

# WHAT NOW FOR THE GLOBAL ECONOMY?

December 6, 2011

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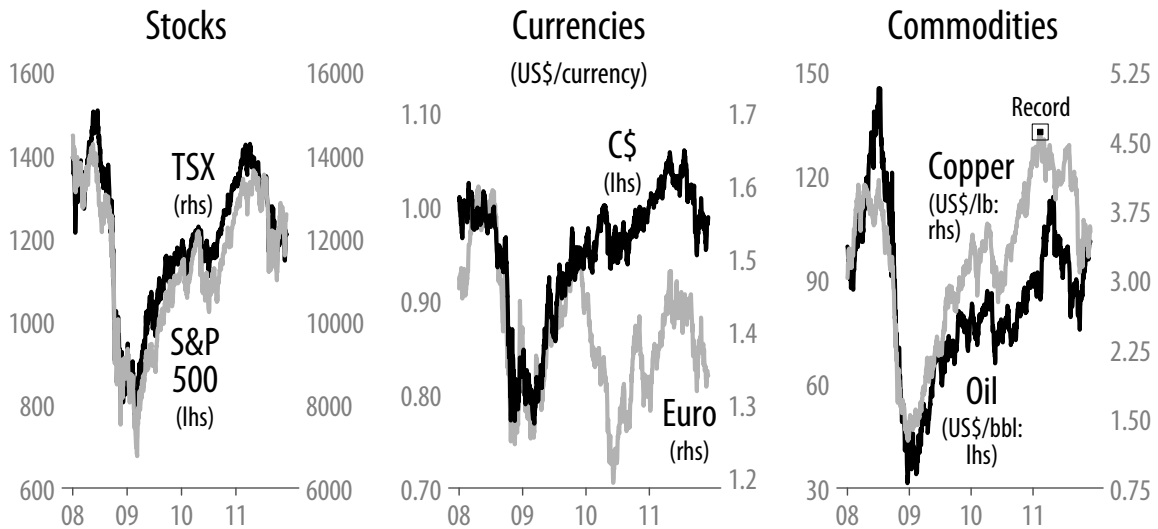
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# Financial Markets Clearly Nervous

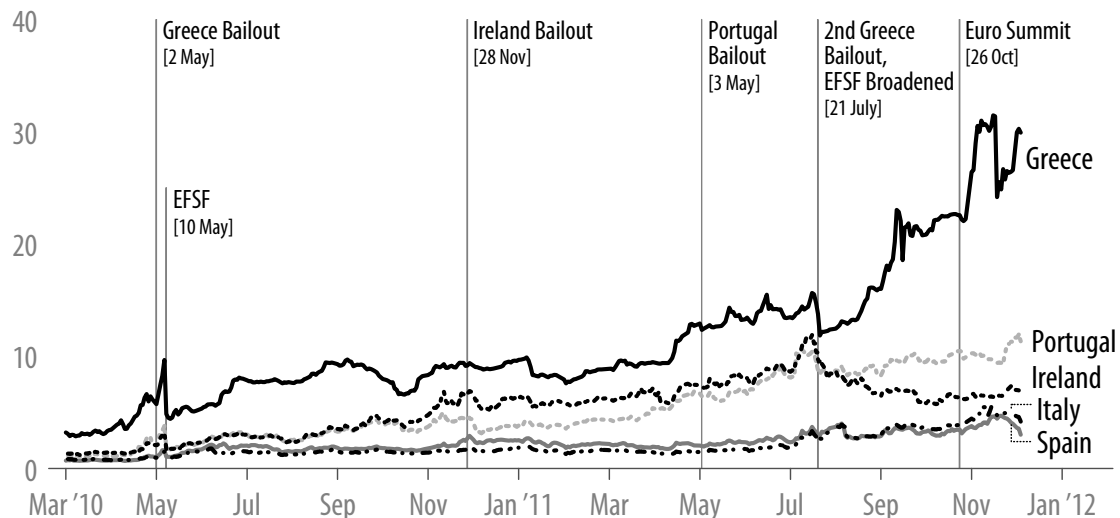
(as of December 6, 2011)



