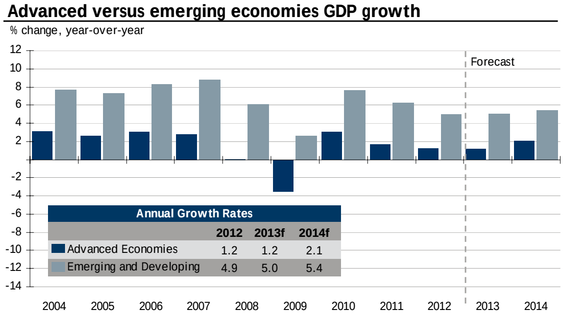
ECONOMIC AND FINANCIAL MARKET OUTLOOK

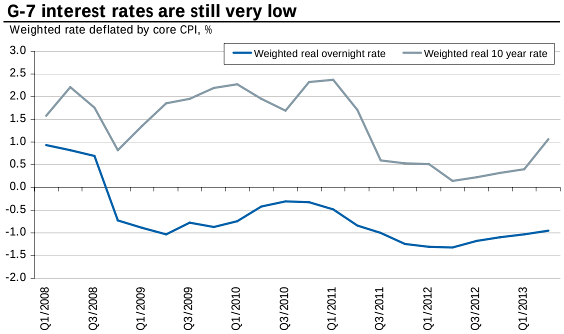
September 2013

Advanced versus emerging economies GDP growth



Source: International Monetary Fund, RBC Economics Research Forecasts

G-7 interest rates are still very low



Source: Haver Analytics, RBC Economics Research

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The long goodbye to subdued global growth

Clear signs of improved momentum in the global economy have emerged. Euro-area real GDP expanded in the second quarter after six quarters of decline; the area's unemployment rate, while still elevated, held steady for five consecutive months and the composite purchasing managers' index popped above the 50-mark signalling the expansion continued into the third quarter. In the UK, July data reports were sufficiently strong for us to double our third quarter growth forecast to 1.0%. In the US, employment gains continued through August, the unemployment rate fell to the lowest level in 4-1/2 years and the purchasing managers' surveys showed unexpectedly strong increases.

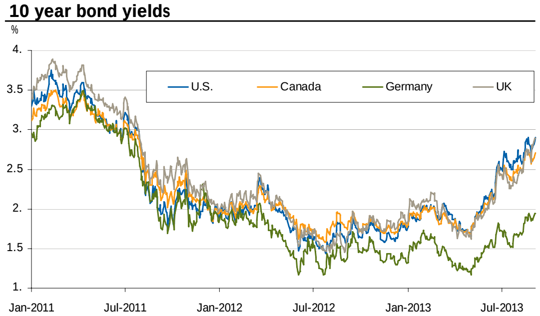
These data reports underpin our forecast that the global economy is headed for a stronger period of growth in the second half of 2013 led by a strengthening in the advanced economies. In fact, if this trend persists, as we expect it will, 2014 may mark the first year in many when the incremental gain in world growth is driven by the advanced, rather than the emerging, economies. China's economy, which hit a soft patch in the first half of 2013, showed signs of improvement in July and August consistent with a firming in the annual pace of growth.

The increase in the advanced nations' economic growth suggests that the weight from the significant bout of fiscal austerity is starting to lighten. To be sure, in 2013, tax increases and spending cuts are estimated to take the largest bite from economic activity this cycle. In 2014, fiscal policy will continue to be a weight on the G-7 economies though it is likely that the size of the spending cuts will be smaller and government revenues are expected to rise in line with the faster pace of economic growth.

Offsetting the impact of the fiscal policy tightening was the persistence of extraordinarily stimulative monetary policy and many central bankers are committed to keeping policy rates near current levels. The ECB's Draghi stated that rates are likely to remain at "present or lower levels for an extended period of time" while both the U.S. Federal Reserve and Bank of England have attached defined economic thresholds linked to the timing of changes in the policy rate, none of which are likely to be achieved until 2015. In Canada, the Bank maintained its mild tightening bias, although made a more direct link to the factors that justify maintaining its current policy rate at 1.0%. As these factors correct, a normalization of interest rate policy is expected to begin.

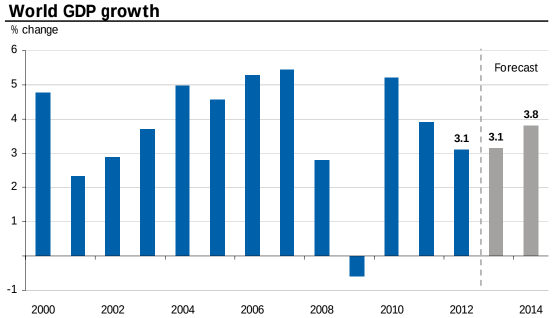
Non-traditional policy measures however are likely to be pared back with the U.S. Fed Chairman Bernanke suggesting that if the economy performs as expected, the Fed is likely to reduce the amount of US Treasury and mortgage-backed securities it purchases on a monthly basis. The Chairman also indicated that if the economy does not perform as expected, it is possible that the

