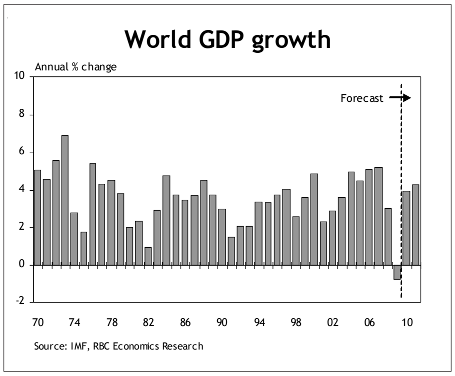
ECONOMIC & FINANCIAL MARKET OUTLOOK

March 2010



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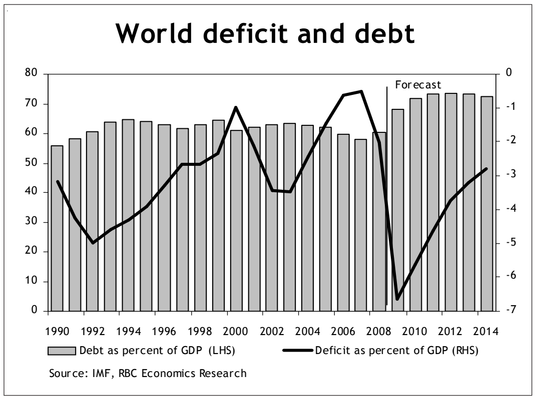
A Brighter Outlook for the Global Economy

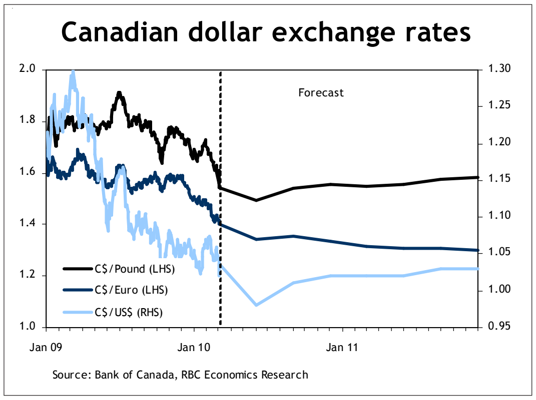
- World GDP to increase by 3.9% in 2010.
- Advanced economies are mainly out of recession and emerging economies to post healthy gains.
- U.S. economy to grow by 2.9% in 2010 and 3.4% in 2011.
- Housing market fragile although worst has likely passed.
- Inflation concerns on backburner; Fed watching for labour markets to improve.
- Early 2010 failed to deliver job increases although U.S. unemployment rate fell from recent high.
- Fed to unwind stimulus gradually with liquidity measures pared back first and rate hikes coming later in the year.
- Canada's economy surprised to the upside in fourth-quarter 2009 and prospects brighten for 2010.
- Domestic demand revives and exports recover as global economy firms.
- Inflation has been stickier than expected although the large output gap will prevent significant price pressures from developing in the near term.
- The Bank is already reducing liquidity support with rate increases likely this summer

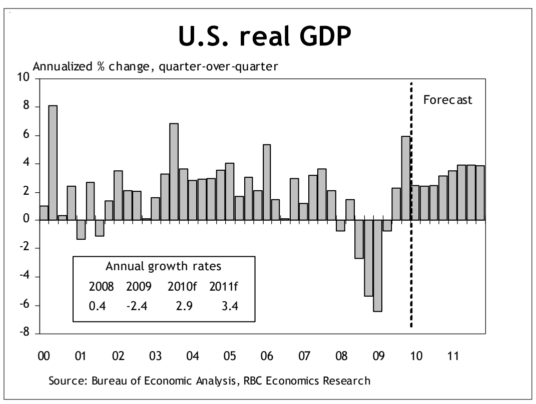
Investors appear to have more fully embraced the notion that the global recession is a thing of the past. Growth reports remain mixed but by and large indicate that most countries have cleared the hurdle needed to be in full-fledged recovery mode. The stronger than expected surge in U.S. GDP growth in the fourth quarter and strengthening momentum in Canada's economy have made us more comfortable with our forecasts of above-trend growth in 2010 and 2011. Similarly, the IMF revised up its 2010 world GDP growth forecast to 3.9%. This was a solid upgrade to the 3.1% increase expected in October and about double the pace projected in its April 2009 outlook. While investors can breathe a sigh of relief on the state of the global economy, burgeoning fiscal deficits and debt levels have brought new worries to the forefront.

