ECONOMIC AND FINANCIAL MARKET OUTLOOK

June 2012

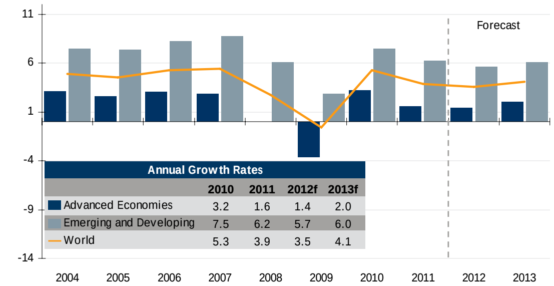
No replay of 2011 in the cards for Canadian and US economies

- The world economy faces headwinds coming from Europe although it is likely to weather the storm given monetary policy support and a strengthening in US growth.
- Canada's underlying fundamentals are positive and with a bump from US demand, we expect the economy to grow by 2.6% this year and next.

The world economy faces significant challenges in the near term and is expected to grow by 3.5% this year. In the past quarter, forecasters have, at the most pessimistic, maintained their growth projections while some, like the International Monetary Fund (IMF), upgraded their estimates. Still, 2012's world growth is expected to fall short of the long-term trend rate by about one-quarter of a percentage point. Debt-ridden advanced economies are dialling back spending and have created headwinds for the faster-growing emerging economies. Central bankers are caught between markets demanding more stimulus and concerns that too much money will eventually lead to too much inflation. For now, monetary policy is trained on promoting economic growth meaning that 'low for long' are still the buzzwords in central bank circles. In 2013, some of these headwinds are forecasted to ease thereby resulting in firmer growth rates for both advanced and emerging economies, and world output growing at a 4.1% pace.

Advanced versus emerging economies GDP growth

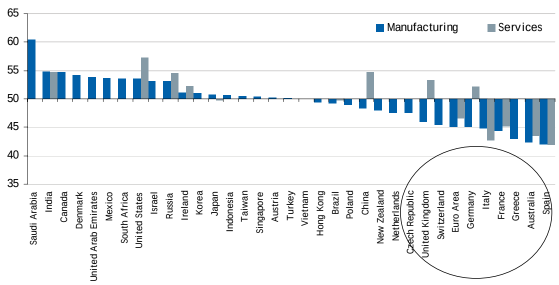
% change, year-over-year



Source: IMF World Economic Outlook Forecasts, RBC Economics Research

Purchasing Managers Index

>50 = expanding,



Source: Various national institutions, Markit, JP Morgan, RBC Economics Research

Europe dominates the risk list

The near-term outlook for euro area growth remains grim even with a surprisingly benign read on activity in the first quarter of 2012. Political uncertainty and worries about the ability and willingness of governments to implement fiscal austerity measures sparked another wave of spread widening as the weaker sovereign credits saw investors demand more risk premium to buy their bonds. Talk of a Greek exit from the European Union spooked investors as it raised the prospect that this could be the first of many departures thereby generating attendant uncertainty about the status of current sovereign debt. Economic data for the first quarter of 2012 showed that the deep division between Germany and the rest of the euro area re-emerged. Germany posted a surprising 0.5% increase in real GDP in the first three months of the year, more than reversing the fourth quarter of 2011's 0.2% decline and dampening talk that even the strongest member in the euro area was succumbing to recessionary pressures. That, however, was the extent of the good news because the results for the other member countries ranged from poor to outright ugly.

European recession delayed rather than averted?

Reports for April and May 2012 showed a further deterioration in activity with even Germany giving up ground. Surveys of both the manufacturing and service sectors showed a contraction in activity. This renewed weakening raised the risk of not only a contraction in the second quarter of 2012 but poor momentum going into the third quarter. Unless the economies are able to pick up pace in June, it is possible that, rather than averting recession with the flat GDP read in the first quarter of 2012, the recession was merely delayed.

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

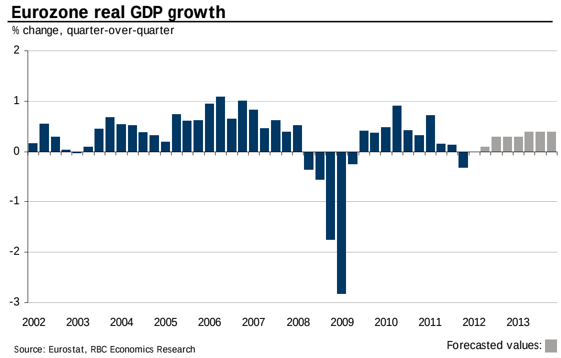
Paul Ferley
Assistant Chief Economist
416-974-7231
paul.ferley@rbc.com

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

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

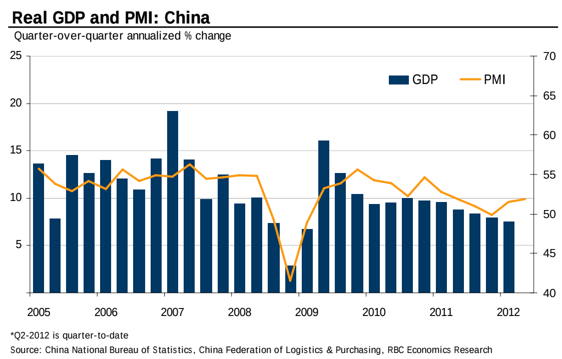
Finding the right mix of austerity and growth for Europe

The euro area's unemployment rate stood at an all-time high of 11% in April 2021 prompting calls for austerity policies to be complemented with policies geared to promoting economic growth. European leaders agreed to work out the details of the so called 'Growth Pact' and release the details at the June 28 and 29, 2012 Leaders' Summit. Monetary policy remains pro-growth with the European Central Bank's (ECB) repo rate at 1.00% and the deposit rate at 0.25%. The deposit rate is considered to be the basis for market interest rates and as such is already at its lower boundary. We, therefore, see little benefit from the ECB cutting the official policy rate (repo); however, should conditions continue to deteriorate, then the ECB may symbolically cut its repo rate to encourage easier financial conditions. Stimulative monetary policy and incentives aimed at bolstering investment and employment are expected to skate the euro area economies back into the black by year end with growth forecasted to average 1.1% next year.



