

## ECONOMIC & FINANCIAL MARKET OUTLOOK

June 2009

### Sun peeking out from behind the dark clouds

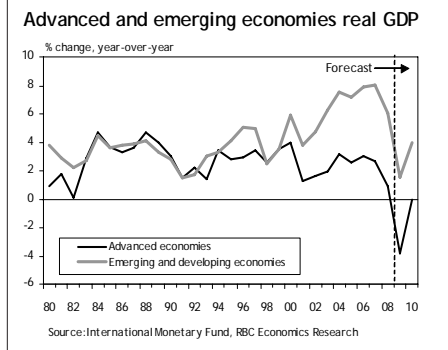
- ▲ The global economy posted a sharp decline in early 2009.
- ▲ Leading indicators hint that the worst has passed for the global recession.
- ▲ Recovery is still expected to take hold in late 2009, with momentum building in 2010.
- ▲ Extraordinarily low interest rates and government stimulus to lift economic activity.
- ▲ U.S. economy still staggering but showing some signs of life.
- ▲ Housing market recession looks as though it is in the final stage.
- ▲ Consumer confidence gets a lift from the stock market rally, lower energy costs and low interest rates.
- ▲ Moderate rebound in U.S. consumer spending ahead as households repair their balance sheets.
- ▲ U.S. recovery will be modest compared to history.
- ▲ In the first quarter, Canada's economy posted its largest single-quarter contraction since 1991.
- ▲ Broad-based declines highlight the impact of global recession and the financial market crisis.
- ▲ Bank of Canada keeps options open to increase monetary stimulus beyond holding the policy rate at its lower bound.
- ▲ Inflation rate heads below zero, although it will likely rise again later this year.
- ▲ C\$ rally sparked by increased risk appetite and a turnaround in commodity prices.

The global economy sagged in the first quarter of 2009 with many countries reporting record quarterly declines in real output. The IMF updated its global economic forecast to show a 1.3% contraction in world GDP this year, the sharpest drop in the post-war period. Emerging economies are expected to grow, but just barely, with an average 1.6% increase in GDP. The advanced economies are forecast to contract by 3.8% on average.

Some of the weakness has already been booked in the first quarter with the U.S. economy contracting at a 5.7% annualized pace, Canada's economy by 5.4%, the U.K. economy by 7.4% and the Eurozone economies by 9.6%. The biggest loser of the countries we follow was Japan, which saw its real GDP contract by 15.2% at an annual rate in the first quarter. It would take some exceptionally strong growth numbers for the remainder of the year for these countries to recover and produce a positive growth rate for 2009.

### Worst for global economy behind us

Despite the poor start to the year, some indicators are pointing to a slowing in the rate of contraction in the global economy. The global ISM survey showed that the index for the manufacturing sector increased for the fourth consecutive month in May. The service



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sector's performance was less even, but its index level still rose to 43.5 in April/May, higher than the first quarter's 40.4 average. Even though these indicators point to continued contraction in output, they also suggest that the pace of decline slowed from the dismal first-quarter performance. With the worst for the global economy looking as though it may have passed, investors' risk appetite increased and volatility in financial markets eased. Equity markets had an impressive run, with the world market index up 44% from its March low, commodity prices rallying and credit spreads narrowing — all indicative of a change in attitude by investors.

### Table laid for recovery later this year

The key question for the global economy is whether the monetary and fiscal stimulus in the system will encourage private-sector activity. Certainly, the dose of fiscal stimulus that is coming on stream should limit the downside in the near-term with an unprecedented amount of money hitting the world economy. Many governments have produced packages that exceed the G-20 commitment of providing stimulus equivalent to 2% of GDP. The impact this spending has on labour markets and household and business confidence will be equally important to shaping the economic recovery as the effects from direct spending. Should confidence remain in the doldrums, the uptick in growth from the stimulus spending will likely prove short-lived and we would look for another leg down for the global economy.

