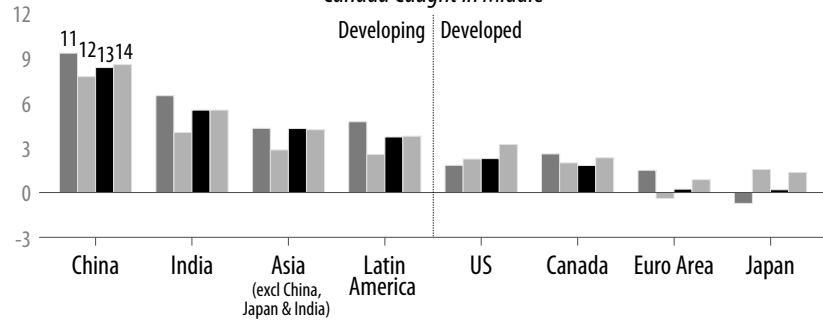


Global Economy Running at Two Speeds

(ann % chng)

Real GDP



World	11	12	13	14
GDP	3.8	3.0	3.5	3.8

Canada Caught in Middle
Developing | Developed

China Landing Softly

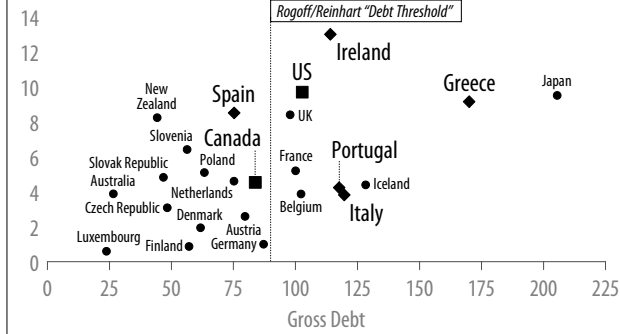
Europe in Recession

Ranked by 2013 Source: [2012-14] BMO Capital Markets forecasts

Credit Crisis II: Subprime Sovereign Debt

2011 (% of nominal GDP)

Government Deficit vs Debt



Peripheral Europe in debt "doom loop"
Debt pooling a pipe dream
Reform and restructure
US "fiscal cliff" to reduce GDP 1% in 2013
Canada's fiscal cuts pale versus US and Europe

Debt Restrains Growth & Increases Vulnerability

Source: OECD

US Economy on the Mend, Led by Housing

United States (mlns : saar)

Existing Home Inventories



Housing Scorecard	
+	-
great affordability	high foreclosures
pent-up demand	student debt
easing supply	
rising prices	

Housing was at root of weak recovery

But prices rising now

Positive feedback effects

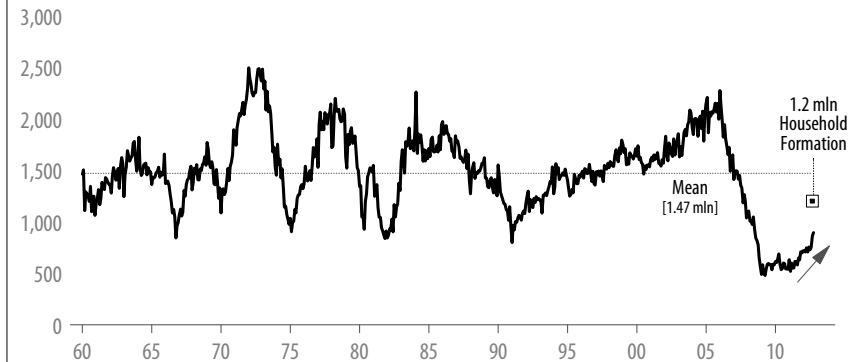
Long road home is good for growth

Improving!

US Housing Starts: We Have Liftoff!

