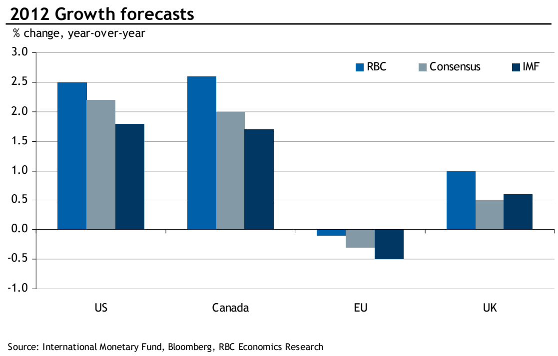
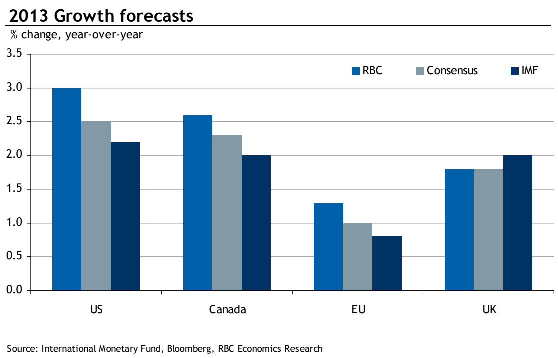
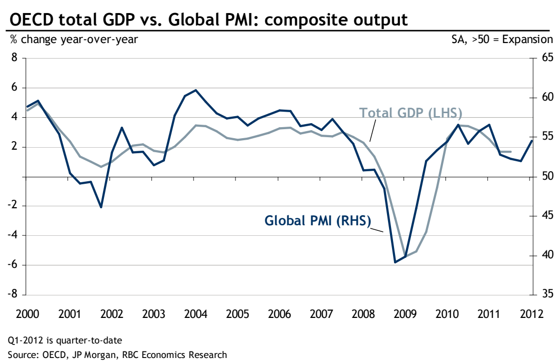
ECONOMIC AND FINANCIAL MARKET OUTLOOK

March 2012







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Pendulum swings back in favour of growth

- Global economy bumping along with US on its way to leading the pack.
- Euro area economies in recession but not for long; China's economy gears down.
- Inflation worries are less acute and central banks are safeguarding their economies against a slowing in growth momentum.
- Fiscal policy restraint becoming more widespread.
- Interest rates will stay low in 2012 and moderately higher in 2013.

Growth leadership switching up

Supportive monetary policy, diminishing concerns about fiscal imbalances, and renewed confidence will carry the world economy in 2012. To be sure, risks abound, however, easier financial conditions, improving confidence that another global recession will be avoided, and monetary policymakers committed to maintaining low interest rates are expected to offset any temporary setbacks. These factors support our above-consensus economic projections.

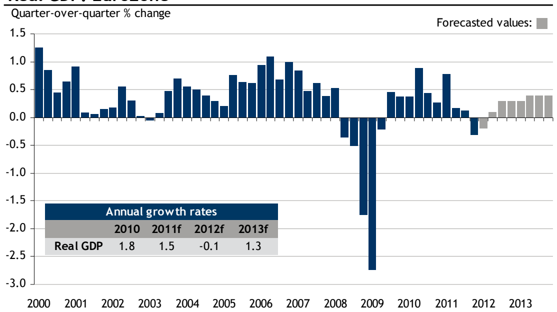
With the euro area in recession and the UK economy limping along, the leadership baton is being handed to the US where signs of a more robust year for growth are materializing. Although it is early days, the US economy is showing signs of broad-based growth with housing activity shifting out of neutral and business investment recovering after a subpar end to 2011. Our forecast is for the US economy to expand by 2.5% this year with a faster 3.0% pace forecasted for 2013. This forecast will put the US out in front of the euro area and the UK and only slightly behind Canada this year though by 2013, the US will lead the pack.

The global composite purchasing managers' index hit its highest level in a year in February with increases broad-based across industries and regions. The rise contributed to an improvement in sentiment, which was further boosted by declining yields on government bonds of some of the impaired European economies. Yields remain unsustainably high in Greece and Portugal although have fallen from recent peaks especially after Greece agreed to the implementation of the draconian austerity measures that were required to be eligible for another round of bailout funds. The implementation of the European Central Bank's (ECB) three-year funding operation improved liquidity, reduced bank funding spreads, and supported demand at government bond auctions—all of which eased concerns that the European financial system was headed for a replay of 2009's collapse.