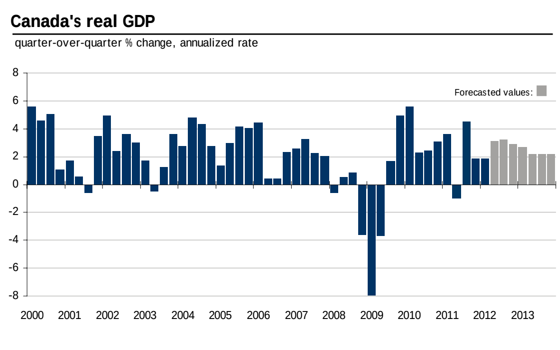
China stumbles although lands softly

The Chinese data for the first quarter of 2012 were disappointing, but it was a round of weak April reports that really drove home the concerns about another global growth slowdown. While the ongoing European crisis and economic downturn were factored into forecasts, the continued deterioration in the outlook for China was not. The two combined, therefore, saw investors run for the cover of safe-haven fixed income securities resulting in two-year German bund yields falling close to zero and the 10-year US treasury yield recording a fresh all-time low. Reports that spending on infrastructure projects will be brought forward in order to curb the economy's downward momentum, the central bank's cutting of the reserve requirement ratio for the third time in five months, and the official one-year borrowing rate eased some of these concerns. This two-pronged attack is expected to bear fruit with growth forecast at 8.7% in 2013 from an estimated 8.1% in the first quarter of 2012.



Noise does not signal an impending slowdown in Canada and the US

These global forces have created a lot of noise for forecasters to absorb when looking at the outlook for the Canadian and US economies. By our reckoning, the data signal that the momentum in these two economies is increasing. In fact, in our view, both are about to break into a period of faster growth. The domestic drivers of the expansion are on solid footing; however, developments in other regions may become more than just ambient noise if financial market conditions deteriorate, and in turn reduce household net worth and erode business confidence.



Canada's domestic data noisy in its own right

Although Canada's economy recovered from the recession more quickly than most of its trading partners, there have been many bumps along the way. The economy grew at a 1.9% annualized pace in the first quarter of 2012, thereby matching the fourth quarter of 2011's pace. Weak growth in February and March 2012 weighed on the quarterly growth rate and largely reflected weakness in both mining and utilities output. A mild winter and reduced demand for heating weighed on utilities while some temporary shutdowns in both energy and non-energy production facilities cut into mining output. These cutbacks hit production and contributed to a slowing in exports. We expect the weakness in these two industries to reverse in April thereby setting the economy up to post a strong 3.1% annualized increase in the second quarter of 2012

Strong gains in employment and another monthly rise in housing activity in April also point to a pick up in the pace of expansion going into the second quarter of the year. Gains in consumer spending are expected to be complemented by a firming in business investment flows as companies boost spending on capital goods and to a greater extent non-residential construction projects. Exports are also expected to pick up their pace as US demand firms. On balance, conditions for growth are positive with interest rates staying low, and the financial sector healthy and ready to provide credit. The financial conditions index, which measures both lending conditions and costs, shows accommodation in the system, and even with the Bank of Canada expected to raise the policy rate later this year, a gradual process to reduce monetary policy stimulus is unlikely to reduce this support significantly. Our forecast is for Canada's economy to expand at a slightly faster than the 3% average quarterly pace for the remainder of 2012 and gradually to slow to its potential rate of 2.25% in the second quarter of 2013.

Labour market volatility belies strong conditions

After an eight-month period of volatile and largely disappointing employment data, March and April 2012 produced two months of extraordinarily strong gains. In total, there were 140,000 jobs created during the two-month period, which was only the fourth time in the history of the time series that this has occurred. The details of the reports were firm as jobs created were full-time private-sector positions. Employment growth slowed in May with 8,000 created. Additionally, the trend of creating higher-wage positions remains intact, which, combined with the surge in employment, sets up personal income growth for a pick up in the quarters ahead. The unemployment rate's trajectory continues to be downward sloping although the pace of decline has slowed from earlier in the recovery period. At the same time, there has been a steady drop in the participation rate, which has fallen by 1 percentage point in the past four years. The recent improvement in labour market conditions may spur some to return to the labour force, thereby limiting the pace of decline in the unemployment rate going forward. The decline in the participation rate, however, is also a function of a demographic shift with an increasing proportion of the population moving into older cohorts where labour force participation is historically lower. These factors suggest that the unemployment rate will only slowly decline from May's 7.3%, and we forecast a sub-7% rate in late 2013.

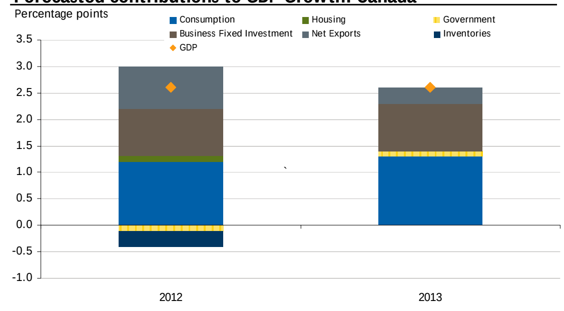
Housing market gains to be slower as well

Home resales increased at mild pace in April 2012 although still represents an above-average clip. At the national level, the months' supply of homes for sale was 5.6 in April, thereby extending the gradual downward trend established in mid-2010. Thus, current inventory levels show market conditions are balanced. Home prices are also historically high although the pace of increase has moderated substantially from the close to 10% annual rate recorded from February to July 2011. The picture that emerged from the April existing homes statistics supports our contention that housing market activity—at least in the resale market—is slowly moderating. That being said, there remains significant regional divergences with hot spots such as Toronto showing particularly brisk activity, while the reversal of unusual sales patterns last year and poor affordability apply downward pressure on the Vancouver area market. These regional trends are likely to persist in the near term. Overall, the prospect of the Bank of Canada beginning to increase interest rates in the fourth quarter of 2012 will likely result in housing demand slowing further, thereby resulting in a flattening in home prices at the national level.

