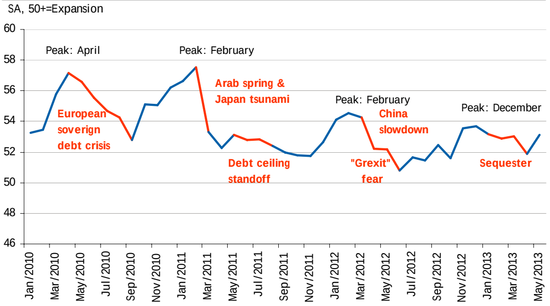
RBC ECONOMICS | **RESEARCH**

ECONOMIC AND FINANCIAL MARKET OUTLOOK

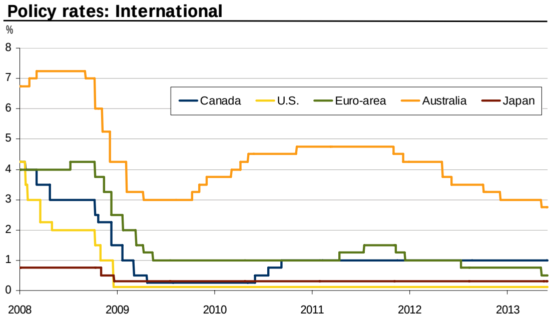
June 2013

Global PMI: Composite Output



Source: JP Morgan, Markit, RBC Economics Research

Policy rates: International



Source: Bank of Japan, European Central Bank, Federal Reserve, Bank of Canada, RBC Economics Research

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

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

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

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

Strolling, not swooning, into summer

For the fourth consecutive year, economic indicators fuelled concerns that the global economy's momentum was fading. In 2010, growth stalled as the European debt crisis began; in 2011, it was the effect of the Arab Spring and US debt ceiling standoff; and in 2012, China's economy slowed, and there was talk of the euro area breaking up. Each of these events bogged down the global recovery. This year, the key development that weighed on the global outlook was the implementation of US fiscal restraint. Unlike previous years, the sequester, which cut $85 billion from US government spending, is having limited spill-over effects, even within the US economy itself. This is not to say that the combination of the euro area recession and slower US growth due to the implementation of fiscal restraint will not affect the global economy in the near term; however, it is notable that the declines in many of the economic data are much less than in previous years. Additionally, the structural changes underway in many countries are reducing the impediments to global growth, and we expect these will support accelerated activity in the second half of 2013.

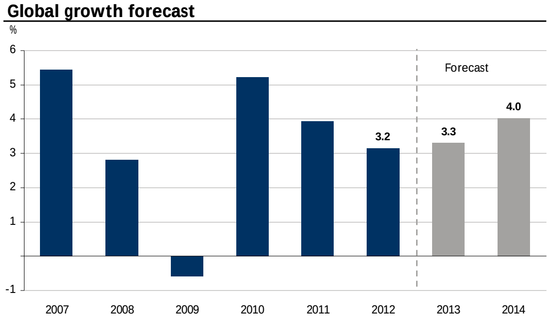
Europe's recession rolling to a stop

Europe's economy had a bad start to 2013, with real GDP in the euro area falling by 0.2% in the first quarter. Data on the second quarter are also providing little to cheer about; however, the ECB's decision to cut the policy rate in May and to develop a program for small- and medium-sized firms to access low-cost capital is likely to stem the decline later this year. Furthermore, many countries have addressed structural issues thereby resulting in lower labour costs and improved productivity, which in turn, have yielded an increase in export demand. These same countries have seen the cost to finance their debt return to more manageable levels. As this process continues, it spells the end of the euro area recession with a modest expansion expected in 2014.

Central bank policy stimulus increasing for now

Global central banks continue to provide significant policy support for their economies with the ECB and RBA cutting their policy rates by another 25 basis points in early May. In many countries, these standard policy measures are being augmented by other programs aimed at lowering longer-term interest rates. The Bank of Japan, for example, in early April, announced that it intended to double the size of the monetary base and increase its holding of longer-term bonds in order to stimulate demand and end deflation. The aggressive easing in monetary policy is gaining traction in some countries with credit demand rising. Furthermore, these central bank policies have been successful in reducing government financing costs thereby providing some relief on the fiscal side.

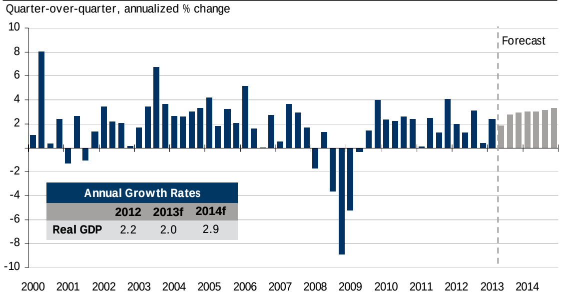
Global growth forecast



Source: International Monetary Fund, RBC Economics Research

U.S. real GDP

Quarter-over-quarter, annualized % change



Source: Bureau of Economic Analysis, RBC Economics Research

Global growth – a tale of two halves

The global economy is likely to continue to grow at a mediocre pace in the first half of 2013 with Europe struggling to get out of recession and the US economy absorbing the government austerity measures. The outlier is Japan where the economy posted a solid gain in the first quarter and is expected to benefit from the jolt of monetary policy stimulus with the depreciation in the yen paving the way for a sustained rise in exports. The emerging economies are also growing at subpar rates affected by weak export demand from the advanced economies and as governments and central banks within these economies shy away from providing additional stimulus.