10 year bond yields



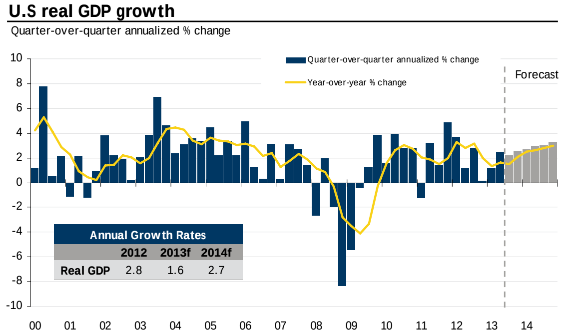
Source: Bank of Canada, Financial Times, Reuters, U.S. Treasury, RBC Economics Research

World GDP growth



Source: International Monetary Fund, RBC Economics Research

U.S real GDP growth



Source: Bureau of Economics Analysis, RBC Economics Research

Fed could increase the size of its monthly purchases. In our view, the data increasingly support the case for the Fed to begin the process of tapering its monthly purchases and we anticipate this will begin this autumn with the purchase program ending by the middle of 2014. The combination of strengthening economic news and growing expectations that the Fed was preparing to pull back on its monthly dose of policy stimulus resulted in 10-year US Treasury yields rising more than 100 bps since May. Ten-year yields in Canada, the UK and Euro-area followed suit.

Despite the rise in interest rates over the summer months, reports on economic activity in July and August showed solid increases in both the manufacturing and services sector activity indices. In part, this may also be due to the fact that asset markets outside of fixed income did not suffer heavy losses. As of the early September, the MSCI world stock index was within 2.5% of the cycle high recorded on August 2, 2013 and commodity prices, while drifting lower, remained historically elevated.

The data support expectations that after a soggy first half, the world economy is set to rebound sharply in the second half of 2013 and maintain this stronger momentum in 2014. On the surface, 2013's growth rate is likely to match 2012's subdued 3.1% pace with the key difference being that the hand-off to 2014 will be much stronger setting up for real GDP to expand by 3.8%.

US economy entering period of stronger growth

The outlook for the US economy is the prototype for our forecast for world growth. The US economy was weighed down by significant fiscal restraint in the first half of 2013 as the government implemented large spending cuts and increased payroll taxes. Consumers, and to a greater extent, businesses pulled back on spending to evaluate the fall-out of these measures on overall demand. Investment in housing and inventory building helped to pick up some of the slack resulting in real GDP growth averaging 1.8% in the first half of 2013. As the impact of fiscal austerity measures lessened, signs of a recovery in business confidence emerged as indicated by the PMI reports with measures of consumer sentiment also showing improvement.

We expect the waning impact of the government's actions and strengthening in confidence will result in the US economy expanding at an above-potential pace in the second half of the year. Expectations of stronger consumer spending are also backed by the improvement in household balance sheets as both financial assets and real estate assets appreciate. Business balance sheets also remain in good shape and financial institutions reported an easing in lending standards and increased demand for business loans in the July Senior Loans Officer Survey.

Housing recovery to continue despite rise in mortgage rates

Firming demand for mortgages and easier lending standards were also reported for consumers supporting our positive outlook for housing. Demand fundamentals, including the level of affordability and measures of pent-up demand, are constructive. Housing starts per capita continue to run significantly below the historic norm as has been the case since mid-2007 creating a large pool of unsatisfied demand. Affordability levels have undoubtedly been negatively affected by the rise in long-term mortgage rates however according to the National Association of Realtors, the affordability measure remains in better stead than its historic average even when the rise in mortgage rates is taken into account (This calculation assumed no change in prices or incomes). Against this backdrop, we look for housing starts to break through the million units mark on a sustained basis starting in the final quarter of 2013.

Labour market conditions are also supportive of this view. In the 12-months to August 2013, the US economy generated 2.21 million jobs and further closed the gap relative to its peak. As of August, there were 1.9 million fewer workers on non-farm payrolls than the pre-recession peak, a significant improvement from the 8.8 million shortfall at the worst point. The services sector industries, in aggregate, had fully recovered the jobs lost while the goods producers were still in a significant deficit position especially in the manufacturing and construction industries.

The unemployment rate unexpectedly dipped to 7.3% in August. Concerns that the rapid decline in the unemployment rate is a function of discouraged workers leaving the labour force are overdone. The data show that the number of discouraged workers hit a peak level in December 2010 and since then have fallen off. By our reckoning, to the extent that some of these discouraged workers returned to the labour force, it may, on the margin, have slowed the pace of decline in the unemployment rate rather than accelerated it as some argue.

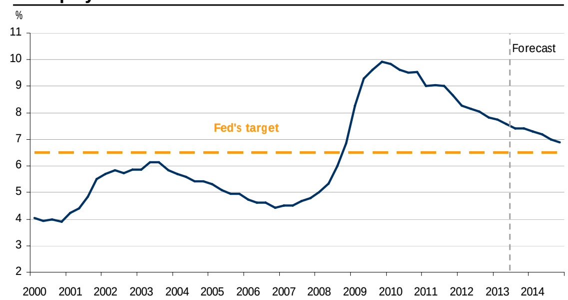
Bite from fiscal restraint to ease

Despite the steady rise in employment, disposable income growth has been limited by the increase in payroll taxes implemented on January 1, 2013. However the impact of this tax increase will lighten in 2014, and, against a backdrop of rising employment and wages, will be sufficient to drive the pace of consumer spending higher. The other part of the government's fiscal package, spending cuts, is also working its way through the economy. Interestingly, government officials did not wait until the official order to reduce spending before implementing cuts as indicated by the sharp drop in government sector support for the economy that began in the fourth quarter of 2012. The monthly US Treasury statements indicate that about two-thirds of the required spending cuts have already been implemented meaning that the downward pressure on the economy will begin to ease in the second half of 2013.