Households slow pace of debt accumulation

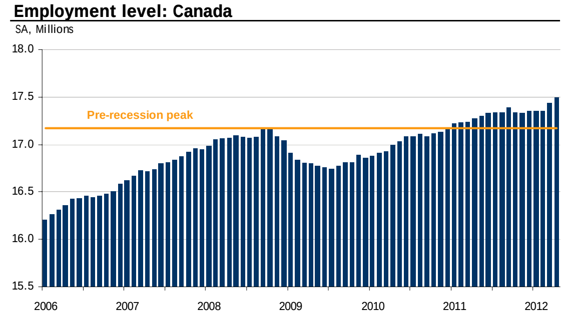
Canadian households are indebted when measured against the level of personal income (PDI) with the debt-to-PDI ratio touching an all-time high of 152% last fall and finishing the year at 150.6%. This elevated ratio raised red flags at the Bank of Canada that households have become too reliant on borrowed money, and that, should the economy encounter any obstacles to growth, the effect would be magnified by a sharp retrenchment by the household sector. The Bank's warning, a slowing in the pace of housing activity,

Forecasted contributions to GDP Growth: Canada



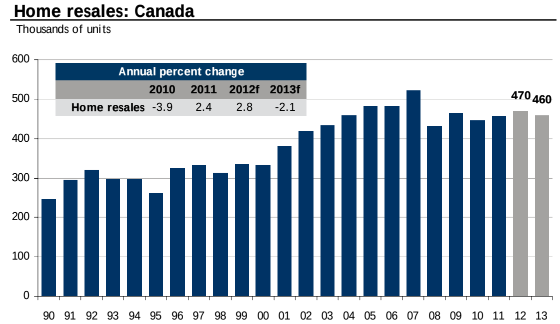
Source: Statistics Canada, RBC Economics Research

Employment level: Canada



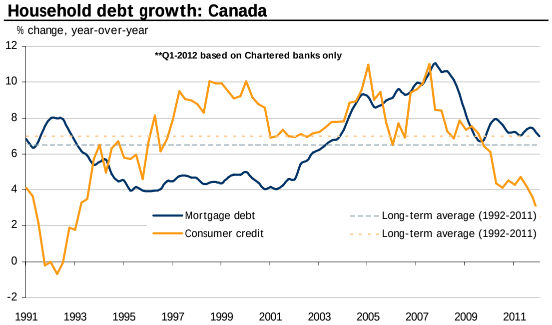
Source: Statistics Canada, RBC Economics Research

Home resales: Canada



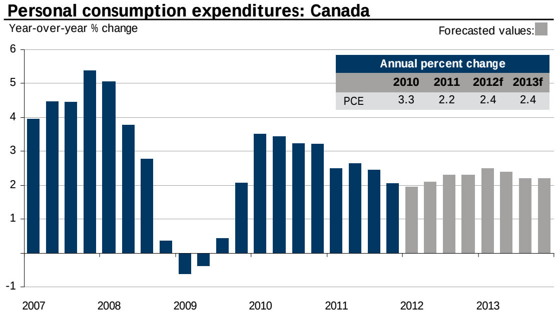
Source: Canadian Real Estate Association, RBC Economics Research

Household debt growth: Canada



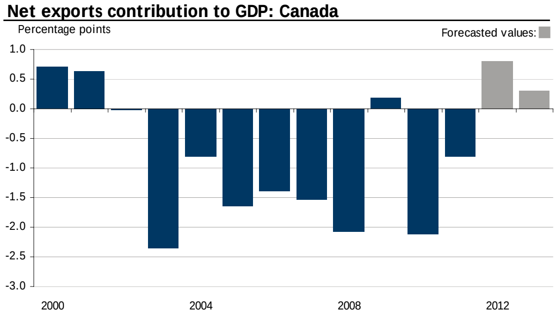
Source: Statistics Canada, RBC Economics Research

Personal consumption expenditures: Canada



Source: Statistics Canada, RBC Economics Research

Net exports contribution to GDP: Canada



Source: Statistics Canada, RBC Economics Research

and growing anticipation that interest rates will begin to move higher staunched household debt growth with the level outstanding uncharacteristically falling in April. These reflected a dip in both consumer credit and mortgage balances relative to March. Looking ahead, the prospect of slowing debt growth and accelerating income growth will put downward pressure on the debt-to-income ratio. Meanwhile, the cost to service this large body of household debt remains manageable, and even when incorporating our forecast that the policy rate will rise by 100 basis points by year-end 2013, debt service costs will stay historically low.

Consumer keeping it together

As discussed previously, the outlook for consumer spending is being challenged by positive and negative factors. On net, the pace of consumption is forecasted to average 2.2% in 2012-2013. At this juncture, the risks of a pullback by the consumer are limited as we cannot isolate a catalyst that will send the consumer running for cover. Key candidates that could instigate a retrenchment are a sharp rise in interest rates, a collapsing housing market that drives down prices, or a significant increase in unemployment. Any of these developments could result in a sharp pullback by the consumer although this is not expected. More likely, as we outlined previously, the unemployment rate will decline gradually, interest rates will increase gradually, and housing prices will gradually stabilize thereby supporting a solid, if unspectacular, rise in consumer spending.

