ECONOMIC AND FINANCIAL MARKET OUTLOOK

December 2012

Marking time until downside risks to global outlook fade

The latest International Monetary Fund (IMF) global growth outlook showed another cut to the advanced and emerging economies' forecasts. In 2012, world GDP is forecasted to increase by 3.3% or 0.2 percentage points less than what was expected in July. 2013's growth forecast was trimmed by 0.3 percentage points to 3.6% to stand a full percentage point lower than the forecasted increase presented a year earlier. Notably, the trajectory for world growth is upward even if the pace is expected to remain slower than its historical average. Weighing against a faster acceleration is the sharp reduction in government spending and tax increases in many of the advanced countries. The effect of this fiscal consolidation will in part be mitigated by central banks maintaining very low policy rates. While in most jurisdictions this will be sufficient to ensure that longer-term rates stay historically low, elevated financing costs in some of the highly indebted European countries mean that the European Central Bank (ECB) will have to engage additional policies to align these costs with the official policy rate.

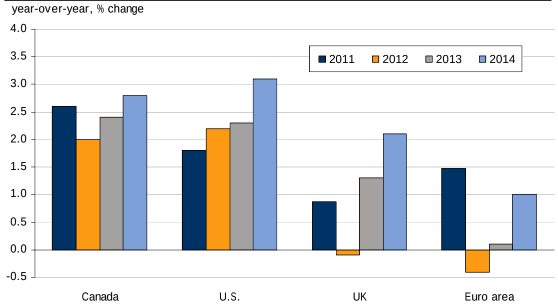
In the immediate term, there remains a significant downside risk to the US economy coming from the so called fiscal cliff. We see the probability that the policies that are currently on the books will be enacted as being significantly below 50%; instead, we expect a much smaller degree of fiscal restraint in 2013 than a full-blown fiscal cliff would entail. The risk of a deeper and longer recession in Europe is also a key risk to the outlook. Recent data point to the recession continuing in the final quarter of 2012 with negligible growth forecasted at the start of 2013. The risk is that the structural and economic reforms could prove too formidable and prevent Europe's economy from expanding. Policymakers to date have implemented several programs to ease financial market concerns thereby resulting in a limited decline in financing costs for the economies in the worst fiscal shape. Our view is that there are enough irons in the fire to release the European economy from recession in 2013 with growth likely to accelerate in 2014.

Two steps forward; one step back

Even with these significant headwinds, the latest data were surprisingly upbeat for China and the US although the same cannot be said for Europe. China's economy gradually picked up its pace in the course of 2012 and expanded at a 2.2% pace in the third quarter of the year. October reports suggest that this momentum was, at least, maintained in the final quarter of 2012. Exports, industrial production, and retail trade posted solid gains in October, and the Purchasing Managers' Index rose above the key 50-mark in November for the first time since October 2011. Policy actions by the government and the central bank likely contributed to the stronger performance, and we expect the

Real GDP Growth

year-over-year, % change



Source: International Monetary Fund, RBC Economics Research

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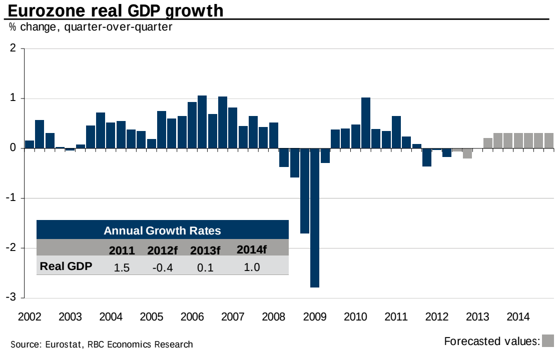
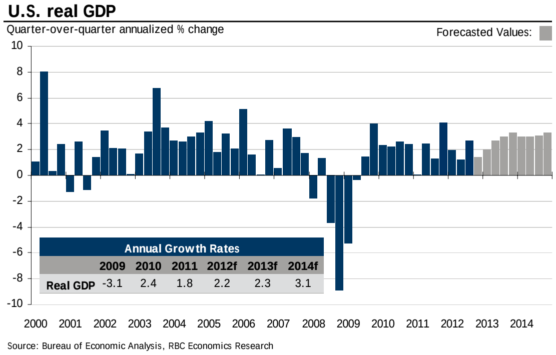
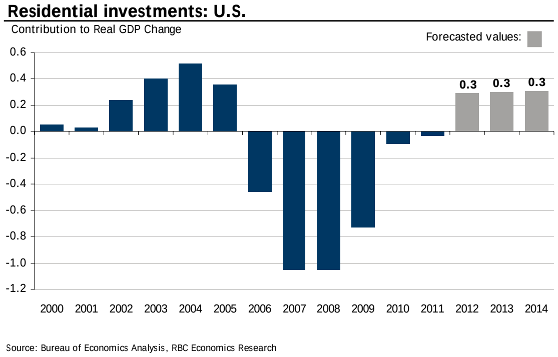
Eurozone real GDP growth



U.S. real GDP



Residential investments: U.S.



economy will shift to a higher gear with real GDP growth increasing by 8.3% on average in 2013 and 2014 from 7.8% in 2012.

European data, however, showed a decidedly weaker tone early in the fourth quarter of 2012. The Purchasing Managers' Composite Index held stubbornly below the 50-mark, which is consistent with a further contraction in economic activity. The unemployment rate stood at an all-time high in the euro area as a whole with outliers like Spain and Greece recording rates of 25%. Fiscal austerity is biting and will keep some of the member countries in recession in 2013; however, with Germany, France, and Finland expected to post mild growth, euro area GDP is likely to expand by a marginal 0.1% following 2012's 0.4% decline. As the effect of the 'shock and awe' fiscal restraint diminishes, euro area growth is likely to accelerate with 2014 real GDP forecasted to rise by 1.0%.

