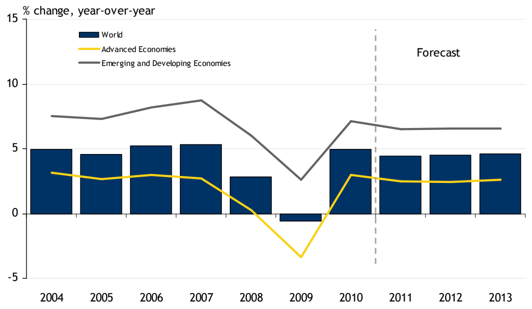
ECONOMIC AND FINANCIAL MARKET OUTLOOK

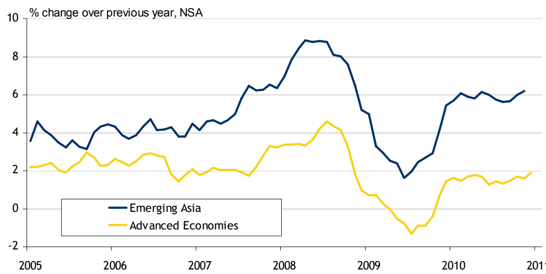
March 2011

World GDP growth



Source: IMF, RBC Emerging Markets, RBC Economics Research

CPI inflation : advanced economies and emerging Asia



Source: IMF, RBC Economics Research

Craig Wright
Chief Economist
416-974-7457
craig.wright@rbc.com

Paul Ferley
Assistant Chief Economist
416-974-7231
paul.ferley@rbc.com

Dawn Desjardins
Assistant Chief Economist
416-974-6919
dawn.desjardins@rbc.com

Nathan Janzen
Economist
416-974-0579
nathan.janzen@rbc.com

Settling into the Next Phase: From Recovery to Expansion — The Next Stage Begins

- World economy is performing solidly despite a myriad of risks.
- Central banks are examining the effect of the recent rise in oil prices on the outlook for inflation.
- Forecasts for U.S. growth are marching higher.
- The U.S. labour market has started to improve, but it will be a long haul for the unemployment rate to move down to more 'normal' levels.
- Canada's economy sparked up in late 2010 laying the groundwork for sustained above-average growth.
- Inflation in Canada is expected to remain quiescent.
- The Bank of Canada's forecast is well below RBC's as policymakers err on the side of caution
- Our view is that the data will prove sufficiently strong to move the Bank back into tightening mode late in the second quarter of 2011.

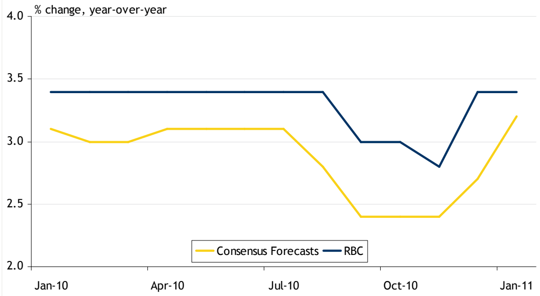
The world economy is now in the midst of a sustained economic upturn. Even the European debt crisis and concerns about burgeoning government deficits failed to dent the upward momentum established in the latter part of 2010. A more recent downside risk has emerged from the political upheaval in the Middle East and North Africa (MENA). We revised modestly our forecast for oil prices upward and contend that a more pronounced jump would be necessary to derail the global recovery. The International Monetary Fund (IMF) acknowledged the improving circumstances by boosting its forecast for both 2010 and 2011 world GDP growth by 0.2 percentage points in January. The emerging economies are still expected to trump the pace of expansion in the advanced countries in the years ahead; however, the upward revision to the 2011 annual world growth forecast reflected a more significant boost to projected activity in the advanced countries.

The timeliest indicators of the pace of economic activity signal that the momentum stayed strong in January and February 2011. The data also showed that inflation in the emerging economies is building apace, especially in emerging Asia where the average annual inflation rate stands at the highest level since the beginning of the global economic downturn. China's inflation rate has been on a steady upward track, rising to 4.9% in January 2011 from 1.5% in January 2010. This elevated level saw the People's Bank of China tighten policy again in February. Inflation in some advanced economies is also running hotter than central banks desire with the United Kingdom, Euro-zone and Canadian headline inflation rates above central banks' targets. In countries where the core measure, which excludes the volatile food and energy components, remain within the central banks' comfort zone, immediate action to reduce policy stimulus is unlikely.

Catching Up!

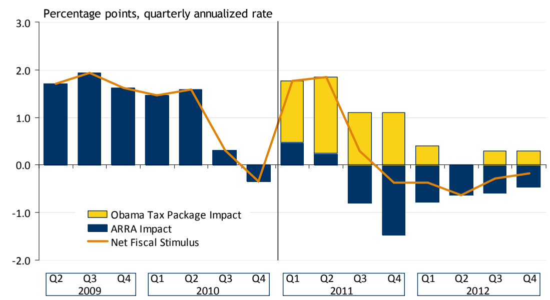
RBC has retained an optimistic 2011 forecast for U.S. growth during the past year with our projection consistently above the average of other forecasters. In recent months, however, the gap between RBC's forecast and the consensus narrowed and as of February stood at just 0.2 percentage points. RBC predicts that the U.S. economy will expand by 3.4% in 2011 with the consensus among

