

ECONOMIC OUTLOOK: OPPORTUNITY IN DIFFICULTY

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Financial Markets Try to Look Past Europe

(as of April 30, 2012)



Other Concerns: China, US Growth, Iran

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Global Outlook 2012: What Is the Biggest Risk?



- Euro Sovereign Debt Crisis
- Europe in Recession
- Hard Landing for China?
- Iran and Oil Prices
- Fiscal Austerity
- Canadian Household Debt

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European Sovereign Debt Crisis

10-Year Spread vs Germany (ppts : as of April 30, 2012)



Euro Area Likely in Recession

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Pumped Up

Gasoline Prices



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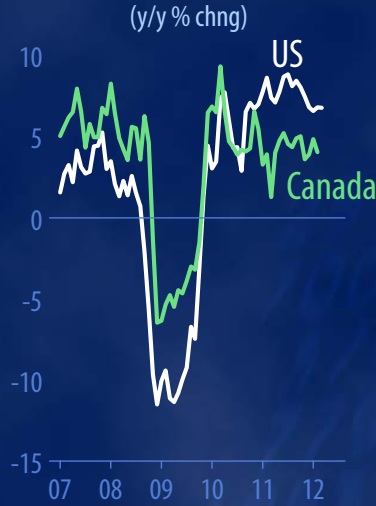
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US Recovers, China Slowing

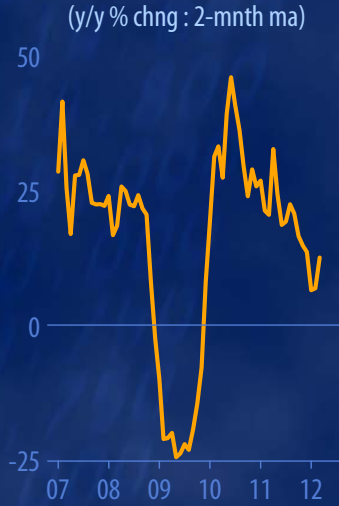
Consumer Confidence



Retail Sales



China's Exports



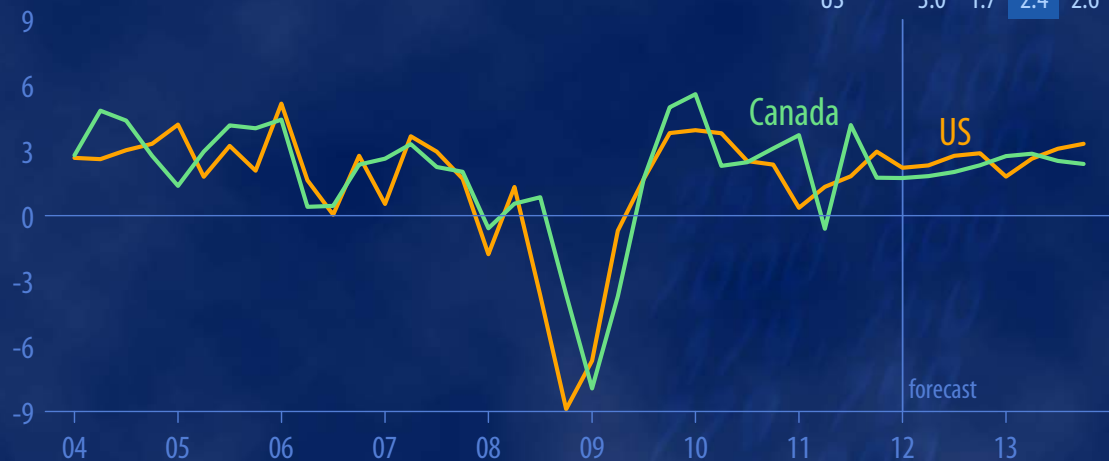
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Modest Growth Ahead

(q/q % chng : ar)

Real GDP



But No Double Dip

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Will the US Economy Help or Hurt Obama?