US economy facing down fiscal cliff

The US economic data were surprisingly resilient this autumn with the housing market showing clear signs of a turnaround. Home sales, housing starts, and selling prices all proved stronger than expected thereby setting up for real residential investment to provide another quarterly boost to GDP in the final quarter of 2012. US consumers also picked up their pace of spending on durable goods in the second half of 2012, and although Hurricane Sandy managed to clip the pace of auto sales in late October, they roared back in November. The Purchasing Managers' Manufacturing Index failed to stay in expansionary territory, which is consistent with a half-hearted rebound in fixed investment in the final quarter of 2012 although the services-sector index moved higher.

Avoiding the fiscal cliff and clearing the air

As 2012 drew to a close, some businesses indicated that they were hesitant about putting money to work given the uncertainties about how the government will implement fiscal restraint. The range of estimates of the hit to the economy in 2013 from the fiscal retracement is wide with some looking for a cut of 4 to 5 percentage points. These estimates assume that legislation as currently written is enacted and that these effects are magnified by a drop in business and consumer spending. Our assumptions remain that the government will not implement spending sequestration and will maintain the middle-income tax cut. If our assumptions are correct, this would significantly reduce the size of the direct hit to the economy next year to about 1 percentage point. While full implementation would likely result in the US economy falling back into recession, our assumptions are consistent with the economy managing to post moderate growth again in 2013. Furthermore, the less aggressive fiscal medicine is likely to bolster confidence of households and businesses thereby providing a lift to growth. The US economy is forecasted to grow by a modest 2.3% in 2013 with supportive monetary policy and a credible medium-term plan to reduce the fiscal overruns likely to generate a stronger gain of 3.1% in 2014.

Housing recovery – it is for real

The persistent increases in housing sales and starts have been surprising. In 2012 to date, sales of new and existing single-family homes were 8.1% higher than in 2011. Prices also recovered ground this year rising by about 10% from the end of 2011. Housing starts increased by 28% from December 2011 although are still running at just over half the 1.6 million unit pace demanded due to demographic factors. Still, as recently as the summer of 2011, the pace of starts ran at 600,000 units at an annual rate, which was much lower than October 2012's 894,000 print. For 2012 as a whole, these gains set up for residential investment spending to add 0.3 percentage points to the economy's annual growth rate thereby marking the first contribution from this sector in seven years. Looking to 2013, the Fed's commitment to maintaining low interest rates, via the fed funds target and ongoing purchases of mortgage-backed securities, augurs well for the housing market to maintain its upward momentum. We forecast that residential construction will again add 0.3 percentage points to real GDP growth in both 2013 and 2014.

Job market primed to do better in 2013

Low interest rates are not the only support for housing as this is being augmented by a firming in the labour market. In the course of 2012, the labour market's performance has been volatile. Having said that, in the 12 months ended November 2012, there were 1.9 million jobs created, which was an acceleration from the 1.7 million gain recorded in the same period last year. To be sure, the improvement has been slow in coming. Job growth, according to the household survey used to calculate the unemployment rate, accelerated more sharply thereby resulting in the unemployment rate sliding below 8% in September and staying there. The uncertainty about the fiscal cliff will likely limit the labour market's improvement in the near term; however, the effect will fade in early 2013 thereby making it likely that job growth will accelerate and further facilitate a strengthening in consumer spending and real estate activity. Our forecast assumes that the pace of employment gains will accelerate during 2013-2014 with the unemployment expected to end 2014 at 7.4%.

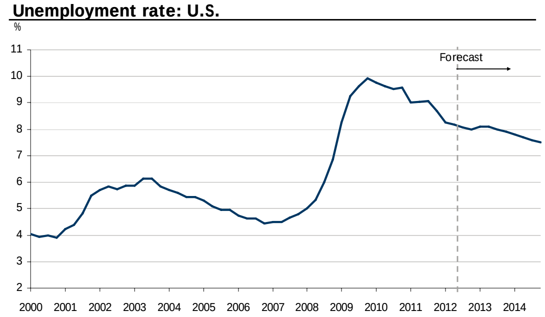
Balance sheet rebuild

The health of household balance sheets is improving with net worth recovering 84% of losses incurred during the recession. Liabilities were pared by almost $1 trillion; however, the bigger force was the surge in financial asset values augmented recently by increasing real estate values. Households saw their equity in real estate assets rise to 44.8% as of the third quarter of 2012 from 37.2% in early 2009 and much closer to the average of the previous decade. The rebuilding of net worth, low interest rates and gradually improving labour market conditions are constructive for consumer spending. Additionally, senior loan officers indicated that standards for consumer loans have eased thereby providing another support for household spending in 2013. One factor that is likely to limit an acceleration in the near term is the expected reversal of the payroll tax cut that will reduce disposable incomes as of January 1, 2013. This is likely to limit spending growth in the first half of 2013; however, faster hiring and wage gains will be sufficient to offset the drag from the payroll tax increase, and we anticipate consumer spending will grow at a 2.8% pace in the second half of 2013 and average 2.6% in 2014.