Forecasts for the U.S. - Real GDP 2011



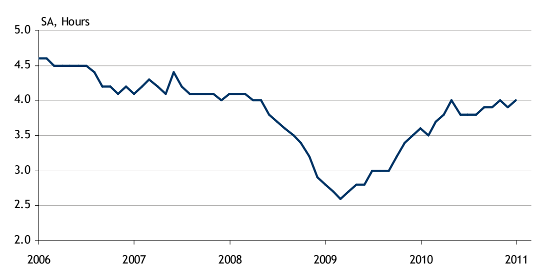
Source: Bureau of Economic Analysis, RBC Economics Research

U.S. Fiscal Support



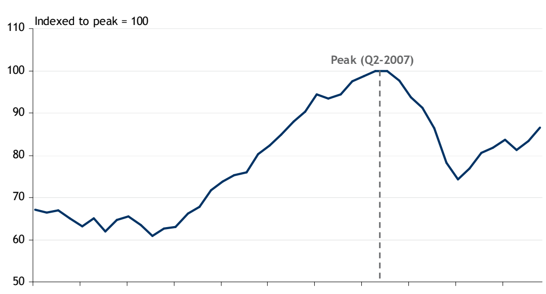
Source: RBC Economics, Macroeconomic Advisers

U.S. Manufacturing Average Overtime Hours



Source: Bureau of Labour Statistics, RBC Economics Research

U.S. Household net worth



Source: Federal Reserve Bureau, RBC Economics Research

forecasters calling for growth of 3.2%. In 2012, the gap widens mildly again with RBC forecasting that the pace will quicken to 3.6% while the consensus forecast is for growth of 3.3%.

No End to Fiscal Support Yet

The late December 2010 passage of the government's tax cut package means that the U.S. economy will receive another dose of fiscal support in 2011. The package extended the Bush-era tax cuts for all income-earners, extended emergency unemployment benefits, put in place a 2% payroll tax holiday and some business tax breaks. In all, we estimate that this will add 0.5 percentage points to U.S. GDP growth in 2011, largely replacing the support from the American Reconstruction and Recovery Act, which was expiring. The newly elected House of Representatives has been pushing for a return to fiscal restraint in 2011 that could present some downside risk to growth if passed by the full Congress and signed by the Administration.

Labour Market Starting to Show Pickup

The U.S. labour market disappointed through most of the recovery with job creation remaining in low gear in 2010 as private companies added just 1.2 million to their payrolls. This result meant that only 14.0% of the jobs lost during the downturn were recovered. The unemployment rate fell by 1.2 percentage points to stand at 8.9% as of February 2011 although most of the drop occurred in December-January timeframe. Looking ahead, the longer average workweek and increased overtime hours suggest that conditions in the labour market are slowly starting to heal. While January's gain was adversely affected by poor weather, 222,000 private-sector jobs were created in February. Our forecast calls for this trend to continue to improve with 2.8 million jobs to be created this year, a seemingly hefty increase; however, this still sets the course for less than one-half of the jobs lost during the downturn being recovered.

Balance Sheet Blues

U.S. households have been diligent in reducing their debt levels, which have declined for nine quarters in a row. The asset side, however, has not kept up the pace meaning that overall net wealth still stands 13.5 percentage points below its pre-recession peak. That being said, financial assets have almost fully recovered from their recession-related losses. Real estate holdings remain the problem. Housing price gains have stalled as a large number of homes sold were at distressed prices, and inventory levels are still elevated. In the near term, the scope for a strong improvement in the housing market is limited with the slow progress on job creation keeping demand muted and the high number of foreclosures weighing on prices.

Fed Still Standing In

The Fed is keeping interest rates ultra-low and will continue to do so until there is even a further improvement in the labour market. The effectiveness of the second tranche of bond buying, so-called QE2, is difficult to assess other than to say that it restored consumer and business confidence that the Fed is doing whatever is necessary to boost the pace of economic growth. Interest rates are higher today than they were when the Fed began its latest bond buying program because investors shifted out of bonds when they became more confident that the growth outlook was improving. Price pressures, however, remain benign, and implied inflation, as calculated by the inflation-protected bonds, stands just below its long-term average and has remained steady in recent weeks.

Inflation Outlook — Mind the Gap

U.S. inflation remains under control when measured in terms of consumer prices. Producer price inflation on the other hand is hovering around 4% with both food and energy costs rising. The core producer price measure also increased for three months running although still remained low at 1.6% as of January. To date, these increases have not translated into a significant uptick in consumer price inflation with the headline rate at 1.6% and the core measure at just 1.0%. The significant slack in the economy, as indicated by the still large output gap, is likely to restrain upward pressure from building. Our forecast is that the core consumer inflation rate will only increase to 1.2% in the course of 2011 and then rise to 1.5% in the second half of 2012. The headline rate is likely to move up more aggressively in line with higher energy prices, but as the rate of increase in oil prices slows, so will the headline inflation rate. We forecast that U.S. CPI will increase at an average 2.2% this year and 1.8% in 2012.