**Concerns: Europe, US Growth, China**

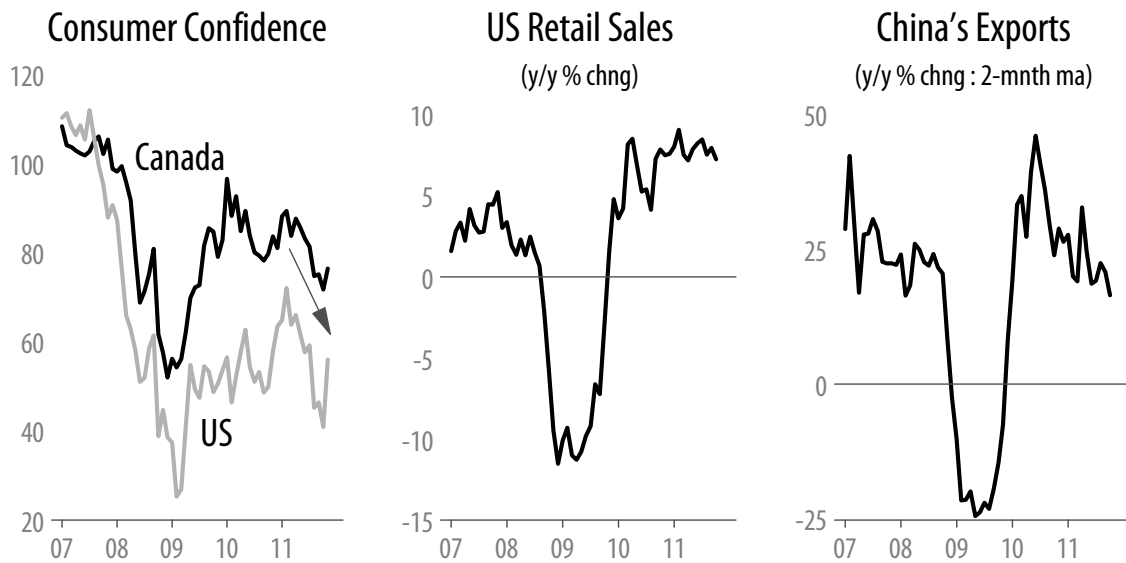
# European Sovereign Debt Crisis

10-Year Spread vs Germany (ppts : as of December 5, 2011)



**Euro Area on Brink of Recession**

# Slowdown: In Sentiment, Not Sales



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# Expansion Loses Momentum



**But No Double Dip**

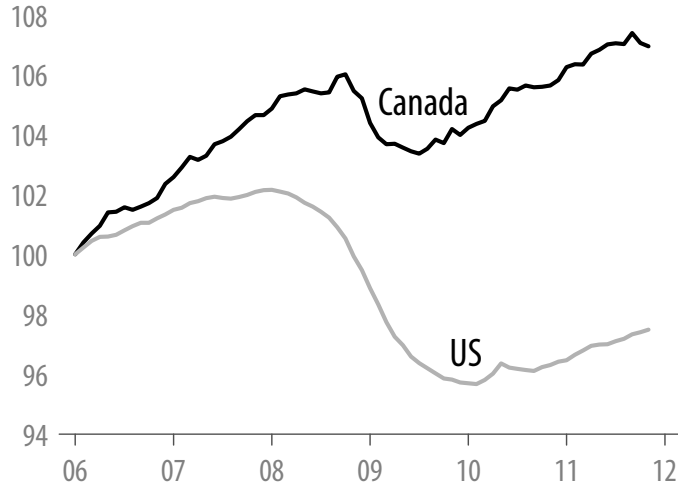
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# Employment: The Five-year Picture

(January 2006 = 100)

## Employment

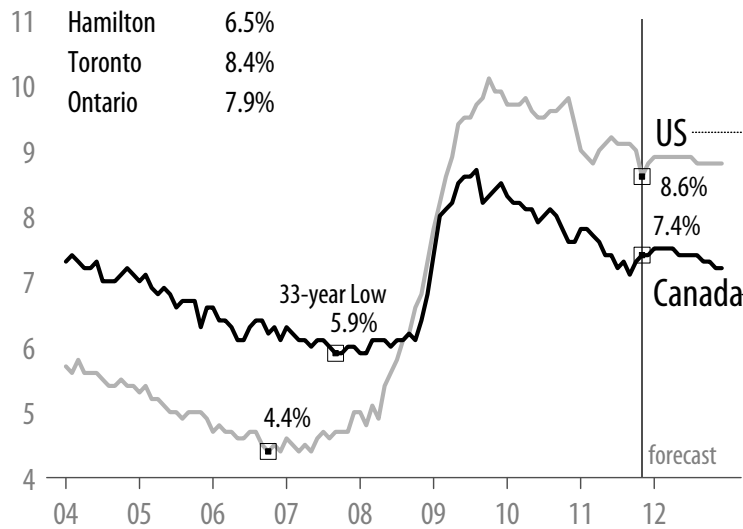


Cumulative Chng in Recession	%	Level
Canada	-2.5%	-428,000
US	-6.3%	-8.8 mln

Past 24 Months (% chng)	Canada	US
Construction	+9.1%	-3.0%
Government	+3.4%	-2.3%
Total	+2.6%	+1.7%

# Jobless Rates: Record Gap Narrows

Unemployment Rate (percent)

