ECONOMIC AND FINANCIAL MARKET OUTLOOK

March 2013

From stall speed to cruising speed

Global policymakers pull together to bolster growth

Globally, policymakers are focused on returning the world economy to a firmer growth path in 2013. Both central banks and governments put in place policies that further reduced the risks of a severe downturn this year. The International Monetary Fund (IMF) acknowledged that the degree and timing of the implementation of harsh fiscal austerity measures were exerting greater than expected weight on the economies of the most indebted European countries, thereby easing the pressure on governments to implement further aggressive action. The Japanese government's call for both fiscal policy stimulus and more quantitative easing and reaccelerating activity in China also served to reduce the downside risks to the outlook for the global economy.

Reduced tail risks ≠ guaranteed stronger growth

Despite all the constructive policy announcements, the global economy is headed for another year of mediocre growth in 2013. Persistent uncertainty about US fiscal issues, unease about Europe's ability to absorb further fiscal cutbacks, even if tempered, and political risks are some of the factors that will likely limit the pace of expansion in the developed countries to just 1.4% this year. Emerging economies are expected to grow by 5.5% thereby resulting in global growth coming in at 3.5% with 2014 expected to deliver a stronger 4.1% gain.

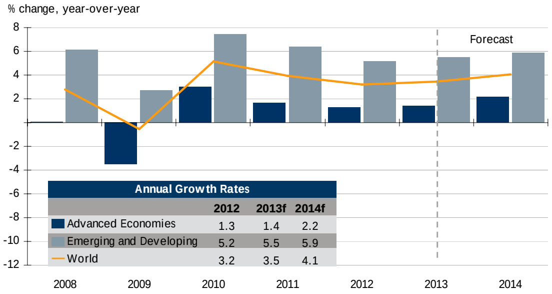
Will this year be different?

For the past two years, forecasters were heartened by strong reports early in the year and projected a broad-based strengthening in economic activity only to be disappointed by global events. Tracking the composite global purchasing managers' index since 2010 highlights that the index peaked in February or April and then declined as serious downside risks to key players in the global economy materialized. It is for this reason, that we remain cautious about reading too much into the recent improvement in the global Purchasing Managers' Indexes (PMI). Having said that, many of the more significant downside risks to growth have eased, and with central banks committed to keep interest rates low, the underpinnings are in place for the second half of 2013 to mark the beginning of a sustained period of above-trend growth for the world economy.

US economy - three weights on growth ease, one lingers

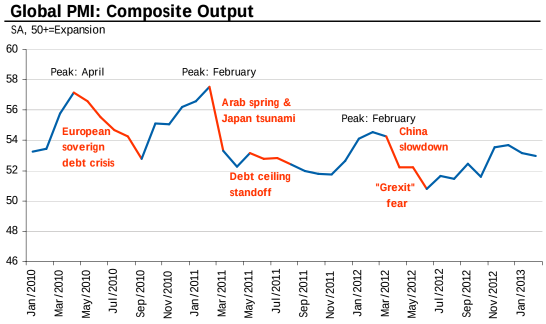
We can point to four factors that contributed to the US economy's half-hearted economic expansion. The first three—household balance sheet deleveraging,

Advanced versus emerging economies GDP growth



Source: International Monetary Fund, RBC Economics Research Forecasts

Global PMI: Composite Output



Source: JP Morgan, Markit, RBC Economics Research

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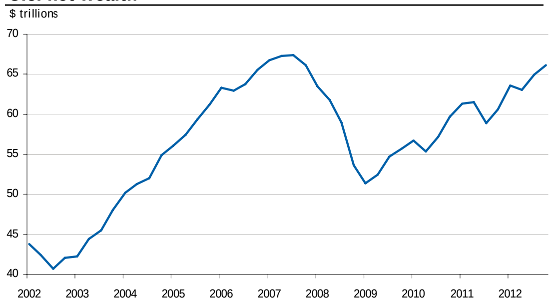
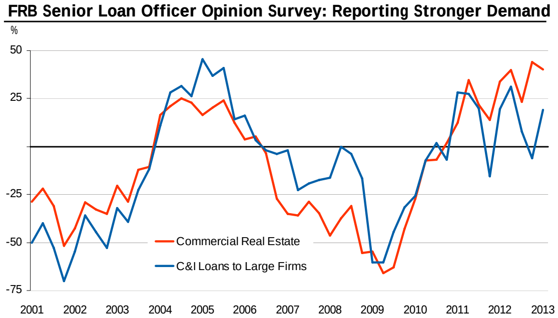
U.S. net wealth

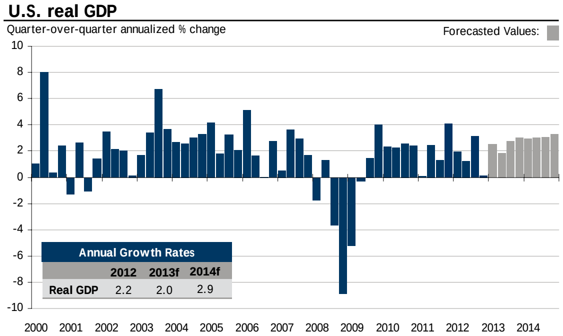


Source: Federal Reserve

FRB Senior Loan Officer Opinion Survey: Reporting Stronger Demand



U.S. real GDP



Source: Bureau of Economic Analysis, RBC Economics Research

the housing market correction, and financial market crisis—have improved materially. The final obstacle, the outlook for the implementation of fiscal restraint, is still weighing on confidence and growth. Our forecast had assumed that there would be tax hikes and expenditure cuts this year that would lower growth by about a percentage point. If full sequestration goes ahead as planned, however, the restraint to growth will increase by another one-half percentage point. Looking forward, uncertainty about the passage of the debt ceiling legislation needed for the government to keep issuing debt on May 19 will keep attention on politics and is to likely to deter a sharp acceleration in spending by consumers or businesses in the first half of the year.