The outlook for the second half of 2013 is brighter given that the weight from the US fiscal policy actions will lessen and that the euro area economies are likely to stabilize due to the influx of monetary policy stimulus and as the structural changes in the peripheral countries reduce the pace of decline. A gradual and persistent acceleration in growth in the advanced economies will translate into a pick up in global trade giving a boost to the emerging countries. In 2014, the IMF projects that the world economy will grow at a 4.0% pace, shifting from a phase of sub-trend growth to slightly faster than trend growth.

U.S. economy – starting to cook

The US recovery has been subpar with activity constrained by several factors including the repair of household balance sheets, spill-over from the financial crisis, and the US housing market crash. The weight from these factors is easing with each having made sufficient progress to shift from being a hindrance to being a help for the economy going forward.

US household balance sheets are in a much improved condition with all the lost net wealth during the recession recovered and equity in real estate holdings increasing from recent lows. All said, household balance sheets are still not as strong as they were prior to the downturn, but much of the weakening has been reversed. The financial market crisis hit the economy in two ways: by reducing the net worth of holders of financial assets and by curbing the willingness of financial institutions to make loans. The sharp rally in stock markets reduced the net worth hit while financial institutions have shown an increased willingness to make loans to both households and businesses. This easing in lending standards together with the low level of interest rates generated a pick up in credit demand. Going forward, this reopening of the credit channel will underpin stronger consumer spending and business investment.

One of the other key restraints on economic activity was the US housing market with residential construction activity detracting from the economy's growth rate each year from 2006 to 2011. In 2012, the US housing market put in a surprisingly strong performance with housing starts increasing by 28% as home sales and prices rose 10%. These trends continued into 2013 with starts in the first quarter running 35% above the pace in the first quarter of 2012. Thinning inventories of unsold homes and significant pent-up demand augurs well for construction activity to continue.

Where is the growth going to come from?

The housing market is expected to continue to recover with the contribution to real GDP growth likely to hold at a steady 0.3 percentage points in 2013 and 2014, thereby matching the increase in 2012. Further support for the economy is expected to come from consumer spending on goods and services given the improved borrowing climate and low interest rates. Additionally, the pick up in employment gains during the past six month (non-farm private payrolls averaged an increase of about 200,000 per month) has fuelled a strengthening in confidence. Against this backdrop, US consumer spending is likely to accelerate relative to 2012's lacklustre 1.9% gain. In the first quarter of 2013, consumer spending grew at a strong 3.4% annualized pace, which was the fastest increase since late 2010. This was despite an increase in payroll taxes and the tax rate for high-income earners that took effect on January 1, 2013. To be sure, spending in the second quarter of the year is likely to be somewhat slower; however, given the improvement in the underlying fundamentals for the US consumer, we expect any slowdown to prove short lived.

Businesses are also facing a constructive backdrop with profits growing relative to a year ago, balance sheets in good health, and financial institutions indicating an increased willingness to make commercial and industrial loans, and provide mortgages for non-residential construction projects. Uncertainty about how the government was going to implement its spending cuts resulted in a pause in business investment early in the year. We expect the pace will accelerate in the second half of the year as the effect of fiscal restraint becomes clearer and given that interest rates are likely to remain historically low.

Government spending dropped even before sequester kicked in

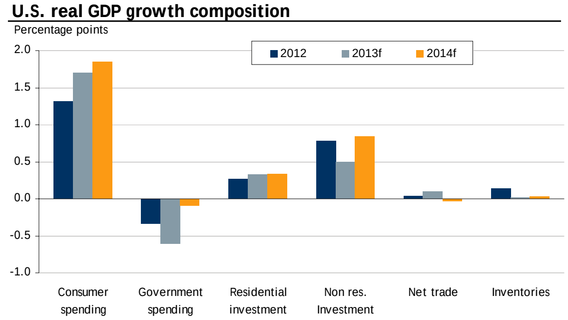
US government spending plunged in the fourth quarter of 2012 and continued to shrink in the first quarter of 2013. In fact, this pullback plus a sharp reduction in inventories exerted a 2.9 percentage point drag on the economy's growth rate in the last quarter of 2012, which came in at just a 0.4% annualized rate. In the first quarter of 2013, the government sector trimmed another 1.0 percentage point off quarterly growth although the effect was swamped by a sharp increase in consumer spending and a rebuilding of inventories. By our reckoning, the back-to-back quarters of government spending cuts accounted for almost half of the total required by the sequester thereby suggesting that the weight on the economy will be significantly less in the second half of the year.