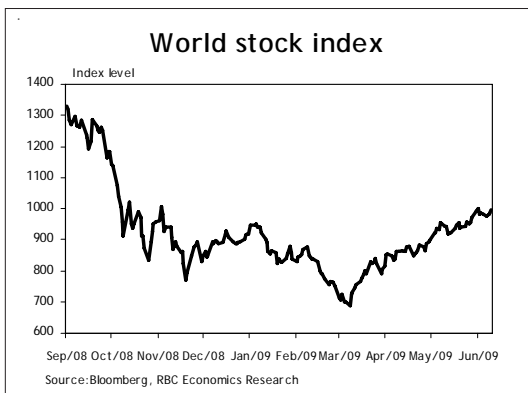
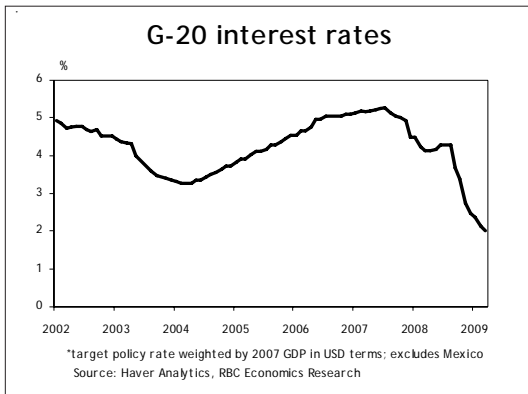
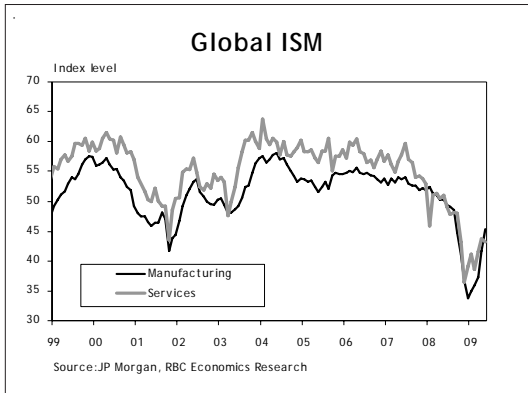
Another potent force in the world economy is the low level of interest rates. The central banks of Canada, the United States, Japan, the United Kingdom and the European countries have reduced their policy rate to one percent or less. Central banks continue to provide ample liquidity to the financial system and, in the case of the Fed and the Bank of England, are providing further stimulus via quantitative easing. The Fed committed to buying US\$300 billion of Treasury securities with £125 billion of securities to be purchased by the Bank of England. These measures remove bonds from the markets and add reserves to financial institutions' deposit accounts at the central bank, which increases reserves in the banking system. The policy's aim is to increase the money supply, lower the cost to borrow, and restart the global credit cycle.

### Are we there yet?

Although there have been significant improvements in financial markets in recent months, a straight line to recovery is far from assured. The rally in world equity markets represents a strong vote that the global economy will emerge from its current economic malaise. Funding spreads, as measured by the difference between the three-month LIBOR rate and the expected average policy rate, have narrowed and are now approaching pre-crisis levels. The absolute levels of corporate bond yields fell in April and May below the average of the previous six-month period, making it somewhat more affordable for businesses to access funds.

### Signs that the U.S. outlook is brightening

While it is too early to say conclusively that the U.S. economy is making its way out of recession, there are some sectors of the economy that appear to be stabilizing. Housing market indicators paint a mixed picture, with starts continuing to plunge but the pace of home sales looking as though a bottom is being



set. The combination of falling prices (the national average price is off about 25% from the peak) and about the lowest 30-year mortgage rate on record has improved affordability and will likely support a pick-up in sales going forward. While the glut of unsold homes on the market has eased a bit, there remains an abundance of homes to be sold, either due to overbuilding or a build-up of foreclosed properties. The slide in the pace of housing starts is reducing the stock of new homes, while the government's "Making Homes Affordable" program is aimed at reducing the number of properties that fall into foreclosure. These factors have led to a moderate improvement in homebuilders' sentiment and set up for the weight from this depressed sector to lighten up in the latter part of this year.

More worrying are the developments in the commercial real estate market where vacancies are rising reflecting a knock-on effect of the weaker housing market and low business confidence. Business investment collapsed in the first quarter of 2009 with spending on real estate and capital goods falling at a 36.9% annualized pace. The poor environment led to significant cuts to payrolls with six million jobs lost since the recession began and an increase in the unemployment rate to 9.4%, its highest level since 1983. Further dissection of the labour market data shows that the unemployed remain out of work for a longer period of time than in past recessions and that the broadest measure of unemployment has risen by 6.6 percentage points during the past year.