Business balance sheets have bench strength

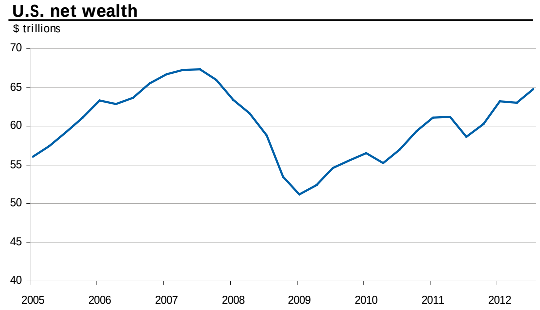
US corporations remain cautious and reduced investment in capital goods and non-residential real estate in the third quarter of 2012. This pullback likely was a product of rising anxiety about the US election and the extent of fiscal restraint measures. Financial institutions indicated that lending standards remain supportive, and with interest rates low, access to financing for most companies was not an impediment. Profit growth slowed; although relative to the size of the economy, pre-tax profits are near historic highs. Furthermore, companies are holding a historically high amount of liquid assets relative to their liabilities and the economy's GDP. As long as the uncertainty about the implementa-

Unemployment rate: U.S.



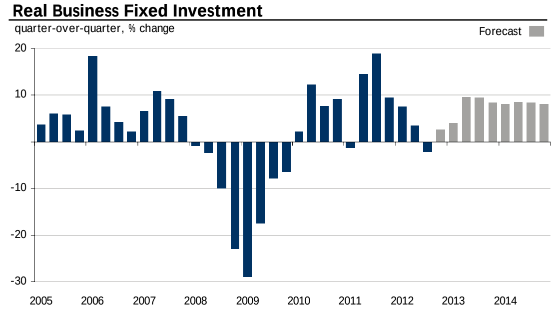
Source: Bureau of Labor Statistics, RBC Economics Research

U.S. net wealth



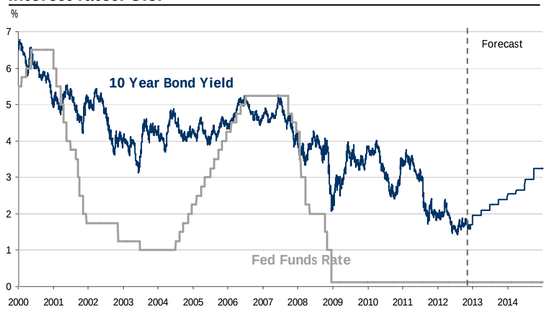
Source: Federal Reserve

Real Business Fixed Investment



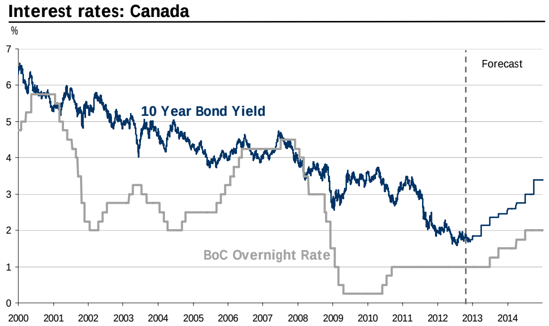
Source: Bureau of Economics Analysis, RBC Economics Research

Interest rates: U.S.



Source: Federal Reserve, RBC Economics Research

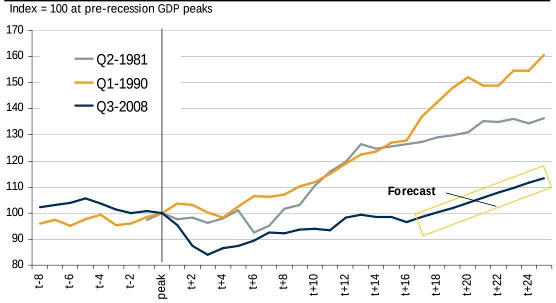
Interest rates: Canada



Source: Bank of Canada, RBC Economics Research

Canada Exports: Indexed to Pre-recession Peak

Index = 100 at pre-recession GDP peaks



Source: Statistics Canada, RBC Economics Research

tion of fiscal restraint persists, business investment is likely to remain tepid; however, once the issue is resolved, US business spending is forecasted to accelerate in 2013 and 2014.

Inflation stays contained leaving Fed to focus on unemployment

The US Federal Reserve's dual mandate is to provide price stability and full employment with the first criterion being met by both the headline and core inflation rates at around 2% in October. In 2013, both of these inflation rates are expected to fall below the 2% target as energy prices stabilize and food prices move only marginally higher due to the drought of this past summer. That leaves the Fed to focus on the labour market because the unemployment rate at 7.7% remains well above the 5.2% to 6.0% full-employment range. Policy remains geared to lowering the unemployment rate with the Fed expected to maintain a very low fed funds target until mid-2015. This stimulative policy will work to mitigate some of fiscal policy restraint on the overall economy's growth rate.

External risks keep the Bank of Canada on the sidelines

The myriad of external risks, slowing domestic investment, and a drop in exports that depressed growth in the third quarter of 2012 to a 0.6% annualized rate in Canada saw the Bank of Canada maintain the policy rate at a very stimulative 1.0%. To be sure, the economy is running with relatively limited excess capacity, but the below-potential gain recorded in the third quarter opened the output gap a little wider meaning, all else being equal, that it will take longer to close the gap than previously estimated. Until the external risks tone down, stimulative domestic monetary policy will serve to insulate the economy from persistently weak export demand. The headline and core inflation rates stand closer to the bottom end of the 1% to 3% target band than the top, so there is no urgency for the Bank to Canada to reduce policy stimulus.