EZ recession unlikely to last long

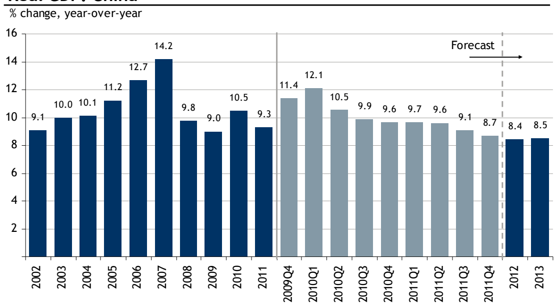
The euro area economy contracted by 0.3% in the final quarter of 2011, and Germany recorded a 0.2% dip. While first-quarter 2012 data for the euro area generally point to another small contraction, reports for Germany have shown a substantive improvement that is consistent with mild growth rather than another quarterly decline. For the region, this means that the recession is likely to be relatively shallow and short lived. Fiscal policy will put a brake on growth especially given the magnitude of the cuts required in countries such as Greece. The combination of low interest rates and the influx of liquidity via

Real GDP: Eurozone



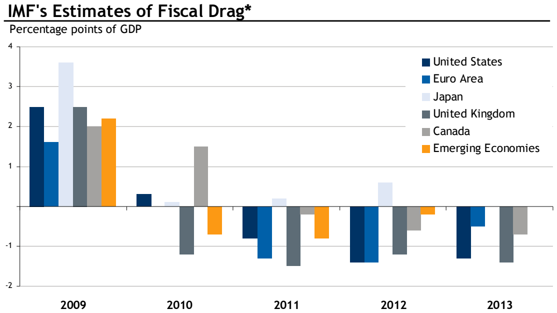
Source: Eurostat, RBC Economics Research

Real GDP: China



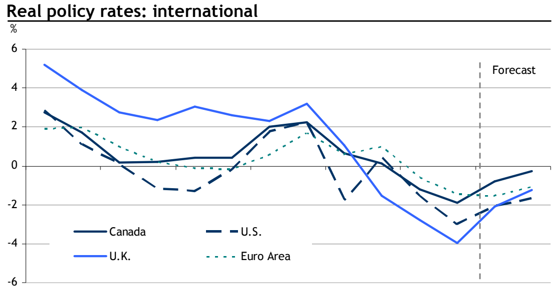
Source: CNBS, Haver Analytics, RBC Emerging Markets Research, RBC Economics Research

IMF's Estimates of Fiscal Drag*



*change in the cyclically adjusted general government budget balance
Source: IMF Fiscal Monitor Update January 2012, RBC Capital Markets, RBC Economics Research

Real policy rates: international



Source: Statistics Canada, Bureau of Labor Statistics, European Central Bank, Office for National Statistics, RBC Economics Research

the ECB's Long Term Refinancing Operation will likely be sufficient to improve business and household confidence, and to skate the euro area back into expansion mode. Heightened risks to this outlook remain. For the global economy, the UK is most at risk because the euro area is its largest export market. Additionally the UK is dealing with its own round of fiscal austerity. Our baseline view is, barring a disorderly outcome in Europe, that the UK economy will be able to muddle through by posting moderate growth in both 2012 and 2013.

China to avoid hard landing

For the global economy, the prospect of a sharp drop in Chinese economic activity is a significant risk, especially with Europe already in recession. Strengthening US growth will go some way to alleviate these concerns because the US accounts for 17% of Chinese exports. Additionally, exports to Taiwan, Singapore, Korea, and Hong Kong accounted for 40% in 2011, and the prospect that these nations will continue to grow will offset some of the downward pressure due to reduced European demand. The central bank cut the bank reserve requirement ratio for the second time in three months in February, and we expect that it is prepared to ease policy further to mitigate pressure on the economy. To be sure, there remains a risk of a more abrupt downturn for China; however, the more likely scenario is that the economy will gradually gear down with real GDP growth of 8.4% expected this year.

Fiscal restraint is coming!

Governments implemented large doses of fiscal stimulus in 2009 resulting in the deficit-to-GDP ratio in the advanced economies jumping to 8.7%. Emerging economies also increased their deficits; although relative to the size of their economies, the ratio increased to 4.1%. As economies emerged from recession, the deficit levels declined; however, difficult cuts will be required to eliminate these shortfalls. The bond market continues to do its best to exert pressure on governments that fail to address their fiscal problems as evidenced by the dramatic increase in Greek bond yields to about 35% in January 2012. While details of the various austerity packages are still wanting, the expected fiscal drag will be substantive in both 2012 and 2013.

Monetary policy – to the rescue!

While governments have been tasked with cutting back, central banks are keeping the fires burning with low interest rates and as-needed doses of bond buying activity. The Federal Reserve has been the most verbal in its commitment to maintaining accommodative policy "at least until late 2014". Other central banks have been less direct although the heightened risk environment has been cited as a factor that supports an easy policy stance being maintained. Our forecast is that interest rates will remain low for longer than we expected in December 2011 and that this will support the global economy as governments pull back.