Businesses – that is where the big money is!

Canadian businesses stand in the enviable position of holding high cash balances and having access to financing at low interest rates. Surveys abound, thereby indicating that Canadian businesses intend to invest in capital goods and increasingly in non-residential construction. These are the areas of the economy that will support growth for the quarters ahead and accounting for about one-third of GDP growth in both 2012-2013.

Another area of the economy that is forecasted to assume an increasingly important role is net exports. A strengthening US economy, a soft-landing in China, and an eventual return to stronger growth in Europe are projected to support the fastest pace of Canadian export growth during a two-year period (2012 and 2013) since 2000. At the same time, imports are expected to grow at a slower pace, having increased by 37% since the beginning of the decade. On balance, we expect net exports to contribute 0.8 percentage points to 2012 real GDP growth and 0.3 percentage points in 2013, thereby helping to keep the economy on its upward trajectory.

Canada's dollar riding the waves of risk appetite

The underlying fundamentals for Canada's dollar against the US dollar are little changed relative to last quarter with the Bank of Canada closer to a rate hike than three months ago but with commodity prices lower. The decline in commodity prices reflects both a weakening in demand as China and Europe's economies slowed but also a revival in risk aversion as the European political and economic situation took a turn for the worse. Rate hike expectations were boosted by the Bank's forward-looking policy guidance, which we interpreted as indicating that the time for reducing stimulus is likely approaching. Given the domestic economy's relatively sound fundamentals, we expect the Bank will be in position to raise the policy rate later this year with the overnight rate rising to 1.25% from 1.0% currently by year end 2012. Our base case scenario assumes that Canadian financial markets will weather the current and subsequent bouts of uncertainty associated with the European debt crisis with limited effect on domestic financial conditions. Our view also assumes that the improvement in the US economy's momentum is persists with its real GDP growth accelerating to 3.0% in 2013 from 1.7% in 2011. Against this back-drop, Canada's dollar is likely to trade slightly weaker than the US dollar in the near term and above parity in 2013.

Fed policy – more easing on the way?

The key question for the economy is not so much when the Fed will raise the funds target as policymakers have been pretty clear that they do not anticipate lifting the policy rate until sometime in 2014. Rather, the question is whether the softening tone in the labour market data will be enough to prompt another round of asset purchases, and if so, how many? Safe-haven purchases have reduced yields on US Treasury bonds to very low and, in some cases, record-low levels thereby creating uncertainty about the additional benefits from more quantitative easing.

Data signal a broad-based revival in growth

The US economy is on track to grow at a faster clip with second-quarter 2012 real GDP forecasted to increase at a 2.8% annualized rate. The drivers of this increase are broadly based with consumer spending on track to post a solid gain, business non-residential investment picking up pace after its small gain in the first quarter of 2012, and residential construction activity on tap to post a fifth consecutive quarterly gain. The housing market's recovery, while slow in materializing, looks to have more legs than previous bouts of improvement during the post-crisis period. Additionally, the labour market has shown a sustained upward trend that will likely fuel consumer spending going forward. On balance, we see the seeds of an acceleration in real GDP growth to 2.5% in 2012 from 1.7% last year and an even-stronger pace in 2013 of 3.0%.

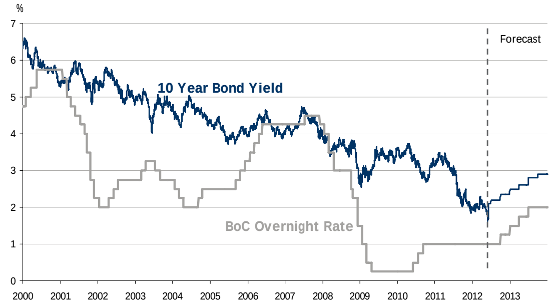
US labour market – trying to get it 'just right'

The US labour market posted strong gains between December 2011 and February 2012 that arguably were 'too hot' given the pace of economic growth. Similarly, the slowing in the pace of hiring in April and May suggests that conditions turned 'too cold' relative to other activity indicators. On average, the monthly increase in non-farm payrolls in 2012 was 165,000, which was an improvement from the 120,000 average pace recorded during the prior 24-month period. Additionally, there was a notable decline in the unemployment rate between August 2011 and May 2012. Part of this decline was due to the 2.8 million increase in employment according to the household survey. Also contributing to the unemployment's rate decline was a steady slide in the participation rate. A closer examination of the participation rate shows that a growing proportion of the population moved into older age cohorts that historically have substantially lower participation in the labour market, and this demographic factor accounted for about 60% of the recent decline. That being said, the fall in the participation rate also reflected workers dropping out of the labour market because they were discouraged. Taking these factors into account leads us to expect that: 1) the pace of employment gains has evolved and will continue at a stronger pace than in 2010-2011, 2) these gains will see some discouraged workers return to the labour market, and 3) the demographic changes will limit the rise in the participation rate. In all, these conditions set up the US unemployment rate to continue to move lower although the pace is likely to be less rapid than for the August to April period.

Housing market – enough is enough!