Our expectation is that the downside risks to the global economy from the US and European economies will dissipate in early 2013 thereby providing a boost to household and business confidence worldwide. Canada will be no exception with the clearer outlook expected to support consumer and business spending in 2013. Exports have lagged during recent years although firming demand in the US and a gradual stabilization in Europe will turn the dial in terms of export growth in 2013 and 2014. At the same time, import demand will continue to grow, albeit at a subdued pace. After a sustained period of net exports acting as a drag on real GDP, the trade sector is forecasted to boost growth in 2013 and 2014. With the economy expanding at an above-potential growth rate, the Bank of Canada will be in a position to start to reduce monetary policy stimulus with the policy rate forecasted to rise 50 basis points to 1.5% by the end of 2013 and a further 50 basis points to 2.0% by the end of 2014.

Trade - the hope for 2013

Canadian exports have significantly trailed the recovery performance of both the recession of the early 1980s and the early 1990s. In fact, to date, the level of exports stands below its previous peak. This contrasts to the level of both household spending and business investment, which eclipsed their previous peaks. Export growth has been held back by weak demand for a number of goods including motor vehicles and parts, industrial machinery, and aircraft. Conversely, exports of energy products and metals stand at new all-time highs. Looking ahead to 2013, as the fiscal cloud lifts, stronger US demand is expected to emerge with motor vehicle and parts exports likely to rise alongside higher US auto sales. Elevated demand for commodities, especially as China shifts into higher gear, augurs well for exports of energy and metals to continue to be firm. Import growth is also expected to accelerate although the pace of increase is likely to be slower than exports given the very rapid increases recorded in 2010-2011. From the recent low recorded in mid-2009, Canadian purchases of imported machinery and equipment surged by 52%. We expect the pace to slow in 2013 although still anticipate that overall import growth will rise over the next two years. Net trade is forecast to make contributions of 0.3 percentage points and 0.4 percentage points to real GDP growth in 2013 and 2014 respectively. This represents the most significant support since 2001 after most of the intervening years showed the sector acted as a drag on growth.

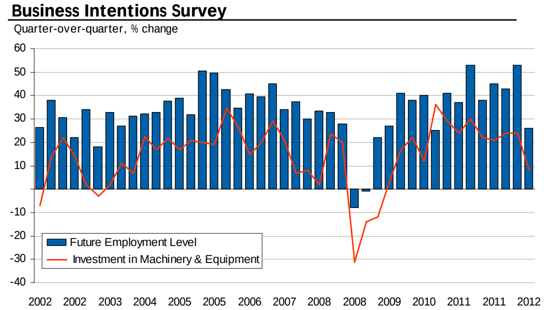
Business balance sheet health paves way for investment

Canadian nonfinancial corporations saw profits recover from the 60% drop recorded during the Great Recession. As of the third quarter of 2012, profits as a percent of GDP stood at 9.5%, in line with historical averages. Corporations have also been building up the amount of cash and deposits on their balance sheets. In part, this likely is a reflection of businesses shying away from putting money to work given the uncertain global economic outlook. It may also reflect a build up of cash reserves to meet an anticipated increase in expenses such as unfunded pension liabilities. The Bank of Canada's quarterly Business Outlook survey showed that the majority of companies intend to increase investment in machinery and equipment over the next 12 months and to boost head count. That said the margin of companies expecting to increase spending and hiring shrunk. The survey also indicated that lending standards, from both the lender and borrower perspective, remain accommodative providing companies with the capital needed to fund investment at current low interest rates. While businesses are facing supportive conditions, the uncertain global environment restrained spending on capital goods in the first three quarters of 2012. Spending on structures continued at a brisk clip which we expect to continue given the declines in the vacancy rates in recent quarters. We further expect that as the uncertainty gripping the world economy ebbs, corporations will take advantage of their enviable balance sheet positions and resume spending on machinery and equipment at a faster rate.

Household balances – that is another story

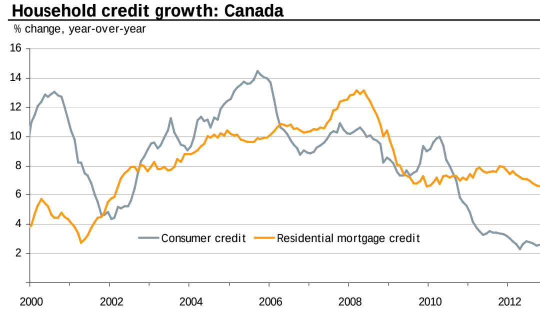
Canadian households drove up the debt-to-personal income ratio to an all-time high of 163% in the second quarter. The debt drive was facilitated by a confluence of factors – solid labour market conditions; low interest rates, access to loans and a robust housing market. While some of the factors that led consumers to push up their debt levels are still present today, the government's tightening of the mortgage rules plus a cooling in the housing market activity are likely to contribute to a steady moderation in debt accumulation going forward. In fact, this trend is already underway with household credit growth in September and October running at the slowest rate since 2002. The easing is a reflection of a sharp slowing in consumer credit combined with mortgage debt growing at a 6.6% pace compared to a year ago. This followed two years of mortgage growth running between 7% and 8%. This easing in the pace of debt accumulation is a step in the right direction although it has been tempered by the fact that the pace of personal income growth has been lacklustre to-date. The tightening in labour market conditions and acceleration in the pace of wage increases may act to remedy this situation soon.