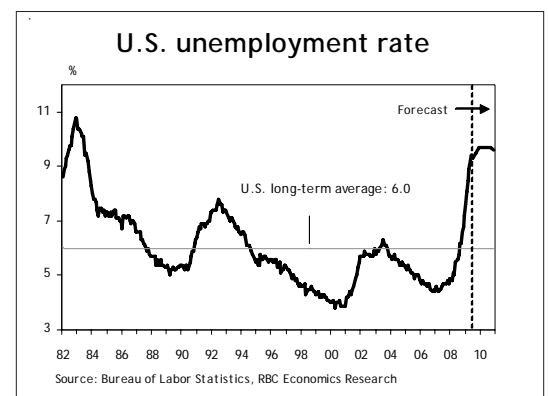
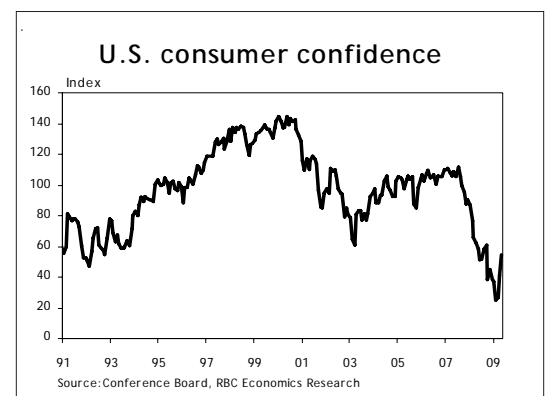
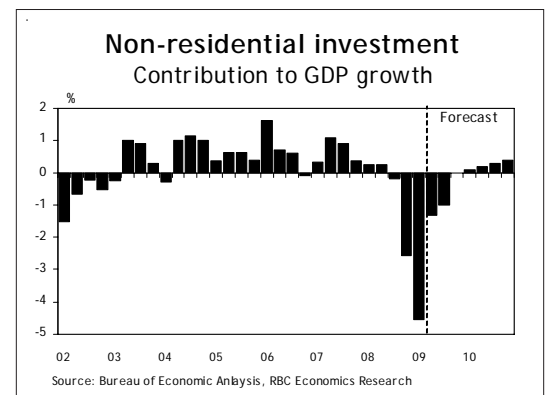
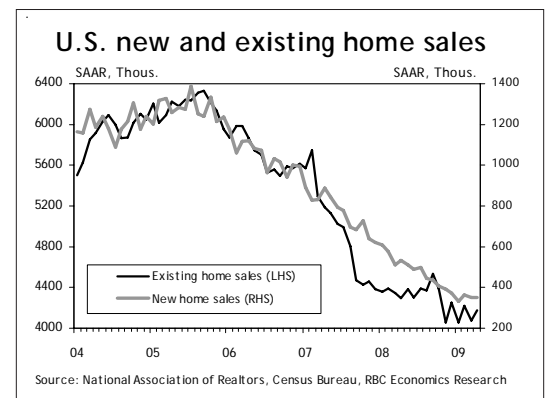
Businesses have also been drawing down their inventories, which resulted in a large cut in production in the first quarter equivalent to 2.3 percentage points of GDP. Without this drawdown in inventories, real GDP would have declined at a more muted 3.5% annual rate. The large-scale destocking is a positive for the economy going forward as a pick-up in domestic demand will engender a rebound in production.

## Healing in the United States

We look for domestic demand to improve in the second half of 2009 on the back of low interest rates, firmer credit markets and fiscal stimulus. Despite the poor showing for the economy in the first quarter, consumer spending increased after six months of steep decline. Lower energy costs have reduced the amount households need to spend on energy-related expenses, giving them more money to spend on other items, or to save. In addition, the Obama fiscal package has reduced the amount of taxes being withheld from paycheques and increased unemployment benefits, thus offering support for incomes. With these initiatives kicking in and the tone in financial markets improving, measures of consumer confidence have started to turn around.

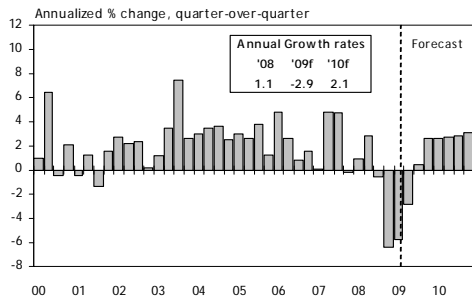
We expect that consumer spending will gradually increase in the second half of 2009 and throughout 2010, although it will likely grow at slower rates than in previous recoveries. The impaired state of household balance sheets, an elevated unemployment rate combined with residual worries about the financial system and global developments are expected to keep consumers cautious during the next 18 months.

## U.S. recession deepest since the Great Depression



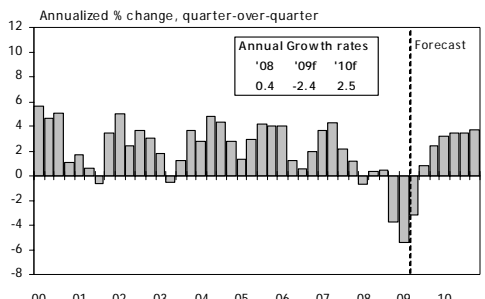
The 3.8 percentage point peak-to-trough decline in U.S. GDP is forecast to be the largest since the Depression when activity plummeted 32.6 percentage points. While this makes the magnitude of the current decline only one-tenth of the output lost during the Depression, the expected recovery is likely to be relatively tepid as well. RBC forecasts that the U.S. economy will grow by 2.1% in 2010, well below the average 5.5% pace of previous first-year recovery periods. With the U.S. financial sector still undergoing repairs and households working to cut back on debt, we anticipate that this recovery will be more muted than most.