U.S. Dollar to Retain Weak Tone in 2011; Strengthen Modestly in 2012

The U.S. dollar has been bandied about by risk sentiment although recently the focus has turned to expectations about the timing and magnitude of central bank rate hikes. In the near term, with many central banks looking more likely to raise interest rates than the U.S. Federal Reserve and the U.S. debt situation continuing to deteriorate, we see limited scope for a substantive U.S. dollar rally. However, as the U.S. economy gains stronger momentum and expectations that the Fed is ready to reduce policy stimulus grow, we anticipate the U.S. dollar will gradually regain ground against some its major counterparts. U.S. dollar strength, however, will be limited and largely be a 2012 story.

Canada Getting Back in the Groove

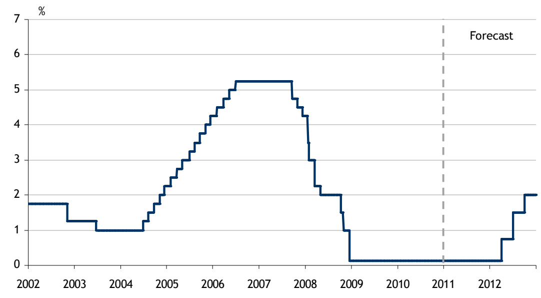
Canada's economy posted a stronger than expected gain in the final quarter of 2010 with growth accelerating to 3.3% following an upwardly revised 1.8% pace in the third quarter. The biggest support for the economy came from net exports, which added a full 4.5 percentage points to the quarterly growth rate. This strong jump in export demand was largely met by the drawing down of inventories, which tempered the overall growth rate in the quarter. Consumers continued to play an important role with this sector posting the fastest increase since 2007. Business spending slowed somewhat in the fourth quarter on the back of much reduced spending on machinery and equipment.

The renewed upward momentum in the economy sets up for real GDP increasing 3.2% in 2011, building on 2010's 3.1% rise. In part, the economy's sustained strength stems from our view that U.S. demand for Canadian exports will firm this year while import growth eases slightly. On balance, this means that after weighing on the economy's growth rate last year, net exports will provide support in 2011 and 2012. Key assumptions in this forecast are that the rebound in motor vehicle demand that is currently underway will continue and that demand for commodity-related products will remain robust. With two-thirds of Canadian exports linked to either commodities or autos, the case for firming export demand looks sound.

Bank of Canada Retained Cautious Tone in 2011 Outlook

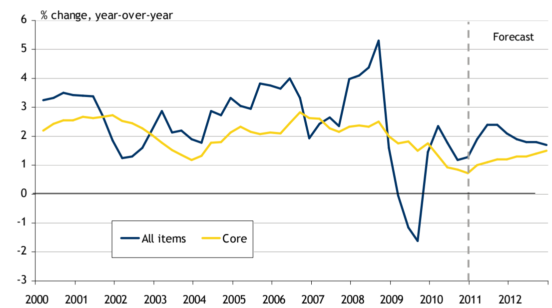
The Bank of Canada retained a healthy dose of scepticism regarding the support to the economy from the acceleration in U.S. growth. In fact, while the Bank boosted its outlook for U.S. GDP growth in 2011 by 1 percentage point to 3.3%, this only flowed into a 0.1 percentage point hike to its Canadian forecast. As indicated previously, we are much more positive on the amount of support that will accrue to Canada from the rise in U.S. demand, which in turn will permeate throughout the economy. On a line-by-line basis, our forecast calls for stronger growth in all major spending components. This discrepancy results in the output gap closing sooner than the Bank of Canada assumes in its forecasts and warrants a resumption of interest rate hikes if the economy is to avoid a greater than desired rise in inflation or inflation expectations.

U.S. Fed funds rate



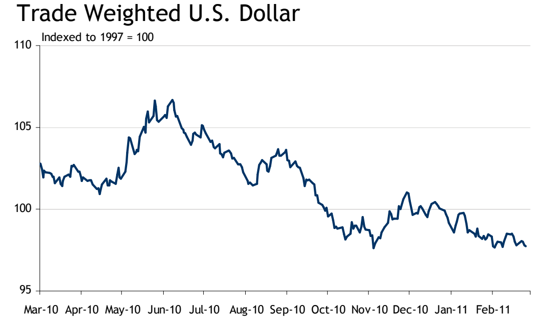
Source: Federal Reserve Board, RBC Economics Research

U.S. inflation



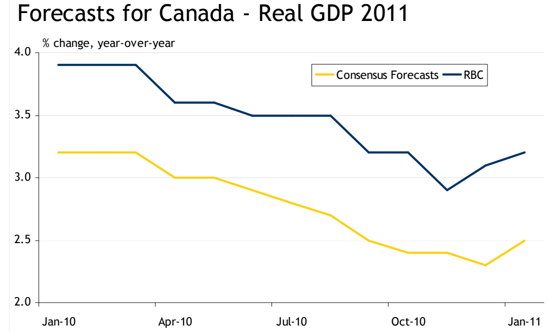
Source: Bureau of Labor Statistics, RBC Economics Research

Trade Weighted U.S. Dollar



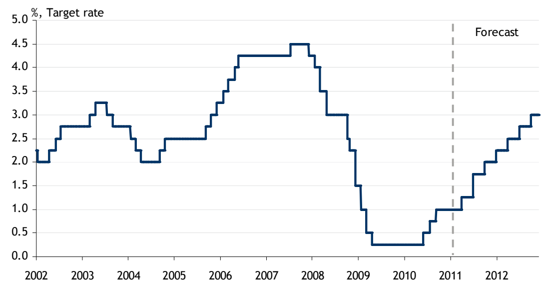
Source: Federal Reserve Board, RBC Economics Research