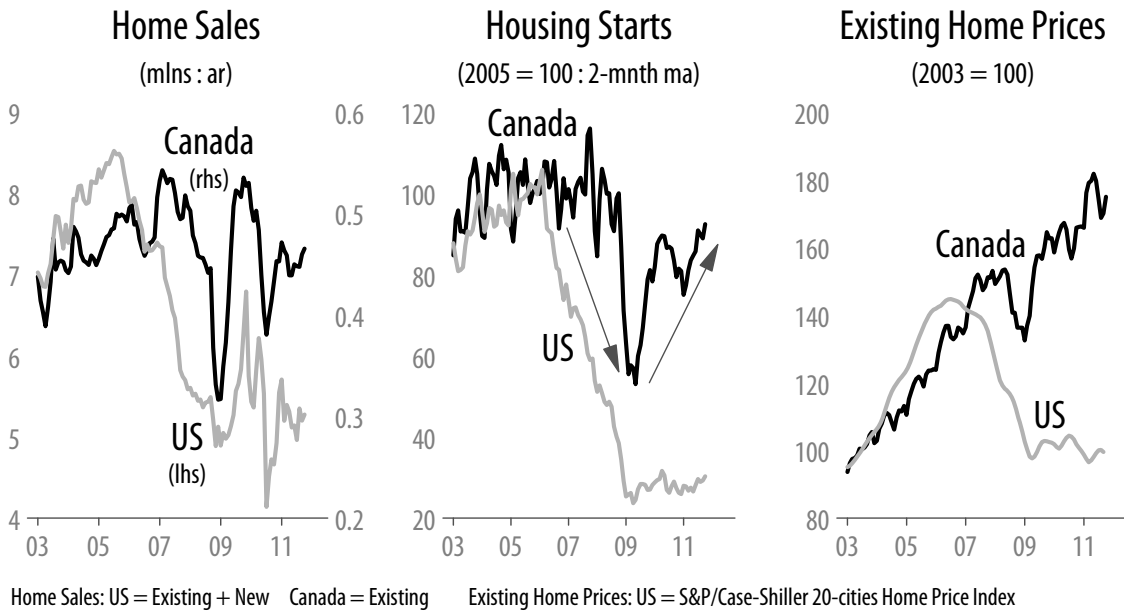


11	Hamilton	6.5%
	Toronto	8.4%
	Ontario	7.9%

Spain	22.8
Greece	18.3
Ireland	14.3
Portugal	12.9
France	9.8
Italy	8.5
UK	8.3
Belgium	6.6
Germany	5.6
Australia	5.2
Japan	4.5

**Still Too High**

# Canadian Housing Warm, US Still Frozen



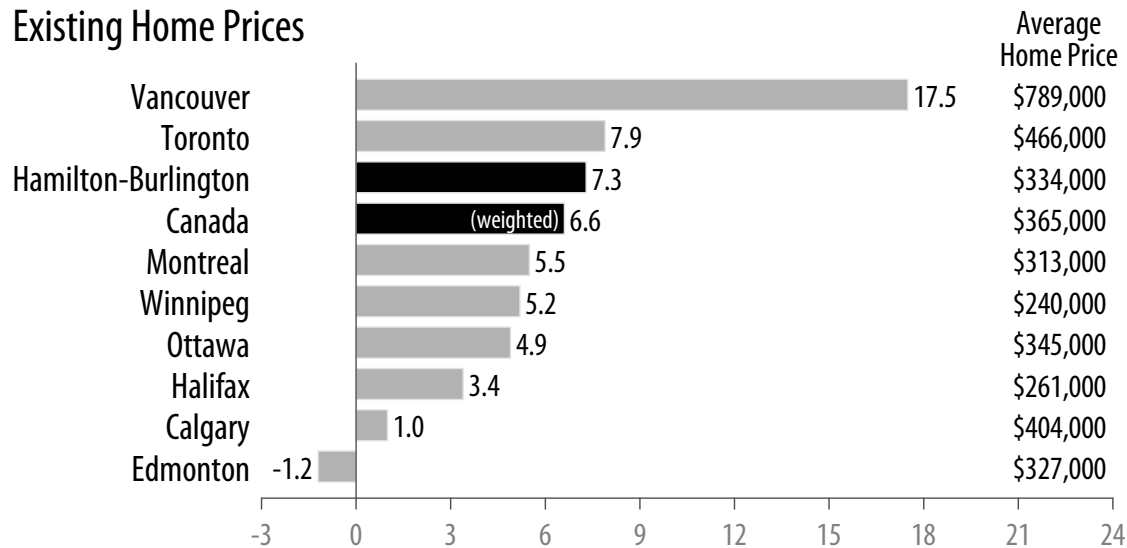
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# Canadian House Prices: Vancouver Manoeuvre

Canada – Major Markets (y-t-d % chng : as of October 2011)

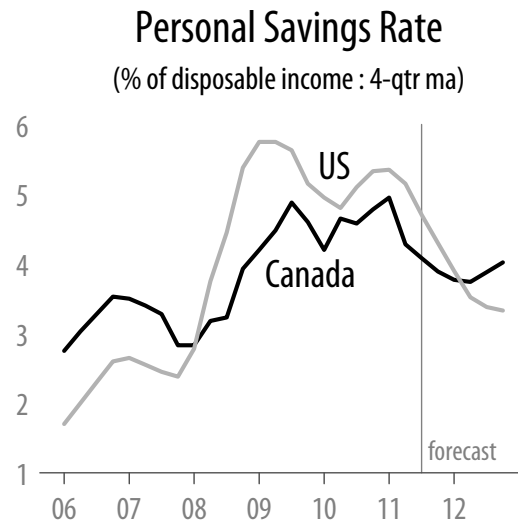
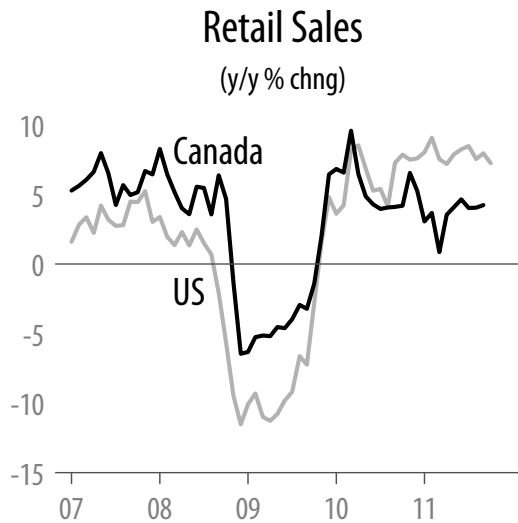
## Existing Home Prices