### U.S. real GDP forecast



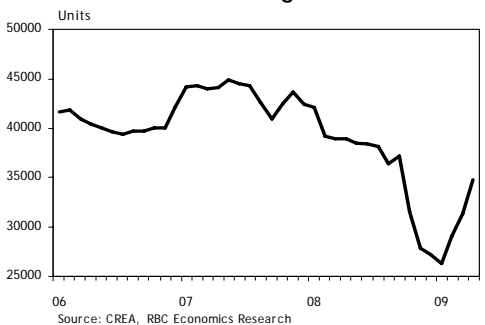
Source: Bureau of Economic Analysis, RBC Economics Research

### Canada real GDP forecast



Source: Statistics Canada, RBC Economics Research

### Canada existing home sales



Source: CREA, RBC Economics Research

## Canada suffers setback in early 2009

Expectations that Canada's economy would sail through the global recession were disappointed in late 2008 and the first quarter of 2009 as output from goods producers and distributors weakened. From November to January, Canada's economy contracted by three-quarters to one percentage point per month, although the pace of decline moderated in February and March. In the first quarter, real GDP contracted at a substantial 5.4% annualized pace, and we expect this will likely prove to be the worst quarterly showing in this recession.

Our forecast is for the second quarter's contraction to be smaller, although, like the United States, Canada is facing the headwinds from the auto industry's problems. The decline in commodity prices from last year's highs and weak export activity are also exerting downward pressure across the country. The recent improvement in riskier financial sectors, like commodities, sets up for an improvement in Canada's economic performance, especially against the backdrop of low interest rates and rising government spending. Finally, with the U.S. economy expected to get back on its feet later this year, Canada's economy looks ripe to enter its recovery phase as well.

## Slump in 2009 to be followed by moderate growth in 2010

Our forecast is that Canada's economy will contract by 2.4% this year with much of this decline locked in by the sharp drop in the first quarter. As is typical in recessions, the gearing down in the economy has been accompanied by job losses — 363,000 positions have been cut since last October. As a result, the unemployment rate rose rapidly to stand at 8.4% as of May from 6.6% at the end of last year and a generational low of 5.8% in early 2008. The persistent weakness in the economy through mid-year points to further strains in the labour market, with the unemployment rate expected to peak at 9.2%.

Wage growth was unexpectedly firm in the first four months of the year, although it slowed in May. Even with the pace of wage increases running well above the inflation rate, the sharp decline in hours worked in the first quarter weighed on incomes. This was bad news for consumers, who watched their balance sheets deteriorate under the weight of elevated debt levels and diminishing asset values.

## Not too hot, not too cold

The outlook for the consumer for the remainder of this year is a mixed bag. Spending has sagged in recent months as the financial market crisis and job cuts took a large bite out of confidence and sent consumers to the sidelines. However, with interest rates falling to all-time lows and impending government spend-

ing programs expected to limit the number of jobs lost, a moderate rebound in spending is likely later this year. Activity in real estate markets has already picked up, with sales of existing homes rising 11.2% in April, marking the third solid monthly increase. Prices also increased in the month by 1% to stand just 5.8% below April 2008 levels. Improving affordability conditions on the back of sharp reductions in interest rates and falling prices are expected to prevent a severe downturn in Canada's housing market, and the recent pick-up in activity hints that the worst may have passed for this sector.

Canadian businesses, however, are facing the same restrictive conditions as their U.S. counterparts, although to a much lesser degree. The Bank of Canada's senior loans officer survey showed that credit conditions tightened early in the year. Profit growth has been cut by falling commodity prices and weakening demand. Hefty cash balances held by firms obviated the need to fund at expensive levels and, in some cases, may have prevented businesses from falling into bankruptcy. While consumer bankruptcies ran 36% higher in April than a year earlier, the number of business bankruptcies sank by 10.6%, contrary to movements in other recessions.