Forecasts for Canada - Real GDP 2011



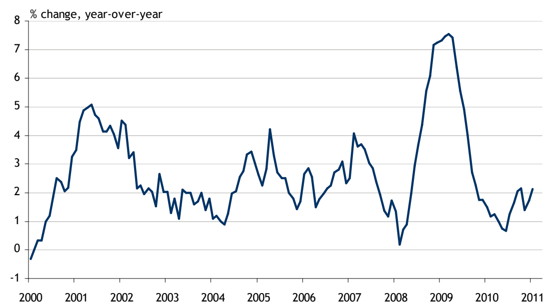
Source: Statistics Canada, RBC Economics Research

Bank of Canada O/N Rate Forecast



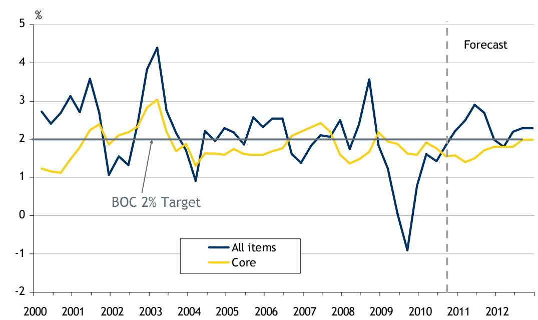
Source: Bank of Canada, RBC Economics Research

Canadian CPI: Food



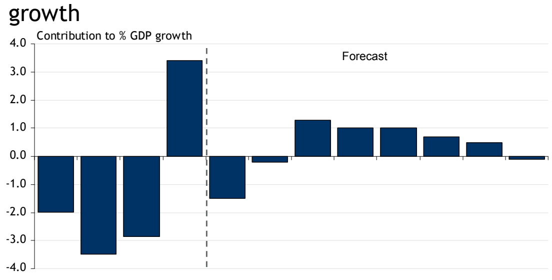
Source: Bureau of Labor Statistics, RBC Economics Research

Canada's inflation rate



Source: Statistics Canada, Bank of Canada, RBC Economics Research

Contribution of Net Exports to Canadian GDP growth



Source: Statistics Canada, RBC Economics Research

Our forecast is that the Bank of Canada will restart its tightening campaign in late May 2011 with the overnight rate forecasted to rise to 2.00% by year-end from 1.00% currently. Interest rates, which have increased in the past three months, are likely to grind higher with short-term interest rates moving up more than longer-term yields. The gradual pace of policy tightening combined with anchored inflation expectations and less fiscal pressures than many other countries will likely result in less upward pressure being exerted on longer-term interest rates resulting in a flatter yield curve and Canadian long-term yields holding below their U.S. counterparts.

Rising Commodity Prices — Good for Growth but What about Inflation?

The sharp rise in global food and energy prices is causing worries across the globe. In Canada, where both food-related and energy commodities are part of our export package, these price increases will support profits and in turn growth via increased capital spending. Less constructive is the effect that these higher prices will have on consumers and businesses that have to pay them. On the consumer side, food makes up about 17% of the consumer spending basket, higher than in the United States but much lower than in places like China where food accounts for about one-third of spending. While Canada is a net exporter of agricultural products overall, depending on the product, between 20% and 42% of food consumed is imported. For example, Statistics Canada reported that more than 40% of fruit and vegetables consumed in 2008 were imported.

The United Nations has tracked global food prices since 1990, and by their measure, in early 2011 prices increased at the fastest pace on record. Food prices increased in Canada as well although not at a record-breaking pace. One explanation for this is that the strengthening in the Canadian dollar insulated Canada's economy from the sharp rise in global food prices as it mitigated the upward pressure on the cost of imported foods. In the prior episode of food price inflation (2008), Canada's currency simultaneously weakened against the U.S. dollar exacerbating the rise in costs for Canadians. In 2008 and 2009, food price inflation in Canada averaged 4.2% with the pace slowing appreciably to 1.4% in 2010. We forecast a higher average pace of increase in both 2011 and 2012 of 1.9% and 2.7%, respectively. This year, the pace of food price inflation will be tempered by the strong currency while in 2012 a gradual weakening in Canada's dollar will result in a faster pace of increase.

Energy products account for a smaller, although still substantial, 9.4% of the consumer basket. Just less than half comes from spending on water, utilities, electricity and other fuels with gasoline making up the remainder. When the price of oil hit an all-time high in 2008, the energy component of Canada's CPI was running at a 21% year-over-year pace. To-date, the recent uptick in crude prices has not elicited as strong a reaction although prices were 9% higher in January 2011 than a year earlier. The volatility in the energy markets is being driven by geopolitical events and is raising the risk that inflation pressures will mount. Our baseline forecast, however, assumes that oil price increases will be gradual with the bulk occurring in 2011 meaning that the upward pressure on the headline inflation rate will diminish in 2012. As well, with less income available to spend by households outside food and energy purchases, reduced demand will result in lower prices elsewhere in the economy.

