ECONOMIC AND FINANCIAL MARKET OUTLOOK

September 2012

The Dog Days of Summer

- European woes and uncertainty about the vigour of other advanced economies resulted in disappointing growth in the first half of the year.
- Both the euro area and UK economies are contracting.
- Weakness bled into emerging economies with China's economy slowing. An easing in policy sets up for a strengthening in demand later this year.
- In the US, despite a late-summer run of improved economic reports, concerns about the upcoming election and fiscal policy tightening will keep growth moderate with the economy's wheels turning more quickly once the political outcome is clarified.
- Canada's economy is rumbling along and will likely pick up pace as temporary factors fade away and global growth prospects brighten.
- Central banks globally will keep pressing on the gas pedal in 2012. Accommodative monetary conditions will continue in 2013 with only the Bank of Canada on tap to trim back policy stimulus.

The heat is on

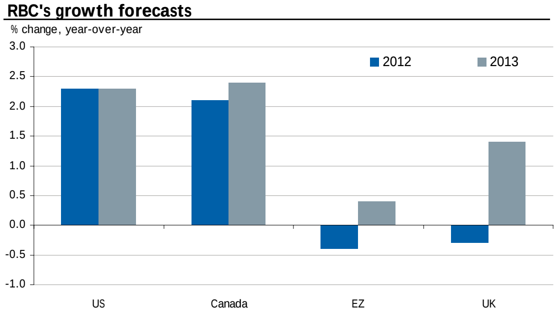
The tone in the economic data soured early in the summer resulting in another round of forecast changes. Unlike the upward revisions of late spring, forecasts across the globe were trimmed. The weakening in the data turned up the heat on policymakers to address fiscal imbalances while ensuring that these policies did not unduly weigh on the growth outlook. It also turned up the heat on investors who faced the prospect of little or no returns on their savings.

Summer brings downside economic surprises

Looking back to data released in June and July shows surprises swung to the downside. The significant slowing in US job creation that began in April continued through June and was accompanied by a run of three consecutive declines in retail sales. By June, the softening fed into the manufacturing and services sectors with the purchasing managers' indices showing a pronounced weakening relative to earlier in the year. Canada's crop of economic news did not fare much better with both May and June showing marginal increases in employment, declining manufacturing sales and tepid consumer activity. Although the data proved weaker than expected, both economies still expanded in the second quarter with the US growing at a 1.7% annualized pace and Canada by 1.8%.

The UK and euro area economies conversely contracted between April and June 2012 posting declines of 0.5% and 0.2%, respectively. These second-quarter 2012 results and the dampening effect of unresolved fiscal problems in the euro area and US led us to revise downward our 2012 growth forecasts and many of our 2013 projections.

RBC's growth forecasts



Source: RBC Economics Research

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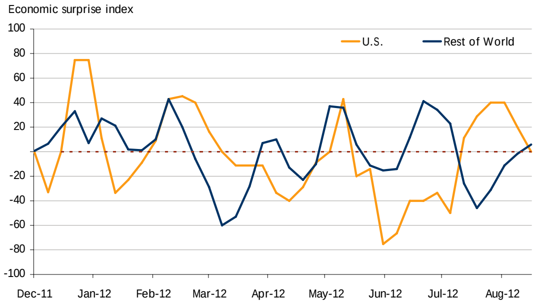
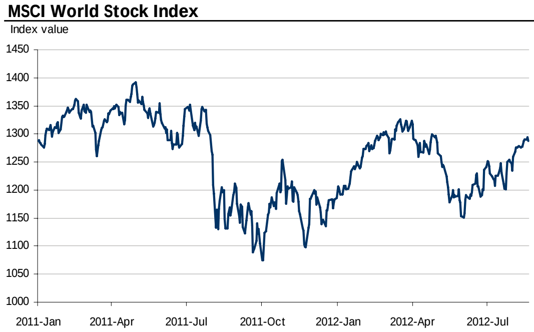
Economic surprises: U.S. and the rest of the world



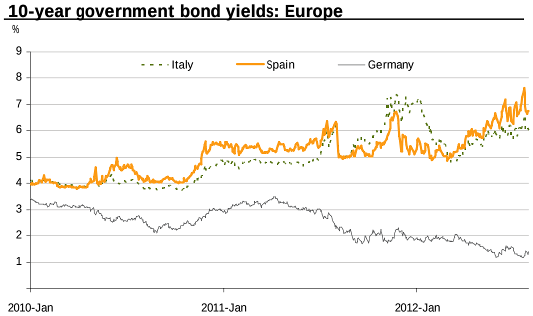
Source: RBC Capital Markets, RBC Economics Research

MSCI World Stock Index



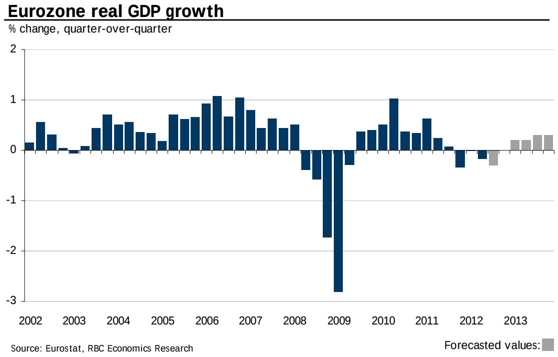
Source: Bloomberg, RBC Economics Research

10-year government bond yields: Europe



Source: Financial Times, RBC Economics Research

Eurozone real GDP growth



Source: Eurostat, RBC Economics Research

Beating the bushes for good news

Reports on US economic activity proved somewhat more upbeat in early August 2012. The pace of job gains accelerated in July followed by stronger than expected increases in retail sales and industrial production. Canadian data trickled in for the second quarter of 2012 with the early prints on activity in July proving weaker than expected. In the euro area, data reports suggested that the weakening in the economy is migrating to Germany, where the unemployment rate rose in July and the key sentiment indices deteriorated, consistent with even the strongest economy in the region starting to buckle. In the UK, most data releases showed slowing activity with the one bright spot being a stronger than expected July labour report.