United States (000s of units)

Housing Starts

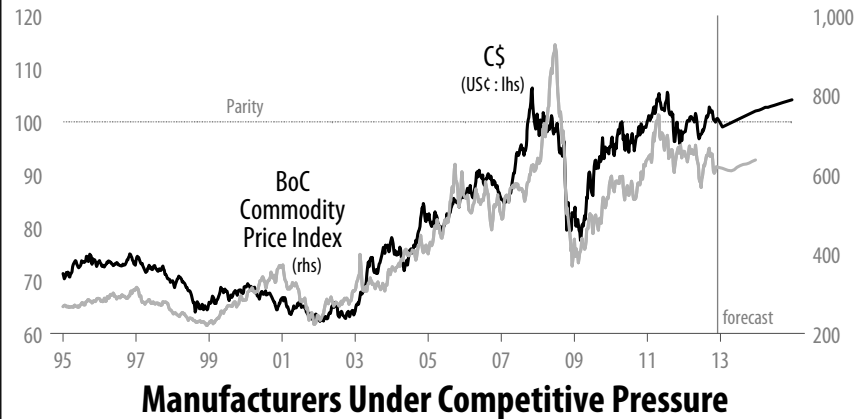


1.2 mln Household Formation

Mean (1.47 mln)

Canada's Resource Sector Supportive... But C\$ a Brake

Canada (as of December 4, 2012)

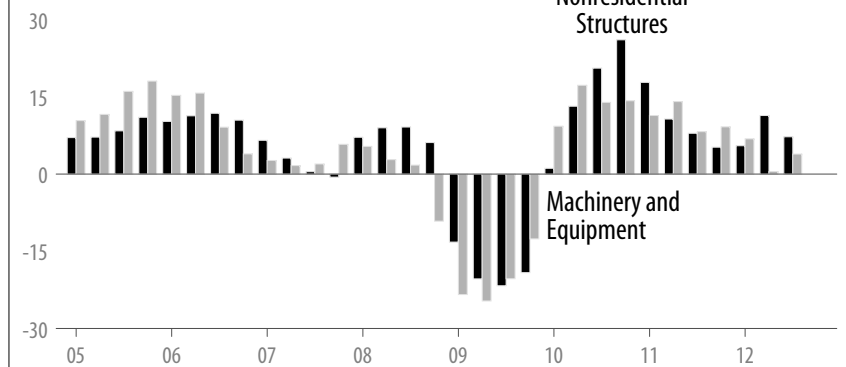


BoC Commodity Price Index = (1972 = 100) forecast = BMO Capital Markets forecasts

Canadian Business Investment Slows but Healthy

Canada (y/y % chng)

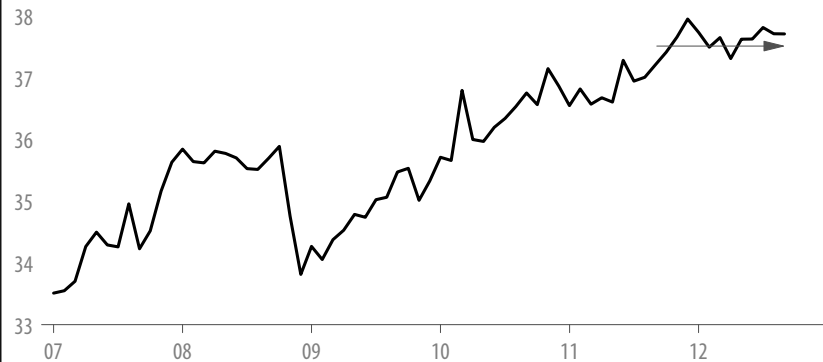
Real Business Investment



Consumer Spending Slows

Canada (blns chained 2007 dollars)

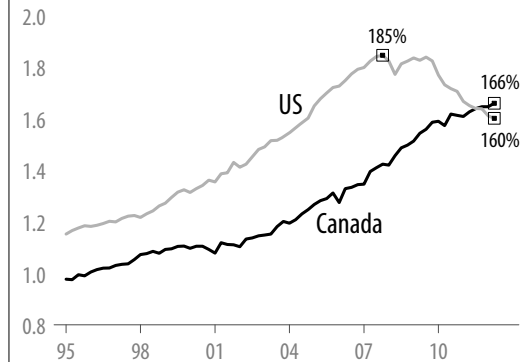
Retail Sales Volumes



Canadian Households Need to Deleverage [lite]