Fed – ready to pare back bond buying; hold policy rate steady

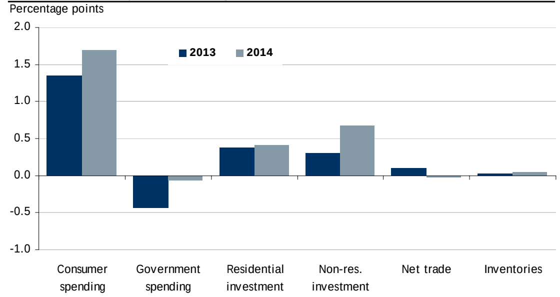
The Fed incorporated the negative hit to the economy from the government's fiscal policies into their economic outlook. Thus, while the central bank sees an improvement in domestic demand, the downside associated with the government's spending cuts means that policy will remain trained on offsetting any weakening. However, as conditions in the housing and labour markets continue to improve the need for the Fed to maintain its bond purchase program will lessen. We expect the Fed will reduce its purchase program this fall as data reports confirm the improvement in the economy is being sustained. This expectation is largely priced into the market as indicated by the run up in 10-year US Treasury yields. As such, we expect bond yields to rise at a more subdued pace throughout 2014.

Unemployment rate: U.S.



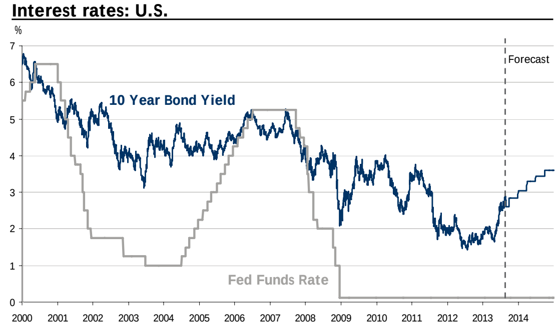
Source: Bureau of Labor Statistics, RBC Economics Research

U.S. real GDP growth composition



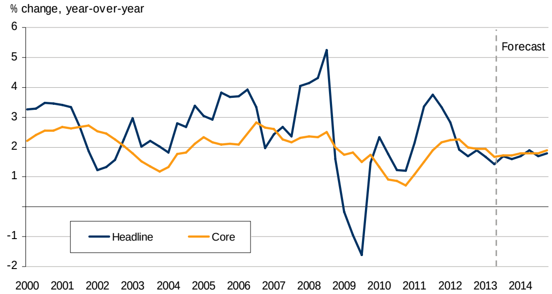
Source: Bureau of Economics Analysis, RBC Economics Research

Interest rates: U.S.



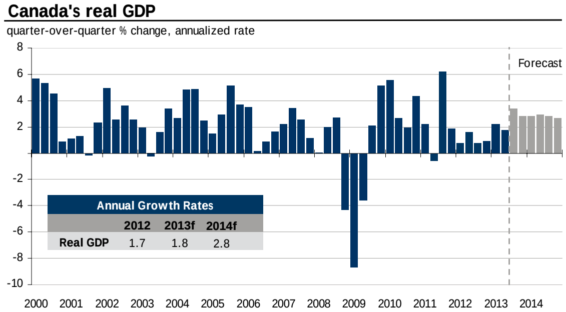
Source: Federal Reserve, RBC Economics Research

Inflation: U.S.



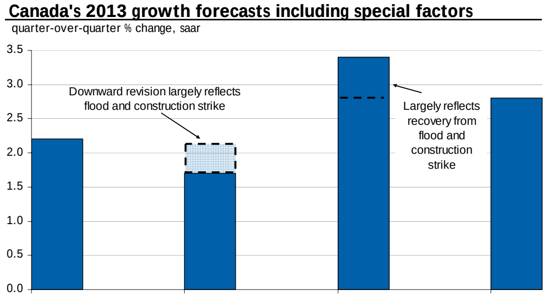
Source: Bureau of Labor Statistics, RBC Economics Research

Canada's real GDP



Source: Statistics Canada, RBC Economics Research Forecasts

Canada's 2013 growth forecasts including special factors



Source: Statistics Canada, RBC Economics Research

The Fed has made clear that the first course of policy stimulus withdrawal will come via the whittling back of its non-traditional policies with changes to the policy rate to follow. Further, recent policy statements provided thresholds that will be used to guide the timing of these policy changes. A decline in the unemployment rate below 6.5% and inflation running within one-half percentage point of the 2% target were given as the prerequisites for the Fed to raise the Fed funds target range beyond the current 0.00% to 0.25%. Using our economic projections as a baseline, this suggests that although the purchase program is likely to be scaled back in the near term, no changes to the policy rate are likely until 2015.

