					11Q3	11Q4	12Q1	12Q2	12Q3	12Q4			2011	2012
<b>Canada</b>														
Overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75	2.00	0.25	1.00	1.00	2.00
Three-month	0.88	0.97	1.10	0.90	1.05	1.10	1.15	1.30	1.85	2.15	0.19	0.97	1.10	2.15
Two-year	1.40	1.71	1.85	1.42	1.00	1.20	1.40	1.70	2.10	2.25	1.47	1.71	1.20	2.25
Five-year	2.04	2.46	2.65	2.06	1.50	1.80	2.15	2.50	2.80	3.00	2.77	2.46	1.80	3.00
10-year	2.75	3.16	3.25	2.91	2.40	2.70	2.90	3.00	3.30	3.40	3.61	3.16	2.70	3.40
30-year	3.34	3.55	3.80	3.42	3.10	3.30	3.50	3.60	3.80	4.00	4.07	3.55	3.30	4.00
Yield curve (10s-2s)	135	145	140	149	140	150	150	130	120	115	214	145	150	115
<b>United States</b>														
Fed funds	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0.13	0.13	0.13	0.13	0.13	0.13	0 to 0.25	0 to 0.25	0.13	0.13
Three-month	0.16	0.12	0.15	0.03	0.10	0.05	0.10	0.10	0.10	0.10	0.06	0.12	0.05	0.10
Two-year	0.44	0.61	0.70	0.41	0.25	0.30	0.35	0.50	0.60	0.75	1.14	0.61	0.30	0.75
Five-year	1.27	2.01	2.10	1.45	1.00	1.10	1.35	1.45	1.75	2.10	2.69	2.01	1.10	2.10
10-year	2.48	3.30	3.45	2.92	2.10	2.40	2.70	2.75	3.10	3.50	3.85	3.30	2.40	3.50
30-year	3.67	4.34	4.50	4.27	3.50	3.90	4.20	4.20	4.55	4.90	4.63	4.34	3.90	4.90
Yield curve (10s-2s)	204	269	275	251	185	210	235	225	250	275	271	269	210	275
<b>Yield spreads</b>														
Three-month T-bills	0.72	0.85	0.95	0.87	0.95	1.05	1.05	1.20	1.75	2.05	0.13	0.85	1.05	2.05
Two-year	0.96	1.10	1.15	1.01	0.75	0.90	1.05	1.20	1.50	1.50	0.33	1.10	0.90	1.50
Five-year	0.77	0.45	0.55	0.61	0.50	0.70	0.80	1.05	1.05	0.90	0.08	0.45	0.70	0.90
10-year	0.27	-0.14	-0.20	-0.01	0.30	0.30	0.20	0.25	0.20	-0.10	-0.24	-0.14	0.30	-0.10
30-year	-0.33	-0.79	-0.70	-0.85	-0.40	-0.60	-0.70	-0.60	-0.75	-0.90	-0.56	-0.79	-0.60	-0.90

### Exchange rates

%, end of period

	10Q3	10Q4	11Q1	11Q2	Forecast						2009	2010	Forecast	
					11Q3	11Q4	12Q1	12Q2	12Q3	12Q4			2011	2012
Australian dollar	0.97	1.02	1.03	1.07	1.07	1.05	1.04	1.03	1.02	1.01	0.69	1.02	1.05	1.01
Brazilian real	1.69	1.66	1.63	1.56	1.60	1.55	1.60	1.65	1.68	1.70	2.32	1.66	1.55	1.70
Canadian dollar	1.03	1.00	0.97	0.96	1.00	1.01	1.00	0.98	0.97	0.95	1.26	1.00	1.01	0.95
Renminbi	6.69	6.59	6.55	6.46	6.35	6.25	6.15	6.05	5.95	5.85	6.83	6.59	6.25	5.85
Euro	1.36	1.34	1.42	1.45	1.42	1.37	1.36	1.35	1.33	1.31	1.33	1.34	1.37	1.31
Yen	84	81	83	81	75	74	73	70	73	75	99	81	74	75
Mexican peso	12.59	12.36	11.91	11.71	11.75	11.50	12.00	12.50	12.25	12.00	14.17	12.36	11.50	12.00
New Zealand dollar	0.73	0.78	0.76	0.83	0.85	0.83	0.81	0.79	0.77	0.77	0.56	0.78	0.83	0.77
Swiss franc	0.98	0.93	0.92	0.84	0.85	0.88	0.90	0.91	0.93	0.95	1.14	0.93	0.88	0.95
U.K. pound sterling	1.57	1.56	1.60	1.61	1.63	1.61	1.62	1.63	1.62	1.64	1.43	1.56	1.61	1.64

Source: Reuters, RBC Economics Research forecasts

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