Easy Fed policy to dull the hit from fiscal restraint

The US Federal Reserve maintained its ultra-easy monetary policy stance in early May, and given central bankers' concerns about the impact of fiscal headwinds on the economy, it would have been a shock if the Fed had introduced any changes to its current very accommodative policy stance. Members of the FOMC have not been shy about discussing possible exit strategies from their ultra-easy policy. Further, officials have signalled an increased willingness to taper the amount of bonds purchased if the economy and labour market show further improvement.

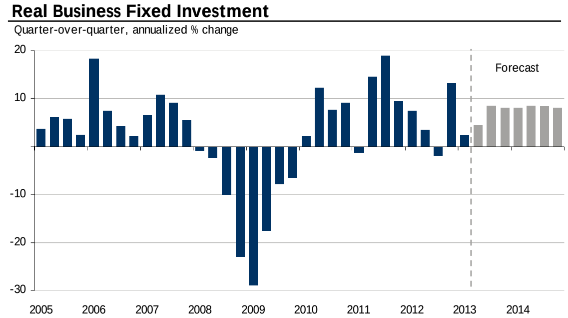
Our view is that any softening in the pace of growth will prove short lived and

U.S. real GDP growth composition



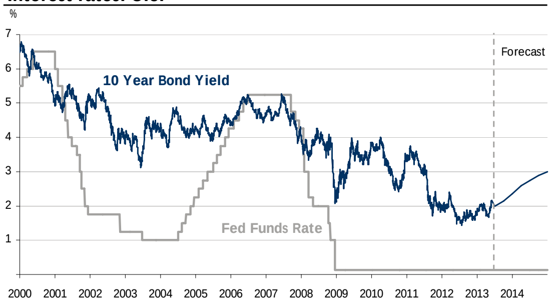
Source: Bureau of Economic Analysis, RBC Economics Research

Real Business Fixed Investment



Source: Bureau of Economic Analysis, RBC Economics Research

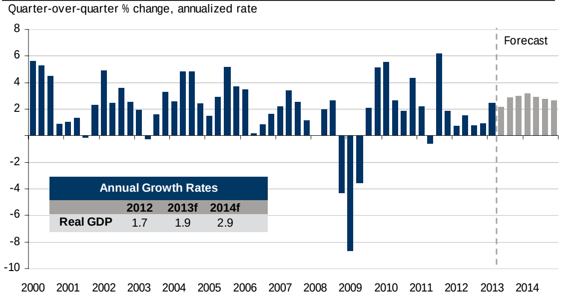
Interest rates: U.S.



Source: Federal Reserve Board, U.S. Treasury, RBC Economics Research

Canada's real GDP

Quarter-over-quarter % change, annualized rate



Source: Statistics Canada, RBC Economics Research

that the Fed will maintain the current pace of security purchases during the summer and early fall. As policymakers get a clearer line of sight on the economy's improving momentum, we anticipate that the Fed will begin to taper its purchases in the fourth quarter of this year and stop purchasing bonds in early 2014. The fed funds target is likely to remain in the 0.0% to 0.25% range until early 2015. This gradual path toward normalising policy is consistent with our expectation that the unemployment rate will remain above the Fed's 6.5% threshold in 2013 and 2014.

The suspension of bond purchases by the Federal Reserve against a backdrop of a steady acceleration in growth sets up longer-term interest rates to rise. Given that the inflation rate will only approach the 2.00% target at the end of 2014, long-term interest rates will remain historically low with the 10-year rate forecasted to end 2014 at 3.00%.

Canada economy makes a comeback in early 2013

Canada's disappointing performance in 2012 reflected a myriad of negative factors hitting all at once. The start of the housing market correction, falling energy production due to a drop in prices for Canadian oil, compounded by uncertainty about how deeply Europe would sink into recession, and whether or not the US would join it all weighed on growth. In the first quarter of 2013, energy production rebounded, the weakening in housing sales slowed, and the US economy proved more resilient than was feared thereby aiding in the pick up in Canadian exports.

Some good news

Canada's economy posted a solid 2.5% annualized gain in the first quarter of 2013 that was supported by a sharp turnaround in net trade, which added 1.4 percentage points to the quarterly growth rate—the largest contribution since mid-2011. Furthermore, the composition of the trade gain was solid with exports growing at a sturdy 6.2% annualized rate and imports rising by 1.2%. An improving trade balance is a key underpinning of our forecast that Canada's economy will grow at rates that are sufficient to close the output gap and return the economy to full capacity in early 2015.

Export turnaround beginning?