Between a rock and a hard place

The deteriorating economic backdrop did not deter investors from investing in financial markets, and the MSCI World stock index gained more than 9% since June 1, 2012. The G-7 bond markets also held up by posting a 0.8% gain in June and July. In August, investors tired of receiving zero or negative real yields, and bond market returns faltered.

Edging closer to a resolution

The European sovereign-debt crisis and economic recession head the list of concerns confronting policymakers and investors. That being said, ample liquidity is keeping bank funding rates low and financial systems functioning. In Europe, the tightening in lending standards stabilized in July although loan demand was weak as consumer and business confidence remains shaky. Across the euro area, government bond yields continue to exhibit a large divide between the safe-haven markets (Germany) and the poorer credits (Spain and Italy). The ECB indicated a willingness to buy short-dated bonds of impaired countries in the secondary market as long as governments commit to preset conditions. This proposal gave new life to optimism that a resolution to the euro area's crisis is coming closer.

Euro area economy in recession

While the euro area avoided the moniker of an economy in recession in the first quarter of 2012, the decline in real GDP in the second quarter and weak start to the third quarter set up to satisfy this technical definition. Arguably, the decline in the fourth quarter of 2011 was the starting point for a return to recession in the area. Having said that, the prospective closer alignment of monetary and fiscal policies will create a more powerful tool to resolve the debt crisis and restore confidence. Low interest rates and a weaker euro should provide the additional support needed for the recession to be short lived.

Other areas of concern

The euro area crisis is the paramount risk to the global economic outlook; however, weakening in China and the UK also remain on the radar screen. The softening in growth in both countries reflected a tightening in policy and a sapping of export demand as the euro area faltered. Similarly, the expected rebound in euro area demand and easing in domestic monetary policy are likely to lead both China and the UK to stronger growth in 2013. One other major area of concern for the global economy is the outlook for US fiscal policy with the unwinding of previous stimulus measures threatening to push the US economy to the brink of another recession. As discussed later in this report, we expect that policymakers will be able to avoid delivering a policy that results in a decline in US real GDP.

US economy struggles in the second quarter of 2012

The US economy disappointed expectations in the second quarter of 2012 by recording an unspectacular 1.7% annualized growth rate. This was slower than the first quarter's 2.0% increase because consumption and construction spending moderated. Net trade acted as a support for the expansion as exports outpaced imports while business investment in equipment and software remained firm and accounted for 0.3 percentage points of the quarterly increase. The slowing in consumer and construction activity highlighted the toll that the euro area crisis, and increasingly, the domestic fiscal outlook, had on confidence.

The slower momentum in the first half of 2012, heightened uncertainty about the fiscal outlook, and effects of the drought factored in our decision to trim our US GDP growth forecasts. In 2012, we forecast real GDP growth of 2.3%, down from 2.5% forecasted three-months ago. The persistent uncertainty about domestic fiscal policies is likely to dampen the economy's growth momentum heading into 2013. We now project 2013 growth will be 2.3%, which is lower than our previous 3.0% forecast.

Getting a read on the US labour market

US labour reports showed three strong gains from January to March 2012 followed by three very weak months. To be sure, unseasonably warm weather played its part; however, this data volatility made it increasingly difficult for a firm read on how the US labour market is progressing. In July and August, the average pace of employment growth picked up, and with the four-week average level of unemployment insurance claims trending lower, the makings of a sustained uptrend in hiring may be finally falling into place.

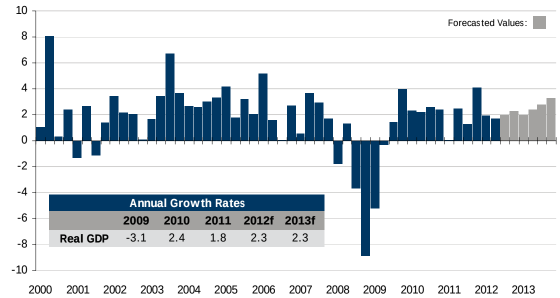
To date, only 4 million of the 8.8 million jobs lost during the recession have been recovered, and the unemployment rate stands almost 4 percentage points above its pre-recession low. Compared to the Fed's projection of the full-employment rate (between 5.2% and 6.0%), the 8.3% unemployment rate is elevated. The Federal Reserve's mandate is to ensure both price stability and full employment. Year to date, the inflation rate averaged 2.2% and exhibited a downward trend in the latest three months. The core rate, which excludes food and energy prices, also averaged 2.2%. Inflation expectations are well anchored, and the economy is running with a sizeable output gap. Against this backdrop, there is will be limited resistance to the Fed meeting its price stability mandate. Thus, monetary policy will remain geared to ensuring that the unemployment rate returns to its full-employment level meaning that extraordinarily low interest rates will stay in place.

Fed targeting economic growth

The latest policy statement from the Fed reiterated that policymakers are willing and able to ease monetary conditions further if needed. The conditions for further easing, as yet unspecified, were seemingly not met when the Fed met

U.S. real GDP

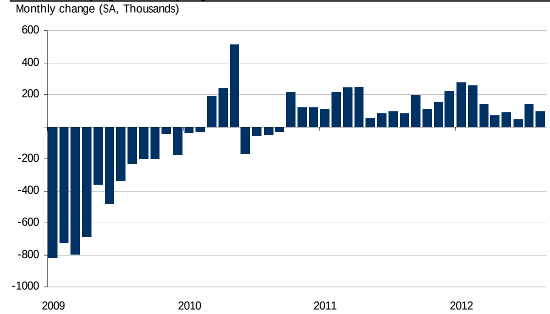
Quarter-over-quarter annualized % change



Source: Bureau of Economic Analysis, RBC Economics Research

Nonfarm payroll employment in the United States

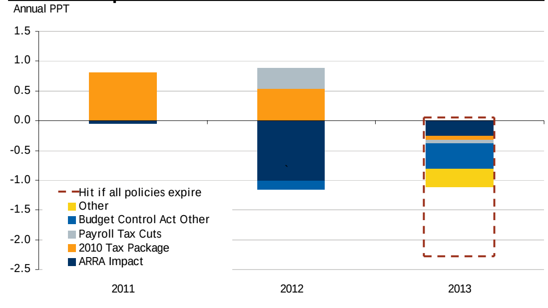
Monthly change (SA, Thousands)



Source: Bureau of Labor Statistics, RBC Economics Research

Fiscal assumptions contribution to GDP: U.S.