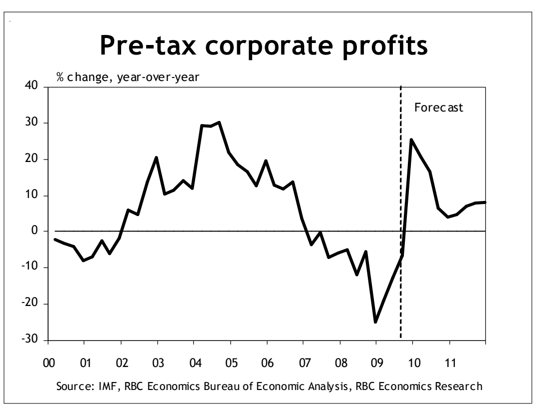
Greece and Others Test Optimism

Worries about the size of deficits and debt levels revived risk aversion trades, with the U.S. dollar enjoying a sizeable upturn and global stock markets sliding as investors piled back into government-backed securities. Greece's announcement that the deficit stood at 12.7% of GDP, followed by downgrading of its sovereign-debt rating put investors on heightened alert about the long-run ability of the government to repay its debt. The IMF estimates that the worldwide net debt to GDP ratio hit an all-time high in 2009 and is forecasted to remain elevated. This raised concerns that the huge financing by global governments will crowd out demand for private debt and could see interest rates in higher-indebted nations rise in order to attract capital. As a result, the cost to buy insurance against sovereign-debt default has risen with peripheral countries in Europe posting the largest increases. In Canada, where the debt-to-GDP ratio is expected to









remain well below other G-7 countries, the cost of insurance against default remains relatively low.

Stock Market Rally Pauses, U.S. Dollar Regains Ground

The world stock market rally paused in early January as investors booked profits after the 66% gain from the March 2009 lows. The decline continued into February, however, as investors tried to gauge the effect on the global economy of high-debtor nations initiating fiscal consolidation programs to avoid default. The European Union pledged to provide support to Greece while demanding that the Greek government fulfills its promised fiscal reforms. Risks of another brush with recession as the adjustments are implemented had investors trim back risk in their portfolios. These concerns were echoed by the Reserve Bank of Australia, which unexpectedly held rates steady in early February citing uncertainty about the level of sovereign debt and sustainability of growth in the major economies. The Reserve Bank of Australia raised its policy rate in early March, however, and appeared slightly more confident about the global outlook.

The U.S. dollar had another run of safe-haven flows in early 2010 with the euro dropping by about 5% from an early December high of 1.51. Pound sterling lost a slightly larger 5.7% against the U.S. dollar. While after many bumps, the Canadian dollar ended February close to the level that it entered 2010, which was 1.04. The outperformance of the Canadian dollar against the euro and sterling so far in 2010 partly reflects Canada's superior fiscal backdrop. Although Canada's net debt to GDP ratio is forecasted to rise to 35.5%, reflecting recently introduced fiscal stimulus, it is well below the 60% average of the other G-7 members. Canada is forecasted to outperform the United States, United Kingdom and Eurozone currencies in the near term, touching parity against the U.S. dollar midyear and then retracing modestly once the Federal Reserve begins to hike its policy rate late this year.

U.S. Economy Surprises to the Upside

After several quarters of disappointing results, the U.S. economy posted a stronger than expected 5.9% annualized gain in the final quarter of 2009. This rise cut 2009's overall decline to 2.4%. The economy is forecasted to grow by 2.9% in 2010, an upgrade to our previous forecast. The fourth-quarter report showed domestic demand increasing, for only the third time in the past eight quarters, and inventory liquidation slowing. The adjustment in inventories accounted for about two-thirds of the increase in the quarter, supplemented by rising consumer spending, residential construction and exports. Going forward, the U.S. economy is likely to grow at a more modest pace with less support coming from the inventory component and more from domestic demand.

Rotation from Transitory Factors to Private Demand in 2010

The first stage of the U.S. recovery was heavily linked to the inventory cycle, low interest rates and government support. In the first half of 2010, these factors will continue to be the engines of growth, and it is in the second half of 2010 that we would expect investment activity to kick into higher gear and employment prospects to brighten. The profit picture for U.S. companies has improved with demand increasing while costs (especially for labour) are down. Pre-tax profit growth is forecasted to accelerate sharply in 2010 following three-consecutive years of decline. At the same time, the severe tightening in credit-market conditions is showing signs of waning with fewer banks indicating that they tightened lending standards in the latest Fed survey. As yet, demand for loans has not materialized, although given the low level of borrowing costs and pickup in economic growth, we expect a rebound in credit applications.

Firming demand as the recovery becomes more soundly entrenched, low borrowing costs and a better-functioning financial system are expected to support corporate investment in equipment and software as well as boost demand for labour in 2010. Investment in real estate will be slower to recover but is expected to pickup in 2011 as rising payrolls stress capacity.

Labour Market is Coming Back…Slowly

The January labour report was disappointing in that it did not show an increase in employment in the month; however, the underlying details were more positive with the unemployment rate sliding to 9.7%, the number of hours worked rising and overtime hours also moving higher. In February, payrolls also fell but this was due more to bad weather than weakening demand for labour. We expect that employers will add to payrolls in the months ahead with March likely to see an unusually big increase as the impact of February's drop is reversed. The sharp decline in the number applying for unemployment insurance benefits also points to some firming in the labour market. The benchmark revision to the U.S. labour data brought bad news, however, with the number of job cuts during the recession rising to 8.4 million, up from the previous estimate of 7.2 million. While we expect employment to start to recover soon, the unemployment rate is likely to remain above its long-term average as discouraged workers flood back into the labour market on the first sign of better news. We expect that the sharp drop in the U.S. participation rate (labour force divided by population) during the recession will reverse course.