Inflation not a primary concern right now

Inflation has fallen to a second-tier concern for many central banks. The fact that headline inflation rates peaked in mid-2011 and have since dropped by a full percentage point has reduced anxiety about the effect that easy policy is having on prices. The recent spike in gasoline prices will likely prevent further declines in headline inflation rates in the near term; however, we expect supply conditions to stabilize thereby alleviating upward pressure on energy prices in short order. Stabler commodity prices and excess capacity in labour markets set up for inflation rates to trend lower for the remainder of 2012.

US economy – getting better everyday!

The US economy entered 2012 on a strong note with the labour market producing a whopping 511,000 jobs in January and February, and with the purchasing managers' indices signalling expansion in both the manufacturing and services sector, and equity markets posting solid gains. Even the housing market that provided no support to the economy for the past six years showed signs of improvement in January.

Job market recovery here to stay

The acceleration in job creation from December 2011 to February 2012 was spread across both the goods and services-producing sectors. The unemployment rate fell to 8.3%, which was the lowest since February 2009. Initial claims for state unemployment insurance benefits, a timely weekly indicator, showed that the four-week moving average fell to its lowest level since early 2008 thereby signalling a further strengthening in the US labour market. We expect the run rate in monthly job gains to be about 30,000 higher than 2011's monthly pace.

Waiting for the sleeping giant to wake up

To date, US consumers have been hampered by a struggling labour market, overleveraged balance sheets, and volatile financial markets; therefore, spending has been subdued by historical standards. The recent improvement in the labour market presents one layer of the onion being peeled away. Household balance sheets are also likely to become less of a weight as financial asset values have recovered while real estate declines have slowed. Mortgage debt outstanding stands 7.3% below its peak level and declined for 11 consecutive quarters. To be sure, some of this is attributable to foreclosures. We expect US consumer spending to be modest in 2012 and then to ramp up in 2013. Given the age of the stock of vehicles on the road and the low interest rate environment, we look for auto sales to accelerate this year and next.

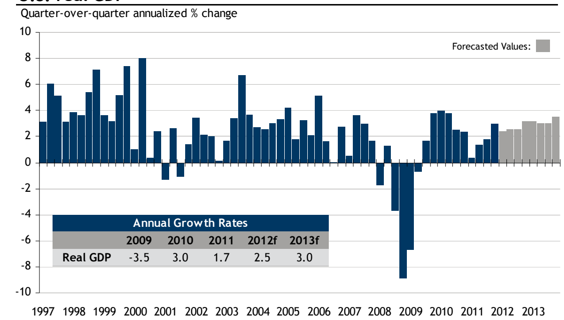
Corporate America poised for action

US corporate balance sheets remain healthy with high liquid balances and pre-tax corporate profits 19% above their pre-recession peak. At the margin, financial institutions have reined in lending standards for commercial and industrial loans; however, this follows a prolonged period of easing, and only 5% of banks surveyed tightened conditions "somewhat" in early 2012. Demand for loans firmed thereby suggesting that the rebuilding of the capital stock that began in 2010 continues. Unlike in the previous six-year period, investment in residential construction is forecasted to make a small contribution to growth. Activity in the resale market is increasing; however, about one-third of sales in recent months were in distressed properties thereby preventing prices from rising although the pace of price decline has slowed. Persistently low interest rates and improving labour market conditions are likely to pull housing out of its depressed state; however, given the oversupply on the market and more foreclosed properties in the pipeline, a quick turnaround is unlikely.

Policy outlook – a fine balance

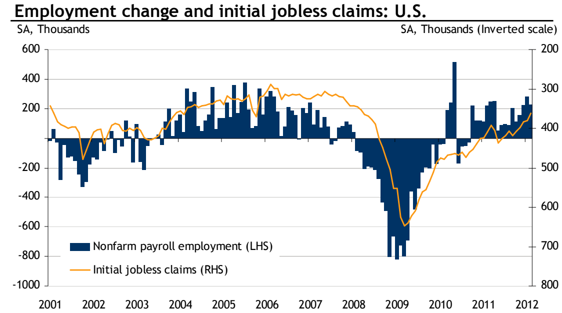
The Federal Reserve's conditional commitment to extraordinary stimulative official rates until at least late 2014 will underpin economic growth going forward. Our forecast is that the fed funds target will remain in a 0% to 0.25% range in 2012 and 2013, and in turn, this will keep downward pressure on term interest rates. Fiscal policy, conversely, is headed toward restraint. In 2012, this is likely to be limited as the payroll tax holiday, and emergency unemployment benefits extension will add 0.4 percentage points to the annual growth rate and will be supplemented by the effect of the 2010 tax package. The rolling off of the American Recovery and Reconstruction Act (ARRA) will more than offset the effect of these two tax packages thereby resulting in a mild 0.3 percentage point hit to the economy in 2012. Fiscal policy will become more of a drag on the economy in 2013 when the tax packages end, the unwinding of ARRA continues, and the Budget Control Act comes into effect although our assumption is that sequestration will be avoided. The sum of