The Bottom Line

The movements in commodity prices are a sideline to the real developments in inflation in Canada. The combination of a persistent output gap and well anchored inflation expectations means that at least the core measure will likely stay below the Bank of Canada's 2% target until mid-2012. The Bank of Canada's January report showed that only 3% of companies surveyed expect inflation to increase by more than 3% in the next two years. The risk to this forecast is that higher commodity price inflation sparks a rise in expectations that prices are generally headed higher and in turn encourages wage-seekers to boost their wage demands. This type of spiral would be frowned upon by policymakers and would result in interest rate increases occurring much more quickly than we are forecasting.

Economy to Start Pumping Out Stronger Growth Numbers

Strong demand for commodities will certainly provide a lift to parts of Canada's economy. Exporters in particular are likely to see growth accelerate as about two-thirds of products that are sold abroad are either commodity related or related to the auto industry. The rebound in U.S. motor vehicles sales in recent months is likely to continue after the drought in sales activity that occurred during the economic downturn and financial market crisis. The prospect of firmer U.S. demand and elevated prices we estimate will add $15.3 billion to the value of Canadian energy exports over the next two years. And while the Canadian dollar's strength may temper demand somewhat by raising export prices, strengthening U.S. incomes are expected to dominate and support demand. On the import side, the currency's strength will be a boon to Canadian companies that are under the gun to improve productivity and stay competitive in the global marketplace. Relative to the days of the low Canadian dollar in 2002, the price of imported machinery and equipment is off 26%. This massive effective price cut has resulted in capital goods investment assuming a greater share of investment dollars accounting for two-thirds of the monies spent last year.

Companies Say They will Continue to Invest

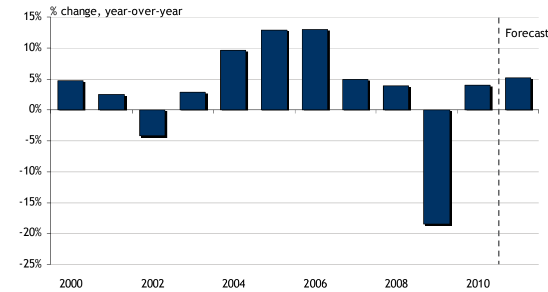
Surveys of Canadian businesses by both the Bank of Canada and Statistics Canada indicated that investment spending will continue to grow in 2011. The Bank's report showed that 44% of those surveyed intend to increase investment in machinery and equipment in 2011. The Statistics Canada report showed private-sector companies plan to increase non-residential investment spending in 2011 by 5.2%, higher than the 4.0% recorded in 2010. Favourable credit conditions, low interest rates and an elevated percentage of assets held in liquid balances will facilitate this increased investment.

Canadian Households Taking Heed of Warnings about too much Debt

The persistent haranguing of Canada's consumers about their elevated debt levels appears to have had an effect if recent data tell us anything. Consumer credit was running faster than a year earlier in December 2010, but the pace of increase was the slowest since January 2002. Mortgage debt growth stabilized in the final quarter of 2010, and although it was 7.0% higher than in the fourth quarter of 2009, this represents a serious slowing from the double-digit pace recorded from 2006 to 2008. To be sure, the growth in credit is still running faster than disposable income thereby resulting in the debt-to-income ratio hitting an all-time high. The reasons Canadians have been confident enough to assume more debt stem from the very low level of interest rates, the strong performance of the labour market and the 4.6% rise in disposable income in 2010. The recovery of the wealth lost during the economic downturn also provided some support.

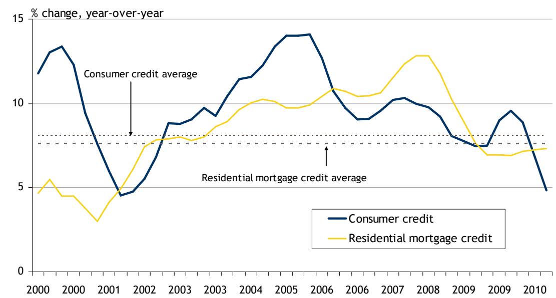
Looking ahead, consumers are likely to react to the gradual increase in interest rates by slowing both the pace of debt accumulation and purchases; however, our expectation that labour market conditions will remain firm in 2011 and disposable incomes will post a 4.1% gain means that consumption is likely to slow but not stop. We will be watching the effect that the political upheavals in the MENA and commensurate rise in oil prices will have on consumer confidence. We are assuming a higher average oil price in our current forecast

Private Investment Intentions



Source: Statistics Canada, RBC Economics Research

Canadian mortgage and consumer credit

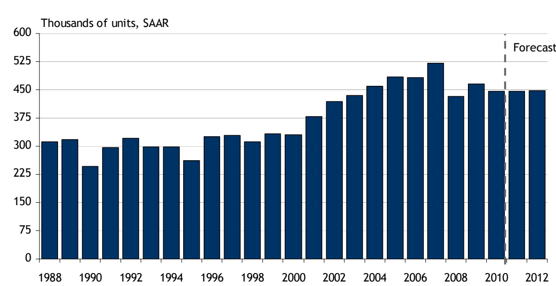


Source: Statistics Canada, RBC Economics Research

Canadian Consumer Spending

Source: Statistics Canada, RBC Economics Research

Canadian resale home sales



Source: CREA, RBC Economics Research

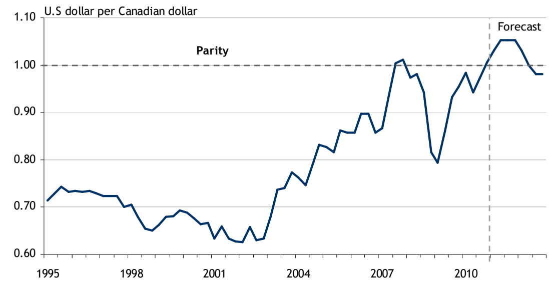
than we did in December, which will likely see a minor rise in the percentage of income that goes toward energy purchases. Our forecast for consumer spending is for a modest slowing from 2010's 3.4% pace with the gains being driven by purchases of durable goods and services.