Bump from Inventories to Support Economy Throughout 2010

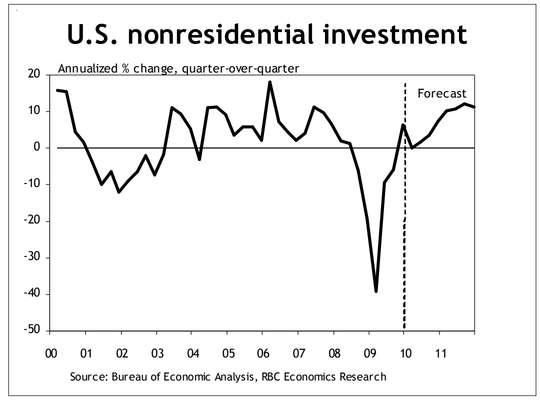
The firming in domestic demand conditions met with a quick response from businesses as the pace of inventory liquidation slowed abruptly. In the second half of 2009, inventories added an average 2.3 percentage points to the quarterly growth rate. Although this component is unlikely to provide such a significant bump to the growth rate in 2010, it is still expected to be on the positive side of the ledger. Increased production and improving labour market conditions will likely support U.S. consumer spending although the impaired state of U.S. consumers' balance sheets will keep expenditures limited compared to past recovery cycles. On the plus side, the decline in mortgage and consumer credit balances plus stable housing prices and higher valued financial assets resulted in a 5% increase in the value of household net wealth, which is not a full recovery but is a step in the right direction.

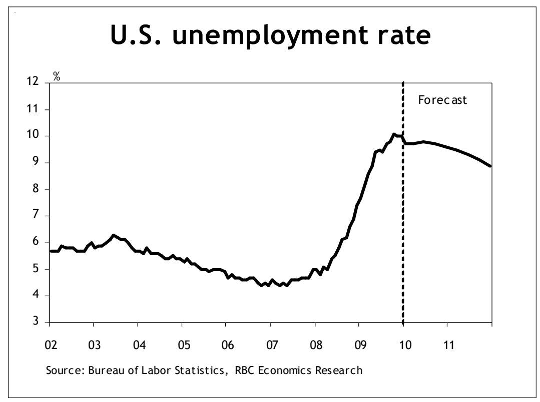
Housing Fundamentals Improve

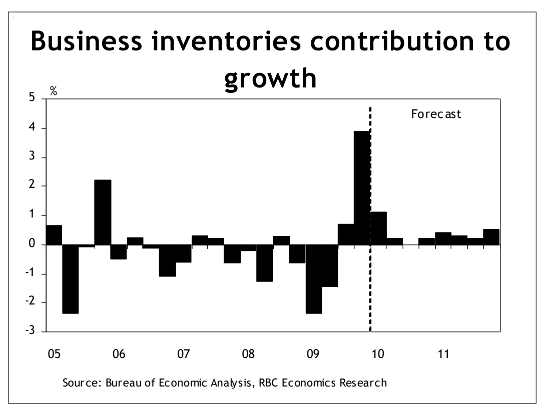
The pace of home sales picked up in the fourth quarter and, combined with the low level of new housing starts, reduced the glut of homes for sale on U.S. markets. The result was that the measures of months' supply of homes available for sale are down from recent peaks and are within striking distance of their long-term averages. Builder sentiment improved mildly in February, and we expect that sales activity will increase in 2010 as labour market conditions improve.

Inflation Concerns Sidelined Giving Fed Leeway to Concentrate on Recovery

Even with the improvement in the U.S. growth profile, the large output gap





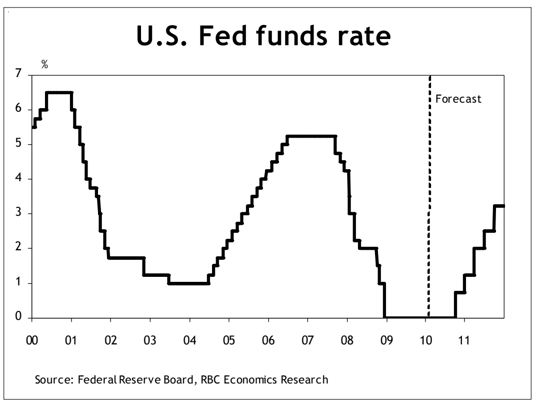


generated during the recession is keeping downward pressure on wages and prices. The U.S. headline inflation rate stood at 2.6% in January, but this largely reflected a stronger rise in energy prices this year compared to January 2009. Additionally, food prices rose because Florida frost damaged crops. The core measure, which excludes these two volatile components, slipped to 1.6% in January, just a shade higher than the summer low and is poised to drift down because of the significant slack in the economy.

The Fed has already initialized its program to remove some of the stimulus applied to the economy. The Treasury bond, agency and mortgage-backed securities purchase programs are being phased out. The Fed raised the discount rate in mid-February, which increased the spread relative to the Fed funds rate. The slow but steady pace of declining accommodation is being geared toward ensuring that the economy is strong enough to handle the tempering of support from credit easing and monetary policy. In 2011, if the economy performs as we expect, the Fed will be in position to return the policy rate to a more neutral stance with the Fed funds target rate expected to rise to 3.25% by the end of that year.