On the plus side, households have much less to worry about with respect to the state of their balance sheets and face improved prospects for their real estate holdings. As of the end of 2012, US households recovered 92% of the $16 trillion of net wealth losses incurred during the recession, the debt-to-income ratio fell by 26 percentage points, and owners' equity in real estate rebounded to 47% from the recent low of 37% albeit well below the 60% recorded before the economic and housing market downturn. The downturn in the housing market ended in 2012 with housing starts up 28% from 2011, existing and new home sales rising 9.6%, and the Core Logic measure of house prices recording a gain of 3.5%. As a result, real residential investment contributed 0.3 percentage points to 2012's 2.2% growth rate, which was the first year of support since 2005.

The financial system has also shown signs of renewed activity with both the supply and demand for credit picking up. Lending standards, according to the Federal Reserve's Senior Loans' Officer Survey, continued to ease for commercial and industrial and non-residential construction loans in early 2013. Loans for commercial real estate increased by 0.5% in 2012 following three years of decline, and the volume of commercial and industrial loans rose at the fastest pace since 2008. Against a backdrop of low interest rates and readily available capital, we project that business investment will continue with the focus shifting to non-residential real estate investment from capital goods purchases.

U.S. real GDP: weak in Q4-2012 but details not so bad

The first read of US real GDP in the fourth quarter of 2012 was a decline of 0.1%, thereby defying forecasts for a moderate, but still positive, print. The second estimate showed that the US economy grew at a paltry 0.1% pace. While the headline growth rate revived talk of the US economy heading into another recession, the details of the report suggest that these prognostications were unfounded. Real sales to private domestic purchasers—consumers and businesses—grew at a 3.5% annualized pace in the quarter, which was the quickest increase since the first quarter of 2012. The weakness in the report was due to a sharp 22% drop in government spending on defence and an aggressive trimming of inventory levels. Together, these components clipped 2.9 percentage points from the quarterly growth rate. The pull back in spending on defence was likely in anticipation of the implementation of the sequestration on January 1. With the C$85 billion of spending cuts delayed until March 1, the government's pre-emptive spending cuts in late 2012 set up for the quarterly pace of declines in government spending to be more muted in 2013.

Receding risks to global outlook …..

It is not only uncertainty associated with the US fiscal landscape that will limit activity in the first half of 2013 but also concerns about the depth and duration of the European recession. The sharp drop in real GDP in the euro area in the fourth quarter of 2012 reflected a broad-based decline in activity across the region. In early 2013, political issues are likely to temper spending in some of the key economies thereby resulting in another quarterly drop in real GDP. Likely, the headline decline will mask a rebound in Germany though this will not be enough to prevent a fourth consecutive quarterly drop in output area wide. As the political event risks recede, we expect other countries to emerge from recession supported by low bank funding costs and reduced refinancing costs for some of the more indebted governments. Additionally, an easing up on demands for widespread and persistent austerity budgets will give these economies scope to grow. With that said, the euro area economy is likely to contract by 0.3% in 2013 with the turnaround in the second half of the year setting up a moderate 1.0% increase in 2014.

…and low rates = faster US growth in second half 2013

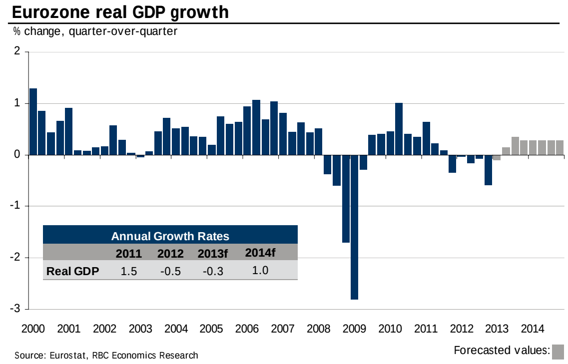
The threat of another government debt downgrade as the debt ceiling deadline approaches is likely to have limited effect on yields given the Federal Reserve's steady purchases of both Treasury bonds and mortgage-backed securities. At the same time, the Fed is poised to maintain the fed funds target range at 0% to 0.25% given the elevated unemployment rate and low inflation. This policy mix finally showed signs of stimulating the desired increase in demand for credit in 2012, and we expect this trend will continue.

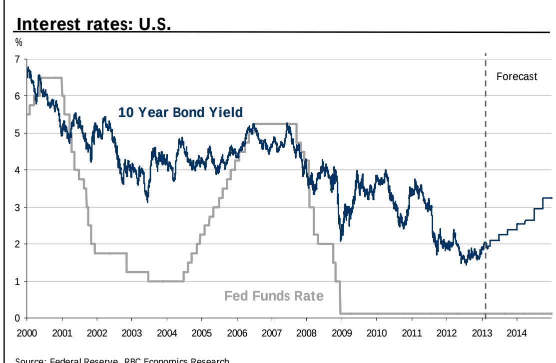
Easy financial conditions, a clearer read on the outlook for fiscal policy, and assurance that the government will be able to borrow to meet its funding needs are projected to underpin an improvement in consumer and business confidence in the latter half of 2013. As indicated earlier, business balance sheets are in good shape, and household finances are recovering and will provide the means for stronger spending growth.