Canada's export sector lagged the performance of past recoveries and contributed far less than usual to economic growth than other sectors of the economy. Research by the Bank of Canada showed that two-thirds of the weak export performance was related to its trade counterparts with the remaining one-third due to competitiveness issues including relative wage costs and the Canadian dollar. Looking ahead, stronger demand for autos, houses, and industrial machinery from the US bode well for the pick up in export growth in early 2013 to be maintained. Additionally, the 1.6% depreciation in the trade-weighted Canadian dollar so far in 2013 has eased competitive pressures, at least at the margin.

Trade to take up slack from cooling in housing

The anticipated export recovery is necessary to keep the economy on track given the prospect that residential housing will act as a drag on the economy in

2013 and 2014. Investment in residential construction contributed 0.1 to 0.6 percentage points to the economy's growth rate each year from 2010 to 2012. Of course, that is only the direct effect with the spill over into other parts of the economy meaning that housing provided a powerful support to the pace of economic growth.

In mid-2012, housing market activity started to slow as the bite from regulatory changes to mortgage insurance took effect. In the period from January to May 2013, the pace of sales ran 8% below the rate a year earlier on average; however, prices continued to hold. In part, this reflects a reduction in new listings that ensured that supply-demand conditions in the national market stayed in balance. Regionally, market performance varied with BC sales posting an average decline of 11% compared to year-ago levels and prices averaging a decline of 2.1%. In Ontario the average decline in sales was 8%, yet price gains averaged 2.7% while the Prairies, posted an average decline of 1%, and prices were 5.9% higher. Having said that, the trajectory of activity over this five month period showed sales re-establishing a slight uptrend on a month-to-month basis while price gains steadily slowed.

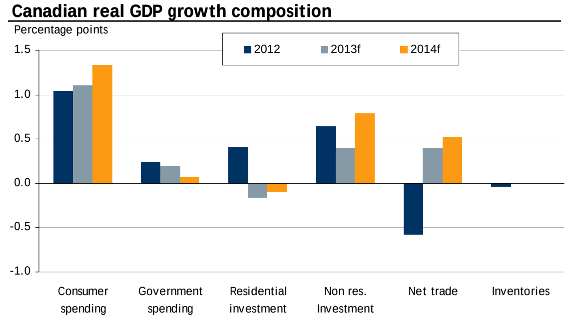
Housing starts also slowed from 2012's very strong pace. In the first four months of 2013, the pace of starts averaged an annualized 180,000 units with the bulk of the slowing occurring in the multi-unit segment. This is a divergence from the trend in the past two years in which multiple-unit starts outpaced single-unit starts by an increasing margin. Against a backdrop of a heavy pipeline of multiple-unit starts due for completion in 2014 and weakening sales growth, we expect that prices nationally will decline in 2014. With affordability in most markets only modestly worse than its long-term average and having held relatively steady since early 2010, however, price declines are likely to be limited.

Households slow pace of debt growth

The softening in the housing market activity fed into a pullback in mortgage debt growth in April to the slowest pace since 2001. The slowing in household debt accumulation is easing concerns that the elevated level of consumer debt has made the economy vulnerable such that even a modest weakening in growth could snowball into a major downturn. Our expectation that housing market activity is transitioning to sustainable levels and that consumer spending will increase at a moderate pace is consistent with this slower pace of debt accumulation persisting. Another factor that suggests that the household debt situation is tenable is the fact that debt service costs remain historically low and that one-third of households continue to be debt free. The firm labour market is also a factor that mitigates the risk that a debt-associated downturn is brewing. The unemployment rate, at 7.1%, is in line with the average level of the past 10 years, and employment stands at an all-time high. Household income grew by 2.7% in the first quarter of 2013, and the savings rate rose to 5.5%, which was well above 5.0% and 4.4% averages in 2012 and 2011, respectively.

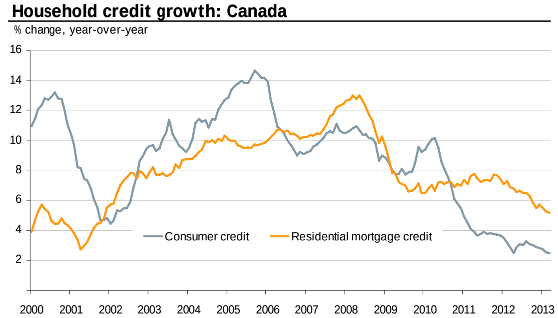
Despite the robust fundamental supports for the consumer sector, we still expect that these elevated debt levels will result in spending growth running shy

Canadian real GDP growth composition



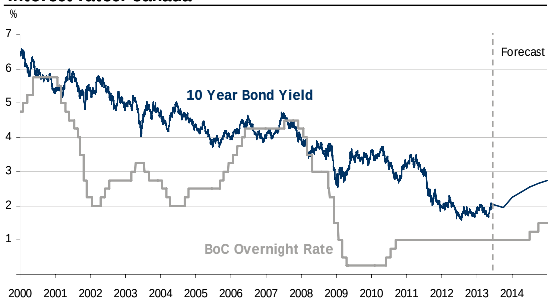
Source: Statistics Canada, RBC Economics Research