Annual PPT



Source: Bureau of Economics Analysis, Macroeconomic Advisers, RBC Economics Research on July 31 and August 1, 2012 because policy was left unchanged. The pick up in employment, industrial production, and retail sales reported subsequently weighed against the Fed announcing additional bond purchases. The Fed, however, is likely to push the expected timing of the first increase in the Fed funds target to 2015 from "at least through late 2014" in order to fortify policy support.

Another important consideration for the Fed is the fiscal outlook. In his testimony to Congress, Chairman Bernanke stated that the government needs to devise a plan that incorporates fiscal sustainability for the long term and to take into account the current fragile state of the economy. He suggested that if the economic recovery is to be sustained, then government policymakers need to adjust the timing of the unwinding of stimulus measures. Our forecast assumes that there will be two changes to the timeline, so the middle-income tax cuts will not expire on January 1, 2013, and the spending sequestration will be avoided. These two fiscal assumptions limit the hit to the economy in 2013 to 1.1 percentage points, rather than the 2.2 percentage points drag that would occur if all the fiscal stimulative measures were to expire and sequestration were implemented.

Where is the growth coming from?

The US economy is unlikely to shake off the worries about fiscal imbalances quickly; therefore, the mediocre pace of expansion is likely to persist in the near term. There are conversely solid underpinnings in place for business investment to pick up. Financially, US business balance sheets are in good shape with the recovery in profits generating high levels of liquid assets. Conditions for corporate borrowing are good because the financial sector recovery is well underway, costs are low, and lending standards have eased. To date, investment has been concentrated in purchases of equipment and software although there have been some notable gains in non-residential construction in four of the past five quarters. As uncertainty about fiscal policy dissipates and confidence about the global growth outlook returns, US businesses are forecasted to boost investment with a corresponding pick up in hiring likely.

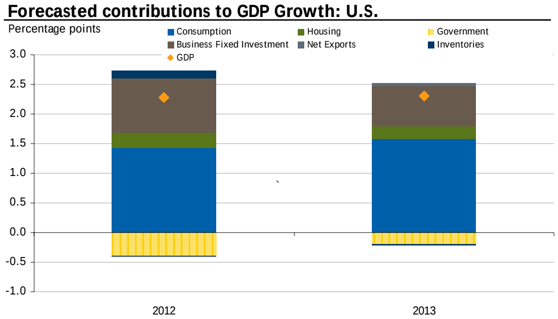
Housing emerging from the depths

After six years of persistent weakening, the US housing market is starting to recover, albeit very slowly. Unit sales, housing starts, and prices are now showing upward momentum. Still, the overhang of foreclosed properties is high, which will limit construction activity; although notably, properties are falling into foreclosure at a much slower rate. Recent housing market developments are encouraging, and residential construction is expected to add 0.2 percentage points to 0.3 percentage points to growth in both 2012 and 2013.

US consumers cautious

The uncertain outlook, both for domestic fiscal policy and international demand, saw US consumer confidence flat-line during the summer. On the positive side, interest rates are low, financial asset values are rising, and there has been a slight upward movement in real estate values. These positives, however, faced off against tepid hiring between April and June, and uncertainty about upcoming changes to government policies regarding taxes that are slated

Forecasted contributions to GDP Growth: U.S.



Source: Bureau of Economic Analysis, RBC Economics Research

Residential construction contribution to GDP growth: U.S.

Source: Bureau of Economic Analysis, RBC Economics Research to come into effect in early 2013. The revival in hiring in July corresponded with a firming in retail sales thereby setting the stage for a stronger third quarter of 2012, and to the extent that faster employment growth materializes, we look for US consumer spending to regain momentum.

US dollar and interest rates

Low interest rates will persist during the forecast horizon with the Fed committed to easy monetary policy for the foreseeable future. Bond yields are likely to drift higher as the US economy moves to firmer footing; however, relative to history, term rates will be low. The US dollar benefitted from safe-haven flows with the trade-weighted index up 7.4% from its mid-2011 low. Looking ahead, Europe's debt crisis and weak economy are likely to outweigh concerns about the US fiscal dilemma thereby supporting further US dollar outperformance .

Canadian dollar emerges as investor's choice

The Canadian dollar bucked the trend of US dollar outperformance even as global risk appetite receded. To be sure, Canada's solid economic underpinnings, elevated commodity prices, and growing expectations that the policy rate will be boosted in 2013 were behind the rise in the Canadian dollar beyond parity with its US counterpart. Even the gyrations in commodity prices failed to dampen inflows from foreign investors into Canadian assets. In the 12 months ended June 2012, foreign investors bought $89.6 billion of Canadian portfolio securities, the majority of which were fixed income, and of the fixed income component, federal government bonds accounted for 46%. This persistent demand for government securities resulted in interest rates moving lower with the 10-year yield averaging 1.75% in June 2002. Interest rates declined further in July although reversed course sharply in August as global political and economic conditions became more favourable.

Bank of Canada takes global headwinds in stride

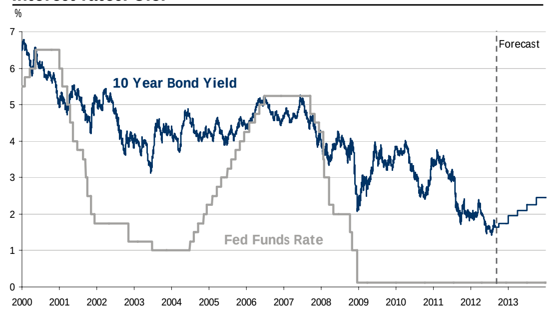
A deeper and more sustained downturn in Europe, weakening Chinese activity, and a moderate US expansion are expected to exert only temporary downward pressure on the Canadian economy, according to the Bank of Canada's mid-July 2012 outlook. Also incorporated into the Bank's forecast was an assumption that the effect of the European crisis will remain contained. The Bank projects moderate growth in Canada and forecasts the output gap will be eliminated in the second half of 2013 thereby laying the groundwork for the eventual withdrawal of policy stimulus.