U.S. real GDP



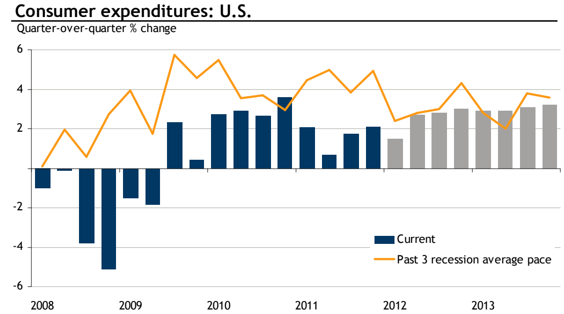
Source: Bureau of Economic Analysis, RBC Economics Research

Employment change and initial jobless claims: U.S.



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

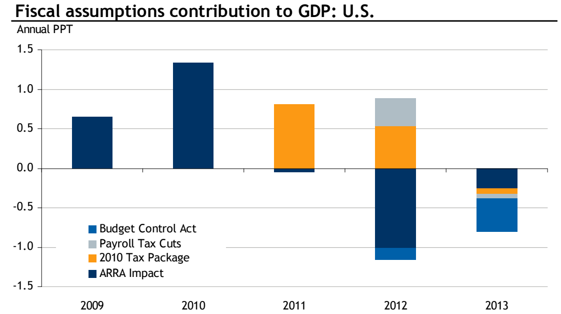
Consumer expenditures: U.S.



Source: Bureau of Economics Analysis, RBC Economics Research

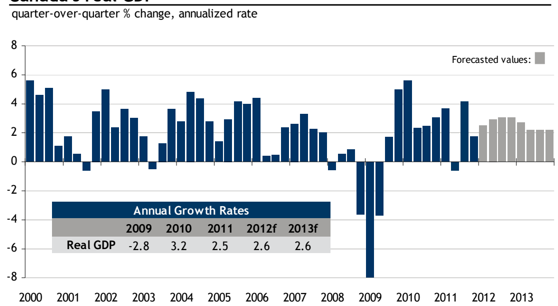
Forecasted values:

Fiscal assumptions contribution to GDP: U.S.



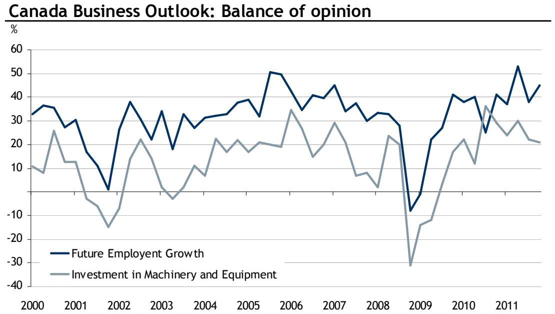
Source: Bureau of Economics Analysis, Macroeconomic Advisers, RBC Economics Research

Canada's real GDP



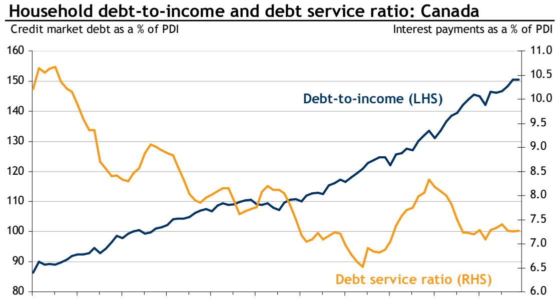
Source: Statistics Canada, RBC Economics Research

Canada Business Outlook: Balance of opinion



Source: Bank of Canada - Canada Business Outlook, RBC Economics Research

Household debt-to-income and debt service ratio: Canada



Source: Statistics Canada, RBC Economics Research

these policy changes will create a 0.8 percentage point hit to growth. Mitigating this drag will be a ramping up of business spending supported by low interest rates and a strengthening in global growth.

Canada hits speed bump but no lasting damage

Canada's economy blasted out of recession but got tangled up mid-2011 as one-off factors reduced activity in the auto and energy sectors and exports fell. The 0.6% drop in real GDP in the second quarter of 2011 was more than made up for by a 4.2% jump in the third quarter and the economy ended the year with a more moderate 1.8% gain. A sharp retrenchment in government investment weighed on activity while consumers and businesses stepped up and exports outpaced imports in the final quarter of the year. In 2011, Canada's economy grew by 2.5%. 2012 and 2013 are expected to be years of above-potential growth with real GDP forecasted to rise 2.6% in each year. Low interest rates, a more rapidly growing US economy, and solid corporate balance sheets will provide the platform for the expansion to continue. Additional support will come from elevated commodity prices. The main engines of growth in the early days of the recovery—consumer spending and residential investment—are likely to play a supplementary role in 2012 and 2013.