### Global trade flows contract

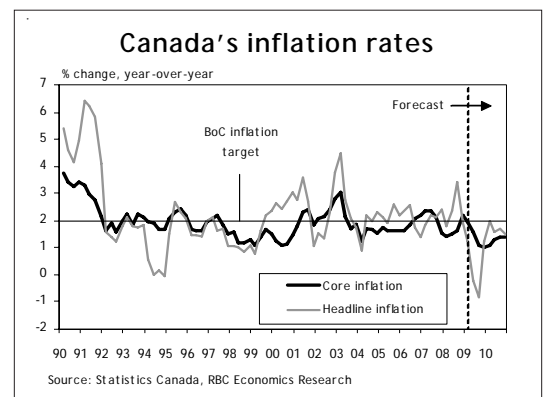
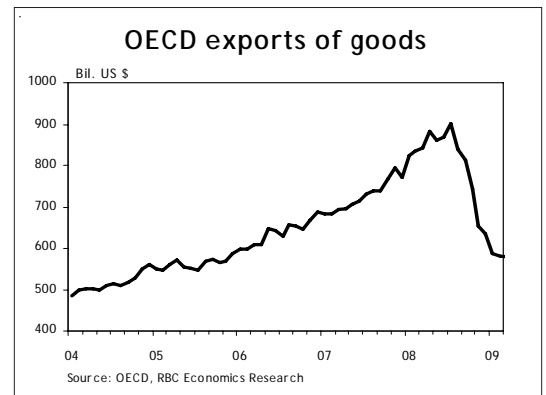
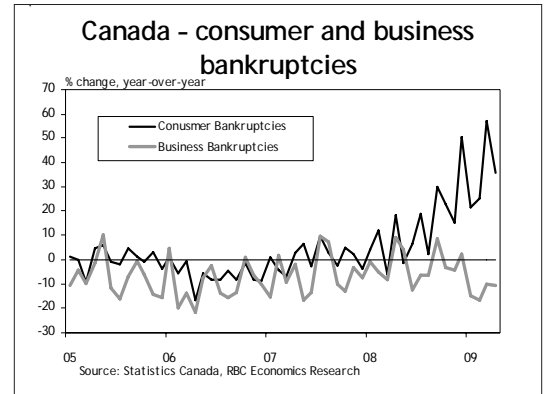
The synchronized slowdown in the global economy produced a dramatic decline in trade and, as a result, Canada faced lower demand for its exports. Import demand also came under downward pressure as Canadian households and businesses reined in spending and the Canadian dollar lost some of its lustre. The net result was that Canada's net exports swung from being a drag on the pace of GDP growth, providing mild support to economic growth. Export demand is likely to rise as commodity prices stabilize and the U.S. economy (still Canada's biggest trading partner) climbs out of recession. However, tempering this source of future strength will be an attendant rise in imports, reflecting both increasing Canadian domestic demand and an appreciating loonie.

### Period of negative inflation rates to be short-lived

The downturn in the economy has put downward pressure on previously over-stretched resources. One example of this is Alberta's unemployment rate, which rose to 6.6% in May, more than double its recent low, with further increases likely ahead. This increase in capacity in the labour market serves to illustrate that resources are not being fully utilized and sets up for price pressures to ease, with the core inflation rate expected to fall to 1% from 1.8% in April. The headline inflation rate is headed below zero as the rapid increases in energy prices last summer are not expected to be replicated this year. The period of negative inflation rates, however, is likely to be short-lived as relative movements in energy prices are reversed later in the year.

### Bank of Canada faces down demands for QE

The Bank of Canada lowered the policy rate to 0.25% in April and provided a conditional commitment (which was reaffirmed in June) that this rate would be maintained through the end of the second quarter of 2010. The Bank also produced a framework for a quantitative easing (QE) policy that outlined how the program would be implemented although did not commit the Bank to putting it into place. Rather, it provides the Bank with the option of applying more stimu-



lus to the economy if the anticipated recovery fails to be sustained.

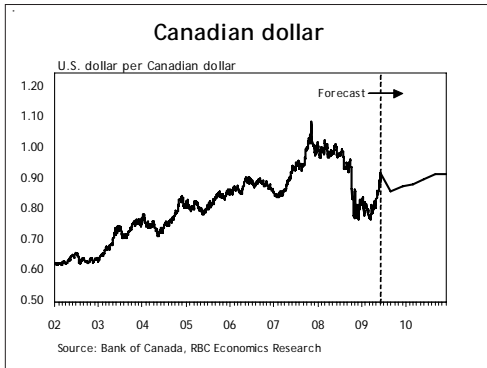
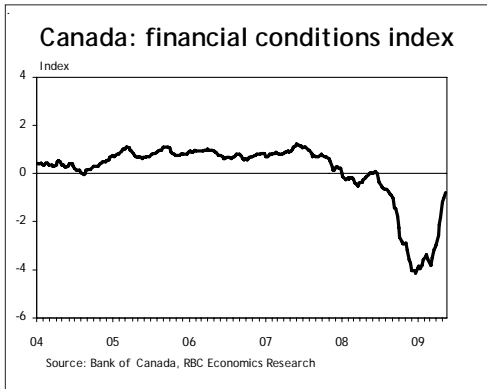
### Financial conditions – Improving, but still tight

Conditions in Canada's financial system remain tight compared to the average level of the past 10 years according to the Bank's newly published financial conditions index. The index takes into account seven indicators including a measure of lending conditions, corporate bond spreads, short- and long-term interest rates, the real value of the Canadian dollar, house prices and the stock market. The index is not a mechanical rule that would see the Bank react if the index moved to a certain level, but rather gives policymakers a read on how conditions in financial markets are changing. Financial conditions, according to this measure, eased by 368 basis points from their most restrictive levels, although still remain tighter on average than during the past 10 years.