Lingering downside risks to the global economy mean the Bank will likely keep monetary policy geared to providing ample stimulus to counter any negative fallout on the domestic economy. Our baseline assumption is that these risks will diminish sufficiently to clear the way for the Bank to begin to reduce the amount of policy support early next year. Our forecast is for the overnight rate, currently at 1.0%, to end 2013 at 2.00%. We also project the 10-year government bond yield to rise to 2.55% by the end of 2013.

Inflation to stay well behaved

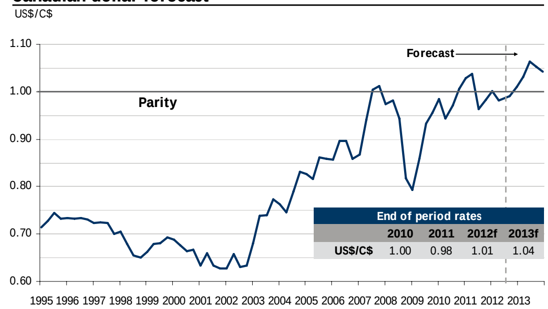
Canada's headline inflation rate averaged 1.3% in the three months ended July 2012 thereby reflecting lower energy prices relative to a year earlier. In the

Interest rates: U.S.



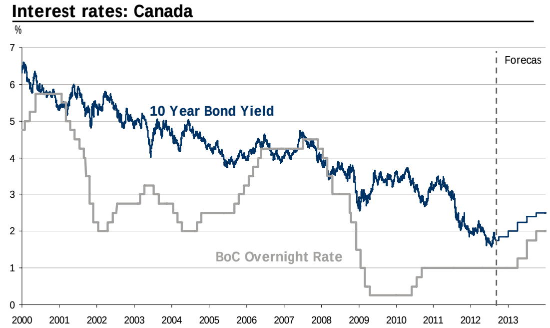
Source: Federal Reserve, RBC Economics Research

Canadian dollar forecast



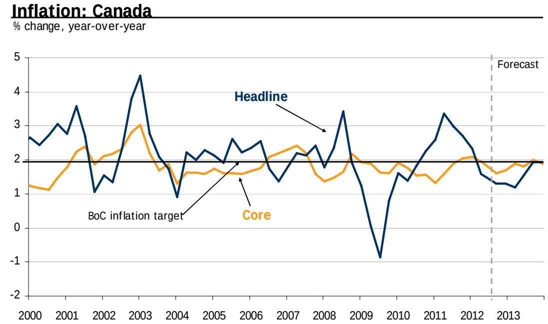
Source: Bank of Canada, RBC Economics Research

Interest rates: Canada



Source: Bank of Canada, RBC Economics Research

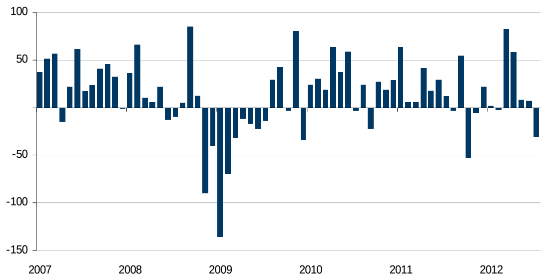
Inflation: Canada



Source: Statistics Canada, RBC Economics Research

Job creation: Canada

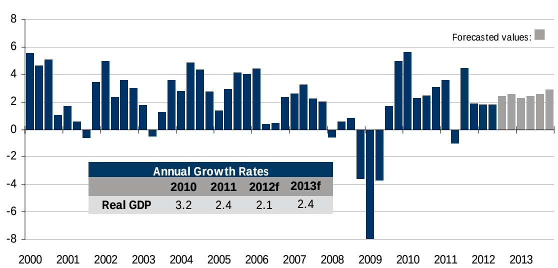
Monthly change (SA, thousands)



Source: Statistics Canada, RBC Economics Research

Canada's real GDP

quarter-over-quarter % change, annualized rate



Source: Statistics Canada, RBC Economics Research

same period, the Bank of Canada's core measure averaged 1.8%. Falling energy prices are forecasted to be accompanied by a rise in food costs as the effect of the drought works its way through the global economy. Our estimate is that food prices will rise between 2.5% and 3.5% this year and 3% to 4% in 2013 while energy prices will post a mild 0.9% rise this year and then fall by 1.3% in 2013. In the near term, the inflation outlook remains benign as the economy grows at a rate that is close to its long-run potential. The persistence of slack in the economy is one of the reasons the Bank is unlikely to feel pressure to reduce policy stimulus quickly. As growth accelerates and the uncertainties associated with the European and US fiscal imbalances ebb, the case for the Bank to scale back the amount of policy stimulus in order to avoid a build up of inflation pressures will become more pressing.

Volatile monthly performance

A rail strike, weakening global demand, and temporary shutdowns in some key commodity industries produced volatility in the May 2012 data; however, these pressures were not acute enough to derail growth. In the second quarter, Canadian real GDP output increased at a 1.8% annualized rate that matched the pace of the previous three months. This result was somewhat weaker than we expected and, combined with the downgrading of our US growth forecast and ongoing concerns about Europe, led us to lower our annual forecasts. We now project real GDP to grow by 2.1% in 2012 and 2.4% in 2013, which are lower than the previous 2.6% projected in both years.

Canadian consumer catches breath

Consumers pulled back in the first quarter of 2012 with only a moderately stronger showing in the second quarter. Uncertainty about external developments likely weighed on spending as domestic financial conditions remain easy with interest rates low. Still, demand for household credit slowed significantly in response to persistent warnings by policymakers about the dangers associated with the elevated debt-to-income ratio. In the first quarter of 2012, this ratio hit an all-time high although the associated debt-service costs stayed historically manageable by benefiting from low interest rates. Looking ahead, household credit growth is likely to remain moderate as the bite from the mortgage lending rule changes weighs on demand.