Business investment to bolster growth

Canadian businesses stand in the enviable position of generating profits, holding cash balances that are elevated compared to both assets and liabilities, having access to loans at low rates, and seeing strong demand for their equity and debt from both domestic and foreign buyers. It is, therefore, no surprise that according to the Bank of Canada's Business Outlook survey, a majority intends to increase both investment in machinery and equipment and labour. Having said that, the labour data have been disappointing for the past seven months when the average increase in employment was just 2,000 per month. In the bigger scheme of things, this softening did little damage to the overall condition of the labour market as there were still 179,000 more people employed than at the previous peak. Looking ahead, we expect that the pace of job gains will accelerate and will be supported by a strengthening in US demand given that exports account for 30% of Canada's GDP and about three-quarters of those exports go to the US. The pace of job creation is forecasted to pick up although the pace will exert modest downward pressure on the unemployment rate, which we forecast will fall to 6.9% by the end of 2013. The annual survey of investment intentions showed that private companies intend to increase investment spending (outside of housing) by 7.6% this year, building on 2011's 12% jump.

Canadian consumers – from go-go to steady-as-she-goes

The pace of consumer spending eased to 2.2% in 2011 from 2010's rapid 3.3% rise. Spending on durable goods slowed partly due to the mid-year disruption in auto supply. We expect consumer spending this year and next to grow at rates that are comparable to 2011 and project that spending on durable goods will account for about 25% of the increase, which is more than its historical share of total consumption. This is based on our view that auto sales will continue to recover from 2009's sharp decline. For consumers, the outlook is being affected by the elevated levels of debt on balance sheets, which stood at 150.6% of personal disposable income in the final quarter of 2011. Low interest rates mean the cost of servicing this debt remains manageable and, at present, have not caused any significant increase in consumer bankruptcies or fuelled a surge in mortgage delinquencies. At the same time, households' willingness to take on debt has likely diminished and as such reduces the likelihood of another debt-charged surge in spending on goods, services, or housing.

Canada's housing market recorded a solid performance since 2008's nosedive. On average the pace of sales in the period of 2009–2011 increased by 2.0%

annually. Prices are up 15% over that three-year period. The dramatic increase in prices has largely been offset by low mortgage rates thereby resulting in a modest deterioration in affordability relative to the period before the economic downturn. Market conditions, nationally, are balanced as indicated by the sales-to-new listings ratio. Against this backdrop, we expect Canada's housing market to hold steady as interest rates remain historically low. In 2013, interest rates are likely to rise as the Bank of Canada raises the overnight rate from 1% at the end of 2012 to 2% by year end 2013. This view reflects our assessment that Canada's economy will be approaching full capacity, the US economy will be growing at a stronger clip, and that there will less risk of a disorderly default in Europe.

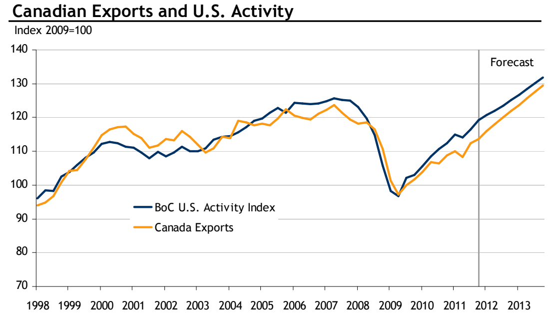
Canada's export outlook brightens on firming US demand

After suffering a sharp drop during the recession, Canadian exports posted two years of modest gains in keeping with the lacklustre pace of US growth. With the US economy gearing up, we expect a corresponding rise in exports in Canada. This trend will be reinforced by a strong rebound in demand for Canada's key exports including autos, machinery, and lumber. Our forecast is for real exports to return to the pre-recession peak level in 2013. Import demand is likely to be slower as domestic demand eases from 2010 and 2011's robust pace. Net exports will, therefore, boost growth to the tune of 1.0 percentage points in 2012 and 0.3 percentage points in 2013. The currency is unlikely to have a significant effect on trade flows between Canada and the US as it is forecasted to be range bound. High commodity prices and relatively higher short-term interest rates will underpin Canada's currency; however, the US dollar's safe-haven status will likely deliver periods of Canadian dollar underperformance during the forecast horizon.