Free from Recession, Canada's Economy Hits its Stride

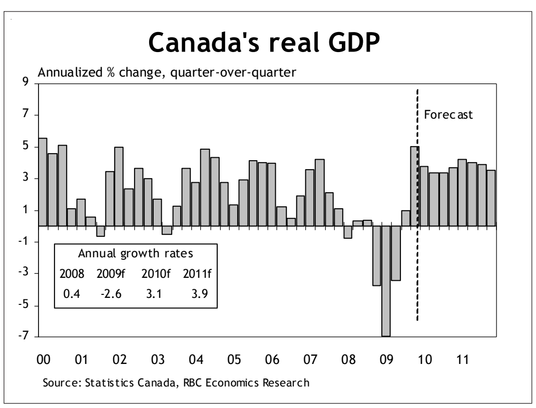
After a very disappointing third-quarter 2009 headline growth rate, Canada's economy posted a 5% annualized gain in the final-three months of 2009, the fastest quarterly growth rate since the first quarter of 2002. The steady drip of fiscal stimulus spending, rising consumer and residential construction activity supported the quarterly gain. Net trade also swung in Canada's favour boosting output by 1.5 percentage points, which was a sharp reversal after the 6.0 and 4.3 percentage point cuts recorded in the prior-two quarters.



The outlook for the economy in 2010 is positive, backed by fiscal spending, historically low interest rates and improved credit market conditions. The Bank of Canada's survey of senior loans officers showed an easing in credit conditions. This was confirmed in the business outlook survey, which also showed that corporations planned to increase investment in machinery and equipment, and increase payrolls. The forward-looking indicators combined with strong momentum in Canada's housing market set up the economy to grow by 3.1% in 2010 with a further acceleration to 3.9% in 2011.

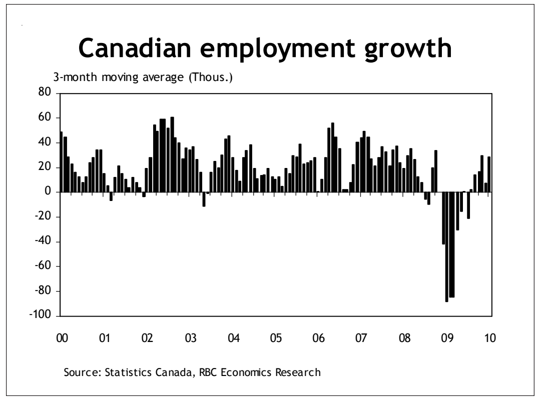
Labour Market Turns the Corner

Canada's labour market fared much better than the United States' fared during the recession although employment rolls were running 2% below year-ago levels as recently as October 2009. The turn in the labour market started in late summer with monthly job gains averaging 14,000 in the third-quarter 2009 and accelerating to 29,000 jobs per month in the three-months ended January 2010. At the same time, the unemployment rate fell to 8.3% in January 2010 from a cyclical high of 8.7% in August 2009. The improvement in the jobs market remains skewed to service-sector industries, which created 121,000 new jobs over the past-three months while goods producers cut payrolls by another 34,000. Going forward, stabler conditions in the auto industry and rising commodity prices will likely see some improvement in the goods producing sector; however, the significant slide in manufacturing employment this decade is likely to be only partially recouped.



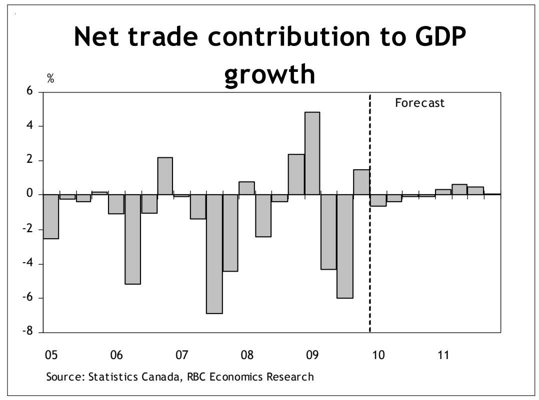
Investment Funds to Start Flowing

Canadian companies boosted investment in machinery and equipment in the third-quarter 2009 by taking advantage of falling costs of imported capital goods as the currency appreciated. The sharp drop in profits during the recession is likely to reverse in 2010 as the global recovery heats up demand for Canadian exports, commodity prices firm and the domestic economy picks up pace. The brighter profit picture and improved access to financing boosted investment intentions according to recent surveys by both the Bank of Canada and Statistics Canada. The annual investment intentions survey showed a 2.8% increase in spending plans by private companies. The rise followed a sharp 20.8% drop in 2009 and thus was clearly not sufficient enough to bring investment flows back to the 2008 levels; however, both commercial real estate and capital goods spending are projected to increase by about 2.5% in 2010. Because the majority of capital goods are purchased outside of Canadian borders, imports are set for a double digit increase in 2010. Demand for Canadian exports are forecasted to increase as the global economy picks up pace. However, on balance, import growth is likely to outpace export demand in 2010 meaning that the trade sector will act as a drag on the pace of expansion.