Faster economic growth in the second half of the year and a gradual, yet steady, decline in the unemployment rate will likely see the Fed end its securities purchase programs in early 2014. This sets up a steepening in the US yield curve with the 10-year Treasury bond yield forecasted to rise to 2.4% at the end of 2013 and 3.25% at the end of 2014. The Fed outlined the conditions under which the fed funds target would be raised including a decline in the unemployment rate below 6.5% and anchored inflation expectations (the rate within 50 basis points of the 2% target, two years ahead). These conditions are unlikely to be met until 2015 meaning that the funds target will hold in the current 0% to 0.25% range in 2013 and 2014.

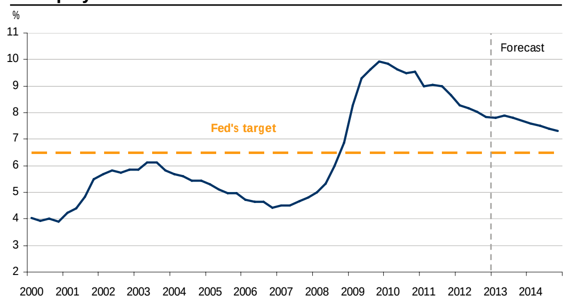
A long road to a healthy labour market

The US labour market finally built some upside momentum in the second half of 2012 with an average increase in non-farm payrolls of 209,000 per month.



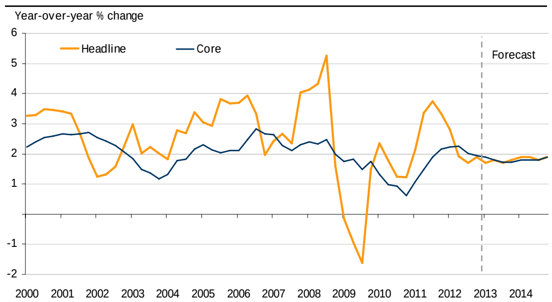


Unemployment rate: U.S.



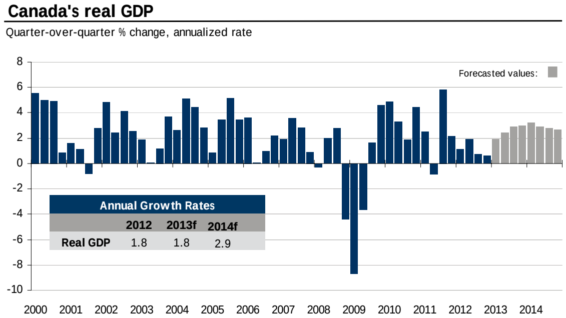
Source: Bureau of Labor Statistics, RBC Economics Research

Inflation: U.S.



Source: Bureau of Economic Analysis, RBC Economics Research

Canada's real GDP



Source: Statistics Canada, RBC Economics Research Forecasts

The average pace was somewhat slower in January and February 2013, and we expect the pace to moderate slightly further as the additional fiscal restraint takes its toll. Correspondingly, the US unemployment rate fell by 0.4 percentage points from June 2012 to December 2012, and the moderate pace of job creation will likely limit the pace of decline going forward. Underlying labour market fundamentals still show signs of ill health with proportionately fewer working full time, and one-third of part-time workers doing so because they cannot get full-time jobs. This backdrop will limit the pace of decline in the unemployment rate as these conditions return to normal even as the pace of economic growth accelerates and the monthly pace of job creation rises. During the course of 2013, we expect a mild decline in the unemployment rate. Labour market conditions are projected to improve in 2014 with the average monthly increase in employment rising and the unemployment rate to average 7.3% in the fourth quarter. By the end of 2014, the economy will finally have recovered the 8.7 million jobs lost during the recession.

Inflation absent

The US headline inflation rate started 2013 at 1.6% with the core measure at 1.9%. Our forecast is for inflation to remain well contained in 2013 and 2014 even with the huge amount of liquidity coursing through the economy. This reflects the fact that the US economy has significant unused resources as indicated by the elevated unemployment rate and the historically large output gap.

Canada's economy cracked in second half of 2012

After boasting the strongest economic performance in the G-7 in the post-recession period, Canada's economy hit a speed bump in the second half of 2012. Slumping mining, oil, and gas production weighed on activity in the third quarter and was augmented by a slowing in manufacturing and construction. While the energy complex managed to recover in the final quarter of the year, weakness was evident in other sectors of the economy with transportation and public administration output falling, and manufacturing industries continuing to contract. This weakness curbed growth with real GDP expanding at a 0.6% annualized pace, which was much slower than the 1.5% annualized rate recorded in the first half of 2012 and even the third quarter's 0.7% gain.