U.S. inflation pressures subdued

There are limited upward pressures being exerted on prices with both the headline and core (ex food and energy) measures forecast to remain below the Fed's 2% objective over the forecast period. Even with the actual inflation rate holding below 2%, measures of inflation expectations are steady in the range between 2.25% and 2.5%. Our modeling of US CPI indicates that the output gap is a significant factor in determining the rate of inflation, however its role has diminished since the 1980s with inflation expectations increasing in relative importance. Thus with the US economy running with a substantial, though diminishing, output gap, the inflation rate is likely to remain below the 2.0% mandated level. At the same time, inflation expectations remain above 2.0% countering concerns that the US economy is headed for a period of deflation.

Canada's entering period of stronger growth

Canada's economy was beaten down in 2012 as a myriad of factors conspired to weaken growth. On average, the economy grew at a slower than 1.0% pace in the final six months of the year. 2013 started with a much improved growth rate although the gains were narrowly based with strength in net exports and inventories more than compensating for soft consumer and business investment. Consumer spending picked up pace in the second quarter on signs of strengthening , albeit modest, US growth; easing concerns about the impact of the US fiscal austerity measures and the continuation of easy domestic financial conditions. Businesses, however, remained hesitant with spending falling in the second quarter.

One-off factors cause volatility in quarterly growth profile

Flooding in Alberta, a construction industry strike in Quebec plus inclement weather in other areas resulted in very weak real GDP growth in June. These factors conspired to send June GDP down 0.5% and limited the annualized Q2 growth rate to 1.7%. However given the temporary nature of these events, our forecast assumes a full reversal will occur in the third quarter as Alberta's economy rebounds on the rebuilding in the flooded areas and the construction sector in Quebec makes up for suspended activity. As a result, we have upped our Q3 real GDP to 3.4%. Underlying all these machinations is a baseline view that the period of underperformance for the Canadian economy ended in late 2012 and that the persistent support from low interest rates alongside more vigorous demand for Canadian exports will result in the economy growing at an above-potential pace in the second half of 2013 and throughout 2014.

Ebb and flow in GDP components

The main sources of growth in 2012 were consumer spending, residential and business fixed investment with net exports acting as a drag on the expansion. In 2013, consumer spending is forecast to act as the main engine for growth while a softening in the housing market will temper the economy's pace. Net exports, conversely, are set to swing from a drag to a support, and are forecast to make up 0.2 ppts of the 1.8% GDP increase in 2013 and 0.6ppts of 2014's 2.8% rise. Exports posted the fastest pace of increase since late 2011 in the first quarter of 2013 and continued to grow, albeit at a slower pace, in the second quarter. The improvement in global demand augurs well for demand for Canadian exports to heat up further. The improvement in the US housing market, rising motor vehicles sales and a ratcheting up of US business investment in machinery will augment rising demand for Canadian exports coming from the Euro-area and the UK as the pace of economic growth improves.

Housing market headed for mild pullback, not a crash landing

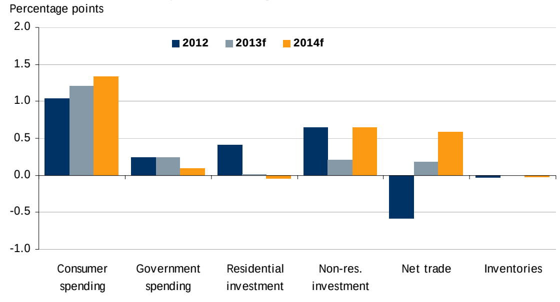
Concerns about a widespread and deep correction in Canada's housing market are overstated in our view. Affordability, while having deteriorated, continues to show only a modest amount of stress that will likely prove to be insufficient to precipitate a sharp correction as occurred in the early 1980s and 1990s. Prices in the multi-unit segment are likely to ease as an onslaught of supply will temporarily result in the market falling out of balance. Building activity has already started to correct with housing starts running at an average 183,000 unit rate in the first eight months of the year, well below the average 215,000 unit pace of 2012.

Looking through the volatility

Canada's employment reports have been extremely volatile so far in 2013 with a 54,500 job loss reported one month and a 95,000 gain in another. Alas the three-month moving average of employment changes provides a clearer view of the state of the labour market. As of August 2013, this trend rate was running with an average gain of 6,500 jobs per month; much slower than the 36,000 month gain recorded in the second quarter. This slower average pace of job creation in itself does not signal a sharp deterioration in the labour market conditions. Given our expectation that the pace of economic growth will accelerate in the second half of the year, we view this softening as unlikely to be sustained. The unemployment rate, conversely, has been steadier, oscillating in a narrow band between 7.0% and 7.2% since last November. At 7.1% in August, the unemployment rate signals that there is some slack in the labour market. Slower growth contributed to the estimated widening in the output gap that occurred in late 2012. The gradual elimination of this gap as the economy grows at an above-potential pace is projected to be accompanied by a decline in the unemployment rate to 6.6% by the end of 2014.