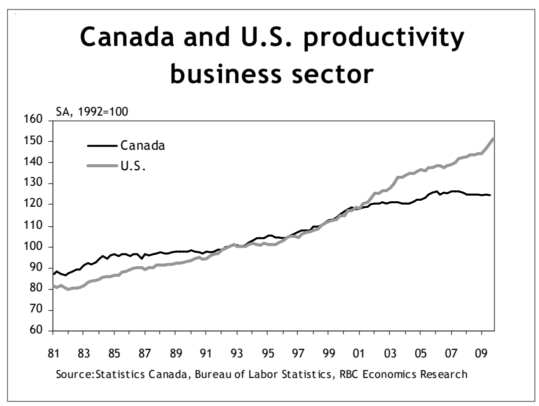
Productivity In Need of a Boost

Canada's productivity performance has been dismal in recent years with an average annual increase of 0.6% from 2001 to 2009. Additionally, the gap between the Canadian and the U.S. business sectors productivity indices widened to 24.9 points from basically even in early 2001. One reason for the deterioration in productivity is that the sharp drop in GDP output during the recession was not accompanied by as severe a decline in employment. Prior to the recession, labour shortages developed (especially in Alberta) as Canada's unemployment rate fell to a generational low with commodity producers building up their labour forces. As the economy slipped into recession, companies hoarded labour to avoid facing shortages again once the economy recovered. As a result, job losses during this recession fell well short of the previous two downturns and were mild compared to the decline in output. Given the sharp drop in real GDP, productivity or output per worker slumped during the recession.



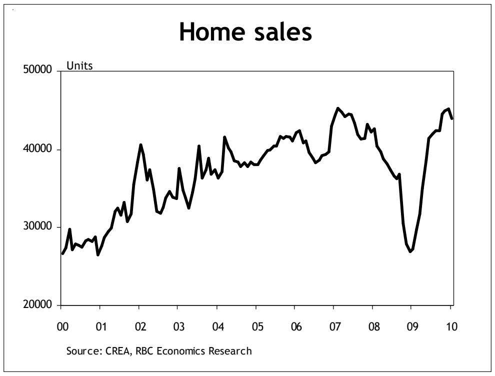
Housing Market Rally Raises Alarm Bells

The sharp recovery in Canada's housing market that began in January 2009 is raising concerns that a bubble is forming. With sales running more than 60% faster than a year earlier in the latter part of 2009 and early 2010, worries about a bubble cannot be dismissed. Our take is that significant demand was built up during the early days of the recession because uncertainty saw buyers step back, and the volume of sales plunged 36% on a year-over-year basis. With the recession in full swing, the Bank of Canada lowered its policy rate to just 25 basis points and housing market activity ramped back up. In early 2010, another catalyst for sales activity was the rush to purchase new homes prior to the Harmonized Sales Tax (HST), which will increase taxes for Ontario and British Columbia, and becomes effective on July 1, 2010. These two provinces accounted for about 60% of home sales activity in 2009.



The supply and demand fundamentals supported the strong housing market performance. On the supply side of the equation, uncertainty saw sellers hanging back with the supply of new listings falling well short of demand during the recession. Housing starts weakened also dampening available housing stock.

In the near term, housing market conditions are likely to remain strong reflecting support by a brightening labour market and low mortgages rates. RBC's affordability measure showed that, despite the run-up in prices late last year, conditions remain better than in early 2008. The market, however, is likely to start to slow mid-year as the HST boosts costs and the Bank of Canada begins the process of normalizing interest rates. We expect the Bank to boost its policy rate by 100 basis points to 1.25% by year end, which will translate into higher rates across the spectrum of interest-rate related products.

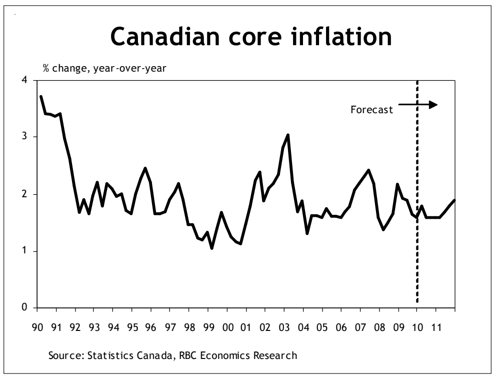


Canada's Inventory Cycle Set to Turn

During the recession, companies substantially pared back inventories, which trimmed 1.3 percentage points from 2009's annual GDP growth rate. The stock-to-sales ratio, which continued to climb in the early days of the recession, has reversed course with retail inventories showing the most significant decline relative to sales. The rebound in demand is likely to see businesses start to replenish their inventory levels although this will begin when the recovery is more fully entrenched. On balance, after weighing on growth during the recession, inventory rebuilding will support the growth rate in both 2010 and 2011.