Unemployment Remains High
Foreclosures
High Gas Prices
Fiscal Tightening
Taxes
Spending

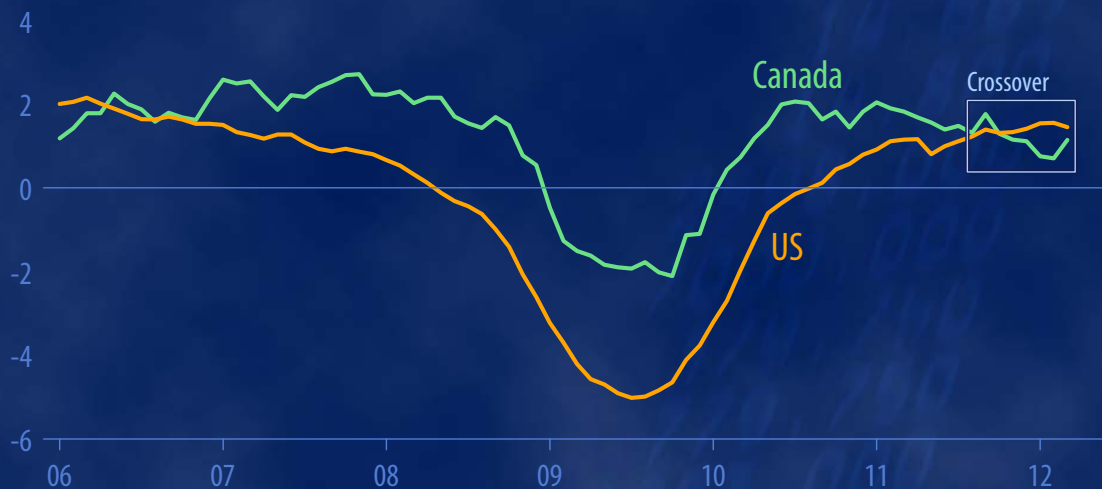
Policy Gridlock

But Economy Is Improving

Job Growth: Tables Turn

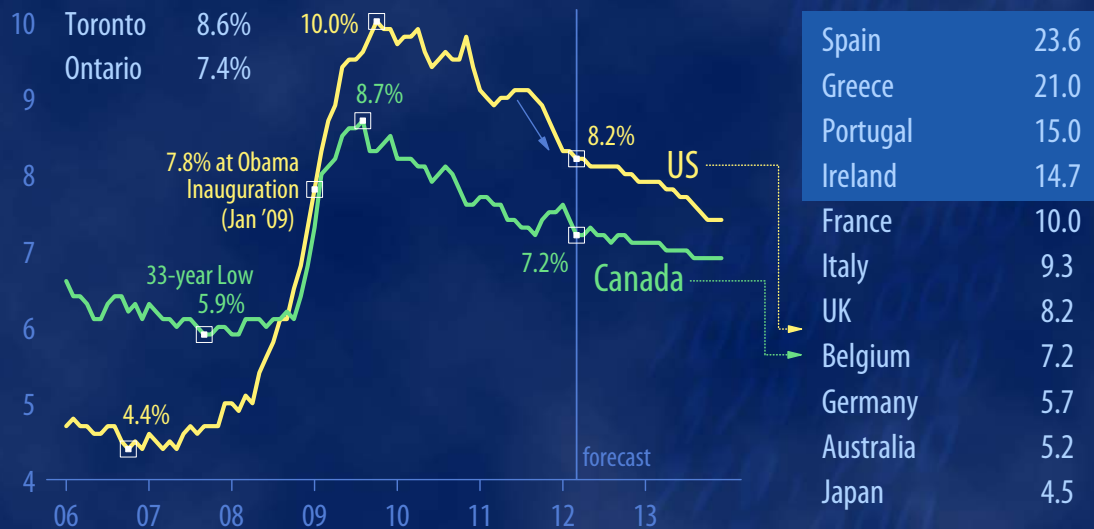
(y/y % chng)

Employment



Jobless Rates: Record Gap Narrows

Unemployment Rate (percent)



US Participation Rate Falling

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Will Canadian Housing Crash?