(ratio to personal disposable income)

Household Debt



Canada:

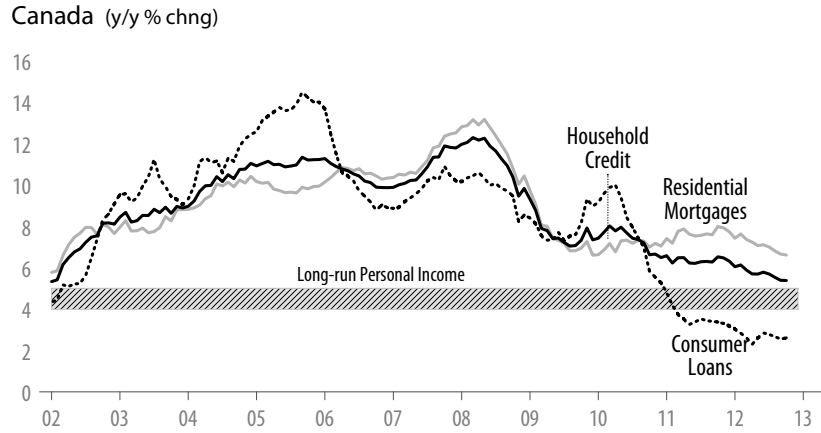
Debt more than double in decade
Haven't hit "debt wall"
BoC says 10% of households strained when rates normalize
Consumers won't lead expansion

United States:

Household finances much improved

Households include nonprofit organizations and unincorporated businesses

Credit Growth Slowing [good thing]

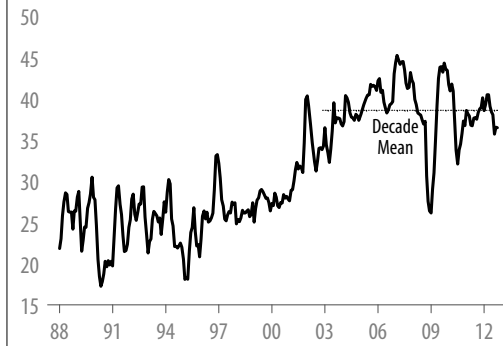


...Cooling Consumer Spending and Housing Market

Housing Market Moderating [good thing]

Canada (000s : sa)

Existing Home Sales



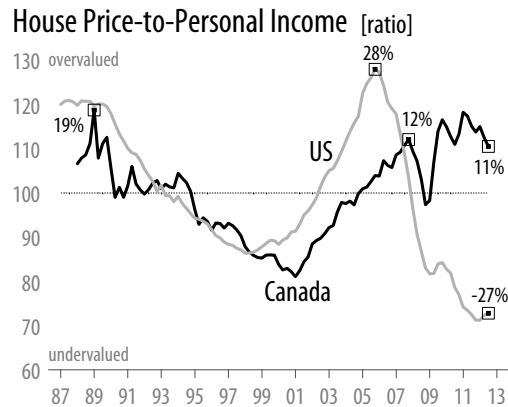
Housing Scorecard	
+	-
low mortgage rates	high debt
job growth	elevated valuations
immigration	tighter mortgage rules
foreign wealth	no pent-up demand
"echo boomers"	CMHC insurance cap
1-person households	

Vancouver weak
Calgary strong
Toronto condo boom fading

...Soft Landing for Most Regions

Moderate Overvaluation in Most Regions

(long-term trend = 100 : quarterly : sa)



Canadian Housing: Less overvalued than in 1990 or at US peak

But Vancouver and Toronto overpriced

House prices vulnerable if recession or sharp rate hike

US a steal!