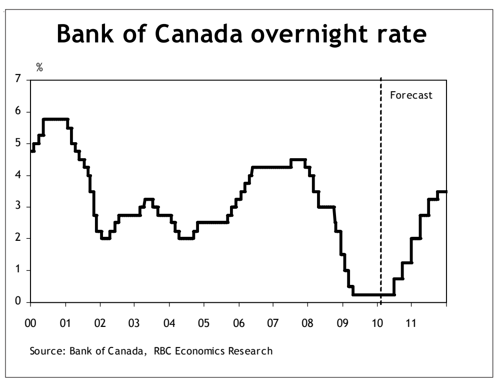
Inflation to Average Less than 2% in 2010

Both Canada's headline and core inflation rates moved close to the Bank of Canada's 2% target in January 2010. Most of the rise in the headline rate was due to energy prices, which rose at a more aggressive pace than in the year-earlier period. An additional boost to the inflation rate came from higher prices for passenger vehicles, which posted an annual increase for the first time since June 2007, because price incentives ended. This factor also boosted the Bank of Canada's core measure, which rose to 2% in January.



We expect the rate of increase in both the headline and core inflation rate to slow in the months ahead. The deep recession of 2009 created a large output gap, and even with the economy growing at a decent 5% annual rate clip in the fourth quarter, it will take several quarters before the excess slack is eliminated. The run-up in the unemployment rate and very low capacity utilization are two indications that there is a lot of excess supply in the economy. Additionally, wage growth has slowed significantly in recent months. The modest pace of wage gains and strong currency (working to dampen prices of imported goods) point to both the headline and core rates averaging a below-target (2%) rate in 2010. Note: the implementation of the harmonized sales tax in Ontario and BC on July 1, 2010 will result in a short-lived increase in the headline inflation rate over the Bank of Canada's 2% target in the third quarter of 2010.

Bank to Lessen Policy Accommodation



The Bank will likely start to reduce the extraordinary level of accommodation, which it provides with low interest rates, in the second half of 2010 as the recovery gains traction. We forecast that the overnight rate will rise to 1.25% by the end of 2010. A further firming in the pace of economic growth and inflation rates heading toward 2% will likely see the Bank step up the pace of rate hikes in 2011, and we forecast another 225 basis points of increase during 2011.

Interest rates on government securities are forecasted to move higher as well as the cost of funding rises and inflation comes back on investors' radar screens. From today's near record lows, we expect 10-year government of Canada yields to rise above 4% by year-end and 4.25% at end of 2011. Short-term yields will post larger increases from today's low levels. Our forecast is that the two-year rate will increase 130 basis points to 2.75% at year end and 4.10% at the end of 2011.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

					Forecast										Forecast	
	2009				2010				2011							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	2011
Consumer spending	-1.3	1.6	3.7	3.6	2.7	2.4	2.5	2.8	2.9	3.0	3.0	2.8	3.0	0.2	2.8	2.8
Durables	-11.7	3.6	12.8	10.7	9.7	6.3	5.1	4.8	5.0	5.3	5.8	4.8	5.6	-2.8	8.3	5.2
Non-durables	2.6	0.0	1.6	-0.4	1.5	1.8	2.2	2.8	3.1	2.8	2.8	2.5	1.5	0.6	1.3	2.7
Services	0.3	2.4	3.1	4.1	2.0	1.9	2.2	2.4	2.3	2.6	2.6	2.7	2.9	1.1	2.6	2.4
Government spending	3.0	5.5	9.0	7.4	3.5	2.4	2.3	2.0	1.2	0.3	-0.5	-0.6	4.8	4.5	4.5	1.1
Business investment	-33.4	-10.7	7.6	4.3	7.2	8.0	2.9	6.1	8.2	6.2	4.4	4.4	-0.8	-14.1	5.0	6.0
Residential construction	-21.9	7.0	9.5	29.7	17.5	11.0	-4.5	3.4	10.0	5.0	0.7	1.0	-2.7	-7.4	12.7	4.2
Non-residential structures	-36.7	-22.0	-8.4	-8.5	-3.1	4.7	6.1	6.3	5.5	5.1	5.1	5.3	-0.1	-15.6	-3.1	5.5
Machinery & equipment	-40.4	-15.9	22.8	-9.2	4.5	7.4	8.9	9.1	8.5	8.7	8.3	7.7	0.5	-19.2	3.8	8.6
Final domestic demand	-7.4	0.3	5.6	4.6	3.7	3.4	2.5	3.2	3.4	2.8	2.3	2.2	2.6	-1.7	3.6	2.9
Exports	-30.2	-19.1	12.2	15.4	8.3	7.1	8.7	9.5	10.6	10.7	10.1	9.1	-4.7	-14.0	8.0	9.8
Imports	-39.2	-5.7	36.0	8.9	9.8	7.9	8.5	9.3	9.1	8.1	7.9	8.2	0.8	-13.4	10.9	8.6
Inventories (change in $b)	-7.5	-6.3	-1.5	-4.3	-2.2	-1.2	1.8	3.9	5.7	7.5	11.0	15.1	12.2	-4.9	0.6	9.8
Real gross domestic product	**-7.0**	**-3.5**	**0.9**	**5.0**	**3.8**	**3.4**	**3.4**	**3.7**	**4.2**	**4.0**	**3.9**	**3.5**	**0.4**	**-2.6**	**3.1**	**3.9**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	2011
Business and labour																
Productivity	0.4	0.6	0.3	1.1	1.3	1.4	2.0	1.6	1.7	1.7	1.7	1.5	-0.6	0.6	1.6	1.6
Pre-tax corporate profits	-30.9	-43.0	-39.9	-14.8	10.6	27.8	21.3	16.1	16.8	17.6	17.2	15.8	5.7	-33.2	18.6	16.8
Unemployment rate (%)**	7.8	8.4	8.5	8.4	8.4	8.5	8.4	8.1	8.0	7.8	7.6	7.4	6.1	8.3	8.4	7.7
Inflation																
Headline CPI	1.2	0.1	-0.9	0.8	1.6	1.6	2.2	1.8	2.0	2.3	2.1	2.1	2.4	0.3	1.8	2.1
Core CPI	1.9	1.9	1.6	1.6	1.8	1.6	1.6	1.6	1.6	1.7	1.8	1.9	1.7	1.7	1.6	1.8
External trade																
Current account balance ($b)	-27.1	-43.8	-55.2	-39.1	-36.5	-35.9	-35.8	-33.9	-31.5	-29.5	-28.2	-28.0	8.1	-41.3	-35.5	-29.3
% of GDP	-1.8	-2.9	-3.6	-2.5	-2.3	-2.2	-2.2	-2.1	-1.9	-1.7	-1.6	-1.6	0.5	-2.7	-2.2	-1.7
Housing starts (000s)**	132	128	156	180	196	196	168	177	196	191	187	182	212	149	184	189
Motor vehicle sales (mill., saar)**	1.42	1.45	1.53	1.55	1.60	1.61	1.62	1.62	1.62	1.62	1.63	1.63	1.67	1.49	1.61	1.63