Labour market volatility belies solid performance

Following two incredibly rapid months of job creation, the pace of gains slowed in May and June 2012, turned negative in July and recovered in August. Looking through the volatility, the economy so far this year generated 20,000 jobs per month up to July 2012, faster than the average pace recorded last year. By our reckoning, the pace of increase is consistent with the economy's growth rate. Furthermore, the majority of jobs created were full-time positions, and wage growth has accelerated.

The unemployment rate, at 7.3%, remains within reach of the average of the past decade. We believe that concerns about the decline in the participation rate is responsible for some, if not all, of the fall in the labour force and indirectly the unemployment rate are misplaced. An examination of the underlying data shows that demographic factors are responsible for the steady decline in the participation rate. From its recent peak of 67.8% in May 2008, the participation rate fell to 66.5% in July 2012. The underlying data showed that growth in the population in that period was concentrated in people aged 55 years and higher, and of these, the largest percentage increase occurred in the 65 to 69-year cohort. A look at historical participation rates by cohort age shows an as-expected result—there is a dramatic decline in participation starting at age 60 with a further slowing in the higher age groups. Thus, the pull in the population to older-age groups that have historically lower labour market participation is responsible for the decline and should allay concerns that those leaving the labour force are doing so because they are discouraged about finding work.

Consumers and business to flex muscles

The outlook for consumer spending is being driven by volatile, yet supportive, labour market conditions that have started to translate into faster earnings growth. This will pad the pocketbooks of households and limit the effect of the hit to confidence due to concerns about the global backdrop. Canadian businesses also face a constructive backdrop although, like households, they are unlikely to invest funds aggressively until there are decisive signs of improvement in the global drivers of growth. Having said that, consumer and business spending will be the sources of growth going forward with consumers doing more of the heavy lifting following 2011's strong increase in business investment.

Investment in residential real estate is also likely to cool as the combination of tighter mortgage lending rules and extended balance sheets quell sales and prices. Our view is that the Canadian housing market is not headed for a sharp correction because supply and demand conditions are balanced, and only modest increases in interest rates are on the near-term horizon. This is not to say that housing will continue to go up, but rather, it points to sales posting a mild 2.7% gain this year and a 2.3% dip in 2013. Similarly, prices are expected to rise by 3.6% in 2012 and hold steady in 2013.

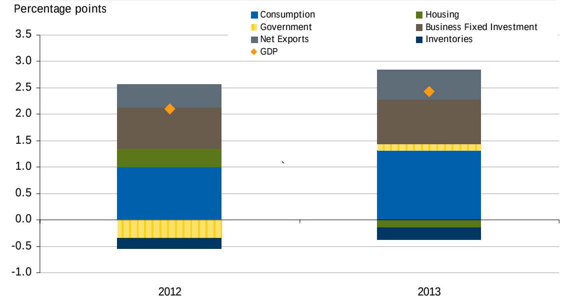
Looking for export demand to heat up

The prospect that growth outside Canada is positioned to pick up its pace is good news for Canadian exporters. Import demand conversely is likely to slow after increasing by 21% during the past two years. Business investment in machinery and equipment posted double-digit gains in 2010 and 2011 with spending likely to increase at a moderate pace in 2012 and 2013. On balance, the trade sector, which has only supported growth in one of the past 10 years, is forecasted to boost growth by one-half of percentage points this year and next.

Autumn breeze to provide relief

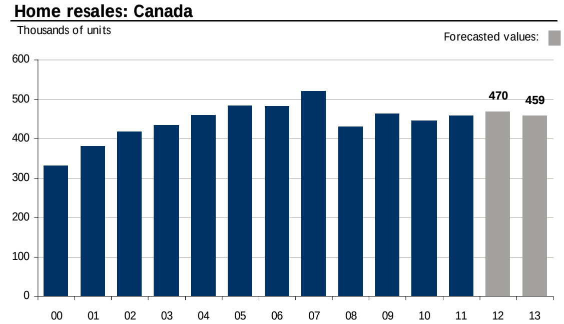
As we head toward autumn, progress made by European policymakers to further a cohesive and credible plan that addresses the fiscal and financial market imbalances will be a key driver of the economic outlook. Also important will be the outcome of the US election and subsequent decisions about how the needed dose of fiscal austerity will be implemented. Global growth prospects hinge on these outcomes, and we expect will support stronger growth in 2013.

Forecasted contributions to GDP Growth: Canada



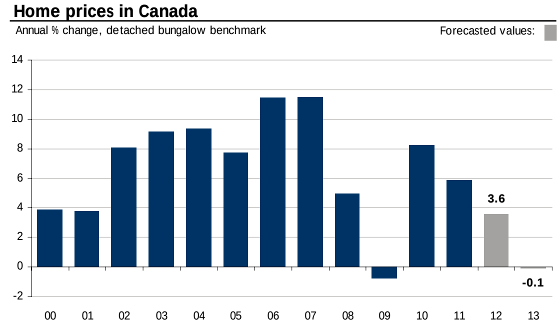
Source: Statistics Canada, RBC Economics Research