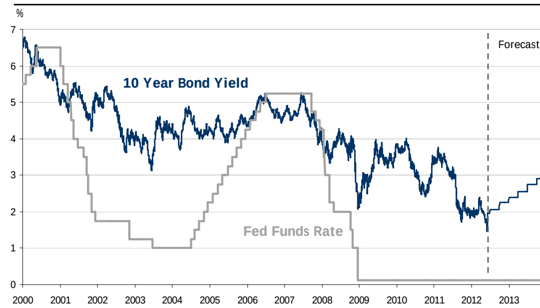
Conditions in the US housing market have improved, even if the level of activity remains depressed compared to recent history. The average pace of resale home sales so far in 2012 is the fastest pace since 2007, and the median resale home price was higher than in April 2011. The overhang of homes available for sale is still elevated; however, the rapider sales pace has reduced the time needed for the stock available to be exhausted. At the same time, the number of delinquencies and foreclosures has stopped rising. The combination of low

Interest rates: Canada



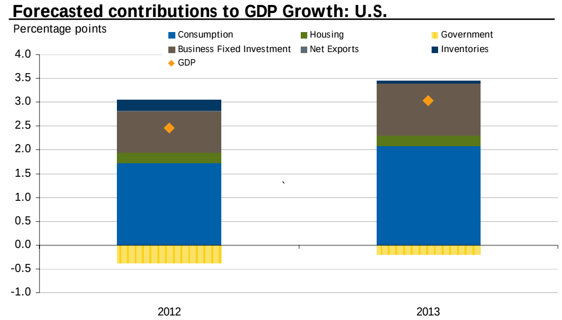
Source: Bank of Canada, RBC Economics Research

Interest rates: U.S.



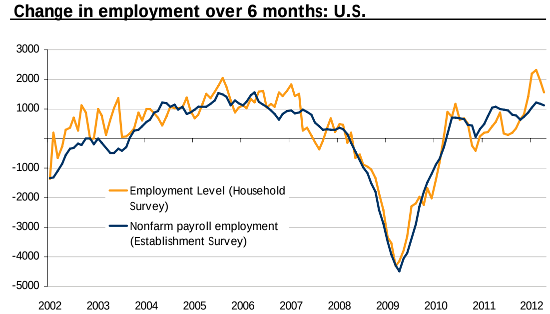
Source: Federal Reserve, RBC Economics Research

Forecasted contributions to GDP Growth: U.S.



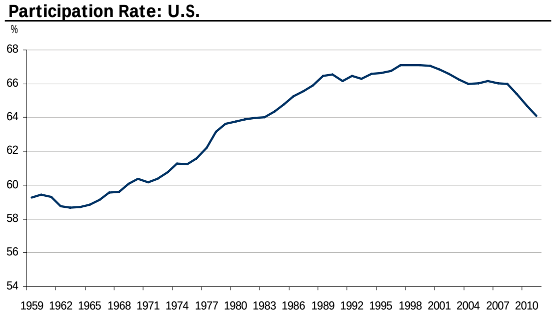
Source: Bureau of Economic Analysis, RBC Economics Research

Change in employment over 6 months: U.S.



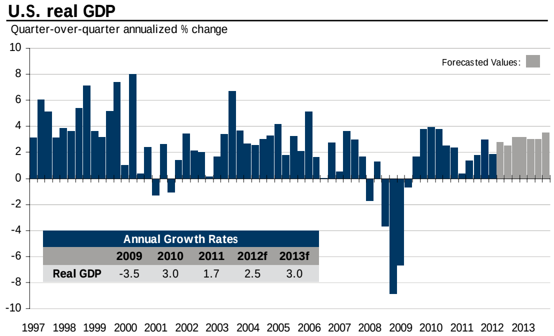
Source: Bureau of Labor Statistics, RBC Economics Research interest rates and an improving labour market has contributed to the recent recovery in housing market activity. For this pace to be maintained, further job creation and less bad news from Europe will be needed.

Participation Rate: U.S.



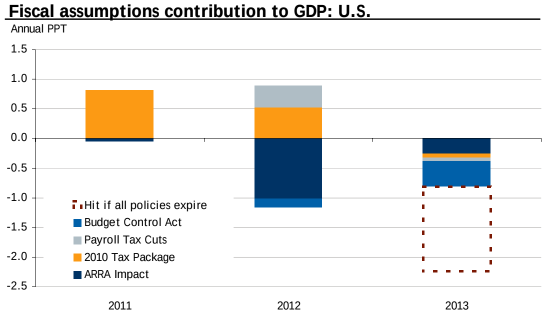
Source: Bureau of Labor Statistics, RBC Economics Research

U.S. real GDP



Source: Bureau of Economic Analysis, RBC Economics Research

Fiscal assumptions contribution to GDP: U.S.