Weak hand-off from 2012 will limit 2013's growth rate

We trimmed our forecast for 2013 real GDP growth by 0.4 percentage points to 1.8% following the softer than expected 1.8% gain in 2012. Some of the factors that dampened activity in late 2012 have started to reverse; however, uncertainty about the outlook for the US and euro area economies will weigh on confidence in early 2013 with both consumers and businesses likely to hold back. Domestic financial conditions remain supportive, and as the downside risks to these key economies dissipate, we expect both consumer and business spending to accelerate although neither is likely to deliver the rapid gains recorded in the early days of the expansion. The high levels of debt on households' balance sheets will limit the pace of spending on goods and services although continued income and employment growth will lead to moderate gains. Business balance sheets are strong and will support increased investment; however, we pared back our forecast in line with the results of the annual Capital Expenditures Survey that showed an unexpectedly sharp slowing in investment spending plans in 2013.

Housing market in midst of mild correction

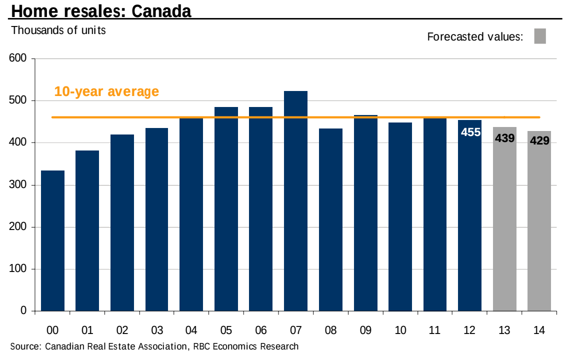
The strength in domestic demand was also due to robust housing market activity, which persisted until the middle of 2012. The combination of a series of government policy changes aimed at tightening lending rules and jawboning by the central bank about the risks associated with leverage served to dampen housing market activity. There was also a regional aspect to the drop with a steady deterioration in affordability in Vancouver eventually causing a sharp correction in activity that weighed on national sales and prices. With that said, nationally, home resales were only 1.2% lower than in 2011. Prices increased by a miniscule 0.2% in 2012 thereby marking a sharp slowing from the 7.1% average gains recorded in the prior two years.

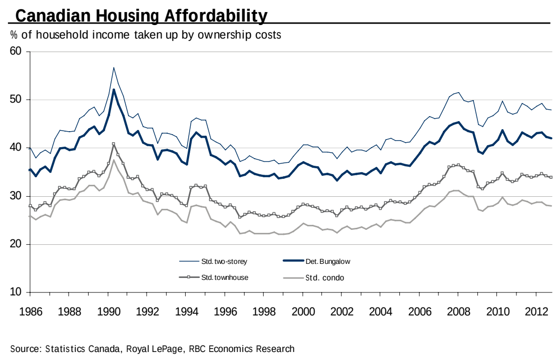
RBC's affordability measure showed that conditions were slightly worse than the historical average at the end of 2012 with the national figure exaggerated by extremely poor (albeit improving) affordability in the Vancouver-area market. Excluding Vancouver, RBC's measure suggests a mild degree of affordability strain reflecting elevated home prices and exceptionally low interest rates. Heavy household debt burdens and expectations that interest rates will eventually move higher are likely to weigh on housing sales in 2013 and 2014 with prices forecast to post small declines in the order of 1.5% to 1.8%.

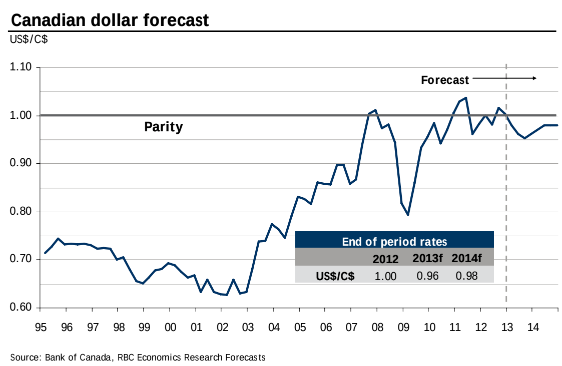
Rotation from domestic to foreign demand

The export sector's underperformance has been exceptional relative to other sectors of the economy as well as past export recovery periods. At the end of 2012, exports stood 8% below the pre-recession peak level while consumption and business non-residential investment stood 13% and 15% higher, respectively. Given that the domestic drivers of growth are likely to ease off a bit going forward, exports need to pick up the slack if the economy is going to return to above-potential growth. The weakening in the Canadian dollar to below parity against the US dollar is expected to persist in our revised forecast. Previously, we had a firmer Canadian dollar outlook; however, reduced Bank of Canada rate hike expectations, steady to lower commodity prices, and softening foreign demand for Canadian financial assets are likely to result in Canada's currency trading below parity with the US dollar for the forecast horizon.

Some of the key segments of the US economy that are important to Canadian exporters include housing, motor vehicles sales, industrial production, and investment in machinery. The pent-up demand for housing and vehicles created during the economic downturn will in part be met by Canadian autos and parts and forestry exports. Similarly, the anticipated rise in business investment will bolster demand for Canadian machinery exports. At the same time, the mild depreciation in the Canadian dollar will lower export prices and raise the cost of imported capital goods for Canadian companies, and on the margin will see Canadian import demand soften. This combination will result in net exports contributing to real GDP growth both this year and next.