Canada: CREA Existing House Prices US: S&P Case-Shiller National Prices

Most Regions Still Affordable [if rates stay low]

Canada (% of household income)

Average Mortgage Payments

New Mortgage Rules Should Cool Demand

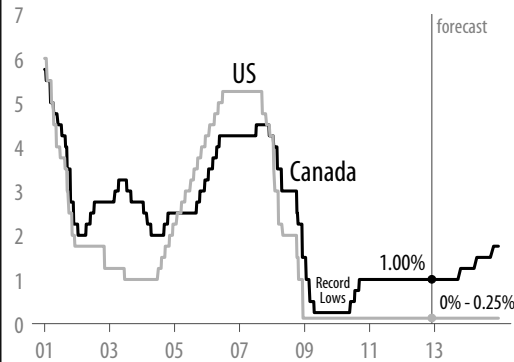


Based on 25-year amortization, average of 1- and 5-year posted rate, average-priced house, down payment equal to half of annual income (about 10% today). Household income measured as personal income per labour force member.

Bank of Canada: Low for Long

(% : as of December 4, 2012)

Overnight Rate



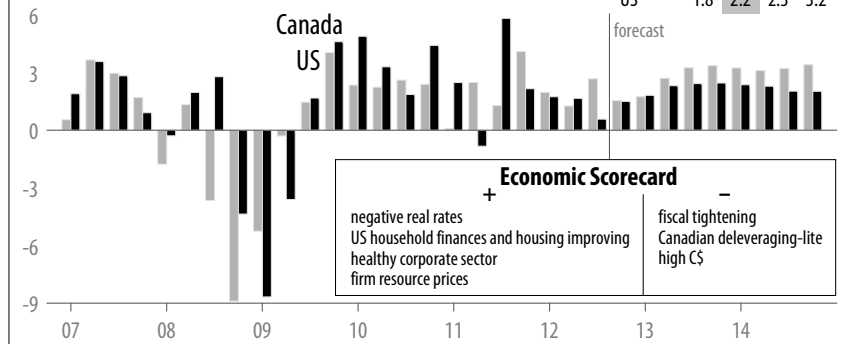
Rates to rise "over time", likely in late 2013

Then to rise only gradually:
Steady Fed to 2015
High C\$
Sensitive consumers
Tighter credit rules
Low inflation

Sustained Moderate Expansion to Continue

(q/q % chng : ar)

Real GDP



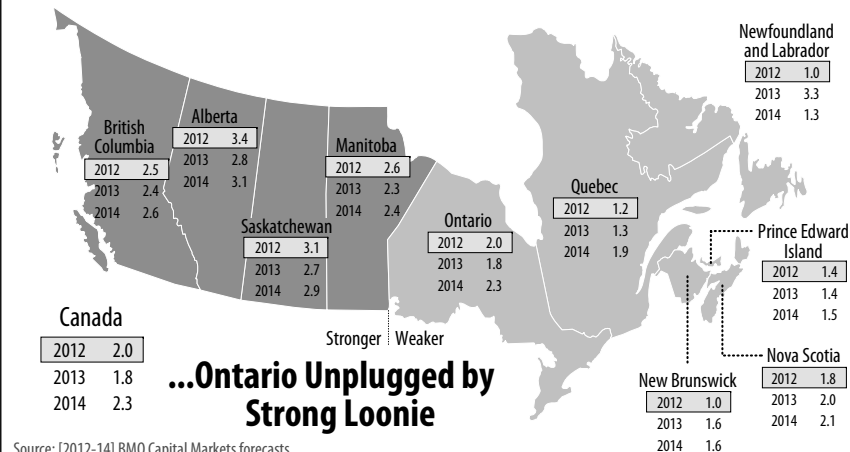
...Growth to Pick Up in Late 2013

Economic Scorecard

<p>negative real rates US household finances and housing improving healthy corporate sector firm resource prices</p>	<p>fiscal tightening Canadian deleveraging-lite high C\$</p>
--	--

Western Canada Powered by Resources

Real GDP Growth Rate (percent)



Source: [2012-14] BMO Capital Markets forecasts

2013 Canadian Outlook Recap



- Modest but improving growth in 2013
- US to outpace Canada
- Business spending and resource producers to lead expansion
- Consumer deleveraging will restrain spending
- Housing market soft landing in most regions
- Interest rates and inflation to stay low
- C\$ to stay near parity, challenging manufacturers and retailers