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

Fiscal policy, a real drag

US fiscal policy remains a wildcard for forecasters with the worst case scenario setting up for a cut of 2.9 percentage points to GDP output in the four quarters to the fourth quarter of 2013. This worst case scenario assumes that the status quo with respect to current policy stays in place: tax cuts for middle and high-income earners expire, payroll tax cuts expire, and the Budget Control Act automatic sequester begins. Our long-held view has been that only some of these policies will play out with the tax cuts for the middle-income earners staying in place and the sequestering of funds associated with the Budget Control act being much more limited than is in the current legislation. Taking these articles out of the calculation leaves our base case scenario assuming that, relative to the fourth quarter of 2012, the hit to growth will be 1.3 percentage points by the end of the fourth quarter of 2013. A drag of this magnitude is unlikely to derail the economic expansion in 2013 although it will require consumers to have the wherewithal to spend more aggressively and businesses to invest. A sustained recovery in the housing market, stimulative monetary policy, and an eventual return to stability in Europe are incorporated into our forecast as well.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual					Forecast							Actual		Forecast	
	2011				2012				2013				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2010	2011	2012	2013
Consumer spending	1.3	2.1	2.1	2.8	0.9	2.1	2.3	2.3	2.5	2.4	2.2	2.2	3.3	2.4	2.0	2.4
Durables	-4.1	3.5	-0.4	9.2	-0.4	1.8	3.8	4.2	5.3	5.4	5.1	4.8	4.4	1.8	2.8	4.7
Semi-Durables	0.6	-0.5	3.3	3.8	4.4	2.3	2.3	2.3	2.5	2.1	1.5	1.5	5.0	1.6	3.0	2.2
Non-durables	1.6	0.3	3.7	0.1	-3.8	2.3	2.3	2.3	2.3	2.1	1.9	2.0	1.8	1.6	0.4	2.2
Services	2.5	2.9	1.7	2.6	2.8	2.1	2.0	2.0	2.0	2.0	1.9	1.9	3.5	3.0	2.3	2.0
Government expenditures	-1.2	-2.1	-1.4	-2.7	-2.3	0.0	0.6	0.6	0.2	0.2	0.2	0.2	4.7	0.1	-1.2	0.3
Residential investment	5.4	2.1	10.5	3.0	12.3	4.6	0.6	-1.3	-0.8	0.4	0.8	0.9	10.2	2.3	5.8	0.1
Business investment	14.6	13.8	1.9	4.9	4.9	8.1	7.3	7.4	7.5	6.8	7.0	6.9	7.3	13.1	6.1	7.2
Non-residential structures	15.8	0.9	17.4	13.4	5.7	8.9	8.1	8.1	8.1	7.5	7.0	7.0	2.8	13.7	9.2	7.8
Machinery & equipment	13.4	28.8	-12.1	-3.7	4.0	7.3	6.4	6.6	6.8	6.0	6.9	6.7	11.8	12.5	2.8	6.6
Final domestic demand	2.3	2.2	1.7	1.6	1.3	2.5	2.3	2.2	2.3	2.2	2.2	2.2	4.5	3.0	1.9	2.3
Exports	4.2	-4.9	15.5	7.2	2.5	9.5	7.4	6.5	5.9	6.7	6.3	5.9	6.4	4.6	6.6	6.6
Imports	10.5	14.3	-3.9	2.3	4.4	5.5	5.1	5.7	4.3	5.5	5.8	5.8	13.1	7.0	3.9	5.3
Inventories (change in $b)	13.1	21.7	11.2	5.3	9.4	7.6	8.5	10.4	10.3	9.0	8.7	8.8	8.9	12.8	9.0	9.2
Real gross domestic product	**3.6**	**-1.0**	**4.5**	**1.9**	**1.9**	**3.1**	**3.2**	**2.9**	**2.7**	**2.2**	**2.2**	**2.2**	**3.2**	**2.4**	**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	0.7	1.5	1.6	1.3	1.3	1.4	1.0	0.9	1.3	0.8	1.3	1.2
Pre-tax corporate profits	13.3	16.5	18.4	13.7	5.4	11.9	10.0	7.7	12.4	7.7	7.3	5.8	21.2	15.4	8.7	8.2
Unemployment rate (%)*	7.7	7.5	7.3	7.5	7.4	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	2.3	1.8	1.8	1.6	1.5	1.7	2.1	2.1	1.8	2.9	1.9	1.9
Core CPI	1.3	1.6	1.9	2.0	2.1	2.1	1.8	1.7	1.9	1.7	2.0	2.0	1.8	1.6	1.9	1.9
External trade																
Current account balance ($b)	-43.4	-63.7	-47.8	-38.7	-41.1	-39.8	-36.8	-34.2	-30.6	-28.0	-25.9	-24.9	-50.9	-48.4	-38.0	-27.4
% of GDP	-2.6	-3.7	-2.8	-2.2	-2.3	-2.2	-2.0	-1.9	-1.7	-1.5	-1.4	-1.3	-3.1	-2.8	-2.1	-1.5
Housing starts (000s)*	177	192	205	199	207	212	199	197	194	192	191	189	190	194	204	192
Motor vehicle sales (mill., saar)*	1.62	1.60	1.59	1.68	1.76	1.70	1.68	1.69	1.71	1.73	1.75	1.76	1.58	1.62	1.71	1.74

*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	2.7	2.7	2.8	2.9	2.5	2.7	3.0	3.2	2.0	2.2	2.4	2.8
Durables	11.8	-5.3	5.7	16.1	14.2	2.4	6.7	7.2	5.2	5.5	6.0	6.7	7.2	8.2	8.5	5.9
Non-durables	1.6	0.2	-0.6	0.8	2.4	3.3	2.5	3.0	2.0	2.3	3.5	4.0	2.9	1.7	1.8	2.7
Services	0.8	1.9	1.9	0.4	1.0	2.6	2.2	2.2	2.2	2.3	2.3	2.4	0.9	1.4	1.6	2.3
Government spending	-5.9	-0.9	-0.1	-4.1	-3.9	-0.5	-1.2	-1.0	-1.0	-1.0	-0.9	-0.9	0.7	-2.1	-2.1	-1.0
Residential investment	-2.5	4.2	1.2	11.7	19.3	7.2	6.9	8.6	9.6	10.5	10.1	9.7	-4.3	-1.4	10.0	9.2
Business investment	2.1	10.3	15.7	5.2	1.9	9.0	8.3	8.6	8.5	8.4	8.3	8.4	4.4	8.8	7.2	8.5
Non-residential structures	-14.4	22.6	14.4	-1.0	-3.3	10.2	9.2	9.0	8.4	7.5	7.5	7.8	-15.8	4.6	5.5	8.4
Equipment & software	8.7	6.3	16.2	7.5	3.9	8.5	8.0	8.5	8.6	8.7	8.6	8.6	14.6	10.4	7.8	8.5
Final domestic demand	0.4	1.3	2.7	1.3	1.7	2.8	2.7	2.9	2.6	2.7	2.9	3.1	1.8	1.8	2.1	2.8
Exports	7.9	3.6	4.7	2.7	7.2	7.2	9.7	9.8	9.0	9.3	9.8	10.1	11.3	6.7	6.3	9.4
Imports	8.3	1.4	1.2	3.7	6.1	5.6	7.7	8.0	5.2	6.5	7.5	7.4	12.5	4.9	5.0	6.7
Inventories (change in $b)	49.1	39.1	-2.0	52.2	57.7	52.7	44.5	54.7	62.9	63.6	59.3	66.0	58.8	34.6	52.4	62.9
Real gross domestic product	**0.4**	**1.3**	**1.8**	**3.0**	**1.9**	**2.8**	**2.5**	**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	0.2	0.4	0.8	0.8	0.9	1.5	1.4	1.4	1.4	4.0	0.2	0.9	1.4
Pre-tax corporate profits	8.8	8.5	7.5	7.0	6.5	4.2	3.5	3.8	4.4	4.7	4.8	5.3	32.2	7.9	4.5	4.8
Unemployment rate (%)*	9.0	9.0	9.1	8.7	8.3	8.2	8.2	8.1	8.0	7.9	7.8	7.7	9.6	9.0	8.2	7.9
Inflation																
Headline CPI	2.1	3.4	3.8	3.3	2.8	2.0	1.7	1.8	1.7	1.9	1.8	1.9	1.6	3.2	2.1	1.8
Core CPI	1.1	1.5	1.9	2.2	2.2	2.2	1.9	1.9	1.6	1.7	1.7	1.7	1.0	1.7	2.1	1.7
External trade																
Current account balance ($b)	-473	-494	-431	-496	-528	-522	-521	-524	-514	-509	-507	-500	-471	-473	-524	-508
% of GDP	-3.2	-3.3	-2.8	-3.2	-3.4	-3.3	-3.3	-3.3	-3.2	-3.1	-3.1	-3.0	-3.2	-3.1	-3.3	-3.1
Housing starts (000s)*	583	573	614	678	712	712	753	797	849	898	947	996	586	612	744	922
Motor vehicle sales (millions, saar)*	13.0	12.1	12.4	13.4	14.5	14.2	14.5	14.7	14.7	14.7	14.8	15.0	11.6	12.7	14.5	14.8