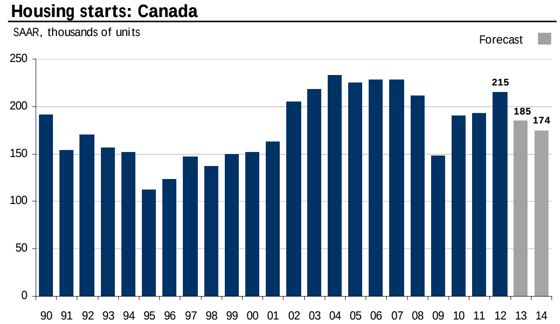
The increase in the amount of excess slack in the economy limited the pace of inflation with the headline rate averaging less than 1.0% in the first half of the year and the core rate, which removes the most volatile items including gasoline, averaging 1-¼%. As the amount of excess supply diminishes, consumer prices are forecast to edge higher. Downside risks to the inflation outlook are

Canadian real GDP growth composition



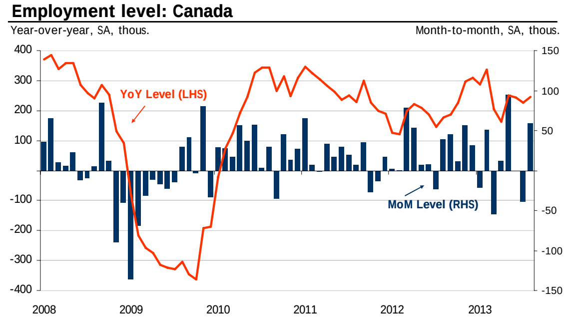
Source: Statistics Canada, RBC Economics Research

Housing starts: Canada



Source: Canada Mortgage and Housing Corporation, RBC Economics Research

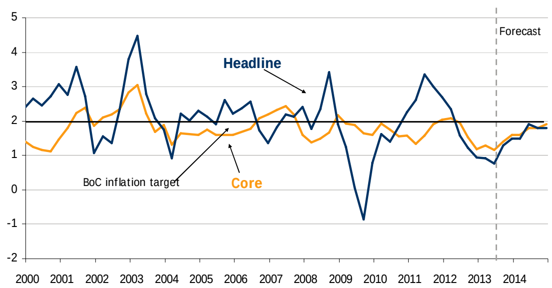
Employment level: Canada



Source: Statistics Canada, RBC Economics Research

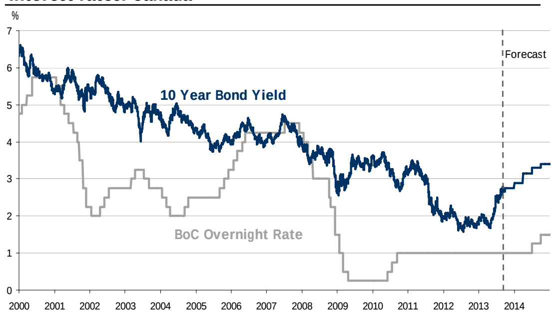
Inflation: Canada

% change, year-over-year



Source: Statistics Canada, RBC Economics Research

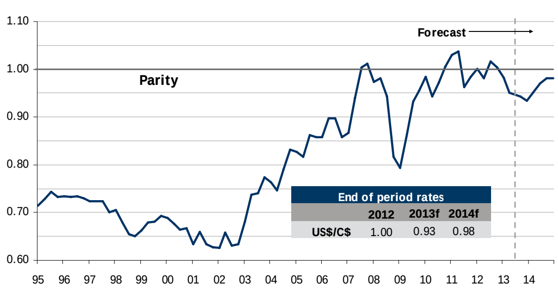
Interest rates: Canada



Source: Bank of Canada, RBC Economics Research Forecasts

Canadian dollar forecast

US$/C$



Source: Bank of Canada, RBC Economics Research Forecasts

limited in our view given that inflation expectations, which are a key driver of price movements, remain anchored around the Bank's 2% target.

The Bank of Canada keeping it cool

Monetary policy remains supportive for the economy with the overnight funds rate holding at 1.0%. With newly-minted Governor Stephen Poloz at the helm of the Bank of Canada, the forward looking guidance statement was tweaked such that, at the margin, the outlook is more explicitly linked to the three factors supporting the case for the current "considerable monetary policy stimulus" to remain in place - muted inflation, significant economic slack and the constructive evolution of household balance sheet imbalances. As these factors move toward healthier conditions, "a gradual normalization of policy interest rates can also be expected", the Bank said. Our base case scenario assumes the elimination of the output gap in the first half of 2015 at which time inflation will approach the 2.0% target. Further, with housing market activity forecast to moderate, the recently established slowing trend in mortgage credit growth will continue supporting what the Bank labelled a "constructive evolution of household balance sheet imbalances." Against this backdrop, we expect the Bank will begin to temper the amount of monetary policy support in the second half of 2014 to accommodate the lags between changes in the policy rate and economic activity. To that end, we are forecasting that the overnight rate will remain at 1.0% in 2013 with 50 basis points of increases likely by the end of 2014. Longer-term rates will continue to take their lead from US Treasuries with accelerating growth and limited upward inflation pressures resulting in the yield on the 10-year Government of Canada bond rising to 3.40% at the end of 2014, slightly lower than the average of the previous decade.

Ups and downs for the Canadian dollar

Canada's currency has been trading off investor sentiment in recent weeks as waves of risk appetite and risk avoidance play out. To be sure, the economy's fundamentals are only starting to turn more positive and the Bank of Canada has yet to signal it intends to raise the overnight rate any time soon. Commodity prices, according to the BOC's index, are range bound belying a steady decline in prices for minerals and metals and recovery in energy prices. All told, the commodity price movements are providing no clear direction for investors in Canada's currency. We expect that the currency will maintain its weakening trajectory for the remainder of 2013 absent a strong upward shift in commodity prices. In 2014, as the economy propels itself toward eliminating the output gap and rate hikes become more imminent, Canada's currency is likely to regain ground against the US dollar.