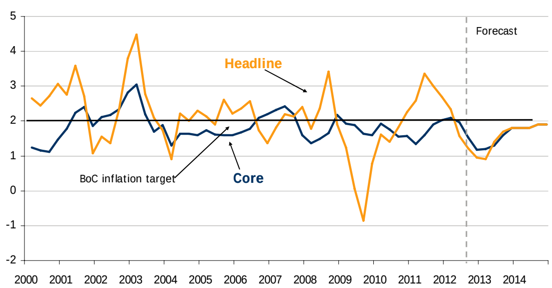






Inflation: Canada

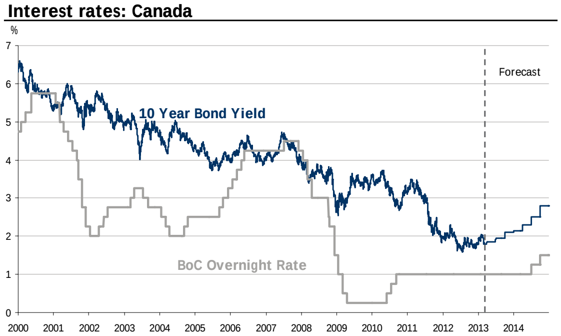
% change, year-over-year



Source: Statistics Canada, RBC Economics Research

Interest rates: Canada

%



Source: Bank of Canada, RBC Economics Research Forecasts

Labour market staying in drive

December 2012 capped off another strong year of employment gains with 310,000 jobs created in 2012. In early 2013, the saw-toothed pattern of recent years emerged with 22,000 job cuts announced in January and 51,000 jobs created in February. Volatility in the employment data aside, labour market conditions are healthy with gains concentrated in full-time positions in mid-to-high wage industries. Likely, the annual pace of job creation will slow as the economy grinds toward capacity. Still, we expect employment levels to increase by 200,000 to 250,000 in both 2013 and 2014, and the unemployment rate to break below 7% at the end of this year and remain there in 2014.

Inflation surprises to downside

The slide in inflation in the second half of 2012 was in part a consequence of weak growth and rising excess capacity and partly due to temporary factors that we expect will reverse. The sharp deceleration in motor vehicle prices in the fourth quarter carried on in January and is unlikely to be sustained given it partly reflected methodological changes, and firming demand for cars will likely translate into higher prices in time. Other components ranging from moderating meat prices to falling prices for clothing are also likely to prove to be short lived. More generally, our call for Canada's inflation rates to rise is backed by our view that inflation expectations are the dominant driver of price trends and that expectations remain firmly anchored around the Bank's 2% target. While the recent widening in the output gap may prevent the inflation rate from snapping back in the near term, the combination of steady inflation expectations and a strengthening in growth throughout 2013 will result in both the headline and core rates moving closer to the 2% target by year-end 2014.

BOC – watch and wait

Weak growth, a persistent output gap, and a declining pace of inflation shifted the outlook for monetary policy during the past quarter such that no change in the overnight rate is expected until mid-2014. The urgency for higher interest rates was further dampened by the slowing in the pace of household debt accumulation because this mitigated concerns that low interest rates were fuelling an untenable buildup in leverage on consumers' balance sheets. Low debt service costs and a healthy labour market are preventing foreclosures and delinquencies, so it has mainly been macro-prudential changes that have dampened housing activity and credit demand. For now, the government's policy changes have taken the heat off the Bank of Canada to raise interest rates thereby allowing policy to stay aimed at reviving economic growth, albeit outside residential construction. As such, we now forecast the Bank of Canada will begin raising interest rates in mid-2014 with the overnight rate ending 2013 at 1.0% and 2014 at 1.5%.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual				Forecast								Actual		Forecast	
	2012				2013				2014				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2011	2012	2013	2014
Household Consumption	2.2	0.5	2.8	2.7	2.0	2.1	2.7	2.4	2.5	2.5	2.4	2.3	2.4	1.9	2.3	2.4
Durables	5.3	-3.8	3.1	3.8	4.5	2.5	3.6	3.2	2.8	2.5	2.5	2.4	1.8	2.8	3.1	2.8
Semi-Durables	3.5	-3.8	3.5	1.0	1.0	1.8	3.0	2.5	2.6	3.2	2.8	2.5	2.8	2.1	1.5	2.7
Non-durables	-1.8	2.1	3.8	2.6	1.5	1.8	3.0	2.0	2.6	3.2	2.8	2.5	1.4	0.9	2.3	2.6
Services	3.3	1.3	2.2	2.8	1.9	2.2	2.3	2.4	2.3	2.1	2.2	2.1	2.9	2.2	2.2	2.2
NPISH consumption	-1.2	4.1	-0.7	3.8	2.0	2.1	2.7	2.4	2.5	2.5	2.4	2.3	4.5	1.5	2.3	2.4
Government expenditures	-1.7	1.5	-0.4	1.8	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	1.0	0.4	0.5	0.3
Government fixed investment	2.1	6.0	-7.7	5.8	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	-3.3	-5.6	0.7	0.6
Residential investment	14.4	0.6	-2.4	0.8	-7.8	-5.4	-0.5	0.5	-1.5	-0.7	0.7	0.8	1.9	5.8	-3.2	-0.7
Non-residential investment	8.1	8.3	-0.4	4.4	4.6	4.3	6.7	7.3	8.2	7.4	7.5	6.7	10.4	6.2	4.5	7.3
Non-residential structures	9.2	14.5	-2.1	6.5	3.8	4.5	6.9	7.5	8.6	8.0	8.3	7.5	10.2	8.0	4.9	7.7
Machinery & equipment	6.5	0.1	2.1	1.2	5.9	4.0	6.4	7.0	7.5	6.4	6.4	5.5	10.7	3.7	4.0	6.6
Intellectual property	-12.9	1.9	2.8	-2.7	4.9	4.3	6.7	7.3	8.1	7.2	7.4	6.5	9.0	-0.7	3.2	7.1
Final domestic demand	2.3	1.8	0.9	2.6	1.3	1.4	2.4	2.3	2.4	2.4	2.5	2.3	2.7	1.9	1.7	2.3
Exports	-3.3	1.1	-7.3	1.2	6.5	8.5	8.1	7.8	7.5	7.5	7.0	7.0	4.6	1.6	4.0	7.6
Imports	5.1	2.3	2.1	-1.0	3.1	7.1	6.8	6.1	5.5	5.0	5.5	5.5	5.8	2.9	3.5	5.8
Inventories (change in $b)	3.2	3.2	13.0	2.7	1.3	4.2	5.2	6.1	7.3	6.6	6.4	6.5	1.6	5.5	4.2	6.7
Real gross domestic product	**1.2**	**1.9**	**0.7**	**0.6**	**1.9**	**2.4**	**2.9**	**3.0**	**3.2**	**2.9**	**2.8**	**2.7**	**2.6**	**1.8**	**1.8**	**2.9**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2011	2012	2013	2014
Business and labour																
Productivity	0.7	0.8	0.0	-0.6	-0.5	0.4	1.0	1.2	1.5	1.5	1.4	1.4	1.0	0.2	0.5	1.4
Pre-tax corporate profits	2.5	-0.1	-3.6	-9.1	-3.6	1.9	2.5	5.7	7.1	8.0	8.0	7.3	15.2	-2.7	1.6	7.6
Unemployment rate (%)*	7.4	7.3	7.3	7.2	7.0	7.1	7.0	6.9	6.8	6.7	6.6	6.5	7.4	7.2	7.0	6.7
Inflation																
Headline CPI	2.3	1.6	1.2	0.9	0.9	1.4	1.7	1.8	1.8	1.8	1.9	1.9	2.9	1.5	1.5	1.9
Core CPI	2.1	2.0	1.5	1.2	1.2	1.3	1.6	1.8	1.8	1.8	1.9	1.9	1.7	1.7	1.5	1.9
External trade																
Current account balance ($b)	-54.9	-71.7	-72.2	-69.0	-50.0	-44.7	-44.3	-43.4	-41.9	-40.8	-39.9	-39.1	-52.3	-66.9	-45.6	-40.4
% of GDP	-3.0	-4.0	-4.0	-3.8	-2.7	-2.4	-2.3	-2.3	-2.2	-2.1	-2.0	-2.0	-3.0	-3.7	-2.4	-2.1
Housing starts (000s)*	191	231	222	202	178	186	183	180	176	175	175	173	194	215	182	175
Motor vehicle sales (mill., saar)*	1.75	1.72	1.70	1.71	1.74	1.74	1.76	1.77	1.78	1.79	1.79	1.80	1.62	1.72	1.75	1.79