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# Consumer Spending: Tables Turn



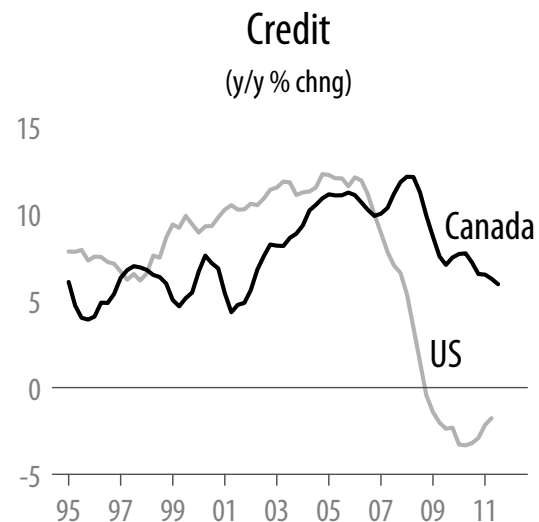
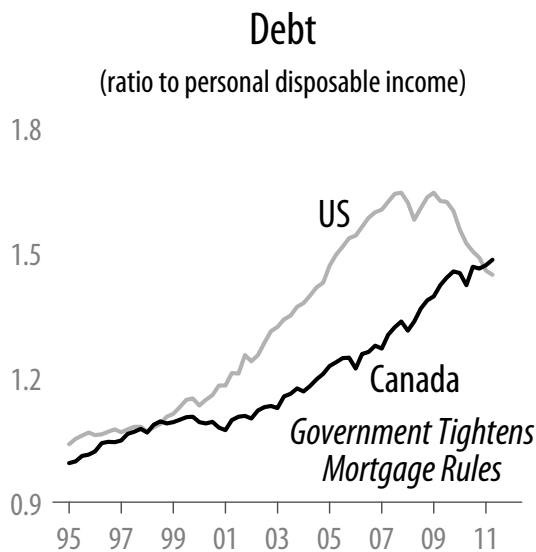
## Rebound in US Savings Ending

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# But Some Canadians Are Over-leveraged

## Households



Household credit and mortgages plus unincorporated business mortgages

## Deleveraging in US

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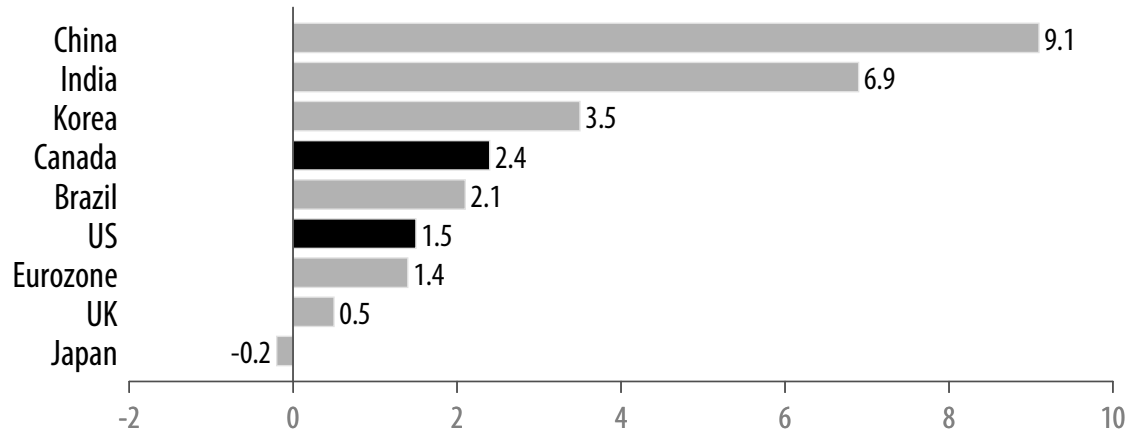
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# Global GDP: The Great Divide

2011:Q3 (y/y % chng)