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	1.3	3.8	1.9	2.4	2.5	2.5	2.4	2.3	2.3	1.9	2.2	2.5
Durables	7.6	-0.8	-0.5	3.5	2.7	13.4	2.5	3.2	2.8	2.5	2.5	2.4	1.8	2.6	4.2	3.3
Semi-Durables	2.2	-4.5	5.8	1.6	1.5	1.4	2.3	2.5	2.6	3.2	2.8	2.5	2.9	2.1	1.8	2.6
Non-durables	-2.3	2.8	3.0	3.0	-0.7	1.9	1.8	2.0	2.6	3.2	2.8	2.5	1.2	0.7	1.6	2.5
Services	3.3	1.5	2.7	1.7	1.8	3.0	1.7	2.4	2.3	2.1	2.2	2.1	2.8	2.2	2.1	2.2
NPISH consumption	-4.4	6.2	0.0	6.8	2.9	-1.2	1.9	2.4	2.5	2.5	2.4	2.3	2.3	1.2	2.5	2.1
Government expenditures	2.8	-0.6	0.3	2.0	1.2	2.2	0.2	0.2	0.4	0.4	0.4	0.4	0.8	1.1	1.1	0.5
Government fixed investment	12.4	9.3	2.6	2.8	-2.6	-4.3	0.5	0.5	0.6	0.6	0.6	0.6	-7.0	0.5	0.0	0.3
Residential investment	14.1	3.3	-1.0	-1.1	-4.4	5.4	3.9	-0.4	-2.9	-2.7	-0.3	0.2	1.6	6.1	0.2	-0.6
Non-residential investment	7.9	8.7	-1.6	5.2	0.9	-2.5	5.2	6.5	7.8	6.6	6.9	5.6	11.1	6.2	2.0	6.1
Non-residential structures	5.9	13.1	-3.4	6.5	1.5	-2.8	6.9	6.5	7.5	6.8	7.2	6.0	12.9	6.9	2.6	6.3
Machinery & equipment	10.9	2.2	1.3	3.1	-0.1	-2.1	2.4	6.5	6.8	6.3	6.5	4.9	8.6	5.2	1.1	5.4
Intellectual property	14.4	-33.8	8.7	4.7	-2.0	-8.9	4.7	6.5	7.2	6.6	6.9	5.5	5.2	-1.5	-2.0	5.4
Final domestic demand	4.2	1.1	1.5	2.4	0.6	2.2	2.0	2.2	2.2	2.1	2.3	2.1	2.4	2.3	1.6	2.2
Exports	-6.5	-1.2	-3.6	0.8	5.2	0.9	3.5	8.5	7.9	7.4	6.8	7.0	4.7	1.5	2.0	6.7
Imports	5.0	1.1	4.1	-3.1	2.4	1.5	1.0	5.8	5.3	4.8	5.3	4.8	5.7	3.1	1.3	4.5
Inventories (change in $b)	2.1	7.3	14.1	3.9	7.8	5.1	7.6	6.9	6.4	6.4	6.5	6.5	7.4	6.8	6.8	6.4
Real gross domestic product	**0.8**	**1.6**	**0.8**	**0.9**	**2.2**	**1.7**	**3.4**	**2.8**	**2.8**	**2.9**	**2.8**	**2.7**	**2.5**	**1.7**	**1.8**	**2.8**