*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	
	2012				2013				2014				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2011	2012	2013	2014
Consumer spending	2.4	1.5	1.6	2.1	1.7	2.0	2.6	2.9	2.5	2.5	2.6	2.7	2.5	1.9	2.0	2.6
Durables	11.5	-0.2	8.9	13.8	4.2	3.4	6.3	6.9	5.5	6.8	6.3	6.6	7.2	7.8	6.5	6.1
Non-durables	1.6	0.6	1.2	0.1	0.8	2.0	2.3	2.8	2.5	2.0	2.3	2.3	2.3	0.9	1.2	2.4
Services	1.3	2.1	0.6	0.9	1.5	1.8	2.1	2.2	2.0	2.0	2.1	2.2	1.9	1.3	1.5	2.1
Government spending	-3.0	-0.7	3.9	-6.9	-1.0	-4.0	-1.9	-0.9	0.1	0.1	0.4	0.4	-3.1	-1.7	-2.2	-0.5
Residential investment	20.6	8.4	13.6	17.4	12.7	8.7	10.8	10.8	13.0	14.5	15.0	15.3	-1.4	12.1	12.3	12.8
Non-residential investment	7.5	3.6	-1.8	9.7	4.0	8.4	8.5	8.1	8.1	8.6	8.4	8.0	8.6	7.7	5.9	8.3
Non-residential structures	12.8	0.6	0.0	5.7	2.6	8.5	8.5	7.8	7.8	7.8	8.0	8.0	2.8	10.1	4.9	8.0
Equipment & software	5.4	4.8	-2.6	11.3	4.5	8.3	8.5	8.2	8.2	8.9	8.5	8.0	11.0	6.9	6.3	8.4
Final domestic demand	2.2	1.4	1.9	1.4	1.6	1.7	2.5	2.9	2.8	3.0	3.1	3.1	1.8	1.9	1.8	2.8
Exports	4.4	5.2	1.9	-3.9	7.5	9.3	8.1	7.8	8.3	8.4	8.4	8.4	6.7	3.3	4.9	8.3
Imports	3.1	2.8	-0.6	-4.5	5.5	8.0	6.5	5.3	6.9	7.5	7.5	7.5	4.8	2.4	3.2	6.8
Inventories (change in $b)	56.9	41.4	60.3	12.0	36.1	43.8	47.5	44.2	46.2	49.2	50.2	57.2	47.2	48.2	52.4	57.5
Real gross domestic product	**2.0**	**1.3**	**3.1**	**0.1**	**2.5**	**1.9**	**2.8**	**3.0**	**3.0**	**3.0**	**3.1**	**3.3**	**1.8**	**2.2**	**2.0**	**2.9**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2011	2012	2013	2014
Business and labour																
Productivity	0.5	0.8	1.5	0.4	0.8	0.7	0.5	1.4	1.5	1.6	1.4	1.4	0.3	0.6	1.0	1.5
Pre-tax corporate profits	10.3	6.7	7.5	-0.7	4.1	2.9	1.4	4.2	3.3	4.2	4.3	4.6	7.3	5.8	3.1	4.1
Unemployment rate (%)*	8.3	8.2	8.0	7.8	7.8	7.9	7.8	7.7	7.6	7.5	7.4	7.3	8.9	8.1	7.8	7.5
Inflation																
Headline CPI	2.8	1.9	1.7	1.9	1.7	1.8	1.7	1.8	1.9	1.9	1.8	1.9	3.2	2.1	1.8	1.9
Core CPI	2.2	2.3	2.0	1.9	1.9	1.8	1.7	1.7	1.8	1.8	1.8	1.9	1.7	2.1	1.8	1.8
External trade																
Current account balance ($b)	-534	-472	-430	-460	-435	-434	-433	-427	-431	-434	-438	-441	-466	-474	-432	-436
% of GDP	-3.5	-3.0	-2.7	-2.9	-2.7	-2.7	-2.7	-2.6	-2.6	-2.6	-2.6	-2.6	-3.1	-3.0	-2.7	-2.6
Housing starts (000s)*	715	736	774	901	890	913	963	1013	1082	1155	1233	1317	612	781	945	1197
Motor vehicle sales (millions, saar)*	14.1	14.1	14.5	15.0	15.1	14.9	15.0	15.2	15.3	15.5	15.6	15.8	12.7	14.4	15.1	15.5