	09	10	11	12
World	-0.7	5.1	3.6	3.2

## Real GDP



## Emerging Markets Provide Support

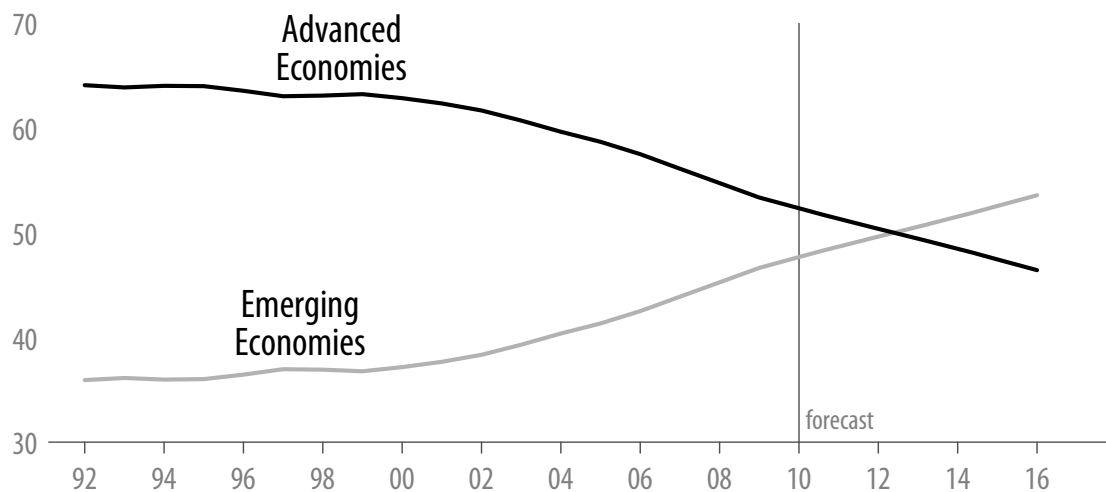
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# Emerging Markets Are A Growing Force

(percent)

## Share of World GDP



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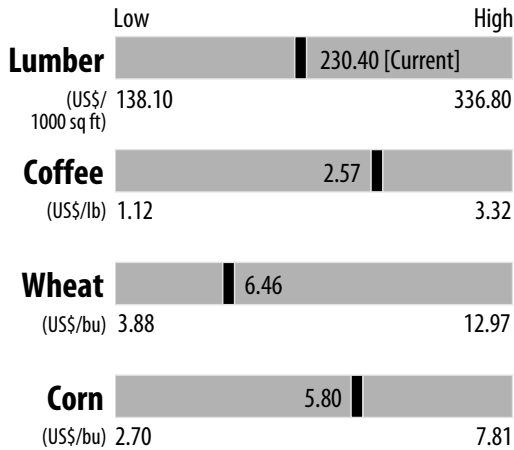


# Commodity Trends: Moving Parts

Commodity Price Range (5-yr range)

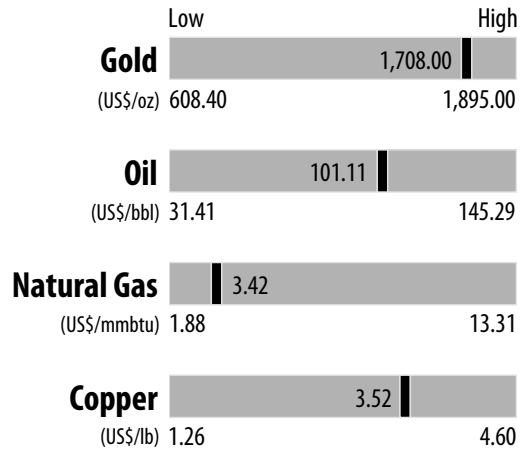
## Materials & Foodstuffs

(as of December 5, 2011)



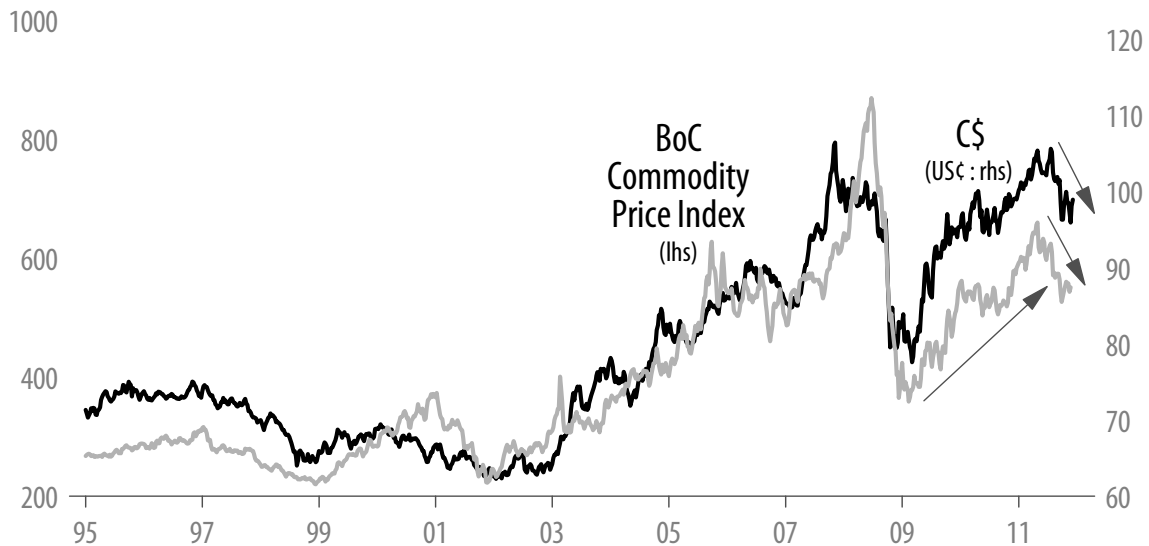
## Metals & Energy

(as of December 6, 2011)