Canada's housing market has landed on its feet after a roller-coaster ride for the past couple of years. Sales are now at levels that we deem sustainable based on our assumptions about the labour market and interest rates. The fact that the Canadian market does not face a large oversupply of housing product and that affordability has improved in recent quarters also supports our thesis. As a result, we look for the average house price to rise by just one-half of a percent in 2011 and a larger 1.25% in 2012 (See *Canadian Housing Market Outlook*, February 9, 2011).

Loonie Takes Flight

Canada's dollar is expected to remain above parity against the U.S. dollar in 2011 supported by rising commodity prices and the persistence of wide short-term interest rate spreads. The fact that the Bank of Canada raised its policy rate by 75 basis points in 2010 and is likely to resume its rate hiking program in the months ahead while the U.S. Federal Reserve holds its official policy rate steady, sets Canada's currency up to maintain its firm tone. Additionally, the sharp rise in commodity prices supported the Canadian dollar's ascent. We expect Canada's currency to retain its recent appreciation during 2011 with the trend starting to reverse in 2012 as the U.S. central bank initiates the first of many rate increases and commodity prices plateau, albeit at historically high levels. Our forecast calls for the Canadian dollar to remain above parity for all of 2011 and gradually weaken during the course of 2012. We forecast Canada's dollar will end 2011 worth US$1.05 and then weaken to end 2012 at US$0.98.

Canadian dollar forecast



Source: Bank of Canada, RBC Economics Research

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

					Forecast										Forecast	
	2010				2011				2012				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012
Consumer spending	4.1	1.9	2.7	4.9	2.6	3.0	3.0	2.5	2.2	2.2	2.2	2.2	0.4	3.4	3.1	2.4
Durables	4.4	-5.5	2.3	12.0	5.6	6.3	6.3	5.5	4.7	4.7	5.2	5.1	-1.5	5.4	5.8	5.2
Semi-Durables	19.7	-5.0	6.0	2.9	2.5	2.8	3.5	2.2	1.2	1.5	1.4	1.4	-2.2	5.0	2.7	1.8
Non-durables	2.7	2.5	2.8	1.2	2.3	3.0	3.0	2.1	1.8	1.8	1.7	1.7	0.7	1.7	2.4	2.1
Services	2.7	4.2	2.4	5.3	2.1	2.3	2.3	2.1	2.0	2.0	1.8	1.8	1.1	3.4	2.9	2.0
Government spending	1.0	3.6	0.6	3.2	1.3	0.3	0.1	0.1	0.4	0.1	0.5	1.0	3.5	3.4	1.4	0.4
Residential investment	20.6	0.0	-3.9	-0.6	-1.4	-1.2	1.7	2.9	2.9	2.0	0.9	1.4	-8.2	10.4	-0.8	2.0
Business investment	12.7	15.2	18.6	10.4	9.3	10.3	10.8	10.7	8.6	7.6	6.3	6.2	-19.9	5.2	11.4	8.7
Non-residential structures	10.6	2.4	12.7	21.0	9.3	9.5	10.1	10.9	9.5	8.8	7.6	7.5	-19.5	-0.5	11.6	9.3
Machinery & equipment	14.8	29.7	24.6	0.7	9.4	11.2	11.5	10.4	7.6	6.3	5.0	4.8	-20.3	11.2	11.2	8.0
Final domestic demand	5.0	5.4	3.7	3.7	2.7	2.7	2.5	2.1	2.2	2.2	2.1	2.3	-1.8	4.4	3.2	2.3
Exports	6.7	7.3	-1.7	17.1	8.0	8.7	12.1	12.0	9.9	8.7	7.8	6.9	-14.2	6.4	9.2	9.8
Imports	13.6	19.7	7.8	0.5	12.5	8.8	7.4	8.0	6.3	6.0	5.8	6.8	-13.9	13.4	8.4	6.8
Inventories (change in $b)	6.7	15.3	18.7	-5.3	2.8	5.6	5.7	5.9	6.2	5.8	4.3	4.2	-2.9	8.8	5.0	5.1
Real gross domestic product	**5.5**	**2.2**	**1.8**	**3.3**	**3.7**	**3.5**	**3.8**	**3.3**	**3.2**	**2.8**	**2.2**	**2.2**	**-2.5**	**3.1**	**3.2**	**3.1**