Prices Double in 10 Years
Toronto Condo Boom
But...
Affordability Normal
Markets Balanced

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Canadian Housing Stays Warm, US Thawing



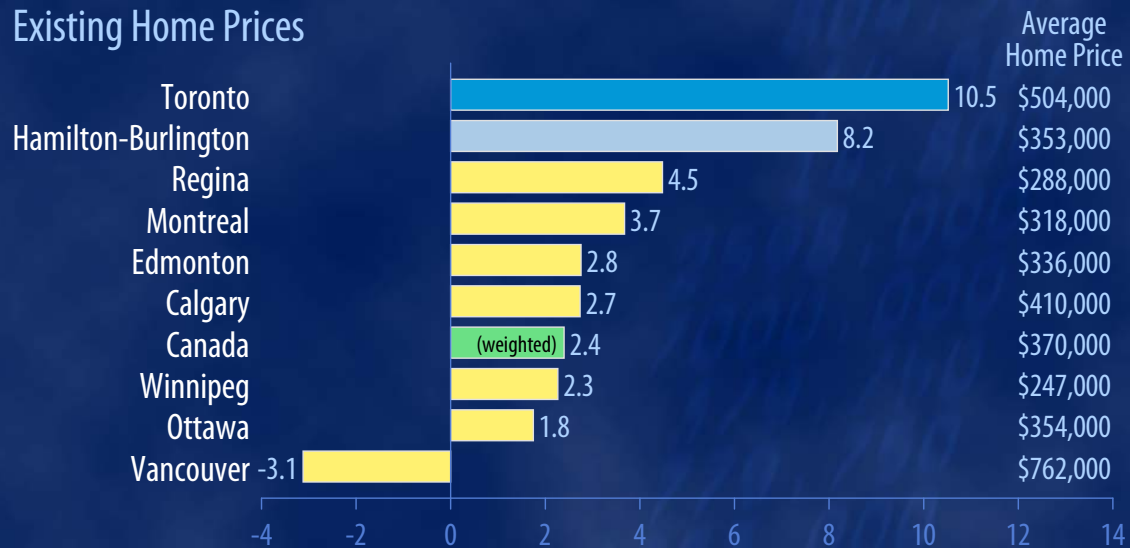
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Canadian House Prices: From Vancouver Manoeuvre to Toronto Tornado

Canada (y/y % chng : as of March 2012)

Existing Home Prices



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Bargain Hunters Take Note (and a Passport)

(\$000s : local currency : nsa)

Average Home Price



US = single-family homes

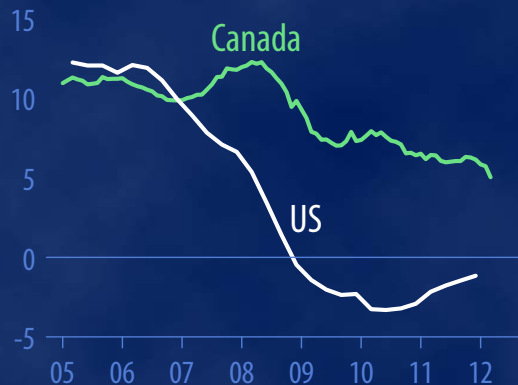
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Canadian Consumers: Still Borrowing

Household Credit

(y/y % chng)



Household Debt

(ratio to personal disposable income)



Debt Burdens Now Similar

Household Credit = Consumer Credit and Residential Mortgages

Household Debt includes household and unincorporated business debt

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Could China Crush Commodities?