### C\$ wins as U.S. dollar faces test of confidence

The Canadian dollar staged a remarkable rally this spring as investors became less risk averse and moved out of the safety of the U.S. dollar and commodity prices regained ground. The final spurt higher, however, reflected a souring in investor demand for U.S. dollars on concerns that the rating on U.S. debt was at risk. The announcement that the U.K.'s sovereign rating on its foreign currency debt was in jeopardy of being downgraded due to the country's elevated debt-to-GDP ratio sparked concerns that the United States would be next in line.

We expect volatility in FX markets to remain above historic norms, with any additional bout of uncertainty about the prospective economic recovery or global financial system likely to resurrect demand for U.S. dollars due to its safe-haven status. The recent sharp run-up in the Canadian dollar means that it is less likely to go back to retest its recent lows but will more likely trade in an 85 to 92 US-cent range for the remainder of 2009 and throughout 2010.



## Economic forecast detail – Canada

### Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual					Forecast								Forecast		
	2008					2009			2010					2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	
Consumer spending	2.5	1.1	0.6	-3.1	-1.6	0.9	1.0	1.5	1.7	1.8	2.1	2.5	3.0	-0.5	1.6	
Durables	16.7	-3.0	-0.8	-11.6	-6.9	3.0	2.7	3.1	3.9	3.7	4.2	3.8	5.6	-3.3	3.5	
Non-durables	0.1	0.8	-0.2	-1.4	0.0	0.5	0.7	1.7	1.7	1.5	1.9	2.5	1.5	0.1	1.5	
Services	0.1	1.7	1.0	-1.4	-1.0	0.7	0.8	1.2	1.3	1.5	1.7	2.2	2.9	0.0	1.3	
Government spending	5.7	4.6	0.0	2.5	1.2	2.9	3.6	3.9	3.8	3.5	3.0	2.9	3.7	2.3	3.5	
Business investment	-1.7	-2.1	-0.4	-18.6	-24.3	-13.6	-5.2	2.1	4.8	4.9	5.1	5.3	-0.8	-13.3	1.8	
Residential construction	-6.1	-1.3	-4.9	-23.0	-21.0	-19.4	-5.1	1.2	6.5	5.3	4.4	4.2	-2.7	-14.9	1.5	
Non-residential structures	1.5	1.0	7.6	-1.3	-14.3	-11.1	-6.7	1.9	3.5	4.8	5.7	5.9	-0.1	-5.9	1.5	
Machinery & equipment	0.2	-5.8	-2.9	-28.5	-35.7	-10.5	-3.7	3.1	4.5	4.6	5.1	5.7	0.5	-18.6	2.3	
Final domestic demand	2.8	1.5	0.5	-4.9	-5.7	-1.3	0.5	2.3	2.9	2.8	2.9	3.1	2.6	-2.3	2.2	
Exports	-2.3	-4.1	-4.1	-17.7	-30.4	-12.5	1.1	3.2	3.3	4.2	4.5	4.8	-4.7	-14.5	2.3	
Imports	-4.7	3.0	-3.4	-23.4	-37.8	-12.2	1.8	4.1	4.8	4.9	5.0	4.7	0.8	-17.4	3.2	
Inventories (change in \$b)	9.2	14.5	15.0	10.3	-5.8	-12.1	-10.4	-9.0	-6.3	-3.4	-0.8	0.8	12.2	-9.3	-2.4	
Real gross domestic product	-0.7	0.3	0.4	-3.7	-5.4	-3.2	0.8	2.4	3.2	3.5	3.5	3.7	0.4	-2.4	2.5	

### Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	-0.6	-0.5	-0.5	-0.6	-1.0	-1.3	-0.8	0.6	0.9	1.8	1.5	1.5	-0.5	-0.7	1.4	
Pre-tax corporate profits	6.2	13.0	15.7	-11.7	-34.9	-41.0	-43.8	-25.3	1.0	5.7	10.8	11.0	5.7	-36.9	7.1	
Unemployment rate (%)	5.9	6.1	6.2	6.4	7.6	8.3	8.8	9.2	9.2	9.1	9.0	8.8	6.1	8.5	9.0	
Inflation																
Headline CPI	1.9	2.3	3.4	1.9	1.2	-0.2	-0.8	1.2	2.0	1.6	1.7	1.5	2.4	0.4	1.7	
Core CPI	1.4	1.5	1.6	2.2	2.0	1.6	1.1	1.0	1.1	1.3	1.4	1.4	1.7	1.4	1.3	
External trade																
Current account balance (\$b)	23.5	27.0	13.0	-31.0	-36.2	-24.1	-21.8	-9.9	-9.0	1.0	3.4	6.2	8.1	-23.0	0.4	
% of GDP	1.5	1.7	0.8	-2.0	-2.4	-1.6	-1.4	-0.6	-0.6	0.1	0.2	0.4	0.5	-1.5	0.0	
Housing starts (000s)	235	218	208	185	140	127	142	156	167	169	175	179	211	141	173	
Motor vehicle sales (mill., saar)	1.83	1.71	1.65	1.50	1.42	1.48	1.52	1.54	1.58	1.60	1.63	1.65	1.67	1.49	1.62	