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates—North America

%, end of period

	Actual				Forecast								Actual		Forecast	
	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	2011	2012	2013	2014
Canada																
Overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.00	1.00	1.00	1.50
Three-month	0.92	0.88	0.90	1.05	0.95	1.00	1.00	1.00	1.05	1.10	1.25	1.55	1.10	1.05	1.00	1.55
Two-year	1.20	1.03	1.15	1.05	1.00	0.90	1.05	1.10	1.15	1.25	1.45	1.70	1.00	1.05	1.10	1.70
Five-year	1.56	1.25	1.35	1.30	1.30	1.20	1.40	1.50	1.55	1.70	1.90	2.15	1.50	1.30	1.50	2.15
10-year	2.11	1.74	1.75	1.75	1.80	1.85	1.95	2.10	2.15	2.30	2.50	2.80	2.30	1.75	2.10	2.80
30-year	2.64	2.33	2.40	2.40	2.50	2.55	2.65	2.70	2.70	2.75	2.90	3.15	3.10	2.40	2.70	3.15
Yield curve (10s-2s)	91	71	60	70	80	95	90	100	100	105	105	110	130	70	100	110
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
Three-month	0.07	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Two-year	0.34	0.25	0.25	0.25	0.25	0.25	0.35	0.45	0.65	0.85	1.00	1.25	0.30	0.25	0.45	1.25
Five-year	1.04	0.70	0.72	0.70	0.85	0.90	1.05	1.20	1.40	1.50	1.75	2.00	1.10	0.70	1.20	2.00
10-year	2.20	1.60	1.65	1.70	1.95	2.10	2.25	2.40	2.55	2.65	2.95	3.25	2.15	1.70	2.40	3.25
30-year	3.32	2.70	2.80	2.90	3.25	3.45	3.60	3.85	3.95	4.00	4.20	4.50	3.20	2.90	3.85	4.50
Yield curve (10s-2s)	186	135	140	145	170	185	190	195	190	180	195	200	185	145	195	200
Yield spreads																
Three-month T-bills	0.85	0.83	0.85	1.00	0.90	0.95	0.95	0.95	1.00	1.05	1.20	1.50	1.05	1.00	0.95	1.50
Two-year	0.86	0.78	0.90	0.80	0.75	0.65	0.70	0.65	0.50	0.40	0.45	0.45	0.70	0.80	0.65	0.45
Five-year	0.52	0.55	0.63	0.60	0.45	0.30	0.35	0.30	0.15	0.20	0.15	0.15	0.40	0.60	0.30	0.15
10-year	-0.09	0.14	0.10	0.05	-0.15	-0.25	-0.30	-0.30	-0.40	-0.35	-0.45	-0.45	0.15	0.05	-0.30	-0.45
30-year	-0.68	-0.37	-0.40	-0.50	-0.75	-0.90	-0.95	-1.15	-1.25	-1.25	-1.30	-1.35	-0.10	-0.50	-1.15	-1.35