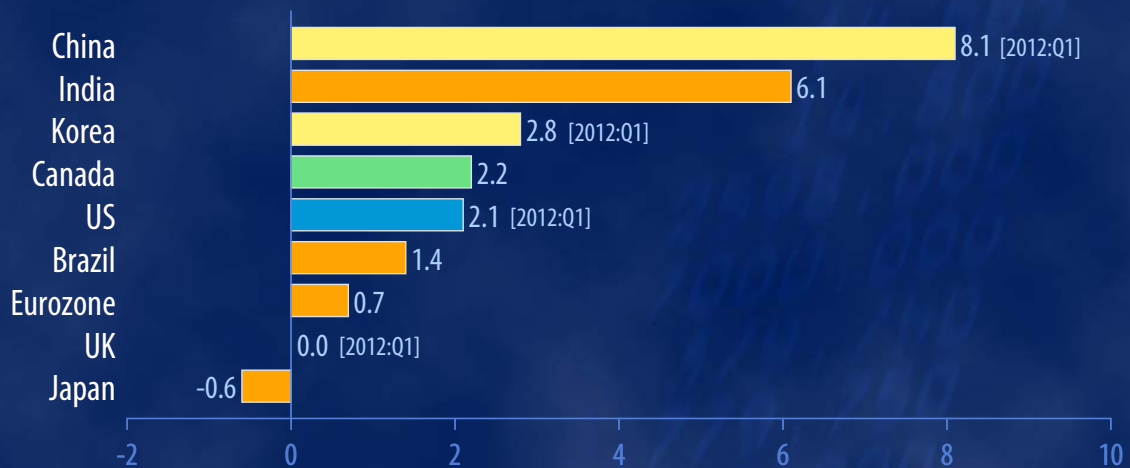
China Slowing
 US Growing
 Middle East Turmoil

Global GDP: The Great Divide

2011:Q4 (y/y % chng)

Real GDP

	10	11	12	13
World	5.1	3.7	3.2	3.9



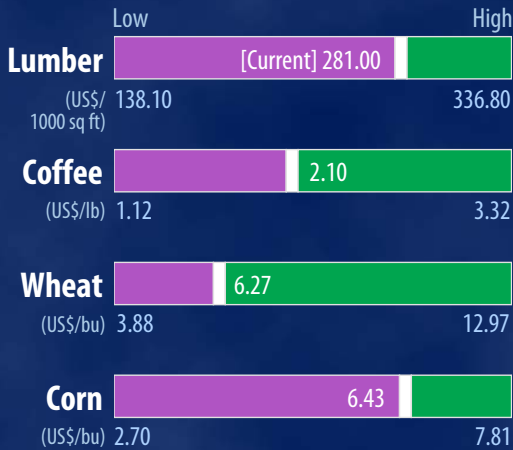
Emerging Markets Still Provide Support

Commodity Trends: Moving Parts

Commodity Price Range (5-yr range)

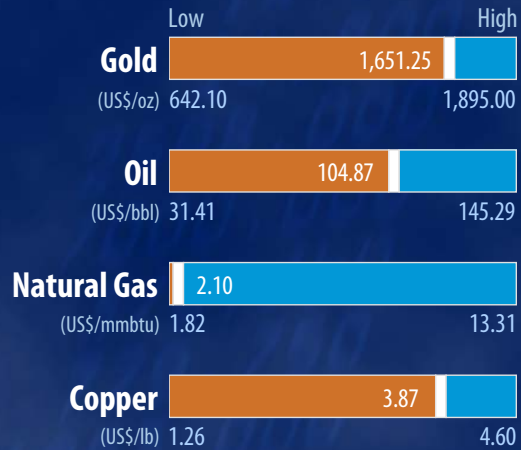
Materials & Foodstuffs

(as of April 27, 2012)



Metals & Energy

(as of April 30, 2012)



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Loonie and Commodities: The Ties that Bind

Canada (as of April 30, 2012)