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates—North America

%, end of period

	Actual					Forecast							Actual			Forecast	
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	2009	2010	2011	2012	2013
Canada																	
Overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.00	0.25	1.00	1.00	1.25	2.00
Three-month	0.93	0.90	0.80	1.10	0.92	1.05	1.10	1.30	1.60	1.80	2.05	2.10	0.30	0.97	1.10	1.30	2.10
Two-year	1.82	1.42	0.88	1.00	1.20	1.10	1.35	1.55	1.80	2.05	2.25	2.40	1.20	1.67	1.00	1.55	2.40
Five-year	2.77	2.06	1.39	1.50	1.56	1.35	1.60	1.80	2.05	2.35	2.50	2.65	2.77	2.41	1.50	1.80	2.65
10-year	3.35	2.91	2.15	2.30	2.11	1.90	2.10	2.25	2.45	2.60	2.80	2.90	3.45	3.11	2.30	2.25	2.90
30-year	3.72	3.42	2.77	3.10	2.64	2.35	2.50	2.65	2.85	3.05	3.30	3.50	4.00	3.54	3.10	2.65	3.50
Yield curve (10s-2s)	153	149	127	130	91	80	75	70	65	55	55	50	225	144	130	70	50
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	0.09	0.03	0.02	0.05	0.07	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.10	0.12	0.05	0.05	0.05
Two-year	0.80	0.41	0.25	0.30	0.34	0.25	0.25	0.25	0.40	0.50	0.55	0.75	0.75	0.61	0.30	0.25	0.75
Five-year	2.24	1.45	0.96	1.10	1.04	0.70	0.80	0.95	1.10	1.25	1.50	1.65	2.69	2.01	1.10	0.95	1.65
10-year	3.47	2.92	1.92	2.15	2.20	1.60	1.75	2.00	2.15	2.35	2.65	2.75	3.40	3.30	2.15	2.00	2.75
30-year	4.51	4.27	2.92	3.20	3.32	2.70	2.90	3.25	3.50	3.70	3.95	4.00	4.35	4.34	3.20	3.25	4.00
Yield curve (10s-2s)	267	251	167	185	186	135	150	175	175	185	210	200	265	269	185	175	200
Yield spreads																	
Three-month T-bills	0.84	0.87	0.78	1.05	0.85	1.00	1.05	1.25	1.55	1.75	2.00	2.05	0.20	0.85	1.05	1.25	2.05
Two-year	1.02	1.01	0.63	0.70	0.86	0.85	1.10	1.30	1.40	1.55	1.70	1.65	0.45	1.06	0.70	1.30	1.65
Five-year	0.53	0.61	0.43	0.40	0.52	0.65	0.80	0.85	0.95	1.10	1.00	1.00	0.08	0.40	0.40	0.85	1.00
10-year	-0.12	-0.01	0.23	0.15	-0.09	0.30	0.35	0.25	0.30	0.25	0.15	0.15	0.05	-0.19	0.15	0.25	0.15
30-year	-0.79	-0.85	-0.15	-0.10	-0.68	-0.35	-0.40	-0.60	-0.65	-0.65	-0.65	-0.50	-0.35	-0.80	-0.10	-0.60	-0.50