Business Intentions Survey



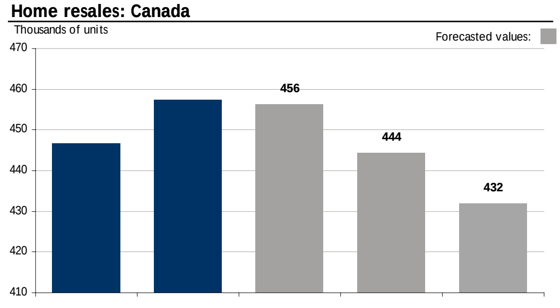
Source: Bank of Canada

Household credit growth: Canada



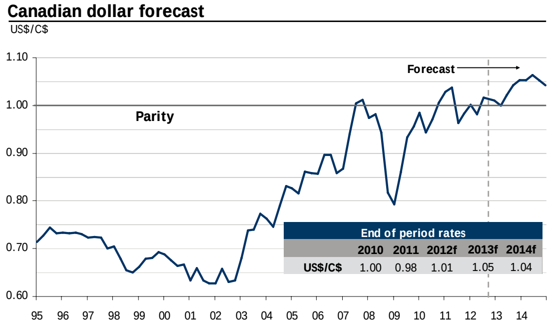
Source: Bank of Canada, RBC Economics Research

Home resales: Canada



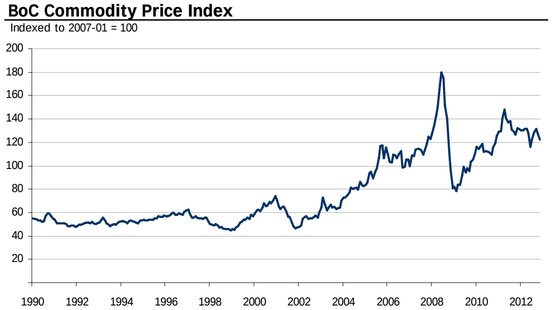
Source: Canadian Real Estate Association, RBC Economics Research

Canadian dollar forecast



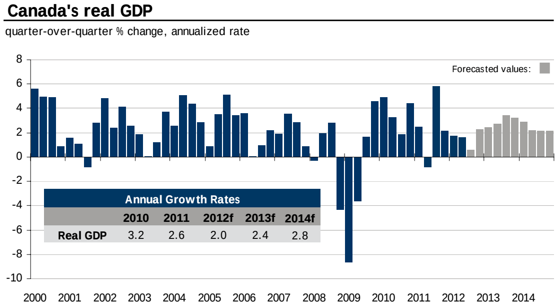
Source: Bank of Canada, RBC Economics Research

BoC Commodity Price Index



Source: Bank of Canada, RBC Economics Research

Canada's real GDP



Source: Statistics Canada, RBC Economics Research

Cooling in housing market

Activity in the housing market cooled over the spring and summer although the slide subsided with sales rising in September and maintaining the gain in October. The weaker sales followed an unexpectedly robust first quarter spurred by unseasonably warm weather and a round of mortgage rate promotions. The tightening in mortgage rules that took effect in July amplified the pullback already underway at the time. The near-term outlook for housing is for a sustained weakening in activity albeit at a modest pace. This reflects stretched affordability relative to historical averages, high levels of household indebtedness relative to incomes, and global uncertainty. Some offset will be provided by interest rates remaining historically low. We look for lower resale activity and home prices in Canada in 2013 and 2014.

Canadian dollar rally is not done yet

The Canadian dollar traded in a well worn range around parity against the US dollar in 2012. We remain bullish on the Canadian dollar based on our view that commodity prices will remain historically high, interest rates in Canada will rise quicker than in the US, and foreign investors will continue to put their money into Canadian assets, which have a higher rating than many others. Our spot forecast is for the Canadian dollar to gain another 5% against the US in 2013.

The currency's strengthening has reduced the cost of imported goods and services and in turn filtered into some components of the consumer price index (CPI). This is most evident in the clothing and footwear category where prices are 9% lower than in 2002 when the Canadian dollar hit the bottom against the US dollar. Even outside this structural decline in clothing prices, inflation pressures in Canada are well contained with the headline rate at 1.2% in October and the core measure at 1.3%. In 2013, a gradual elimination of excess capacity will likely result in upward pressure being exerted on prices; although given the low starting point, the rates are only likely to approach the 2% target by the end of 2013. Inflation pressures may become more of an issue in 2014 as the economy starts the year expanding at an above-potential pace; however, we expect that the Bank of Canada will be in the process of reducing policy stimulus and that will cap the upside for prices.