**Quarterly average

Source: Statistics Canada, RBC Economics Research forecasts

Economic forecast detail — United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

					Forecast										Forecast	
	2009				2010				2011							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	2011
Consumer spending	0.6	-0.9	2.8	1.7	2.4	2.1	2.3	2.3	2.5	2.7	2.7	2.4	-0.2	-0.6	2.1	2.5
Durables	3.9	-5.6	20.4	0.2	7.5	12.6	11.8	11.5	8.9	8.8	6.4	5.3	-4.5	-3.9	8.5	9.4
Non-durables	1.9	-1.9	1.5	4.1	3.0	1.0	1.2	1.2	1.8	2.1	2.4	2.1	-0.8	-1.0	2.0	1.7
Services	-0.3	0.2	0.8	1.2	1.5	0.9	1.2	1.3	1.7	2.0	2.2	2.1	0.7	0.1	1.1	1.6
Government spending	-2.6	6.7	2.7	-1.2	2.1	2.7	1.0	0.7	0.3	0.0	-0.4	-0.5	3.1	1.9	1.7	0.4
Business investment	-39.0	-12.5	-1.3	6.2	-0.4	3.7	5.5	8.1	11.5	13.2	14.5	13.0	-5.1	-18.3	1.9	10.4
Residential construction	-38.2	-23.2	18.9	5.0	-1.5	10.7	12.1	10.3	16.0	21.7	23.5	19.3	-22.9	-20.4	5.1	16.3
Non-residential structures	-43.6	-17.3	-18.4	-13.9	-11.2	-7.9	-5.5	1.5	3.8	6.4	7.9	7.1	10.3	-19.6	-11.1	2.6
Machinery & equipment	-36.4	-4.9	1.5	18.2	5.4	6.6	8.2	10.5	13.5	13.1	14.1	13.4	-2.6	-16.7	7.4	11.9
Final domestic demand	-6.4	-0.9	2.3	1.6	2.1	2.4	2.4	2.7	3.1	3.4	3.4	3.1	-0.4	-2.7	2.0	3.0
Exports	-29.9	-4.1	17.8	22.4	15.6	7.5	10.5	11.5	10.1	11.1	11.5	11.5	5.4	-9.6	13.3	10.7
Imports	-36.4	-14.7	21.3	15.3	17.2	8.1	8.5	8.5	8.7	8.5	8.0	7.9	-3.2	-13.9	11.7	8.4
Inventories (change in $b)	-113.9	-160.2	-139.2	-16.9	18.0	26.2	27.7	35.5	49.1	61.0	67.2	83.4	-25.9	-107.6	26.9	65.2
Real gross domestic product	**-6.4**	**-0.7**	**2.2**	**5.9**	**2.5**	**2.4**	**2.5**	**3.1**	**3.5**	**3.9**	**3.9**	**3.8**	**0.4**	**-2.4**	**2.9**	**3.4**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	1.8	3.0	4.6	5.9	6.6	4.7	3.5	2.4	2.1	2.7	2.7	2.7	2.1	3.8	4.3	2.5
Pre-tax corporate profits	-19.0	-12.6	-6.6	25.6	20.7	16.5	6.5	4.0	4.8	7.0	7.8	8.2	-11.8	-4.8	11.4	7.0
Unemployment rate (%)**	8.2	9.3	9.6	10.0	9.7	9.8	9.7	9.6	9.5	9.3	9.1	8.9	5.8	9.3	9.7	9.2
Inflation																
Headline CPI	0.0	-1.2	-1.6	1.4	2.5	2.4	1.8	1.5	1.8	1.9	1.8	1.7	3.8	-0.4	2.0	1.8
Core CPI	1.7	1.8	1.5	1.7	1.6	1.3	1.2	1.0	1.1	1.3	1.5	1.6	2.3	1.7	1.3	1.4
External trade																
Current account balance ($b)	-418	-392	-432	-482	-514	-528	-530	-536	-547	-546	-538	-530	-706	-431	-527	-540
% of GDP	-2.9	-2.8	-3.0	-3.3	-3.5	-3.6	-3.6	-3.6	-3.6	-3.5	-3.4	-3.4	-4.9	-3.0	-3.6	-3.5
Housing starts (000s)**	528	540	587	559	636	651	680	712	775	852	927	981	900	553	670	884
Motor vehicle sales (millions, saar	9.5	9.6	11.5	10.8	10.7	11.5	12.2	12.8	13.1	13.4	13.5	13.5	13.2	10.3	11.8	13.4