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	-0.6	0.4	1.2	1.3	1.6	1.5	1.2	1.3	1.0	0.0	0.6	1.4
Pre-tax corporate profits	4.9	-2.3	-8.5	-12.9	-10.5	-7.9	-2.7	0.4	0.8	7.1	5.1	5.3	11.3	-4.9	-5.4	4.6
Unemployment rate (%)*	7.4	7.3	7.3	7.2	7.1	7.1	7.1	7.0	6.9	6.8	6.7	6.6	7.4	7.2	7.1	6.8
Inflation																
Headline CPI	2.3	1.6	1.2	0.9	0.9	0.8	1.3	1.5	1.5	1.9	1.8	1.8	2.9	1.5	1.1	1.8
Core CPI	2.1	2.0	1.5	1.2	1.3	1.2	1.4	1.6	1.6	1.8	1.8	1.9	1.7	1.7	1.4	1.8
External trade																
Current account balance ($b)	-55.8	-65.7	-68.8	-58.5	-53.8	-58.3	-43.2	-42.2	-41.2	-40.0	-39.1	-38.0	-48.5	-62.2	-49.4	-39.6
% of GDP	-3.1	-3.6	-3.8	-3.2	-2.9	-3.1	-2.3	-2.2	-2.1	-2.0	-2.0	-1.9	-2.8	-3.4	-2.6	-2.0
Housing starts (000s)*	205	231	222	202	175	190	193	184	176	175	174	172	194	215	185	174
Motor vehicle sales (mill., saar)*	1.75	1.71	1.70	1.71	1.71	1.79	1.76	1.77	1.78	1.79	1.79	1.80	1.62	1.72	1.76	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	2.9	1.9	1.7	1.7	2.3	1.8	1.9	2.6	2.5	2.5	2.6	2.7	2.5	2.2	1.9	2.5
Durables	9.7	3.0	8.3	10.5	5.8	6.1	6.9	6.4	5.6	5.6	5.8	6.0	6.6	7.7	7.0	6.0
Non-durables	2.2	1.8	1.6	0.6	2.7	1.8	3.5	2.3	2.8	2.5	2.4	2.7	1.9	1.4	2.0	2.6
Services	2.1	1.7	0.7	0.6	1.5	1.1	0.6	2.1	2.0	2.1	2.1	2.2	2.1	1.6	1.1	1.8
Government spending	-1.4	0.3	3.5	-6.5	-4.2	-0.9	-1.9	-0.9	0.1	0.1	0.4	0.4	-3.2	-1.0	-2.3	-0.3
Residential investment	22.9	5.7	14.2	19.8	12.5	12.9	2.0	12.5	15.0	16.4	16.4	15.7	0.5	12.9	12.3	13.2
Non-residential investment	5.8	4.5	0.3	9.8	-4.6	4.4	1.9	6.2	4.5	8.5	8.3	8.0	7.6	7.3	2.1	6.1
Non-residential structures	6.9	7.0	5.9	17.5	-25.7	16.2	5.0	6.5	4.5	7.8	8.0	8.0	2.1	12.7	0.5	6.9
Equipment & software	8.3	5.3	-3.9	8.9	1.6	2.9	0.4	6.0	4.5	8.9	8.5	8.0	12.7	7.6	2.8	5.7
Intellectual property	1.3	1.8	2.8	5.7	3.8	-0.9	5.5	4.6	4.6	4.6	4.6	4.6	4.4	3.4	3.2	4.3
Final domestic demand	2.9	2.0	2.2	1.4	0.5	1.9	1.4	2.6	2.7	3.1	3.1	3.2	1.8	2.4	1.5	2.6
Exports	4.2	3.8	0.4	1.1	-1.3	8.6	9.0	6.8	8.3	8.4	8.4	8.4	7.1	3.5	3.3	8.2
Imports	0.7	2.5	0.5	-3.1	0.6	7.0	4.9	5.1	6.7	8.3	8.2	7.8	4.9	2.2	2.0	6.8
Inventories (change in $b)	89.2	56.8	77.2	7.3	42.2	62.6	76.4	69.1	65.1	68.1	71.1	77.1	33.6	57.6	62.6	70.4
Real gross domestic product	**3.7**	**1.2**	**2.8**	**0.1**	**1.1**	**2.5**	**2.2**	**2.6**	**2.7**	**3.0**	**3.1**	**3.3**	**1.8**	**2.8**	**1.6**	**2.7**

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	1.5	1.4	2.0	0.7	0.5	0.7	0.5	1.2	1.4	1.2	1.2	1.3	0.4	1.4	0.7	1.3
Pre-tax corporate profits	12.8	6.9	6.3	2.7	2.1	5.0	5.1	4.3	6.6	3.4	3.9	4.4	7.9	7.0	4.1	4.6
Unemployment rate (%)*	8.3	8.2	8.0	7.8	7.7	7.6	7.4	7.4	7.3	7.2	7.0	6.9	8.9	8.1	7.5	7.1
Inflation																
Headline CPI	2.8	1.9	1.7	1.9	1.7	1.4	1.7	1.6	1.7	1.9	1.7	1.8	3.2	2.1	1.6	1.8
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	-410	-402	-397	-394	-403	-410	-415	-458	-440	-408	-406
% of GDP	-3.1	-2.8	-2.7	-2.6	-2.7	-2.5	-2.4	-2.3	-2.3	-2.3	-2.3	-2.3	-3.0	-2.8	-2.4	-2.3
Housing starts (000s)*	714	741	781	896	957	872	915	1013	1082	1155	1233	1317	612	783	939	1197
Motor vehicle sales (millions, saar)*	14.2	14.2	14.4	14.9	15.3	15.5	15.8	16.0	16.0	16.1	16.2	16.3	12.7	14.4	15.6	16.1

*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	1.02	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	1.22	1.20	1.30	1.45	1.70	1.95	2.15	1.00	1.05	1.30	2.15
Five-year	1.56	1.25	1.35	1.30	1.30	1.80	2.00	2.05	2.20	2.35	2.55	2.65	1.50	1.30	2.05	2.65
10-year	2.11	1.74	1.75	1.75	1.88	2.44	2.65	2.75	2.90	3.15	3.30	3.40	2.30	1.75	2.75	3.40
30-year	2.64	2.33	2.40	2.40	2.50	2.90	3.15	3.25	3.40	3.55	3.65	3.75	3.10	2.40	3.25	3.75
Yield curve (10s-2s)	91	71	60	70	88	122	145	145	145	145	135	125	130	70	145	125
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	0.04	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	0.36	0.35	0.55	0.65	0.85	1.20	1.60	0.30	0.25	0.55	1.60
Five-year	1.04	0.70	0.72	0.70	0.77	1.41	1.45	1.75	1.90	2.10	2.30	2.50	1.10	0.70	1.75	2.50
10-year	2.20	1.60	1.65	1.70	1.87	2.52	2.60	2.85	3.05	3.30	3.45	3.60	2.15	1.70	2.85	3.60
30-year	3.32	2.70	2.80	2.90	3.10	3.52	3.70	3.90	4.10	4.20	4.30	4.35	3.20	2.90	3.90	4.35
Yield curve (10s-2s)	186	135	140	145	162	216	225	230	240	245	225	200	185	145	230	200
Yield spreads																
Three-month T-bills	0.85	0.79	0.80	0.96	0.91	0.98	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	0.86	0.85	0.75	0.80	0.85	0.75	0.55	0.70	0.80	0.75	0.55
Five-year	0.52	0.55	0.63	0.60	0.53	0.39	0.55	0.30	0.30	0.25	0.25	0.15	0.40	0.60	0.30	0.15
10-year	-0.09	0.14	0.10	0.05	0.01	-0.08	0.05	-0.10	-0.15	-0.15	-0.15	-0.20	0.15	0.05	-0.10	-0.20
30-year	-0.68	-0.37	-0.40	-0.50	-0.60	-0.62	-0.55	-0.65	-0.70	-0.65	-0.65	-0.60	-0.10	-0.50	-0.65	-0.60