# Loonie and Commodities: The Ties that Bind

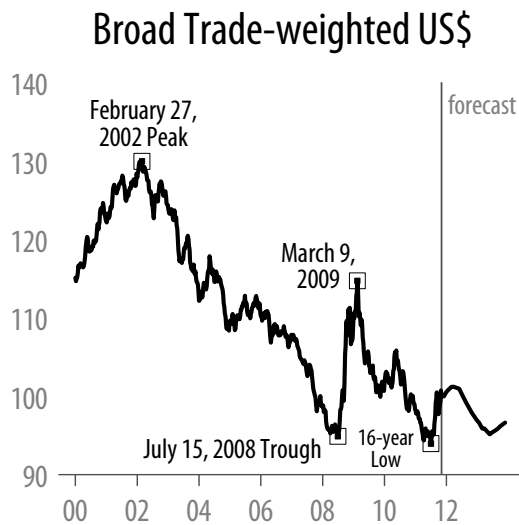
Canada (as of December 6, 2011)



BoC Commodity Price Index = (January 1972 = 100)

# US Dollar Off the Lows

(as of December 6, 2011)



% Chng (vs US\$)	Feb '02 to Present	2011 Y-T-D
Japanese Yen	73.2	4.3
Chinese Yuan	30.0	3.8
Swiss Franc	84.3	0.9
Trade-weighted US\$	-23.5	0.6
Australian \$	98.5	0.0
Euro	54.9	0.0
UK Pound	10.0	-0.2
Canadian \$	59.1	-1.3
Mexican Peso	-32.6	-8.6

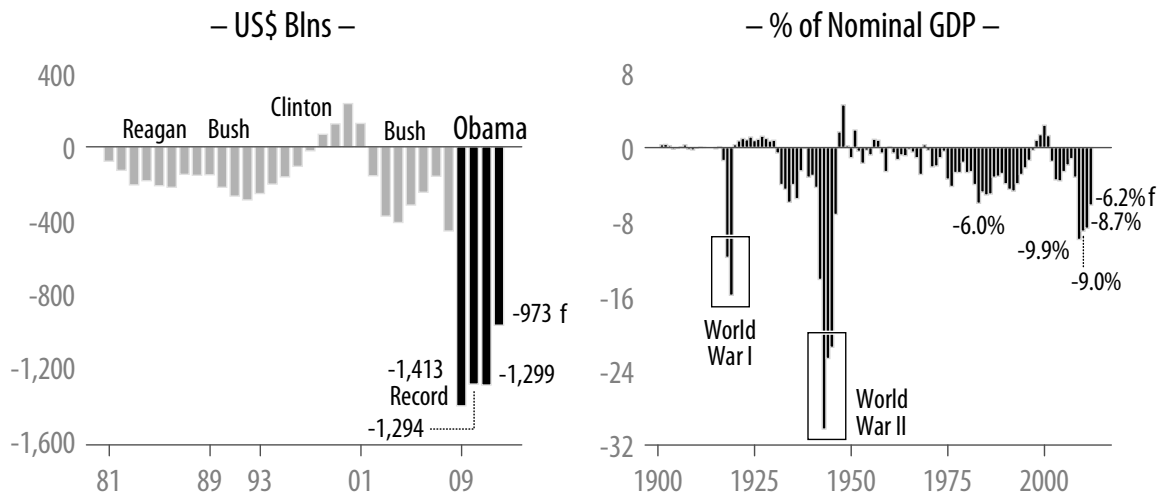
## Currency Wars?

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# US Budget Deficit: Long-term Problem

Budget Balance – United States



## S&P Downgrades US to AA+

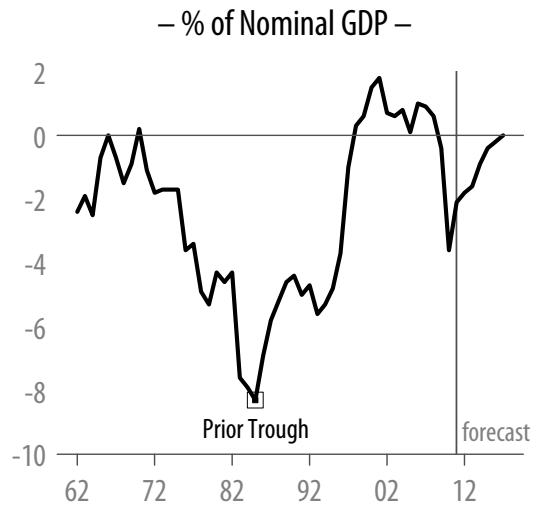
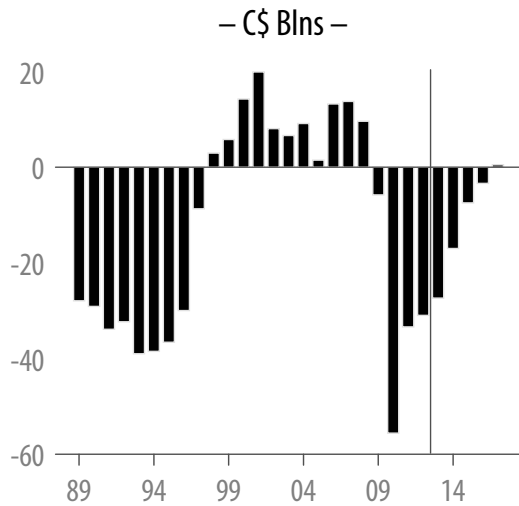
Source: CBO 2011-12 = forecast