Get ready for government spending to pull back further

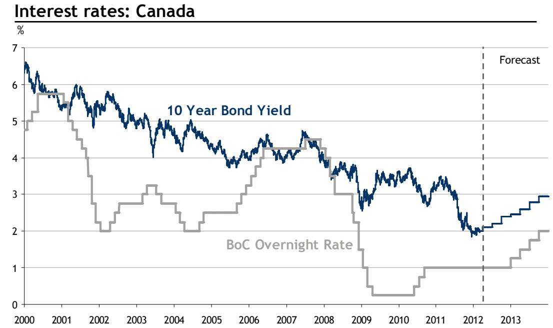
The combination of rising investment and strengthening exports will keep Canada's economy expanding; however, fiscal policy will act to restrain the pace of expansion during the forecast horizon. Our baseline forecast assumes that the unwinding of the stimulus-related infrastructure spending will trim 0.7 percentage points from real GDP in 2012 and 0.5 percentage points in 2013. These forecasts do not incorporate any additional spending restraint or tax changes that may be included in the upcoming round of budgets. Mitigating the effect of any additional restraint will be the maintenance of very stimulative monetary policy with no change in the Bank's overnight rate likely this year. The low policy rate, declining inflation, and Canada's relatively strong fiscal performance sets up longer-term interest rates to remain low during the forecast horizon.

Canadian Exports and U.S. Activity



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

Interest rates: Canada



Source: Bank of Canada, 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	0.6	2.0	1.8	2.9	2.8	2.1	2.3	2.3	2.5	2.4	2.2	2.2	3.3	2.2	2.4	2.4
Durables	-5.6	2.3	-0.6	8.6	10.7	1.8	3.8	4.2	5.8	5.4	5.1	4.8	4.4	1.1	5.3	4.8
Semi-Durables	0.5	0.0	3.5	3.6	1.5	2.3	2.3	2.3	2.5	2.1	1.5	1.5	5.0	1.7	2.3	2.2
Non-durables	-0.5	0.3	3.6	-0.1	1.5	2.3	2.3	2.3	2.1	2.1	1.9	2.0	1.8	1.0	1.7	2.1
Services	2.4	2.9	1.3	3.1	2.0	2.1	2.0	2.0	2.0	2.0	1.9	1.9	3.5	3.0	2.2	2.0
Government expenditures	-1.3	-0.2	-0.7	-2.8	-1.1	0.0	0.6	0.6	0.2	0.2	0.2	0.2	4.7	0.5	-0.7	0.3
Residential investment	6.5	0.3	10.6	3.3	-4.1	-2.6	1.7	2.9	1.5	1.2	1.7	2.0	10.2	2.3	0.7	1.5
Business investment	15.7	14.4	2.1	8.1	4.1	8.1	7.3	7.4	7.5	6.8	7.0	6.9	7.3	13.7	6.5	7.2
Non-residential structures	15.9	0.9	17.4	13.3	6.5	8.9	8.1	8.1	8.1	7.5	7.0	7.0	2.8	13.7	9.4	7.8
Machinery & equipment	15.5	30.2	-11.8	2.7	1.5	7.3	6.4	6.6	6.8	6.0	6.9	6.7	11.8	13.7	3.5	6.6
Final domestic demand	2.1	2.6	1.7	2.1	1.5	2.0	2.4	2.5	2.4	2.3	2.3	2.3	4.5	3.0	2.0	2.4
Exports	4.7	-6.0	16.0	4.6	9.5	7.3	6.9	6.5	5.9	6.7	6.3	5.9	6.4	4.4	7.4	6.4
Imports	7.7	13.5	-1.5	2.2	5.1	3.9	5.3	5.9	4.3	5.5	5.8	5.8	13.1	6.5	4.1	5.2
Inventories (change in $b)	10.0	21.5	10.5	6.5	5.6	5.5	6.3	7.8	7.2	5.9	5.3	5.1	8.9	12.1	6.3	5.9
Real gross domestic product	**3.7**	**-0.6**	**4.2**	**1.8**	**2.5**	**2.9**	**3.1**	**3.1**	**2.7**	**2.2**	**2.2**	**2.2**	**3.2**	**2.5**	**2.6**	**2.6**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2010	2011	2012	2013
Business and labour																
Productivity	1.0	0.8	0.6	1.1	1.0	2.1	1.9	1.5	1.2	1.0	0.9	0.9	1.3	0.8	1.6	1.0
Pre-tax corporate profits	13.1	16.0	18.0	13.3	12.4	12.3	10.6	9.6	8.0	9.3	7.9	4.9	21.2	15.0	11.2	7.5
Unemployment rate (%)*	7.7	7.5	7.3	7.5	7.5	7.3	7.2	7.2	7.1	7.0	6.9	6.9	8.0	7.5	7.3	7.0
Inflation																
Headline CPI	2.6	3.4	3.0	2.7	2.4	1.6	1.8	1.6	1.5	1.9	2.1	2.1	1.8	2.9	1.8	1.9
Core CPI	1.3	1.6	1.9	2.0	2.0	1.8	1.8	1.7	1.9	1.9	2.0	2.0	1.8	1.6	1.8	2.0
External trade																
Current account balance ($b)	-40	-62	-49	-41	-39	-38	-34	-29	-24	-23	-22	-22	-51	-48	-35	-23
% of GDP	-2.4	-3.7	-2.9	-2.4	-2.2	-2.1	-1.9	-1.6	-1.3	-1.2	-1.2	-1.2	-3.1	-2.8	-1.9	-1.2
Housing starts (000s)*	175	195	205	200	196	185	190	188	186	186	186	186	190	194	190	186
Motor vehicle sales (mill., saar)*	1.61	1.62	1.60	1.64	1.71	1.66	1.65	1.65	1.67	1.69	1.71	1.72	1.58	1.62	1.67	1.70