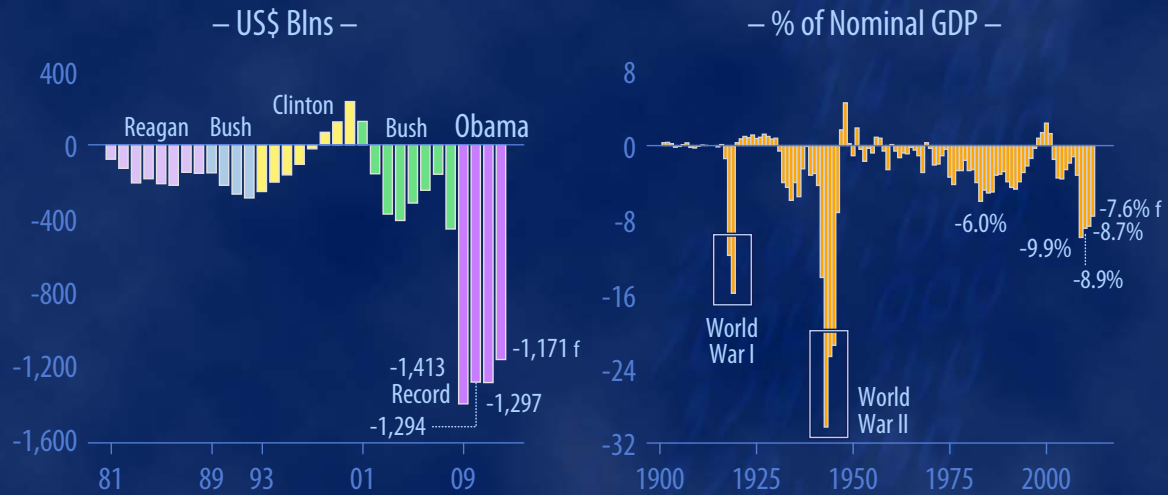
BoC Commodity Price Index = (January 1972 = 100) forecast = BMO Capital Markets forecasts, monthly averages

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US Budget Deficit: Long-term Problem

Budget Balance – United States



S&P Downgrades US to AA+

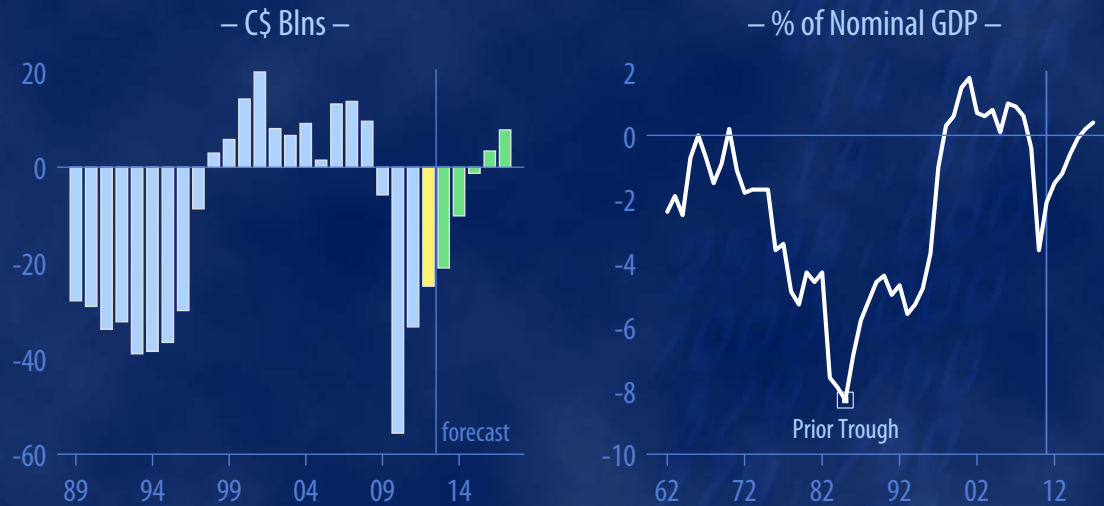
Source: CBO 2012 = forecast

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Ottawa's Finances Better

Federal Budget Balance – Canada



March 29 Budget: Spending Cuts Not "Draconian"