Household credit growth: Canada



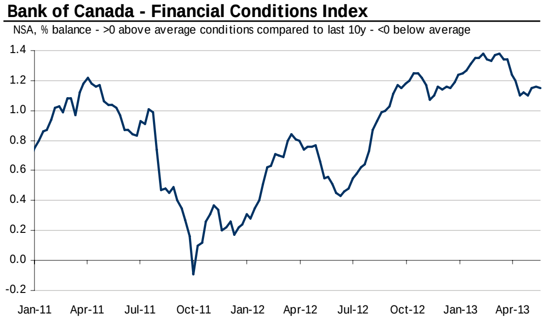
Source: Bank of Canada, RBC Economics Research

Interest rates: Canada



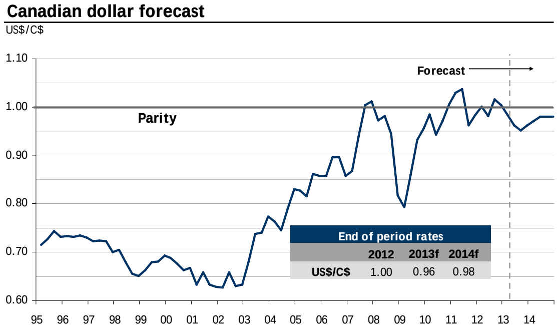
Source: Bank of Canada, RBC Economics Research

Bank of Canada - Financial Conditions Index



Source: Bank of Canada, RBC Economics Research

Canadian dollar forecast



Source: Bank of Canada, RBC Economics Research Forecasts

of its long-term average over the two year period. After surging in 2012, auto sales are expected to post modest increases going forward while spending on items associated with housing will continue to ease alongside sales activity.

BOC policy – why change a good thing?

The easing in household credit growth combined with the low level of inflation provided the Bank of Canada with the rationale to maintain a very accommodative monetary policy stance in early 2013. The pressure for the Bank to raise interest rates in order to temper demand for credit subsided as the growth in mortgage credit and other consumer loans fell to the slowest pace since 1996. Inflation pressures are benign with the economy's weak performance in late 2012 increasing the amount of spare capacity, while competitive pricing pressures limited the increase in prices for clothing and low interest rates kept mortgage interest costs down. As the economy moves back toward full capacity, price pressures are likely to rise; however, given the low starting point (1.1% on a core basis in April 2013), the inflation rate is only likely to approach the 2% target in late 2014. Against this backdrop, we expect the Bank will maintain the current level of interest rates for the remainder of 2013 and only start to reduce the amount of stimulus in the second half of 2014. Bank of Canada Governor, Stephen Poloz, assumed leadership of the Canadian central bank in June thereby creating another uncertainty regarding the policy outlook. Our base case assumes that the pick up in economic activity in early 2013 will continue providing the justification to retain the mild tightening bias that has been in place for more than the past year.

Easy financial conditions to support business investment

Businesses pulled back on investing in structures and capital goods in the second half of 2012 and continued to hesitate in early 2013. In part, this likely reflects caution about the outlook for demand given the uncertainties regarding the effect of the US government's fiscal restraint on the economy. Indications that the US economy will weather the fiscal cuts in good stead and very accommodative financial conditions in Canada are likely to support a rebound in business spending in the quarters ahead. Business balance sheets are in good health with after-tax corporate profits in the non-financial sector rising *vis-à-vis* the fourth quarter and making headway toward recovering the ground lost in 2012. Business financing activity continued to pick up its pace in early 2013 and provided Canadian firms with the capacity to invest at an accelerating rate in 2014.

Canadian dollar loses a bit of its lustre

Canada's dollar touched an 11-month low on a trade-weighted basis in May as commodity prices slipped and the demand for Canadian securities eased from elevated levels. A mild recovery in the US dollar, as markets adjusted to the idea that the Federal Reserve was mulling over the strategy as to the timing to begin to withdraw stimulus, also played a part in the Canadian dollar's underperformance. We expect the Canadian dollar to trade below parity with the US dollar although the degree of the underperformance will be limited by persistent, though less robust, demand for Canadian securities by international investors and central banks. Additionally, commodity prices are expected to remain historically high providing underlying support to Canada's currency.