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								Forecast		
	2008					2009			2010							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	
Consumer spending	0.9	1.2	-3.8	-4.3	1.6	-0.6	1.2	2.1	1.8	2.2	2.3	2.5	0.2	-0.7	1.8	
Durables	-4.3	-2.8	-14.8	-22.1	9.6	-0.8	4.3	5.1	5.3	5.7	5.1	6.1	-4.3	-3.9	4.9	
Non-durables	-0.4	3.9	-7.1	-9.4	-0.6	-4.5	0.5	1.7	1.7	2.1	2.1	2.4	-0.6	-3.3	1.3	
Services	2.4	0.7	-0.1	1.5	1.3	1.2	1.1	1.8	1.3	1.7	1.9	2.0	1.5	1.1	1.6	
Government spending	1.9	3.9	5.8	1.3	-3.5	4.1	4.3	4.1	3.1	3.7	3.7	3.8	2.9	1.8	3.7	
Business investment	-5.6	-1.7	-5.3	-22.0	-37.3	-17.3	-10.1	1.7	3.3	3.9	4.4	4.8	-5.0	-19.7	0.1	
Residential construction	-25.0	-13.3	-16.1	-22.7	-38.7	-30.4	-8.9	6.2	9.1	9.8	7.3	6.5	-20.8	-24.3	2.9	
Non-residential structures	8.7	18.4	9.6	-9.4	-42.3	-8.1	-10.9	-6.9	-4.1	-3.1	0.5	2.8	11.2	-15.5	-4.6	
Machinery & equipment	-0.5	-5.0	-7.5	-28.1	-33.5	-16.7	-10.2	4.8	5.1	5.3	5.3	5.2	-3.0	-19.9	1.6	
Final domestic demand	0.1	1.3	-2.2	-5.8	-5.3	-1.8	0.4	2.4	2.2	2.7	2.8	3.0	0.0	-2.8	2.0	
Exports	5.1	12.3	3.0	-23.6	-28.7	-17.7	-5.5	1.5	3.5	4.5	4.6	4.8	6.2	-15.4	0.9	
Imports	-0.8	-7.3	-3.5	-17.5	-34.1	-13.6	-1.1	5.7	7.2	7.7	7.8	7.9	-3.5	-16.0	4.6	
Inventories (change in \$b)	-10.2	-50.6	-29.6	-25.8	-91.4	-118.2	-101.9	-80.5	-54.4	-39.2	-23.8	-7.6	-29.1	-98.0	-31.3	
Real gross domestic product	0.9	2.8	-0.5	-6.3	-5.7	-2.8	0.5	2.6	2.6	2.7	2.8	3.1	1.1	-2.9	2.1	

### Other indicators

Year-over-year % change unless otherwise indicated

Business and labour															
Productivity	3.5	3.2	2.0	2.1	2.0	0.0	0.4	1.6	1.9	1.8	1.6	1.5	2.7	1.0	1.7
Pre-tax corporate profits	-1.5	-8.3	-9.2	-21.5	-18.0	-18.5	-18.0	-0.1	-2.3	2.2	4.3	4.7	-10.1	-14.3	2.2
Unemployment rate (%)	4.9	5.4	6.1	6.9	8.1	9.3	9.5	9.7	9.7	9.7	9.7	9.6	5.8	9.2	9.7
Inflation															
Headline CPI	4.1	4.4	5.3	1.6	0.0	-1.2	-2.2	0.9	1.8	1.3	1.3	1.1	3.8	-0.6	1.4
Core CPI	2.4	2.3	2.5	2.0	1.7	1.8	1.4	1.3	1.1	1.0	0.9	0.9	2.3	1.5	1.0
External trade															
Current account balance (\$b)	-708	-729	-725	-531	-329	-392	-416	-453	-480	-501	-533	-555	-673	-398	-517
% of GDP	-5.0	-5.1	-5.0	-3.7	-2.3	-2.8	-2.9	-3.2	-3.3	-3.4	-3.6	-3.7	-4.7	-2.8	-3.5
Housing starts (000s)	1059	1017	868	658	529	525	582	598	617	632	661	683	900	559	648
Motor vehicle sales (millions, saar)	15.2	14.1	12.9	10.3	9.5	9.9	10.3	10.8	11.2	11.6	11.8	12.0	13.1	10.1	11.7