Canada – the little economy that could

The recent respite in growth raised concerns that Canada's economic outperformance had run its course. A scan of the data shows that there were a variety of one-off factors that limited the expansion in the third quarter of 2012. In late 2012 and early 2013, these factors that served to weigh on growth will reverse course thereby arguing for a recovery also supported by easy financial conditions and very low household borrowing rates. As the cloak of uncertainty is removed from the global economy, demand for Canadian exports will rise as will investment and hiring. The overall economy is headed for a period of gradual improvement and the gradual elimination of excess capacity. As the economy edge ever nearer to full employment, the case for interest rates to stay as low as they are will dwindle. We expect the Bank to implement a plan of gradual and persistent rate increases starting in the second half of 2013 and continuing in 2014.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual			Forecast									Actual	Forecast		
	2012				2013				2014				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2011	2012	2013	2014
Household Consumption	2.2	0.6	3.8	2.2	2.3	2.4	2.7	2.6	2.3	2.2	2.2	2.2	2.4	2.0	2.5	2.4
Durables	3.6	-4.3	5.7	5.4	3.7	3.3	2.9	2.7	2.0	2.5	2.4	2.4	1.8	2.7	3.5	2.5
Semi-Durables	3.4	-3.5	3.1	2.0	3.0	2.3	3.3	2.9	2.5	2.5	2.5	2.5	2.8	2.1	2.3	2.7
Non-durables	-2.3	2.5	1.9	2.0	2.1	2.3	3.5	2.8	2.5	2.1	2.1	2.1	1.4	0.5	2.3	2.5
Services	3.9	1.3	4.3	1.7	2.0	2.3	2.3	2.4	2.3	2.1	2.1	2.1	2.9	2.5	2.3	2.2
NPISH consumption	3.5	-2.8	4.3	2.2	2.3	2.4	2.7	2.6	2.3	2.2	2.2	2.2	4.5	1.9	2.3	2.4
Government expenditures	-1.7	0.1	1.2	0.5	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	1.0	0.2	0.4	0.3
Government fixed investment	1.5	3.5	-6.0	1.0	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	-3.3	-6.2	-0.1	0.6
Residential investment	15.5	-0.2	-3.5	-1.8	-4.3	-3.7	-2.3	-1.1	-0.6	-1.3	-0.5	0.1	1.9	5.6	-2.9	-1.2
Non-residential investment	6.9	8.8	-2.5	0.9	6.5	7.9	9.0	8.2	7.1	6.3	6.5	5.8	10.4	5.5	5.1	7.3
Non-residential structures	9.0	14.2	-4.4	-0.5	6.9	7.8	8.9	8.0	7.6	6.5	6.9	6.0	10.2	7.1	4.9	7.4
Machinery & equipment	4.1	1.6	0.2	3.0	5.9	8.0	9.1	8.5	6.4	6.0	6.0	5.5	10.7	3.3	5.3	7.0
Intellectual property	-11.4	4.8	3.9	7.1	8.3	8.1	7.7	8.1	8.9	8.0	8.2	8.1	9.0	1.0	7.2	8.2
Final domestic demand	2.4	1.4	1.6	1.5	1.9	2.2	2.5	2.4	2.3	2.1	2.1	2.1	2.7	1.8	1.9	2.3
Exports	-3.1	0.1	-7.8	8.9	6.8	7.2	7.8	7.8	7.5	6.8	7.0	7.0	4.6	1.9	5.1	7.4
Imports	3.8	1.9	1.7	3.5	3.1	5.5	5.1	5.8	5.5	5.0	6.1	6.1	5.8	2.8	3.8	5.5
Inventories (change in $b)	4.0	5.9	12.2	8.8	6.5	7.1	7.8	8.8	9.4	8.0	7.3	6.8	1.6	7.7	7.5	7.9
Real gross domestic product	**1.7**	**1.7**	**0.6**	**2.2**	**2.4**	**2.7**	**3.4**	**3.2**	**2.9**	**2.2**	**2.2**	**2.2**	**2.6**	**2.0**	**2.4**	**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	1,1	1,3	0,4	-0,4	-0,4	0,4	1,2	1,6	1,7	1,6	1,3	1,1	1,1	0,6	0,7	1,5
Pre-tax corporate profits	3,3	0,9	-2,3	-6,6	-0,8	5,6	6,1	8,6	8,5	8,2	7,3	5,5	15,2	-1,3	4,8	7,3
Unemployment rate (%)*	7,4	7,3	7,3	7,3	7,3	7,2	7,0	7,0	7,0	6,9	6,9	6,8	7,5	7,3	7,1	6,9
Inflation																
Headline CPI	2,3	1,6	1,2	1,2	1,2	1,5	1,9	1,9	1,9	1,9	2,0	2,0	2,9	1,6	1,7	2,0
Core CPI	2,1	2,0	1,5	1,5	1,8	1,8	2,0	1,9	1,9	1,9	2,0	2,0	1,7	1,8	1,9	2,0
External trade																
Current account balance ($b)	-64,4	-73,5	-75,6	-45,9	-43,5	-42,4	-41,7	-40,5	-39,1	-37,6	-36,9	-36,5	-52,3	-64,9	-42,0	-37,5
% of GDP	-3,6	-4,1	-4,1	-2,5	-2,3	-2,2	-2,2	-2,1	-2,0	-1,9	-1,8	-1,8	-3,0	-3,6	-2,2	-1,9
Housing starts (000s)*	206	231	222	202	193	185	184	181	179	175	174	173	194	215	185	175
Motor vehicle sales (mill., saar)*	1,75	1,72	1,69	1,72	1,74	1,76	1,77	1,77	1,77	1,78	1,78	1,79	1,62	1,72	1,76	1,78

*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	1.4	1.9	1.7	2.2	2.8	2.9	2.5	2.5	2.6	2.7	2.5	1.8	2.0	2.6
Durables	11.5	-0.2	8.7	7.7	4.2	5.7	7.0	7.1	5.9	5.9	6.0	6.1	7.2	7.4	5.9	6.3
Non-durables	1.6	0.6	1.1	1.4	0.8	1.6	2.6	3.0	2.3	2.3	2.5	2.5	2.3	1.0	1.5	2.5
Services	1.3	2.1	0.3	1.1	1.5	1.8	2.1	2.2	2.0	2.0	2.1	2.2	1.9	1.2	1.5	2.1
Government spending	-3.0	-0.7	3.5	-1.0	-1.0	-1.0	-0.9	-0.9	0.1	0.1	0.4	0.4	-3.1	-1.4	-0.4	-0.2
Residential investment	20.6	8.4	14.3	15.2	12.7	9.7	10.5	11.2	12.7	14.2	14.6	14.9	-1.4	12.0	12.1	12.6
Non-residential investment	7.5	3.6	-2.2	2.6	4.0	9.6	9.4	8.4	8.1	8.6	8.4	8.0	8.6	7.3	4.9	8.5
Non-residential structures	12.8	0.6	-1.0	2.6	2.6	9.5	8.9	7.8	7.8	7.8	8.0	8.0	2.8	9.7	4.4	8.1
Equipment & software	5.4	4.8	-2.7	2.6	4.5	9.7	9.6	8.6	8.2	8.9	8.5	8.0	11.0	6.3	5.1	8.7
Final domestic demand	2.2	1.4	1.7	1.7	1.6	2.5	2.9	2.9	2.8	2.9	3.0	3.1	1.8	1.9	2.1	2.9
Exports	4.4	5.2	1.1	-0.5	7.0	9.3	8.1	7.8	8.3	8.4	8.4	8.4	6.7	3.5	5.3	8.3
Imports	3.1	2.8	0.1	-1.0	6.0	7.5	6.3	5.3	6.9	7.5	7.5	7.5	4.8	2.7	4.0	6.8
Inventories (change in $b)	56.9	41.4	61.3	45.3	58.1	61.8	58.5	63.2	65.2	68.2	69.2	76.2	47.2	64.6	52.4	57.5
Real gross domestic product	**2.0**	**1.3**	**2.7**	**1.4**	**2.0**	**2.7**	**3.0**	**3.3**	**3.0**	**3.0**	**3.1**	**3.3**	**1.8**	**2.2**	**2.3**	**3.1**