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	0.41	0.30	0.40	0.50	0.60	0.70	0.70	0.70	0.20	0.40	0.70
10-year	2.00	1.80	1.70	1.70	1.78	2.46	2.50	2.65	2.75	2.85	2.90	3.00	2.45	1.70	2.65	3.00
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	0.20	0.15	0.20	0.30	0.30	0.35	0.40	0.65	0.00	0.20	0.40
10-year	1.61	1.50	1.50	1.50	1.29	1.73	1.70	1.85	2.00	2.10	2.15	2.25	2.20	1.50	1.85	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	2.58	2.40	2.40	2.50	2.50	2.60	2.70	3.15	2.75	2.40	2.70
10-year swap	4.10	3.04	2.94	3.00	3.42	3.76	3.70	3.75	3.95	4.10	4.35	4.50	4.05	3.00	3.75	4.50
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	2.85	3.10	3.20	3.30	3.40	3.40	3.50	2.85	2.60	3.20	3.50
10-year	4.17	3.40	3.57	3.80	3.96	4.16	4.50	4.60	4.60	4.60	4.90	5.30	4.25	3.80	4.60	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	2.2	1.7	3.4	2.8	2.8	2.9	2.8	2.7	2.5	1.7	1.8	2.8
United States*	3.7	1.2	2.8	0.1	1.1	2.5	2.2	2.6	2.7	3.0	3.1	3.3	1.8	2.8	1.6	2.7
United Kingdom	-0.1	-0.5	0.7	-0.2	0.3	0.7	1.0	0.5	0.5	0.5	0.5	0.5	1.1	0.2	1.5	2.4
Eurozone	-0.1	-0.3	-0.1	-0.5	-0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.7	-0.6	-0.2	1.1
Australia	1.3	0.5	0.8	0.7	0.5	0.6	0.3	0.7	0.7	0.6	0.8	0.7	2.4	3.7	2.3	2.6
New Zealand	1.0	0.6	0.7	1.3	0.3	0.8**	0.7	0.7	0.7	0.6	0.6	0.5	1.4	2.7	2.8	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	0.8	1.3	1.5	1.5	1.9	1.8	1.8	2.9	1.5	1.1	1.8
United States	2.8	1.9	1.7	1.9	1.7	1.4	1.7	1.6	1.7	1.9	1.7	1.8	3.2	2.1	1.6	1.8
United Kingdom	3.5	2.8	2.4	2.7	2.8	2.7	2.7	2.4	2.0	2.1	2.1	2.0	4.5	2.8	2.6	2.1
Eurozone	2.7	2.5	2.5	2.3	1.8	1.4	1.2	1.0	1.1	1.4	1.3	1.3	2.7	2.5	1.4	1.2
Australia	1.6	1.2	2.0	2.2	2.5	2.4	1.9	2.5	2.9	3.1	3.0	2.9	3.3	1.8	2.3	3.0
New Zealand	1.6	1.0	0.8	0.9	0.9	0.7	0.9	1.5	1.5	1.7	1.8	1.7	4.0	1.1	1.0	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	0.91	0.87	0.83	0.84	0.86	0.88	0.90	1.02	1.04	0.83	0.90
Canadian dollar	1.00	1.02	0.98	0.99	1.02	1.05	1.06	1.07	1.05	1.03	1.02	1.02	1.02	0.99	1.07	1.02
Euro	1.33	1.27	1.29	1.32	1.28	1.30	1.29	1.25	1.23	1.21	1.20	1.22	1.30	1.32	1.25	1.22
Yen	83	80	78	87	94	99	96	92	88	89	95	100	77	87	92	100
New Zealand dollar	0.82	0.80	0.83	0.83	0.84	0.77	0.75	0.72	0.72	0.74	0.75	0.76	0.78	0.83	0.72	0.76
Swiss franc	0.90	0.95	0.94	0.92	0.95	0.95	0.95	0.98	1.01	1.04	1.07	1.05	0.94	0.92	0.98	1.05
U.K. pound sterling	1.60	1.57	1.62	1.62	1.52	1.52	1.52	1.51	1.54	1.55	1.58	1.63	1.55	1.62	1.51	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