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# Ottawa's Finances Better

## Federal Budget Balance – Canada



## Government Spending Won't Be Cut "Dramatically"

Source: Federal Budget FY11/12 = estimate

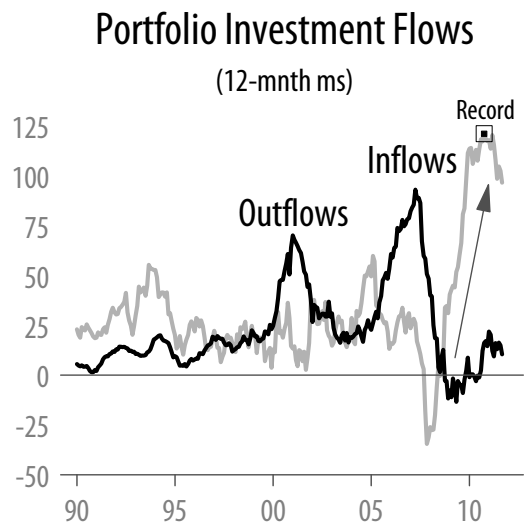
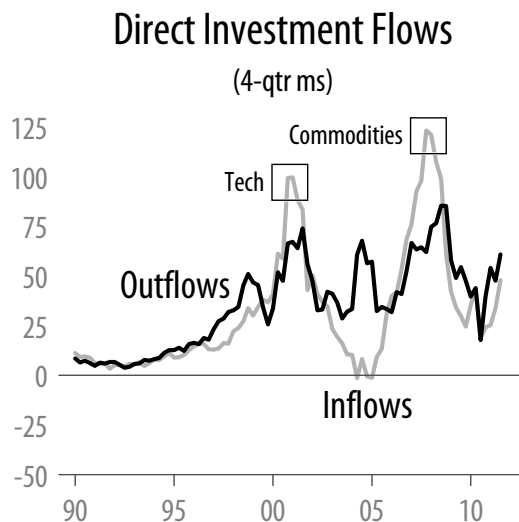
– Minister of Finance Jim Flaherty

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# Investors Flock to Canada

## Canada (C\$ blns)



## Mostly Bonds

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# Canadian Dollar Outlook: Still Looking Up?

(US¢ : as of December 6, 2011)

## Canadian Dollar



## Positives

- Relatively Higher Rates
- Global Diversification
- Sounder Finances
- Commodity Exposure (+/-)

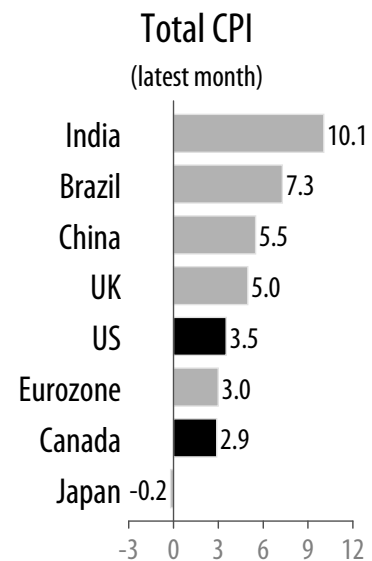
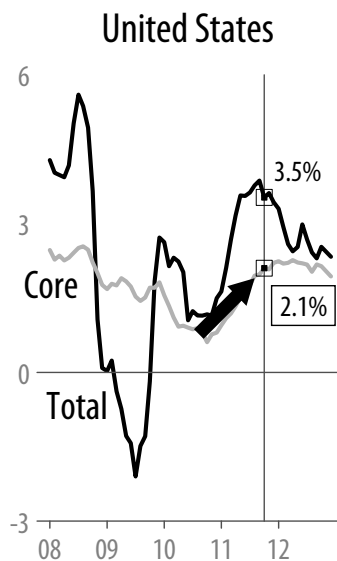
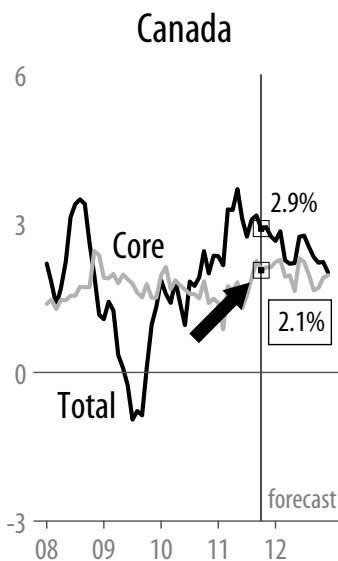
## Downside Risk: Global Growth Stumbles

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# Inflation Set to Ease

Consumer Price Index (y/y % chng)