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	0.9	1.1	1.4	0.7	1.0	0.9	0.9	1.3	1.5	1.5	1.4	1.4	0.4	1.0	1.0	1.4
Pre-tax corporate profits	10.3	6.7	8.7	1.9	6.8	6.3	3.8	5.1	4.1	4.5	4.5	4.7	7.3	6.7	5.5	4.4
Unemployment rate (%)*	8.3	8.2	8.1	7.8	7.9	8.0	7.9	7.8	7.7	7.6	7.5	7.4	9.0	8.1	7.9	7.6
Inflation																
Headline CPI	2.8	1.9	1.7	1.9	1.4	1.7	1.7	1.8	1.9	1.9	1.8	1.9	3.2	2.1	1.7	1.9
Core CPI	2.2	2.3	2.0	2.0	1.9	1.8	1.7	1.7	1.8	1.8	1.8	1.9	1.7	2.1	1.8	1.8
External trade																
Current account balance ($b)	-534	-470	-424	-422	-429	-430	-428	-424	-428	-434	-439	-442	-466	-463	-428	-436
% of GDP	-3.5	-3.0	-2.7	-2.6	-2.7	-2.6	-2.6	-2.6	-2.5	-2.6	-2.6	-2.5	-3.1	-2.9	-2.6	-2.5
Housing starts (000s)*	715	736	780	853	875	898	947	996	1063	1135	1212	1295	612	771	929	1176
Motor vehicle sales (millions, saar)*	14.1	14.1	14.5	14.8	14.5	14.6	14.8	15.0	15.1	15.2	15.3	15.4	12.7	14.4	14.7	15.2

*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	1.25	1.50	1.50	1.75	2.00	2.00	1.00	1.00	1.50	2.00
Three-month	0.92	0.88	0.90	1.05	1.05	1.10	1.25	1.50	1.55	1.80	2.05	2.10	1.10	1.05	1.50	2.10
Two-year	1.20	1.03	1.15	1.05	1.10	1.40	1.65	1.90	2.10	2.25	2.40	2.50	1.00	1.05	1.90	2.50
Five-year	1.56	1.25	1.35	1.30	1.45	1.75	1.95	2.15	2.40	2.55	2.70	2.80	1.50	1.30	2.15	2.80
10-year	2.11	1.74	1.75	1.75	1.85	2.15	2.35	2.45	2.60	2.75	3.00	3.40	2.30	1.75	2.45	3.40
30-year	2.64	2.33	2.40	2.40	2.45	2.60	2.75	2.95	3.05	3.20	3.40	3.60	3.10	2.40	2.95	3.60
Yield curve (10s-2s)	91	71	60	70	75	75	70	55	50	50	60	90	130	70	55	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	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Two-year	0.34	0.25	0.25	0.25	0.25	0.25	0.35	0.45	0.65	0.85	1.00	1.25	0.30	0.25	0.45	1.25
Five-year	1.04	0.70	0.72	0.70	0.85	0.90	1.05	1.20	1.40	1.50	1.75	2.00	1.10	0.70	1.20	2.00
10-year	2.20	1.60	1.65	1.70	1.95	2.10	2.25	2.40	2.55	2.65	2.95	3.25	2.15	1.70	2.40	3.25
30-year	3.32	2.70	2.80	2.90	3.25	3.45	3.60	3.85	3.95	4.00	4.20	4.50	3.20	2.90	3.85	4.50
Yield curve (10s-2s)	186	135	140	145	170	185	190	195	190	180	195	200	185	145	195	200
Yield spreads																
Three-month T-bills	0.85	0.83	0.85	1.00	1.00	1.05	1.20	1.45	1.50	1.75	2.00	2.05	1.05	1.00	1.45	2.05
Two-year	0.86	0.78	0.90	0.80	0.85	1.15	1.30	1.45	1.45	1.40	1.40	1.25	0.70	0.80	1.45	1.25
Five-year	0.52	0.55	0.63	0.60	0.60	0.85	0.90	0.95	1.00	1.05	0.95	0.80	0.40	0.60	0.95	0.80
10-year	-0.09	0.14	0.10	0.05	-0.10	0.05	0.10	0.05	0.05	0.10	0.05	0.15	0.15	0.05	0.05	0.15
30-year	-0.68	-0.37	-0.40	-0.50	-0.80	-0.85	-0.85	-0.90	-0.90	-0.80	-0.80	-0.90	-0.10	-0.50	-0.90	-0.90