Source: Federal Budget FY11/12 = estimate

– Minister of Finance Jim Flaherty

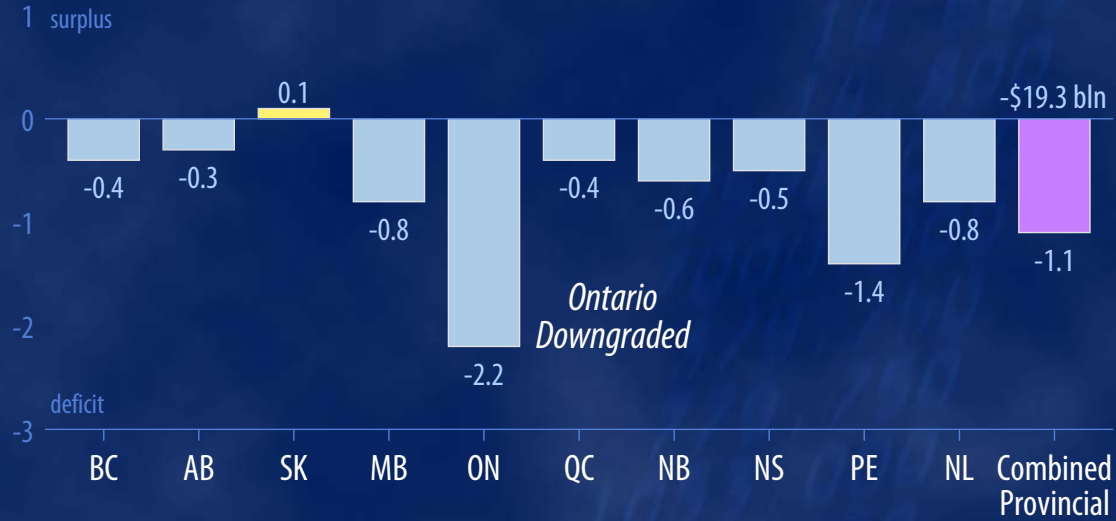
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Provincial Deficits Swell, As Well

Canada – FY12/13 (% of GDP)

Budget Balance



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Investors Flock to Canada

Canada (C\$ blns)

Direct Investment Flows

(4-qtr ms)



Portfolio Investment Flows

(12-mnth ms)



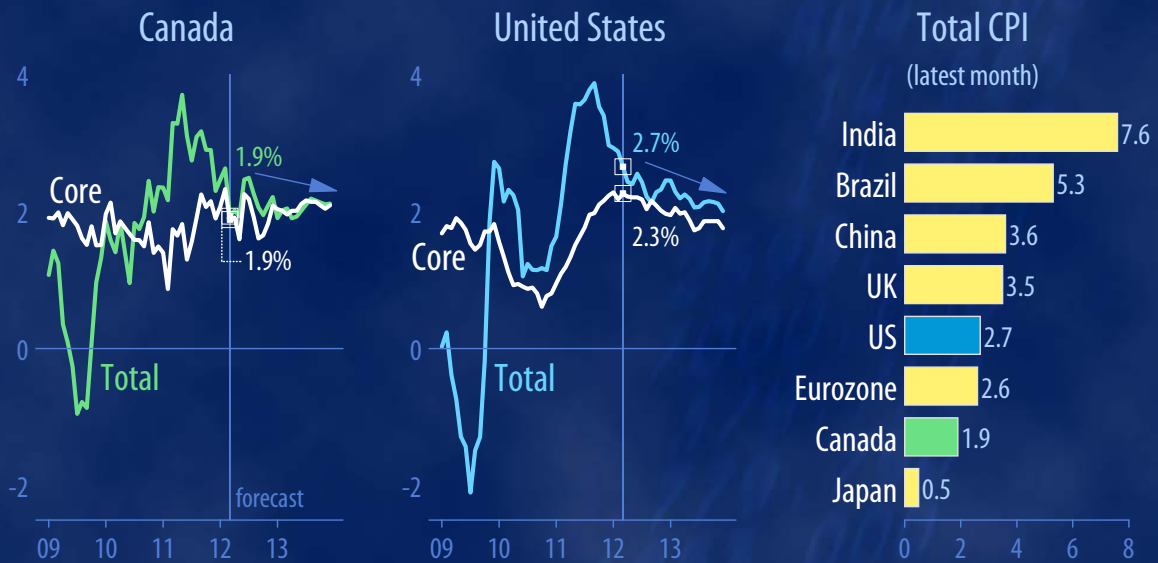
Mostly Fixed Income

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Inflation Easing

Consumer Price Index (y/y % chng)



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Inflation and Deflation

Consumer Price Index – Canada (y/y % chng : as of March 2012)

	Deflationary		Inflationary
Vegetables	-11.7	Eggs	11.9
Home Entert. Equip.	-8.4	Coffee	7.6
Computers	-7.8	Gasoline	6.6
Tools	-5.4	Bread	6.1
Household Furniture	-4.9	Air Fares	5.6
Natural Gas	-3.0	Electricity	5.3
Drugs	-1.6	Tuition Fees	4.2
Books	-1.2	Auto Insurance	3.4

Core CPI 1.9%
Overall CPI 1.9%

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What Does This Mean for Financial Markets?