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	2.3	1.1	2.6	2.2	0.9	2.5	2.7	2.4	2.5	2.5	2.4	2.3	2.3	1.9	2.0	2.5
Durables	7.6	-0.8	-0.5	3.5	-0.6	5.0	3.6	3.2	2.8	2.5	2.5	2.4	1.8	2.6	2.0	3.0
Semi-Durables	2.2	-4.5	5.8	1.6	4.6	2.0	3.0	2.5	2.6	3.2	2.8	2.5	2.9	2.1	2.8	2.7
Non-durables	-2.3	2.8	3.0	3.0	-0.7	2.0	3.0	2.0	2.6	3.2	2.8	2.5	1.2	0.7	1.8	2.6
Services	3.3	1.5	2.7	1.7	1.4	2.2	2.3	2.4	2.3	2.1	2.2	2.1	2.8	2.2	2.0	2.2
NPISH consumption	-4.4	6.2	0.0	6.8	-2.0	2.5	2.7	2.4	2.5	2.5	2.4	2.3	2.3	1.2	2.1	2.5
Government expenditures	2.8	-0.6	0.3	2.0	2.0	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.8	1.1	1.0	0.3
Government fixed investment	12.4	9.3	2.6	2.8	-2.0	0.5	0.5	0.5	0.6	0.6	0.6	0.6	-7.0	0.5	1.1	0.6
Residential investment	14.1	3.3	-1.0	-1.1	-4.7	-5.4	-0.5	0.4	-1.3	-0.6	0.3	0.2	1.6	6.1	-2.4	-0.7
Non-residential investment	7.9	8.7	-1.6	5.2	0.7	5.1	6.7	7.3	8.2	7.4	7.6	6.7	11.1	6.2	3.7	7.3
Non-residential structures	5.9	13.1	-3.4	6.5	1.5	8.0	6.9	7.5	8.6	8.0	8.3	7.5	12.9	6.9	4.7	7.9
Machinery & equipment	10.9	2.2	1.3	3.1	-0.7	0.5	6.4	7.0	7.5	6.4	6.4	5.5	8.6	5.2	2.0	6.4
Intellectual property	14.4	-33.8	8.7	4.7	1.7	4.3	6.7	7.3	8.1	7.2	7.4	6.5	5.2	-1.5	1.7	7.1
Final domestic demand	4.2	1.1	1.5	2.4	0.6	1.7	2.4	2.3	2.4	2.4	2.4	2.2	2.4	2.3	1.6	2.3
Exports	-6.5	-1.2	-3.6	0.8	6.2	7.6	8.1	7.8	7.5	7.5	7.0	7.0	4.7	1.5	4.0	7.6
Imports	5.0	1.1	4.1	-3.1	1.2	7.8	4.3	6.1	5.5	5.0	5.5	5.5	5.7	3.1	2.6	5.5
Inventories (change in $b)	2.1	7.3	14.1	3.9	6.0	8.6	6.2	7.0	8.2	7.5	7.2	7.4	7.4	6.8	6.9	7.6
Real gross domestic product	**0.8**	**1.6**	**0.8**	**0.9**	**2.5**	**2.1**	**2.9**	**3.0**	**3.2**	**2.9**	**2.8**	**2.7**	**2.5**	**1.7**	**1.9**	**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	0.4	0.6	-0.3	-0.8	-0.5	0.3	0.9	1.2	1.5	1.6	1.5	1.4	1.0	0.0	0.5	1.5
Pre-tax corporate profits	4.9	-2.3	-8.5	-12.9	-10.6	-3.0	1.2	5.3	7.1	7.7	7.2	6.5	11.3	-4.9	-2.0	7.1
Unemployment rate (%)*	7.4	7.3	7.3	7.2	7.1	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	1.0	1.7	1.8	1.8	2.0	1.9	1.9	2.9	1.5	1.3	1.9
Core CPI	2.1	2.0	1.6	1.2	1.3	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)	-55.8	-65.7	-68.8	-58.5	-56.3	-44.7	-43.2	-42.2	-41.1	-39.9	-39.1	-38.2	-48.5	-62.2	-46.6	-39.6
% of GDP	-3.1	-3.6	-3.8	-3.2	-3.0	-2.4	-2.3	-2.2	-2.1	-2.0	-2.0	-1.9	-2.8	-3.4	-2.5	-2.0
Housing starts (000s)*	205	231	222	202	174	188	181	178	175	174	174	172	194	215	180	174
Motor vehicle sales (mill., saar)*	1.74	1.72	1.70	1.71	1.70	1.76	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	1.8	3.4	2.0	2.6	2.9	2.5	2.5	2.6	2.7	2.5	1.9	2.4	2.6
Durables	11.5	-0.2	8.9	13.6	8.2	3.7	6.0	6.9	4.8	6.8	6.4	6.7	7.2	7.8	7.5	6.0
Non-durables	1.6	0.6	1.2	0.1	2.2	0.9	2.3	2.8	3.0	2.0	2.3	2.3	2.3	0.9	1.4	2.4
Services	1.3	2.1	0.6	0.6	3.1	2.1	2.1	2.2	2.0	2.0	2.1	2.2	1.9	1.2	1.9	2.1
Government spending	-3.0	-0.7	3.9	-7.0	-4.9	-3.0	-1.9	-0.9	0.1	0.1	0.4	0.4	-3.1	-1.7	-3.0	-0.5
Residential investment	20.6	8.4	13.6	17.5	12.0	8.7	10.8	10.8	13.0	14.5	15.0	15.3	-1.4	12.1	12.1	12.7
Non-residential investment	7.5	3.6	-1.8	13.1	2.2	4.4	8.5	8.1	8.1	8.6	8.4	8.0	8.6	8.0	5.3	8.0
Non-residential structures	12.8	0.6	0.0	16.7	-3.5	5.5	8.5	7.8	7.8	7.8	8.0	8.0	2.8	10.8	4.7	7.8
Equipment & software	5.4	4.8	-2.6	11.8	4.6	4.0	8.5	8.2	8.2	8.9	8.5	8.0	11.0	6.9	5.6	8.1
Final domestic demand	2.2	1.4	1.9	1.5	1.9	1.5	2.6	2.9	2.9	3.0	3.1	3.2	1.8	2.0	1.9	2.9
Exports	4.4	5.2	1.9	-2.8	0.8	7.7	8.1	7.8	8.3	8.4	8.4	8.4	6.7	3.4	3.1	8.2
Imports	3.1	2.8	-0.6	-4.2	1.9	6.2	6.5	5.3	6.9	7.5	7.5	7.5	4.8	2.4	2.0	6.7
Inventories (change in $b)	56.9	41.4	60.3	13.3	38.3	48.0	50.7	43.4	45.4	47.4	48.4	55.4	31.0	43.0	45.1	49.2
Real gross domestic product	**2.0**	**1.3**	**3.1**	**0.4**	**2.4**	**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