Other indicators

Year-over-year % change unless otherwise indicated

	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2009	2010	2011	2012
Business and labour																
Productivity	1.6	0.7	1.1	0.7	0.7	1.5	1.7	1.3	1.3	1.2	1.0	1.1	0.9	1.0	1.3	1.1
Pre-tax corporate profits	16.6	26.3	15.3	16.2	12.7	18.9	23.4	17.1	15.4	15.2	13.8	12.3	-32.3	18.4	18.0	14.1
Unemployment rate (%)*	8.2	8.0	8.0	7.7	7.7	7.6	7.5	7.4	7.3	7.2	7.1	7.0	8.3	8.0	7.6	7.2
Inflation																
Headline CPI	1.6	1.4	1.8	2.3	2.5	2.9	2.7	2.0	1.8	2.2	2.3	2.3	0.3	1.8	2.5	2.2
Core CPI	1.9	1.8	1.6	1.6	1.4	1.5	1.7	1.8	1.8	1.8	2.0	2.0	1.7	1.8	1.6	1.9
External trade																
Current account balance ($b)	-34.3	-53.5	-67.9	-44.2	-45.0	-43.6	-38.8	-33.9	-29.5	-26.3	-23.1	-22.2	-43.5	-50.0	-40.4	-25.3
% of GDP	-2.2	-3.3	-4.2	-2.7	-2.7	-2.6	-2.2	-1.9	-1.7	-1.5	-1.3	-1.2	-2.8	-3.1	-2.4	-1.4
Housing starts (000s)*	198	198	192	179	178	176	176	179	179	178	176	176	149	190	177	178
Motor vehicle sales (mill., saar)*	1.58	1.55	1.60	1.59	1.64	1.65	1.67	1.68	1.68	1.69	1.70	1.70	1.48	1.58	1.66	1.69

*Period average

Source: Statistics Canada, RBC Economics Research forecasts

Economic forecast detail — United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

					Forecast										Forecast	
	2010				2011				2012				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012
Consumer spending	1.9	2.2	2.4	4.1	2.8	3.7	3.7	3.6	3.6	3.2	2.8	3.2	-1.2	1.8	3.3	3.4
Durables	8.8	6.8	7.6	21.0	7.7	10.1	10.3	9.1	8.5	6.7	6.7	6.7	-3.7	7.6	10.9	8.2
Non-durables	4.2	1.9	2.5	4.8	3.4	2.6	2.8	2.9	2.8	2.8	2.1	2.8	-1.2	2.8	3.2	2.7
Services	0.1	1.6	1.6	1.4	1.8	3.0	3.0	3.0	3.1	2.8	2.5	2.8	-0.8	0.5	2.1	2.9
Government spending	-1.6	3.9	3.9	-1.5	-0.8	0.0	-0.4	-0.8	-1.1	-0.9	-0.4	-0.1	1.6	1.0	0.1	-0.7
Residential investment	-12.3	25.6	-27.3	2.7	8.8	13.6	19.5	15.3	13.6	14.2	16.9	13.2	-22.9	-3.0	5.8	15.1
Business investment	7.8	17.2	10.0	5.3	5.9	16.2	17.0	16.5	15.0	13.9	12.0	10.0	-17.1	5.6	10.9	14.6
Non-residential structures	-17.8	-0.5	-3.6	4.5	-7.0	6.4	9.5	9.5	10.5	11.1	10.5	11.5	-20.4	-13.9	1.4	10.1
Equipment & software	20.5	24.8	15.4	5.5	10.6	19.8	19.8	19.0	16.7	14.9	12.6	9.5	-15.3	15.1	14.4	16.3
Final domestic demand	1.3	4.3	2.6	3.1	2.5	4.3	4.5	4.2	4.0	3.6	3.4	3.4	-3.1	1.8	3.4	3.9
Exports	11.4	9.1	6.7	9.6	10.1	9.1	8.5	9.9	9.3	9.7	9.7	8.7	-9.5	11.8	9.1	9.4
Imports	11.2	33.5	16.8	-12.4	13.5	11.0	9.8	10.3	10.1	10.5	9.9	7.5	-13.8	12.7	8.5	10.0
Inventories (change in $b)	44.1	68.8	121.4	7.1	67.0	77.1	76.9	77.4	78.4	76.9	71.2	72.7	-113.1	60.4	74.6	74.8
Real gross domestic product	**3.7**	**1.7**	**2.6**	**2.8**	**3.4**	**4.1**	**4.1**	**3.9**	**3.7**	**3.2**	**3.0**	**3.5**	**-2.6**	**2.8**	**3.4**	**3.6**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012
Business and labour																
Productivity	6.6	4.0	2.9	1.8	1.5	2.7	2.6	2.5	2.2	1.8	1.6	1.7	3.7	3.8	2.3	1.8
Pre-tax corporate profits	37.6	37.0	26.4	16.5	8.1	7.4	7.7	8.7	7.8	6.4	5.3	5.1	-0.4	28.6	8.0	6.1
Unemployment rate (%)*	9.7	9.6	9.6	9.6	9.0	8.9	8.8	8.6	8.5	8.4	8.2	8.0	9.3	9.6	8.8	8.3
Inflation																
Headline CPI	2.4	1.8	1.2	1.3	1.9	2.4	2.4	2.1	1.9	1.8	1.8	1.7	-0.4	1.6	2.2	1.8
Core CPI	1.3	0.9	0.9	0.7	1.0	1.1	1.2	1.2	1.3	1.3	1.4	1.5	1.7	1.0	1.1	1.4
External trade																
Current account balance ($b)	-437	-493	-509	-446	-468	-492	-511	-528	-547	-564	-580	-585	-378	-471	-500	-569
% of GDP	-3.0	-3.4	-3.5	-3.0	-3.1	-3.2	-3.3	-3.4	-3.4	-3.5	-3.6	-3.6	-2.7	-3.2	-3.2	-3.5
Housing starts (000s)*	617	602	588	534	576	610	683	726	799	863	927	991	554	585	649	895
Motor vehicle sales (millions, saar)*	11.0	11.3	11.6	12.3	12.9	13.3	13.6	13.9	14.1	14.2	14.4	14.5	10.4	11.5	13.4	14.3