Home resales: Canada



Source: Canadian Real Estate Association, RBC Economics Research

Home prices in Canada



Source: Royal LePage, RBC Economics Research

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual						Forecast						Actual		Forecast	
	2011				2012				2013				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2010	2011	2012	2013
Consumer spending	1.3	2.1	2.1	2.8	0.7	1.1	2.3	2.5	2.3	2.4	2.5	2.6	3.3	2.4	1.7	2.3
Durables	-4.1	3.5	-0.4	9.2	-0.2	-6.5	2.9	3.0	3.7	3.3	2.9	2.6	4.4	1.8	1.1	2.5
Semi-Durables	0.6	-0.5	3.3	3.8	4.4	-6.5	3.3	3.5	3.0	2.3	2.9	2.9	5.0	1.6	1.1	2.4
Non-durables	1.6	0.3	3.7	0.1	-2.6	3.8	2.5	2.5	2.1	2.3	2.5	2.8	1.8	1.6	1.0	2.5
Services	2.5	2.9	1.7	2.6	2.2	2.7	2.0	2.2	2.0	2.3	2.3	2.4	3.5	3.0	2.3	2.2
Government expenditures	-1.2	-2.1	-1.4	-2.7	-2.3	-0.5	0.6	0.6	0.2	0.2	0.2	0.2	4.7	0.1	-1.3	0.3
Residential investment	5.4	2.1	10.5	3.0	12.3	1.8	2.0	-4.5	-5.4	-1.7	0.3	0.8	10.2	2.3	5.1	-2.1
Business investment	14.6	13.8	1.9	4.9	4.9	9.4	7.8	6.5	6.3	6.8	8.3	8.2	7.3	13.1	6.6	7.1
Non-residential structures	15.8	0.9	17.4	13.4	7.4	11.4	8.1	6.9	6.9	7.5	8.5	8.0	2.8	13.7	10.1	7.7
Machinery & equipment	13.4	28.8	-12.1	-3.7	4.0	7.2	7.4	6.0	5.6	6.0	8.0	8.5	11.8	12.5	2.8	6.6
Final domestic demand	2.3	2.2	1.7	1.6	1.3	1.7	2.5	2.0	1.7	2.1	2.4	2.5	4.5	3.0	1.7	2.1
Exports	4.2	-4.9	15.5	7.2	4.0	0.8	8.0	7.5	5.4	6.7	6.5	6.5	6.4	4.6	5.5	6.3
Imports	10.5	14.3	-3.9	2.3	5.2	6.4	2.1	4.3	3.1	4.8	5.3	6.3	13.1	7.0	3.8	4.2
Inventories (change in $b)	13.1	21.7	11.2	5.3	8.2	15.2	8.8	7.6	7.2	6.4	5.8	7.2	8.9	12.8	9.9	6.7
Real gross domestic product	**3.6**	**-1.0**	**4.5**	**1.9**	**1.8**	**1.8**	**2.4**	**2.6**	**2.3**	**2.4**	**2.6**	**2.9**	**3.2**	**2.4**	**2.1**	**2.4**

Other indicators

Year-over-year % change unless otherwise indicated

	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2010	2011	2012	2013
Business and labour																
Productivity	0.9	0.6	0.5	1.1	0.5	1.0	1.2	0.7	0.8	1.4	1.0	1.2	1.3	0.8	0.9	1.1
Pre-tax corporate profits	13.3	16.5	18.4	13.7	5.4	0.4	1.1	-0.7	5.8	11.3	7.1	6.7	21.2	15.4	1.2	7.7
Unemployment rate (%)*	7.7	7.5	7.3	7.5	7.4	7.3	7.2	7.2	7.1	7.1	7.0	7.0	8.0	7.5	7.3	7.1
Inflation																
Headline CPI	2.6	3.4	3.0	2.7	2.3	1.6	1.3	1.3	1.2	1.5	1.9	1.9	1.8	2.9	1.6	1.7
Core CPI	1.3	1.6	1.9	2.0	2.1	2.0	1.6	1.7	1.9	1.8	2.0	1.9	1.8	1.6	1.8	1.9
External trade																
Current account balance ($b)	-43.4	-63.7	-47.8	-38.7	-41.1	-64.1	-42.3	-39.6	-32.1	-29.6	-28.7	-27.5	-50.9	-48.4	-46.7	-29.5
% of GDP	-2.6	-3.7	-2.8	-2.2	-2.3	-3.6	-2.4	-2.2	-1.8	-1.6	-1.5	-1.5	-3.1	-2.8	-2.6	-1.6
Housing starts (000s)*	177	192	205	199	206	230	213	197	192	190	188	186	190	194	212	189
Motor vehicle sales (mill., saar)*	1.62	1.60	1.59	1.68	1.76	1.73	1.71	1.72	1.74	1.75	1.77	1.77	1.58	1.62	1.73	1.76