Business and labour																
Productivity	0.5	0.8	1.5	0.5	1.2	1.0	0.8	1.5	1.4	1.5	1.4	1.5	0.3	0.6	1.3	1.5
Pre-tax corporate profits	10.3	6.7	7.5	3.1	3.6	3.7	2.2	1.2	4.5	4.3	4.5	4.9	7.3	2.4	7.0	4.6
Unemployment rate (%)*	8.3	8.2	8.0	7.8	7.7	7.6	7.5	7.4	7.3	7.2	7.0	6.9	8.9	8.1	7.6	7.1
Inflation																
Headline CPI	2.8	1.9	1.7	1.9	1.7	1.4	1.7	1.8	1.9	2.1	1.8	1.9	3.2	2.1	1.6	1.9
Core CPI	2.2	2.3	2.0	1.9	1.9	1.7	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)	-483	-442	-427	-409	-425	-431	-430	-424	-428	-432	-435	-438	-458	-440	-427	-433
% of GDP	-3.1	-2.8	-2.7	-2.6	-2.7	-2.7	-2.6	-2.6	-2.6	-2.6	-2.5	-2.5	-3.0	-2.8	-2.6	-2.6
Housing starts (000s)*	714	741	781	896	957	913	963	1013	1082	1155	1233	1317	612	783	962	1197
Motor vehicle sales (millions, saar)*	14.1	14.1	14.5	15.0	15.3	15.1	15.2	15.4	15.4	15.6	15.7	15.9	12.7	14.4	15.2	15.6

*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	0.98	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	1.00	1.05	1.10	1.25	1.45	1.65	1.85	1.00	1.05	1.10	1.85
Five-year	1.56	1.25	1.35	1.30	1.30	1.35	1.40	1.50	1.65	1.85	2.00	2.25	1.50	1.30	1.50	2.25
10-year	2.11	1.74	1.75	1.75	1.88	1.90	1.95	2.25	2.40	2.55	2.65	2.75	2.30	1.75	2.25	2.75
30-year	2.64	2.33	2.40	2.40	2.50	2.55	2.65	2.85	3.00	3.10	3.15	3.25	3.10	2.40	2.85	3.25
Yield curve (10s-2s)	91	71	60	70	88	90	90	115	115	110	100	90	130	70	115	90
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	0.09	0.10	0.09	0.07	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.09	0.05	0.05
Two-year	0.34	0.25	0.25	0.25	0.25	0.25	0.25	0.35	0.45	0.60	0.80	1.15	0.30	0.25	0.35	1.15
Five-year	1.04	0.70	0.72	0.70	0.77	0.95	1.05	1.25	1.45	1.65	1.90	2.15	1.10	0.70	1.25	2.15
10-year	2.20	1.60	1.65	1.70	1.87	2.00	2.15	2.35	2.60	2.75	2.90	3.00	2.15	1.70	2.35	3.00
30-year	3.32	2.70	2.80	2.90	3.10	3.10	3.30	3.55	3.70	3.80	3.90	4.00	3.20	2.90	3.55	4.00
Yield curve (10s-2s)	186	135	140	145	162	175	190	200	215	215	210	185	185	145	200	185
Yield spreads																
Three-month T-bills	0.85	0.79	0.80	0.96	0.91	0.95	0.95	0.95	1.00	1.05	1.20	1.50	1.05	0.96	0.95	1.50
Two-year	0.86	0.78	0.90	0.80	0.75	0.75	0.80	0.75	0.80	0.85	0.85	0.70	0.70	0.80	0.75	0.70
Five-year	0.52	0.55	0.63	0.60	0.53	0.40	0.35	0.25	0.20	0.20	0.10	0.10	0.40	0.60	0.25	0.10
10-year	-0.09	0.14	0.10	0.05	0.01	-0.10	-0.20	-0.10	-0.20	-0.20	-0.25	-0.25	0.15	0.05	-0.10	-0.25
30-year	-0.68	-0.37	-0.40	-0.50	-0.60	-0.55	-0.65	-0.70	-0.70	-0.70	-0.75	-0.75	-0.10	-0.50	-0.70	-0.75