Interest Rates: Low for Long

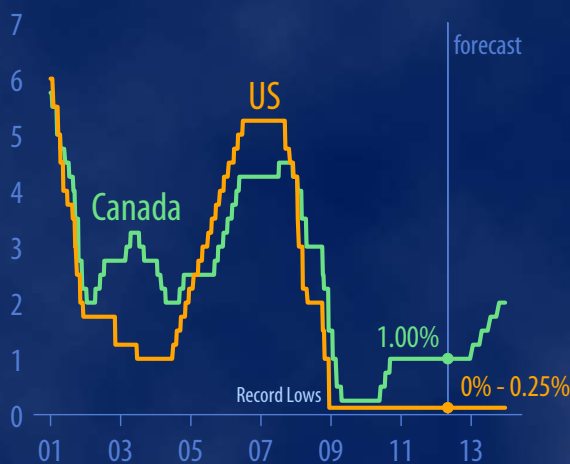
Loonie Stays Strong

Stocks: Good Start to 2012

Interest Rates: Low for Long

(% : as of April 30, 2012)

Overnight Rate



US at Zero for 6 Years?

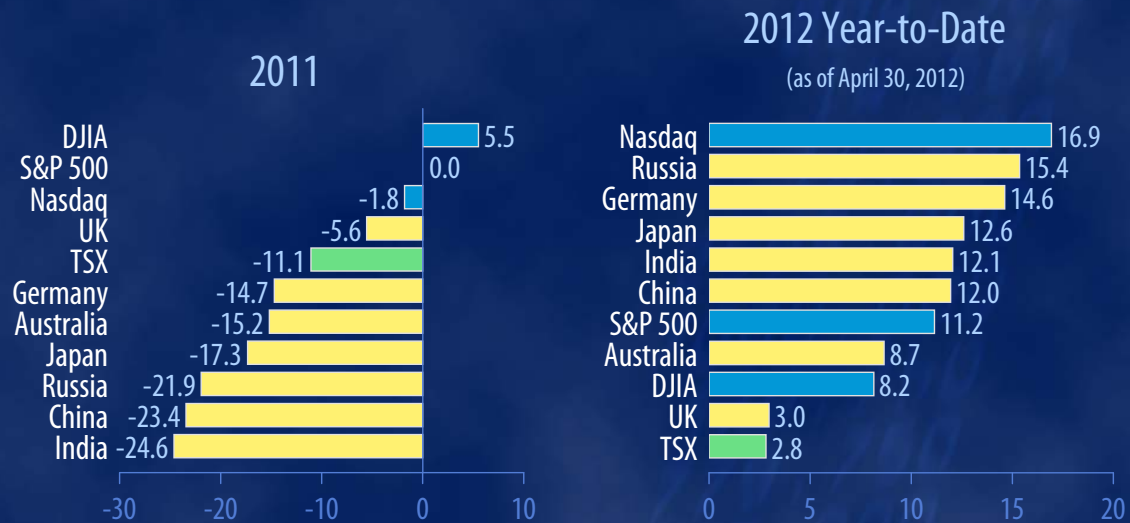
10-year Bonds



Historic Lows

Global Equities: Year of Reversal

Equity Markets (% chng)



TSX Lagging after 7 Years of Outperformance

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Canadian Economy: Challenges & Opportunities

Challenges:

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

Opportunities:

- Emerging Economy Demand
- Foreign Investment Inflows
- Canadian Banks Strong
- Fiscal Position Strong

Stop and Start Expansion

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