*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

	Actual						Forecast						Actual		Forecast	
	2011				2012				2013				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2010	2011	2012	2013
Consumer spending	3.1	1.0	1.7	2.0	2.4	1.7	2.2	2.6	1.7	2.2	2.8	2.9	1.8	2.5	2.0	2.2
Durables	7.3	-2.3	5.4	13.9	11.5	-0.1	6.3	7.1	4.7	6.0	7.1	7.3	6.2	7.2	7.1	5.7
Non-durables	4.6	-0.3	-0.4	1.8	1.6	0.5	1.5	2.0	0.8	1.6	2.6	3.0	2.3	2.3	1.1	1.6
Services	2.0	1.9	1.8	0.3	1.3	2.4	1.8	2.0	1.5	1.8	2.1	2.2	1.0	1.9	1.5	1.9
Government spending	-7.0	-0.8	-2.9	-2.2	-3.0	-0.9	-1.2	-1.0	-1.0	-1.0	-0.9	-0.9	0.6	-3.1	-2.0	-1.0
Residential investment	-1.4	4.2	1.4	12.0	20.6	8.9	6.8	7.3	9.3	10.1	10.4	10.0	-3.7	-1.4	10.6	8.9
Business investment	-1.3	14.5	19.0	9.5	7.5	4.2	7.4	6.6	4.1	8.4	8.3	8.4	0.7	8.6	8.9	6.6
Non-residential structures	-28.2	35.1	20.7	11.5	12.8	2.9	7.0	6.8	4.5	7.5	7.5	7.8	-15.6	2.8	11.5	6.3
Equipment & software	11.1	7.8	18.3	8.8	5.4	4.7	7.5	6.5	4.0	8.7	8.6	8.6	8.9	11.0	7.9	6.7
Final domestic demand	0.5	1.8	2.2	2.1	2.2	1.6	2.2	2.4	1.6	2.4	2.8	2.9	1.3	1.8	2.1	2.2
Exports	5.7	4.1	6.1	1.4	4.4	6.0	8.5	8.5	7.0	9.3	9.8	10.1	11.1	6.7	5.1	8.4
Imports	4.2	0.1	4.7	4.9	3.1	2.9	7.7	6.7	4.3	7.5	7.5	7.4	12.5	4.8	4.2	6.3
Inventories (change in $b)	30.3	27.5	-4.3	70.5	56.9	49.9	46.8	42.0	48.2	45.9	41.6	48.3	50.9	31.0	48.9	46.0
Real gross domestic product	**0.1**	**2.5**	**1.3**	**4.1**	**2.0**	**1.7**	**2.0**	**2.3**	**2.0**	**2.4**	**2.8**	**3.3**	**2.4**	**1.8**	**2.3**	**2.3**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.4	0.8	0.1	0.5	0.9	1.3	1.4	0.9	1.2	0.9	1.0	1.2	3.0	0.4	1.1	1.1
Pre-tax corporate profits	4.6	10.8	4.7	9.2	10.3	6.1	5.4	-0.9	3.9	4.1	4.1	5.3	26.8	7.3	5.0	4.4
Unemployment rate (%)*	9.0	9.0	9.1	8.7	8.3	8.2	8.2	8.2	8.2	8.2	8.1	8.0	9.6	9.0	8.2	8.1
Inflation																
Headline CPI	2.1	3.4	3.8	3.3	2.8	1.9	1.6	1.6	1.4	1.7	1.7	1.8	1.6	3.2	2.0	1.7
Core CPI	1.1	1.5	1.9	2.2	2.2	2.3	2.1	2.0	1.9	1.8	1.7	1.7	1.0	1.7	2.2	1.8
External trade																
Current account balance ($b)	-480	-476	-433	-475	-549	-508	-509	-503	-506	-506	-502	-497	-442	-466	-517	-503
% of GDP	-3.2	-3.2	-2.9	-3.1	-3.6	-3.3	-3.2	-3.2	-3.2	-3.1	-3.1	-3.0	-3.0	-3.1	-3.3	-3.1
Housing starts (000s)*	583	573	614	678	715	736	753	797	849	898	947	996	586	612	750	922
Motor vehicle sales (millions, saar)*	12.7	12.2	12.6	13.5	14.1	14.0	14.3	14.4	14.3	14.4	14.6	14.9	11.6	12.7	14.2	14.6

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates—North America

%, end of period

	Actual						Forecast						Actual			Forecast	
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	2009	2010	2011	2012	2013
Canada																	
Overnight	1.00	1.00	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	1.00	2.00
Three-month	1.10	0.90	0.80	1.10	0.92	0.88	0.90	1.05	1.05	1.45	1.85	2.00	0.30	0.97	1.10	1.05	2.00
Two-year	1.85	1.42	0.88	1.00	1.20	1.03	1.15	1.20	1.35	1.60	2.00	2.20	1.20	1.71	1.00	1.20	2.20
Five-year	2.65	2.06	1.39	1.50	1.56	1.25	1.35	1.50	1.60	1.85	2.15	2.30	2.77	2.46	1.50	1.50	2.30
10-year	3.25	2.91	2.15	2.30	2.11	1.74	1.75	1.85	2.00	2.25	2.40	2.55	3.45	3.16	2.30	1.85	2.55
30-year	3.85	3.42	2.77	3.10	2.64	2.33	2.40	2.45	2.55	2.75	2.90	3.10	4.00	3.55	3.10	2.45	3.10
Yield curve (10s-2s)	140	149	127	130	91	71	60	65	65	65	40	35	225	145	130	65	35
United States																	
Fed funds	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Three-month	0.15	0.03	0.02	0.05	0.07	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.10	0.12	0.05	0.05	0.05
Two-year	0.70	0.41	0.25	0.30	0.34	0.25	0.25	0.25	0.25	0.25	0.35	0.45	0.75	0.61	0.30	0.25	0.45
Five-year	2.10	1.45	0.96	1.10	1.04	0.70	0.72	0.75	0.85	0.95	1.10	1.25	2.69	2.01	1.10	0.75	1.25
10-year	3.45	2.92	1.92	2.15	2.20	1.60	1.65	1.75	1.95	2.10	2.25	2.45	3.40	3.30	2.15	1.75	2.45
30-year	4.50	4.27	2.92	3.20	3.32	2.70	2.80	3.00	3.30	3.55	3.75	3.95	4.35	4.34	3.20	3.00	3.95
Yield curve (10s-2s)	275	251	167	185	186	135	140	150	170	185	190	200	265	269	185	150	200
Yield spreads																	
Three-month T-bills	0.95	0.87	0.78	1.05	0.85	0.83	0.85	1.00	1.00	1.40	1.80	1.95	0.20	0.85	1.05	1.00	1.95
Two-year	1.15	1.01	0.63	0.70	0.86	0.78	0.90	0.95	1.10	1.35	1.65	1.75	0.45	1.10	0.70	0.95	1.75
Five-year	0.55	0.61	0.43	0.40	0.52	0.55	0.63	0.75	0.75	0.90	1.05	1.05	0.08	0.45	0.40	0.75	1.05
10-year	-0.20	-0.01	0.23	0.15	-0.09	0.14	0.10	0.10	0.05	0.15	0.15	0.10	0.05	-0.14	0.15	0.10	0.10
30-year	-0.65	-0.85	-0.15	-0.10	-0.68	-0.37	-0.40	-0.55	-0.75	-0.80	-0.85	-0.85	-0.35	-0.79	-0.10	-0.55	-0.85