*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	2.1	0.7	1.7	2.1	1.5	2.7	2.8	3.0	2.9	2.9	3.1	3.2	2.0	2.2	2.1	2.9
Durables	11.8	-5.3	5.7	15.3	10.5	1.7	7.7	7.3	6.9	7.1	6.9	6.7	7.2	8.1	7.5	6.8
Non-durables	1.6	0.2	-0.6	0.4	0.0	3.3	2.0	3.0	2.8	2.8	3.5	4.0	2.9	1.7	1.1	2.9
Services	0.8	1.9	1.9	0.7	0.6	2.6	2.2	2.2	2.3	2.3	2.3	2.4	0.9	1.4	1.5	2.3
Government spending	-5.9	-0.9	-0.1	-4.4	1.4	-1.3	-1.2	-1.0	-1.0	-1.0	-0.9	-0.9	0.7	-2.1	-1.0	-1.0
Residential investment	-2.5	4.2	1.2	11.5	10.8	5.1	11.5	11.0	11.2	10.7	10.2	9.8	-4.3	-1.4	8.3	10.5
Business investment	2.1	10.3	15.7	2.8	4.0	9.0	8.3	8.6	8.5	8.4	8.3	8.4	4.4	8.7	7.3	8.5
Non-residential structures	-14.4	22.6	14.4	-2.6	5.4	10.2	9.2	9.0	8.4	7.5	7.5	7.8	-15.8	4.4	7.5	8.4
Equipment & software	8.7	6.3	16.2	4.8	3.5	8.5	8.0	8.5	8.6	8.7	8.6	8.6	14.6	10.2	7.2	8.5
Final domestic demand	0.4	1.3	2.7	1.1	1.9	2.6	2.7	2.9	2.9	2.9	3.0	3.1	1.8	1.8	2.1	2.9
Exports	7.9	3.6	4.7	4.3	8.8	9.2	9.7	9.8	9.0	9.3	9.8	10.1	11.3	6.8	7.3	9.5
Imports	8.3	1.4	1.2	3.8	6.6	7.0	7.9	8.5	7.2	7.3	7.5	7.4	12.5	4.9	5.4	7.6
Inventories (change in $b)	49.1	39.1	-2.0	54.3	64.1	58.1	50.9	62.1	70.3	69.0	62.7	69.4	58.8	35.1	58.8	67.8
Real gross domestic product	**0.4**	**1.3**	**1.8**	**3.0**	**2.4**	**2.6**	**2.6**	**3.2**	**3.2**	**3.0**	**3.0**	**3.5**	**3.0**	**1.7**	**2.5**	**3.0**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.7	0.4	0.2	0.1	0.6	0.9	0.7	0.9	1.3	1.4	1.4	1.4	4.0	0.2	0.9	1.4
Pre-tax corporate profits	8.8	8.5	7.5	7.6	7.7	5.4	4.7	4.4	4.8	4.8	4.9	5.3	32.2	8.1	5.5	5.0
Unemployment rate (%)*	9.0	9.0	9.1	8.7	8.4	8.5	8.4	8.3	8.3	8.2	8.1	8.0	9.6	9.0	8.4	8.2
Inflation																
Headline CPI	2.1	3.4	3.8	3.3	2.8	2.1	1.9	1.9	1.7	1.9	1.8	1.9	1.6	3.2	2.2	1.8
Core CPI	1.1	1.5	1.9	2.2	2.2	1.9	1.7	1.9	1.6	1.7	1.7	1.7	1.0	1.7	1.9	1.7
External trade																
Current account balance ($b)	-473	-494	-431	-496	-490	-488	-487	-491	-495	-492	-487	-480	-471	-473	-489	-488
% of GDP	-3.2	-3.3	-2.8	-3.2	-3.2	-3.1	-3.1	-3.1	-3.1	-3.0	-2.9	-2.9	-3.2	-3.1	-3.1	-3.0
Housing starts (000s)*	582	572	615	673	675	707	753	797	849	898	947	996	585	611	733	922
Motor vehicle sales (millions, saar)*	13.0	12.1	12.4	13.4	14.3	13.9	14.2	14.4	14.5	14.8	15.0	15.1	11.6	12.7	14.2	14.9