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates

%, end of period

	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	2009	2010	2011	2012
			Forecast										Forecast	
Canada														
Overnight rate	1.00	1.00	1.00	1.25	1.75	2.00	2.25	2.50	2.75	3.00	0.25	1.00	2.00	3.00
Three-month T-bills	0.88	0.97	1.10	1.35	2.00	2.05	2.55	3.05	3.50	3.60	0.19	0.97	2.05	3.60
Two-year GoC bonds	1.40	1.71	1.85	2.25	2.60	2.85	3.05	3.25	3.50	3.85	1.47	1.71	2.85	3.85
Five-year GoC bonds	2.04	2.46	2.65	2.75	3.00	3.30	3.50	3.65	3.85	4.05	2.77	2.46	3.30	4.05
10-year GoC bonds	2.75	3.16	3.25	3.30	3.40	3.80	3.95	4.05	4.15	4.15	3.61	3.16	3.80	4.15
30-year GoC bonds	3.34	3.55	3.85	3.90	4.15	4.40	4.45	4.50	4.50	4.55	4.07	3.55	4.40	4.55
Yield curve (10s-2s)	135	145	140	105	80	95	90	80	65	30	214	145	95	30
United States														
Fed funds rate	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0.75	1.50	2.00	0 to 0.25	0 to 0.25	0 to 0.25	2.00
Three-month T-bills	0.16	0.12	0.15	0.20	0.25	0.30	0.35	0.90	1.65	2.10	0.06	0.12	0.30	2.10
Two-year bonds	0.44	0.61	0.70	1.00	1.15	1.55	2.00	2.30	2.60	3.05	1.14	0.61	1.55	3.05
Five-year bonds	1.27	2.01	2.10	2.20	2.30	2.70	3.00	3.25	3.50	3.75	2.69	2.01	2.70	3.75
10-year bonds	2.48	3.30	3.45	3.50	3.60	4.00	4.15	4.25	4.45	4.50	3.85	3.30	4.00	4.50
30-year bonds	3.67	4.34	4.50	4.55	4.60	4.85	4.90	4.95	5.00	5.05	4.63	4.34	4.85	5.05
Yield curve (10s-2s)	204	269	275	250	245	245	215	195	185	145	271	269	245	145
Yield spreads														
Three-month T-bills	0.72	0.85	0.95	1.15	1.75	1.75	2.20	2.15	1.85	1.50	0.13	0.85	1.75	1.50
Two-year	0.96	1.10	1.15	1.25	1.45	1.30	1.05	0.95	0.90	0.80	0.33	1.10	1.30	0.80
Five-year	0.77	0.45	0.55	0.55	0.70	0.60	0.50	0.40	0.35	0.30	0.08	0.45	0.60	0.30
10-year	0.27	-0.14	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.30	-0.35	-0.24	-0.14	-0.20	-0.35
30-year	-0.33	-0.79	-0.65	-0.65	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.56	-0.79	-0.45	-0.50

Exchange rates

%, end of period

	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	2009	2010	2011	2012
			Forecast										Forecast	
Australian dollar	0.97	1.02	1.00	0.99	0.98	0.97	0.96	0.95	0.94	0.94	0.90	0.92	0.84	0.97
Brazilian real	1.70	1.66	1.73	1.75	1.77	1.78	1.76	1.75	1.73	1.72	1.74	1.78	1.79	1.70
Canadian dollar	1.03	1.00	0.97	0.95	0.95	0.95	0.97	1.00	1.02	1.02	1.05	1.02	1.06	1.03
Renmibi	6.69	6.59	6.50	6.40	6.30	6.20	6.10	6.00	5.90	5.80	6.83	6.83	6.78	6.69
Euro	1.36	1.34	1.39	1.36	1.32	1.30	1.30	1.30	1.29	1.29	1.43	1.35	1.22	1.36
Yen	84	81	81	81	84	87	90	95	100	105	93	93	88	84
Mexican peso	12.59	12.36	11.75	11.75	12.00	12.00	12.00	12.50	12.25	12.00	13.10	12.37	12.94	12.59
New Zealand dollar	0.73	0.78	0.74	0.72	0.70	0.69	0.68	0.68	0.68	0.69	0.73	0.71	0.68	0.73
Swiss franc	0.98	0.93	0.92	0.93	0.95	0.96	0.97	0.97	0.98	0.98	1.04	1.05	1.08	0.98
U.K. pound sterling	1.57	1.56	1.65	1.66	1.65	1.65	1.67	1.69	1.70	1.72	1.62	1.52	1.49	1.57

Source: Reuters, RBC Economics Research forecasts