Interest rates—International

%, end of period

	Actual				Forecast								Actual		Forecast	
	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	2011	2012	2013	2014
United Kingdom																
Repo	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Two-year	0.43	0.40	0.20	0.20	0.20	0.20	0.30	0.30	0.30	0.30	0.40	0.40	0.70	0.20	0.30	0.40
10-year	2.00	1.80	1.70	1.70	1.75	1.80	2.00	2.00	2.00	2.25	2.35	2.50	2.45	1.70	2.00	2.50
Euro Area																
Refinancing rate	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	0.75	0.75	0.75
Two-year	0.09	0.10	0.00	0.00	0.10	0.15	0.20	0.25	0.30	0.30	0.40	0.40	0.65	0.00	0.25	0.40
10-year	1.61	1.50	1.50	1.50	1.60	1.70	1.85	2.00	2.00	2.10	2.20	2.25	2.20	1.50	2.00	2.25
Australia																
Cash target rate	4.25	3.50	3.50	3.00	3.00	2.75	2.75	2.75	2.75	2.75	2.75	3.00	4.25	3.00	2.75	3.00
Two-year	3.49	2.46	2.49	2.75	2.70	2.80	2.90	3.10	3.25	3.30	3.40	3.50	3.15	2.75	3.10	3.50
10-year	4.10	3.04	2.94	3.00	3.45	3.60	3.65	3.70	3.85	3.95	4.35	4.75	4.05	3.00	3.70	4.75
New Zealand																
Cash target rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.00	3.25	2.50	2.50	2.50	3.25
Two-year	3.11	2.37	2.55	2.60	2.70	2.70	2.80	2.90	3.00	3.20	3.40	3.50	2.85	2.60	2.90	3.50
10-year	4.17	3.40	3.57	3.80	4.00	4.10	4.25	4.50	4.70	4.80	5.10	5.50	4.25	3.80	4.50	5.50

Growth outlook

% change, quarter-over-quarter in real GDP

	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	2011A	2012A	2013F	2014F
Canada*	1.2	1.9	0.7	0.6	1.9	2.4	2.9	3.0	3.2	2.9	2.8	2.7	2.6	1.8	1.8	2.9
United States*	2.0	1.3	3.1	0.1	2.5	1.9	2.8	3.0	3.0	3.0	3.1	3.3	1.8	2.2	2.0	2.9
United Kingdom	-0.2	-0.4	1.0	-0.3	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.9	0.2	1.1	2.1
Eurozone	0.0	-0.2	-0.1	-0.6	-0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	1.5	-0.5	-0.3	1.0
Australia	1.2	0.6	0.6	0.6	0.6	0.6	0.8	0.7	0.9	0.8	0.8	0.8	2.4	3.6	2.5	3.2
New Zealand	0.9	0.3	0.2	0.8	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.5	1.4	2.4	2.7	2.7

*annualized, ** forecast

Inflation outlook

% change, year-over-year

	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	2011A	2012A	2013F	2014F
Canada	2.4	1.6	1.2	0.9	0.9	1.4	1.7	1.8	1.8	1.8	1.9	1.9	2.9	1.5	1.5	1.9
United States	2.8	1.9	1.7	1.9	1.7	1.8	1.7	1.8	1.9	1.9	1.8	1.9	3.2	2.1	1.8	1.9
United Kingdom	3.5	2.8	2.4	2.7	2.7	2.9	3.0	2.7	2.4	2.3	2.3	2.2	4.5	2.8	2.8	2.3
Eurozone	2.7	2.5	2.5	2.3	1.9	1.9	1.6	1.5	1.6	1.6	1.6	1.6	2.7	2.5	1.8	1.6
Australia	1.6	1.2	2.0	2.2	2.9	3.1	2.4	2.9	2.8	2.8	2.9	3.0	3.3	1.8	2.8	2.9
New Zealand	1.6	1.0	0.8	0.9	0.8	0.9	1.0	1.7	1.7	1.7	1.8	1.7	4.0	1.1	1.1	1.7

Exchange rates

%, end of period

	Actual				Forecast								Actual		Forecast	
	12Q1	**12Q2**	**12Q3**	**12Q4**	**13Q1**	**13Q2**	**13Q3**	**13Q4**	**14Q1**	**14Q2**	**14Q3**	**14Q4**	**2011**	**2012**	**2013**	**2014**
Australian dollar	1.03	1.02	1.04	1.04	1.04	1.07	1.10	1.12	1.10	1.08	1.06	1.04	1.02	1.04	1.12	1.04
Brazilian real	1.83	2.01	2.03	2.05	1.98	1.99	2.00	2.02	2.03	2.04	2.05	2.06	1.86	2.05	2.02	2.06
Canadian dollar	1.00	1.02	0.98	0.99	1.03	1.04	1.05	1.04	1.03	1.02	1.02	1.02	1.02	0.99	1.04	1.02
Renminbi	6.29	6.36	6.29	6.23	6.25	6.20	6.15	6.15	6.12	6.10	6.08	6.06	6.30	6.23	6.15	6.06
Euro	1.33	1.27	1.29	1.32	1.31	1.32	1.29	1.27	1.25	1.24	1.23	1.22	1.30	1.32	1.27	1.22
Yen	83	80	78	87	93	90	85	82	79	79	82	85	77	87	82	85
Mexican peso	12.81	13.36	12.86	12.85	12.75	12.65	12.50	12.25	12.15	12.00	11.85	11.75	13.95	12.85	12.25	11.75
New Zealand dollar	0.82	0.80	0.83	0.83	0.83	0.84	0.85	0.86	0.85	0.83	0.82	0.80	0.78	0.83	0.86	0.80
Swiss franc	0.90	0.95	0.94	0.92	0.94	0.95	0.98	0.99	1.01	1.02	1.04	1.05	0.94	0.92	0.99	1.05
U.K. pound sterling	1.60	1.57	1.62	1.62	1.54	1.59	1.61	1.61	1.62	1.63	1.64	1.63	1.55	1.62	1.61	1.63

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