Interest rates—International

%, end of period

	Actual			Forecast									Actual	Forecast		
	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	2011	2012	2013	2014
United Kingdom																
Repo	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Two-year	0.43	0.40	0.20	0.20	0.20	0.20	0.30	0.30	0.30	0.30	0.40	0.40	0.70	0.20	0.30	0.40
10-year	2.00	1.80	1.70	1.70	1.75	1.80	2.00	2.00	2.00	2.25	2.35	2.50	2.45	1.70	2.00	2.50
Euro Area																
Refinancing rate	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	0.75	0.75	0.75
Two-year	0.09	0.10	0.00	0.00	0.10	0.15	0.20	0.25	0.30	0.30	0.40	0.40	0.65	0.00	0.25	0.40
10-year	1.61	1.50	1.50	1.50	1.60	1.70	1.85	2.00	2.00	2.10	2.20	2.25	2.20	1.50	2.00	2.25
Australia																
Cash target rate	4.25	3.50	3.50	3.00	3.00	2.75	2.75	2.75	2.75	2.75	2.75	3.00	4.25	3.00	2.75	3.00
Two-year	3.49	2.46	2.49	2.75	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.20	3.15	2.75	2.80	3.20
10-year	4.10	3.04	2.94	3.00	3.25	3.30	3.45	3.60	3.75	3.90	4.25	4.75	4.05	3.00	3.60	4.75
New Zealand																
Cash target rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.00	3.25	2.50	2.50	2.50	3.25
Two-year	3.11	2.37	2.55	2.60	2.70	2.70	2.80	2.90	3.00	3.20	3.40	3.50	2.85	2.60	2.90	3.50
10-year	4.17	3.40	3.57	3.80	4.00	4.10	4.25	4.50	4.70	4.80	5.10	5.50	4.25	3.80	4.50	5.50

Growth outlook

% change, quarter-over-quarter in real GDP

	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	2011A	2012F	2013F	2014F
Canada*	1.7	1.7	0.6	2.2	2.4	2.7	3.4	3.2	2.9	2.2	2.2	2.2	2.6	2.0	2.4	2.8
United States*	2.0	1.3	2.7	1.4	2.0	2.7	3.0	3.3	3.0	3.0	3.1	3.3	1.8	2.2	2.3	3.1
United Kingdom	-0.3	-0.4	1.0	-0.1	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.9	-0.1	1.3	2.1
Eurozone	0.0	-0.2	-0.1	-0.2	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	1.5	-0.4	0.1	1.0
Australia	1.3	0.6	0.5	0.5	0.6	0.7	0.9	0.8	0.8	0.7	0.6	0.7	2.4	3.6	2.5	3.0
New Zealand	1.0	0.6	0.5	0.8	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.5	1.2	2.6	3.0	2.7

*annualized, ** forecast

Inflation outlook

% change, year-over-year

	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	2011A	2012F	2013F	2014F
Canada	2.3	1.6	1.2	1.2	1.2	1.5	1.9	1.9	1.9	1.9	2.0	2.0	2.9	1.6	1.7	2.0
United States	2.8	1.9	1.7	1.9	1.4	1.7	1.7	1.8	1.9	1.9	1.8	1.9	3.2	2.1	1.7	1.9
United Kingdom	3.5	2.8	2.4	2.7	2.6	2.9	3.0	2.7	2.4	2.3	2.3	2.2	4.5	2.8	2.8	2.3
Eurozone	2.7	2.5	2.5	2.4	2.0	2.0	1.9	1.9	1.8	1.8	1.6	1.6	2.7	2.5	2.0	1.7
Australia	1.6	1.2	2.0	2.7	3.4	3.6	2.9	2.9	2.8	2.8	2.9	3.0	3.3	1.9	3.2	2.9
New Zealand	1.6	1.0	0.8	1.3	1.2	1.4	1.7	1.9	1.9	1.8	1.7	1.7	4.0	1.2	1.5	1.8

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	1.05	1.06	1.05	1.04	1.03	1.03	1.03	1.02	1.02	1.02	1.05	1.03	1.02
Brazilian real	1.83	2.01	2.03	2.00	1.98	1.96	1.94	1.93	N/A	N/A	N/A	N/A	1.87	2.00	1.93	N/A
Canadian dollar	1.00	1.02	0.98	0.99	1.00	0.98	0.96	0.95	0.95	0.94	0.95	0.96	1.02	0.99	0.95	0.96
Renminbi	6.30	6.35	6.28	6.30	6.25	6.20	6.15	6.15	0.00	0.00	0.00	0.00	6.30	6.30	6.15	0.00
Euro	1.33	1.27	1.29	1.30	1.32	1.29	1.27	1.24	1.24	1.24	1.23	1.23	1.30	1.30	1.24	1.23
Yen	83	80	78	81	77	75	73	72	71	71	72	73	77	81	72	73
Mexican peso	12.81	13.36	12.86	12.75	12.75	12.65	12.50	12.25	N/A	N/A	N/A	N/A	13.94	12.75	12.25	N/A
New Zealand dollar	0.82	0.80	0.83	0.83	0.82	0.81	0.80	0.79	0.79	0.79	0.78	0.78	0.78	0.83	0.79	0.78
Swiss franc	0.90	0.95	0.94	0.92	0.91	0.93	0.95	0.98	0.99	0.99	1.01	1.01	0.94	0.92	0.98	1.01
U.K. pound sterling	1.60	1.57	1.62	1.63	1.67	1.65	1.65	1.65	1.65	1.65	1.62	1.62	1.55	1.63	1.65	1.62

Note: Exchange rates are expressed in units per USD, with the exception of the Euro, GBP, AUD, and NZD, which are expressed in USD per local currency unit.
Source: Reuters, RBC Economics Research forecasts