Interest rates—International

%, end of period

	Actual					Forecast							Actual			Forecast	
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	2009	2010	2011	2012	2013
United Kingdom																	
Repo	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	0.50	0.50	0.50	0.50	1.25
Two-year	1.30	0.70	0.60	0.70	0.43	0.40	0.40	0.40	0.50	0.80	1.10	1.40	1.30	1.10	0.70	0.40	1.40
10-year	3.65	3.13	2.44	2.45	2.00	1.80	1.90	2.20	2.40	2.80	3.00	3.00	4.01	3.69	2.45	2.20	3.00
Euro Area																	
Refinancing rate	1.00	1.25	1.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Two-year	1.75	1.34	0.66	0.65	0.09	0.10	0.25	0.35	0.50	0.70	0.80	0.90	1.33	0.90	0.65	0.35	0.90
10-year	3.30	2.83	1.90	2.20	1.61	1.50	1.65	2.00	2.25	2.35	2.50	2.50	3.40	3.00	2.20	2.00	2.50
Australia																	
Cash target rate	4.75	4.75	4.75	4.25	4.25	3.50	3.25	3.00	2.75	2.75	2.75	2.75	3.75	4.75	4.25	3.00	2.75
Two-year	4.90	4.65	3.63	3.15	3.49	2.50	2.40	2.30	2.25	2.50	2.75	3.00	4.58	5.11	3.15	2.30	3.00
10-year	5.45	5.05	4.22	4.05	4.10	3.00	3.00	3.15	3.25	3.40	3.65	3.65	5.65	5.51	4.05	3.15	3.65
New Zealand																	
Cash target rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	3.00	2.50	2.50	2.50
Two-year	3.25	3.22	2.88	2.85	3.06	2.60	2.60	2.60	2.70	2.70	2.80	2.90	4.75	4.00	2.85	2.60	2.90
10-year	5.50	5.02	4.39	4.25	4.09	3.80	3.80	3.85	4.10	4.30	4.55	4.75	5.90	5.82	4.25	3.85	4.75

Growth outlook

% change, quarter-over-quarter in real GDP

	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	2010A	2011A	2012F	2013F
Canada*	3.6	-1.0	4.5	1.9	1.9	3.1	3.2	2.9	2.7	2.2	2.2	2.2	3.2	2.4	2.6	2.6
United States*	0.4	1.3	1.8	3.0	1.9	2.8	2.5	3.2	3.2	3.0	3.0	3.5	3.0	1.7	2.5	3.0
United Kingdom	0.2	-0.1	0.6	-0.3	-0.3	0.1	0.7	0.3	0.5	0.5	0.5	0.5	2.1	0.7	0.2	1.8
Eurozone	0.7	0.1	0.1	-0.3	0.0	-0.1	0.1	0.3	0.3	0.4	0.4	0.4	1.8	1.5	-0.1	1.1
Australia	-0.5	1.4	1.0	0.6	1.3	0.7	0.5	0.5	0.8	0.9	1.0	1.0	2.6	2.1	3.5	3.0
New Zealand	0.5	0.3	0.2	0.3	0.4**	0.6	0.8	1.0	0.9	0.8	0.7	0.6	1.5	1.1	1.9	3.3

*annualized, ** forecast

Inflation outlook

% change, year-over-year

	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	2010A	2011A	2012F	2013F
Canada	2.6	3.4	3.0	2.7	2.3	1.8	1.8	1.6	1.5	1.7	2.1	2.1	1.8	2.9	1.9	1.9
United States	2.1	3.4	3.8	3.3	2.8	2.0	1.7	1.8	1.7	1.9	1.8	1.9	1.6	3.2	2.1	1.8
United Kingdom	4.0	4.4	4.8	4.7	3.5	3.3	3.2	3.4	3.1	2.8	2.6	2.4	2.8	4.5	3.3	2.8
Eurozone	2.5	2.8	2.7	2.9	2.7	2.5	2.2	2.1	1.7	1.6	1.7	1.8	1.6	2.7	2.4	1.7
Australia	3.3	3.6	3.5	3.1	1.6	1.3	2.2	2.9	3.6	3.7	3.0	3.1	2.8	3.4	2.0	3.4
New Zealand	4.5	5.3	4.6	1.8	1.6	1.1	1.2	1.7	1.6	1.6	1.7	1.9	2.3	4.0	1.4	1.7

Exchange rates

%, end of period

	Actual					Forecast							Actual			Forecast	
	11Q1	**11Q2**	**11Q3**	**11Q4**	**12Q1**	**12Q2**	**12Q3**	**12Q4**	**13Q1**	**13Q2**	**13Q3**	**13Q4**	**2009**	**2010**	**2011**	**2012**	**2013**
Australian dollar	1.03	1.07	0.97	1.02	1.03	1.00	1.00	1.03	1.02	1.01	1.00	0.98	0.69	0.92	1.02	1.03	0.98
Brazilian real	1.63	1.56	1.88	1.86	1.83	2.05	2.00	1.95	1.92	1.90	1.90	1.87	2.32	1.78	1.86	1.95	1.87
Canadian dollar	0.97	0.96	1.05	1.02	1.00	1.03	1.02	1.00	0.97	0.95	0.95	0.96	1.26	1.02	1.02	1.00	0.96
Renminbi	6.55	6.46	6.38	6.30	6.29	6.35	6.33	6.30	6.25	6.20	6.15	6.15	6.83	6.83	6.30	6.30	6.15
Euro	1.42	1.45	1.34	1.30	1.33	1.25	1.24	1.23	1.22	1.20	1.18	1.18	1.33	1.35	1.30	1.23	1.18
Yen	83	81	77	77	83	78	76	73	70	72	74	76	99	93	77	73	76
Mexican peso	11.91	11.71	13.90	13.95	12.81	13.75	13.75	13.50	13.25	13.00	12.75	12.75	14.17	12.36	13.95	13.50	12.75
New Zealand dollar	0.76	0.83	0.76	0.78	0.82	0.77	0.75	0.78	0.79	0.80	0.80	0.79	0.56	0.71	0.78	0.78	0.79
Swiss franc	0.92	0.84	0.91	0.94	0.90	0.96	0.97	0.98	0.99	1.03	1.06	1.07	1.14	1.05	0.94	0.98	1.07
U.K. pound sterling	1.60	1.61	1.56	1.55	1.60	1.56	1.57	1.58	1.58	1.56	1.55	1.55	1.43	1.52	1.55	1.58	1.55

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.