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

## Financial market forecast detail

### Interest rates

%, end of period

	Actual					Forecast							Forecast		
	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	2008	2009	2010
<b>Canada</b>															
Overnight rate	3.50	3.00	3.00	1.50	0.50	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.50	0.25	1.25
Three-month T-bills	1.87	2.48	1.89	0.83	0.39	0.25	0.30	0.35	0.50	0.75	1.25	1.85	0.83	0.35	1.85
Two-year GoC bonds	2.58	3.24	2.78	1.09	1.07	1.10	1.10	1.10	1.40	1.55	2.00	2.35	1.09	1.10	2.35
Five-year GoC bonds	2.91	3.45	3.17	1.69	1.75	2.25	2.35	2.05	2.25	2.40	2.50	2.60	1.69	2.05	2.60
10-year GoC bonds	3.45	3.74	3.75	2.69	2.79	3.20	3.00	2.75	3.00	3.15	3.25	3.40	2.69	2.75	3.40
30-year GoC bonds	3.96	4.05	4.13	3.45	3.74	3.95	3.95	3.75	4.00	4.25	4.25	4.50	3.45	3.75	4.50
Yield curve (10s-2s)	87	50	97	160	172	210	190	165	160	160	125	105	160	165	105
<b>United States</b>															
Fed funds rate	2.25	2.00	2.00	0.13	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0.50	0.13	0 to 0.25	0.50
Three-month T-bills	1.38	1.90	0.92	0.11	0.21	0.20	0.20	0.20	0.25	0.30	0.50	0.90	0.11	0.20	0.90
Two-year bonds	1.62	2.63	2.00	0.76	0.81	0.92	0.90	0.85	1.10	1.25	1.35	1.50	0.76	0.85	1.50
Five-year bonds	2.46	3.34	2.98	1.55	1.67	2.20	2.00	1.50	1.75	1.90	2.00	2.15	1.55	1.50	2.15
10-year bonds	3.45	3.99	3.85	2.25	2.71	3.30	3.00	2.75	3.00	3.25	3.35	3.50	2.25	2.75	3.50
30-year bonds	4.3	4.53	4.31	2.69	3.56	4.30	4.25	4.00	4.25	4.50	4.75	5.00	2.69	4.00	5.00
Yield curve (10s-2s)	183	136	185	149	190	238	210	190	190	200	200	200	149	190	200
<b>Yield spreads</b>															
Three-month T-bills	0.49	0.58	0.97	0.72	0.18	0.05	0.10	0.15	0.25	0.45	0.75	0.95	0.72	0.15	0.95
Two-year	0.96	0.61	0.78	0.33	0.26	0.18	0.20	0.25	0.30	0.30	0.65	0.85	0.33	0.25	0.85
Five-year	0.45	0.11	0.19	0.14	0.08	0.05	0.35	0.55	0.50	0.50	0.50	0.45	0.14	0.55	0.45
10-year	0.00	-0.25	-0.10	0.44	0.08	-0.10	0.00	0.00	0.00	-0.10	-0.10	-0.10	0.44	0.00	-0.10
30-year	-0.34	-0.48	-0.18	0.76	0.18	-0.35	-0.30	-0.25	-0.25	-0.25	-0.50	-0.50	0.76	-0.25	-0.50

### Exchange rates

%, end of period

	Actual					Forecast							Forecast		
	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	2008	2009	2010
Australian dollar	0.91	0.96	0.79	0.70	0.69	0.81	0.80	0.81	0.83	0.84	0.85	0.85	0.70	0.81	0.85
Brazilian real	1.76	1.30	1.91	2.31	2.32	2.00	2.40	2.00	1.90	1.85	1.85	1.75	2.31	2.00	1.75
Canadian dollar	1.03	1.02	1.06	1.23	1.26	1.12	1.16	1.14	1.13	1.11	1.09	1.09	1.23	1.14	1.09
Chinese renminbi	7.01	6.85	6.82	6.84	6.83	6.85	6.85	6.85	6.80	6.70	6.60	6.50	6.84	6.85	6.50
Euro	1.58	1.58	1.41	1.35	1.33	1.37	1.33	1.38	1.43	1.48	1.50	1.52	1.35	1.38	1.52
Japanese yen	100	106	106	91	99	95	94	93	93	94	95	96	91	93	96
Mexican peso	10.64	10.31	10.94	13.10	14.17	13.50	13.50	12.75	12.50	12.25	12.00	11.75	13.10	12.75	11.75
New Zealand dollar	0.79	0.76	0.67	0.58	0.56	0.63	0.60	0.59	0.61	0.63	0.63	0.64	0.58	0.59	0.64
Swiss franc	0.99	1.02	1.12	1.07	1.14	1.11	1.16	1.12	1.10	1.07	1.06	1.05	1.07	1.12	1.05
U.K. pound sterling	1.98	1.99	1.80	1.46	1.43	1.57	1.53	1.60	1.68	1.76	1.81	1.85	1.46	1.60	1.85

Source: Bank of Canada, Federal Reserve Board, Reuters, RBC Economics Research forecasts

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