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# Inflation and Deflation

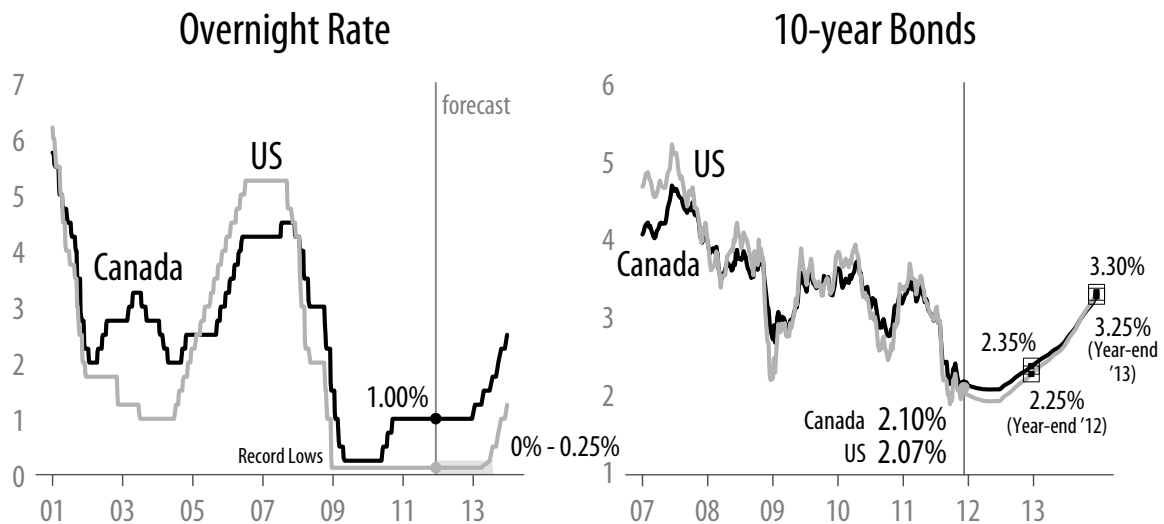
Consumer Price Index – Canada (y/y % chng : as of October 2011)

	Deflationary	Inflationary
Computers	-11.3	Gasoline 18.2
Home Entert. Equip.	-6.7	Coffee 14.7
Books	-2.2	Bread 11.1
Natural Gas	-2.2	Vegetables 7.9
Household Furniture	-2.1	Air Fares 6.1
Beer	-2.1	Milk 6.1
Mortgage Interest	-1.3	Tuition Fees 4.2
Household Appliances	-0.7	Auto Insurance 3.8

**Core CPI 2.1%**  
**Overall CPI 2.9%**

# Interest Rates: Low for Long

(% : as of December 6, 2011)

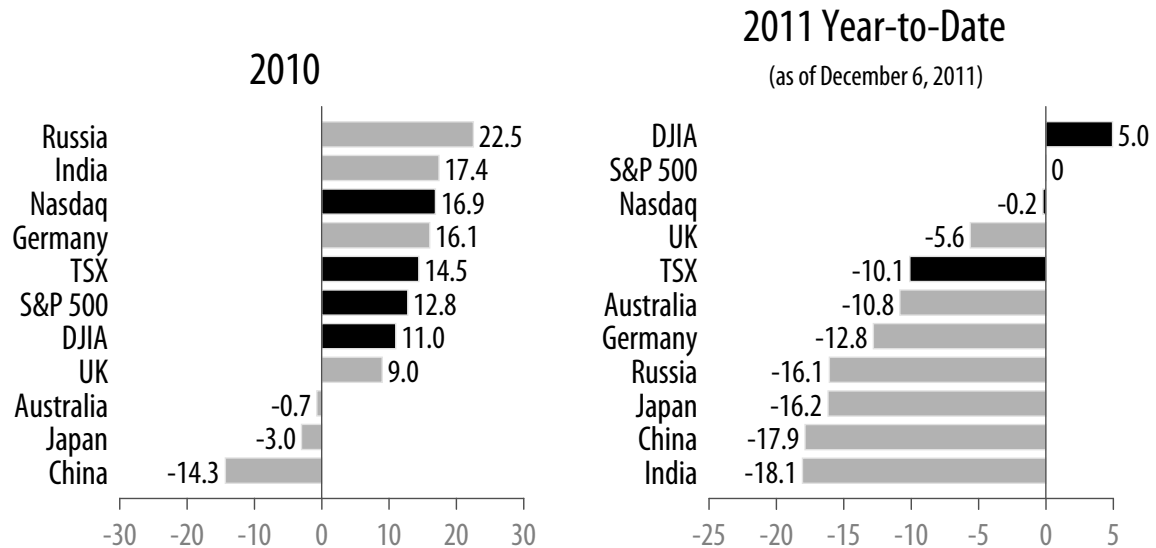


**BoC Worried About Global Turmoil**

**Weak Growth #1 Concern**

# Global Equities: Year of Reversal

Equity Markets (% chng)



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## Canadian Economy: Challenges & Opportunities

### Challenges:

- Global Government Debt
- Strong C\$
- High Household Debt
- Weak Productivity
- Weak US Growth

### Opportunities:

- Emerging Economy Demand
- Foreign Investment Inflows
- R&D and Innovation
- Canadian Banks Strong
- Fiscal Position Strong

## Gradual Expansion

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