**Quarterly average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates

%, end of period

				Forecast									Forecast	
	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	2009	2010	2011
Canada														
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.75	1.25	2.00	2.75	3.25	3.50	0.25	1.25	3.50
Three-month T-bills	0.24	0.22	0.19	0.20	0.40	0.95	1.45	2.20	2.95	3.40	3.60	0.19	1.45	3.60
Two-year GoC bonds	1.20	1.26	1.47	1.50	2.10	2.55	2.75	3.00	3.30	3.90	4.10	1.47	2.75	4.10
Five-year GoC bonds	2.46	2.57	2.77	2.70	3.05	3.30	3.60	3.60	3.75	3.85	4.10	2.77	3.60	4.10
10-year GoC bonds	3.36	3.31	3.61	3.50	3.70	3.85	4.05	4.10	4.15	4.15	4.25	3.61	4.05	4.25
30-year GoC bonds	3.91	3.84	4.07	4.05	4.10	4.25	4.25	4.50	4.60	4.60	4.60	4.07	4.25	4.60
Yield curve (10s-2s)	216	205	214	200	160	130	130	110	85	25	15	214	130	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	1.25	2.00	2.50	3.25	0 to 0.25	0.75	3.25
Three-month T-bills	0.19	0.14	0.06	0.15	0.25	0.35	0.90	1.75	2.60	2.75	3.00	0.06	0.90	3.00
Two-year bonds	1.11	0.95	1.14	0.90	1.50	1.85	2.25	2.50	2.75	3.50	4.25	1.14	2.25	4.25
Five-year bonds	2.54	2.31	2.69	2.40	2.90	3.15	3.40	3.50	3.65	3.75	4.00	2.69	3.40	4.00
10-year bonds	3.53	3.31	3.85	3.75	4.00	4.25	4.50	4.25	4.25	4.25	4.50	3.85	4.50	4.50
30-year bonds	4.32	4.03	4.63	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.63	4.75	4.75
Yield curve (10s-2s)	242	236	271	285	250	240	225	175	150	75	25	271	225	25
Yield spreads														
Three-month T-bills	0.05	0.08	0.13	0.05	0.15	0.60	0.55	0.45	0.35	0.65	0.60	0.13	0.55	0.60
Two-year	0.09	0.31	0.33	0.60	0.60	0.70	0.50	0.50	0.55	0.40	-0.15	0.33	0.50	-0.15
Five-year	-0.08	0.26	0.08	0.30	0.15	0.15	0.20	0.10	0.10	0.10	0.10	0.08	0.20	0.10
10-year	-0.17	0.00	-0.24	-0.25	-0.30	-0.40	-0.45	-0.15	-0.10	-0.10	-0.25	-0.24	-0.45	-0.25

Exchange rates

%, end of period

				Forecast									Forecast	
	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	2009	2010	2011
Australian dollar	0.81	0.88	0.90	0.93	0.91	0.90	0.90	0.88	0.86	0.87	0.85	0.90	0.90	0.85
Brazilian real	1.95	1.77	1.74	1.85	1.75	1.85	1.85	1.87	1.90	1.90	1.95	1.74	1.85	1.95
Canadian dollar	1.16	1.07	1.05	1.02	0.98	1.01	1.02	1.02	1.02	1.03	1.03	1.05	1.02	1.03
Chinese renminbi	6.83	6.83	6.83	6.80	6.70	6.60	6.50	6.40	6.30	6.20	6.10	6.83	6.50	6.1
Euro	1.4	1.46	1.43	1.39	1.37	1.34	1.31	1.29	1.28	1.27	1.26	1.43	1.31	1.26
Japanese yen	96	90	93	89	87	86	90	94	95	96	98	93	90	98
Mexican peso	13.19	13.51	13.10	12.50	12.00	12.50	12.25	11.75	11.75	12.00	12.00	13.10	12.25	12
New Zealand dollar	0.65	0.72	0.74	0.72	0.75	0.74	0.74	0.70	0.69	0.68	0.67	0.74	0.74	0.67
Swiss franc	1.09	1.04	1.04	1.05	1.05	1.06	1.07	1.10	1.12	1.13	1.15	1.04	1.07	1.15
U.K. pound sterling	1.65	1.60	1.62	1.58	1.52	1.52	1.52	1.52	1.52	1.53	1.54	1.62	1.52	1.54

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

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