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	0.21	0.20	0.30	0.40	0.50	0.30	0.40	0.40	0.70	0.20	0.40	0.40
10-year	2.00	1.80	1.70	1.70	1.78	1.80	2.00	2.25	2.50	2.25	2.35	2.50	2.45	1.70	2.25	2.50
Euro Area																
Refinancing rate	1.00	1.00	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00	0.75	0.50	0.50
Two-year	0.09	0.10	0.00	0.00	-0.02	0.10	0.15	0.20	0.30	0.30	0.40	0.40	0.65	0.00	0.20	0.40
10-year	1.61	1.50	1.50	1.50	1.29	1.50	1.60	1.75	2.00	2.10	2.20	2.25	2.20	1.50	1.75	2.25
Australia																
Cash target rate	4.25	3.50	3.50	3.00	3.00	2.75	2.50	2.25	2.25	2.25	2.25	2.25	4.25	3.00	2.25	2.25
Two-year swap	3.49	2.46	2.49	2.75	2.83	2.40	2.20	2.05	2.15	2.25	2.30	2.50	3.15	2.75	2.05	2.50
10-year swap	4.10	3.04	2.94	3.00	3.42	3.35	3.35	3.30	3.50	3.80	4.10	4.35	4.05	3.00	3.30	4.35
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	2.85	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	3.96	3.90	4.00	4.30	4.50	4.60	4.90	5.30	4.25	3.80	4.30	5.30

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*	0.8	1.6	0.8	0.9	2.5	2.1	2.9	3.0	3.2	2.9	2.8	2.7	2.5	1.7	1.9	2.9
United States*	2.0	1.3	3.1	0.4	2.4	1.9	2.8	3.0	3.0	3.0	3.1	3.3	1.8	2.2	2.0	2.9
United Kingdom	-0.1	-0.4	0.9	-0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5	1.0	0.3	1.1	2.0
Eurozone	-0.1	-0.2	-0.1	-0.6	-0.2	0.0	0.3	0.3	0.3	0.3	0.3	0.3	1.5	-0.5	-0.5	1.0
Australia	1.2	0.6	0.8	0.6	0.6	0.4	0.6	0.6	0.7	0.7	0.9	0.9	2.4	3.6	2.3	2.7
New Zealand	1.0	0.2	0.2	1.5	0.5**	0.8	0.7	0.7	0.7	0.6	0.6	0.5	1.4	2.5	2.9	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	1.0	1.7	1.8	1.8	2.0	1.9	1.9	2.9	1.5	1.3	1.9
United States	2.8	1.9	1.7	1.9	1.7	1.4	1.7	1.8	1.9	2.1	1.8	1.9	3.2	2.1	1.6	1.9
United Kingdom	3.5	2.8	2.4	2.7	2.8	2.9	3.0	2.6	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	1.8	1.5	1.3	1.3	1.5	1.5	1.3	1.3	2.7	2.5	1.5	1.3
Australia	1.6	1.2	2.0	2.2	2.5	2.7	2.2	2.7	2.9	2.8	2.6	2.6	3.3	1.8	2.5	2.8
New Zealand	1.6	1.0	0.8	0.9	0.9	0.9	1.1	1.7	1.7	1.7	1.8	1.7	1.8	0.9	1.7	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	0.90	0.95	0.97	1.00	1.02	1.04	1.05	1.02	1.04	0.97	1.05
Brazilian real	1.83	2.01	2.03	2.05	2.02	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	1.02	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	6.21	6.13	6.08	6.08	6.05	6.03	6.01	5.99	6.30	6.23	6.08	5.99
Euro	1.33	1.27	1.29	1.32	1.28	1.29	1.26	1.22	1.21	1.20	1.21	1.22	1.30	1.32	1.22	1.22
Yen	83	80	78	87	94	100	96	92	88	89	92	94	77	87	92	94
Mexican peso	12.81	13.36	12.86	12.85	12.32	12.76	12.66	12.50	12.34	12.24	12.24	12.19	13.95	12.85	12.50	12.19
New Zealand dollar	0.82	0.80	0.83	0.83	0.84	0.75	0.79	0.80	0.82	0.84	0.85	0.87	0.78	0.83	0.80	0.87
Swiss franc	0.90	0.95	0.94	0.92	0.95	0.96	0.97	1.01	1.02	1.05	1.06	1.05	0.94	0.92	1.01	1.05
U.K. pound sterling	1.60	1.57	1.62	1.62	1.52	1.55	1.58	1.54	1.57	1.58	1.61	1.63	1.55	1.62	1.54	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