Interest rates—International

%, end of period

	Actual						Forecast						Actual			Forecast	
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	2009	2010	2011	2012	2013
United Kingdom																	
Repo	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Two-year	1.30	0.70	0.60	0.70	0.43	0.40	0.20	0.20	0.20	0.20	0.30	0.30	1.30	1.09	0.70	0.20	0.30
10-year	3.65	3.13	2.44	2.45	2.00	1.80	1.70	1.70	1.75	1.80	2.00	2.00	4.01	3.40	2.45	1.70	2.00
Euro Area																	
Refinancing rate	1.00	1.25	1.50	1.00	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	0.75	0.75
Two-year	1.75	1.34	0.66	0.65	0.09	0.10	0.00	0.00	0.10	0.15	0.20	0.25	1.33	0.85	0.65	0.00	0.25
10-year	3.30	2.83	1.90	2.20	1.61	1.50	1.50	1.50	1.60	1.70	1.85	2.00	3.40	2.96	2.20	1.50	2.00
Australia																	
Cash target rate	4.75	4.75	4.75	4.25	4.25	3.50	3.50	3.25	3.00	2.75	2.75	2.75	3.75	4.75	4.25	3.25	2.75
Two-year	5.00	4.65	3.63	3.15	3.49	2.46	2.60	2.50	2.50	2.75	3.00	3.15	4.58	5.16	3.15	2.50	3.15
10-year	5.55	5.05	4.22	4.05	4.10	3.04	3.05	3.00	3.05	3.15	3.25	3.35	5.65	5.57	4.05	3.00	3.35
New Zealand																	
Cash target rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	3.00	2.50	2.50	2.50
Two-year	3.25	3.22	2.88	2.85	3.06	2.74	2.60	2.60	2.70	2.70	2.80	2.90	4.75	4.00	2.85	2.60	2.90
10-year	5.50	5.02	4.39	4.25	4.09	3.81	3.80	3.80	3.90	4.10	4.30	4.60	5.90	5.90	4.25	3.80	4.60

Growth outlook

% change, quarter-over-quarter in real GDP

	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	2010A	2011A	2012F	2013F
Canada*	3.6	-1.0	4.5	1.9	1.8	1.8	2.4	2.6	2.3	2.4	2.6	2.9	3.2	2.4	2.1	2.4
United States*	0.1	2.5	1.3	4.1	2.0	1.7	2.0	2.3	2.0	2.4	2.8	3.3	2.4	1.8	2.3	2.3
United Kingdom	0.5	-0.1	0.6	-0.4	-0.3	-0.5	0.7	0.3	0.4	0.4	0.4	0.4	1.8	0.8	-0.3	1.4
Eurozone	0.6	0.2	0.1	-0.3	0.0	-0.2	-0.3	0.0	0.2	0.2	0.3	0.3	2.0	1.5	-0.4	0.4
Australia	-0.4	1.4	1.1	0.5	1.4	0.6	0.6	0.3	0.6	0.9	1.0	1.1	2.5	2.1	3.6	2.8
New Zealand	0.6	0.4	0.4	0.4	1.1	0.4**	0.7	1.0	0.9	0.8	0.7	0.6	1.8	1.3	2.7	3.2

*annualized, ** forecast

Inflation outlook

% change, year-over-year

	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	2010A	2011A	2012F	2013F
Canada	2.6	3.4	3.0	2.7	2.4	1.5	1.3	1.3	1.2	1.5	1.9	1.9	1.8	2.9	1.6	1.7
United States	2.1	3.3	3.8	3.3	2.8	1.9	1.6	1.6	1.4	1.7	1.7	1.8	1.6	3.1	2.0	1.7
United Kingdom	4.0	4.4	4.8	4.7	3.5	2.7	1.9	1.9	1.5	1.7	2.2	2.0	3.3	4.5	2.5	1.8
Eurozone	2.5	2.7	2.7	2.9	2.7	2.5	2.5	2.4	1.8	1.3	1.6	1.4	1.6	2.7	2.5	1.5
Australia	3.3	3.6	3.5	3.2	1.6	1.2	2.1	2.8	3.5	3.7	3.0	3.1	2.8	3.4	1.9	3.4
New Zealand	4.5	5.3	4.7	1.8	1.6	0.9	1.0	1.6	1.5	1.6	1.7	1.9	2.3	4.1	1.3	1.7

Exchange rates

%, end of period

	Actual						Forecast						Actual			Forecast	
	11Q1	**11Q2**	**11Q3**	**11Q4**	**12Q1**	**12Q2**	**12Q3**	**12Q4**	**13Q1**	**13Q2**	**13Q3**	**13Q4**	**2009**	**2010**	**2011**	**2012**	**2013**
Australian dollar	1.03	1.07	0.97	1.02	1.03	1.02	1.03	1.01	1.02	1.02	1.00	1.00	0.90	1.02	1.02	1.01	1.00
Brazilian real	1.63	1.56	1.88	1.86	1.83	2.01	2.00	1.95	1.92	1.90	1.90	1.87	1.74	1.66	1.86	1.95	1.87
Canadian dollar	0.97	0.96	1.05	1.02	1.00	1.02	1.01	0.99	0.97	0.94	0.95	0.96	1.05	1.00	1.02	0.99	0.96
Renminbi	6.55	6.46	6.38	6.30	6.29	6.36	6.33	6.30	6.25	6.20	6.15	6.15	6.83	6.59	6.30	6.30	6.15
Euro	1.42	1.45	1.34	1.30	1.33	1.27	1.20	1.19	1.18	1.17	1.16	1.15	1.43	1.34	1.30	1.19	1.15
Yen	83	81	77	77	83	80	76	74	73	72	71	70	93	81	77	74	70
Mexican peso	11.91	11.71	13.90	13.95	12.81	13.36	13.75	13.50	13.25	13.00	12.75	12.75	13.09	12.36	13.95	13.50	12.75
New Zealand dollar	0.76	0.83	0.76	0.78	0.82	0.80	0.80	0.80	0.81	0.80	0.78	0.78	0.72	0.78	0.78	0.80	0.78
Swiss franc	0.92	0.84	0.91	0.94	0.90	0.95	1.00	1.01	1.02	1.03	1.04	1.06	1.04	0.93	0.94	1.01	1.06
U.K. pound sterling	1.60	1.61	1.56	1.55	1.60	1.57	1.54	1.55	1.55	1.56	1.55	1.53	1.62	1.56	1.55	1.55	1.53

Note: Exchange rates are expressed in units per USD, with the exception of the Euro, GBP, AUD, and NZD, which are expressed in USD per local currency unit.
Source: Reuters, RBC Economics Research forecasts