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest 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
Canada																	
Overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00	0.25	1.00	1.00	1.00	2.00
Three-month	1.10	0.90	0.80	0.82	0.90	0.95	1.05	1.30	1.60	1.80	2.05	2.10	0.30	0.97	0.82	1.30	2.10
Two-year	1.85	1.42	0.88	0.95	1.05	1.15	1.20	1.35	1.50	1.75	1.95	2.20	1.20	1.71	0.95	1.35	2.20
Five-year	2.65	2.06	1.39	1.27	1.40	1.55	1.70	1.85	2.05	2.30	2.40	2.55	2.77	2.46	1.27	1.85	2.55
10-year	3.25	2.91	2.15	1.94	2.00	2.10	2.20	2.40	2.45	2.60	2.80	2.95	3.45	3.16	1.94	2.40	2.95
30-year	3.85	3.42	2.77	2.50	2.60	2.70	2.80	3.00	3.15	3.30	3.45	3.60	4.00	3.55	2.50	3.00	3.60
Yield curve (10s-2s)	140	149	127	99	95	95	100	105	95	85	85	75	225	145	99	105	75
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	0.02	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.10	0.12	0.02	0.05	0.05
Two-year	0.70	0.41	0.25	0.25	0.25	0.25	0.25	0.25	0.40	0.50	0.55	0.75	0.75	0.61	0.25	0.25	0.75
Five-year	2.10	1.45	0.96	0.83	0.75	0.80	0.85	0.95	1.10	1.25	1.40	1.60	2.69	2.01	0.83	0.95	1.60
10-year	3.45	2.92	1.92	1.89	1.85	1.95	2.05	2.25	2.40	2.55	2.75	2.90	3.40	3.30	1.89	2.25	2.90
30-year	4.50	4.27	2.92	2.89	3.00	3.20	3.40	3.65	3.75	3.90	4.05	4.15	4.35	4.34	2.89	3.65	4.15
Yield curve (10s-2s)	275	251	167	164	160	170	180	200	200	205	220	215	265	269	164	200	215
Yield spreads																	
Three-month T-bills	0.95	0.87	0.78	0.80	0.85	0.90	1.00	1.25	1.55	1.75	2.00	2.05	0.20	0.85	0.80	1.25	2.05
Two-year	1.15	1.01	0.63	0.70	0.80	0.90	0.95	1.10	1.10	1.25	1.40	1.45	0.45	1.10	0.70	1.10	1.45
Five-year	0.55	0.61	0.43	0.44	0.65	0.75	0.85	0.90	0.95	1.05	1.00	0.95	0.08	0.45	0.44	0.90	0.95
10-year	-0.20	-0.01	0.23	0.05	0.15	0.15	0.15	0.15	0.05	0.05	0.05	0.05	0.05	-0.14	0.05	0.15	0.05
30-year	-0.65	-0.85	-0.15	-0.39	-0.40	-0.50	-0.60	-0.65	-0.60	-0.60	-0.60	-0.55	-0.35	-0.79	-0.39	-0.65	-0.55

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	1.11	1.09	1.07	1.05	1.03	1.01	1.01	1.02	0.69	0.92	1.02	1.05	1.02
Brazilian real	1.63	1.56	1.88	1.86	1.75	1.80	1.75	1.72	1.72	1.72	1.75	1.80	2.32	1.78	1.86	1.72	1.80
Canadian dollar	0.97	0.96	1.05	1.02	0.98	0.99	1.00	1.00	0.99	0.98	0.97	0.96	1.26	1.02	1.02	1.00	0.96
Renminbi	6.55	6.46	6.38	6.30	6.30	6.30	6.20	6.10	6.05	6.00	5.95	5.85	6.83	6.83	6.30	6.10	5.85
Euro	1.42	1.45	1.34	1.30	1.33	1.31	1.28	1.27	1.26	1.25	1.24	1.23	1.33	1.35	1.30	1.27	1.23
Yen	83	81	77	77	78	76	73	71	70	71	72	73	99	93	77	71	73
Mexican peso	11.91	11.71	13.90	13.95	12.50	12.75	12.50	12.25	12.25	12.25	12.00	12.00	14.17	12.36	13.95	12.25	12.00
New Zealand dollar	0.76	0.83	0.76	0.78	0.85	0.84	0.83	0.82	0.81	0.80	0.80	0.79	0.56	0.71	0.78	0.82	0.79
Swiss franc	0.92	0.84	0.91	0.94	0.91	0.94	0.98	0.99	1.00	1.02	1.02	1.04	1.14	1.05	0.94	0.99	1.04
U.K. pound sterling	1.60	1.61	1.56	1.55	1.58	1.58	1.56	1.59	1.59	1.60	1.61	1.62	1.43	1.52	1.55	1.59	1.62

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.