

CANADIAN OUTLOOK 2013: LOOKING BEYOND THE CLIFF

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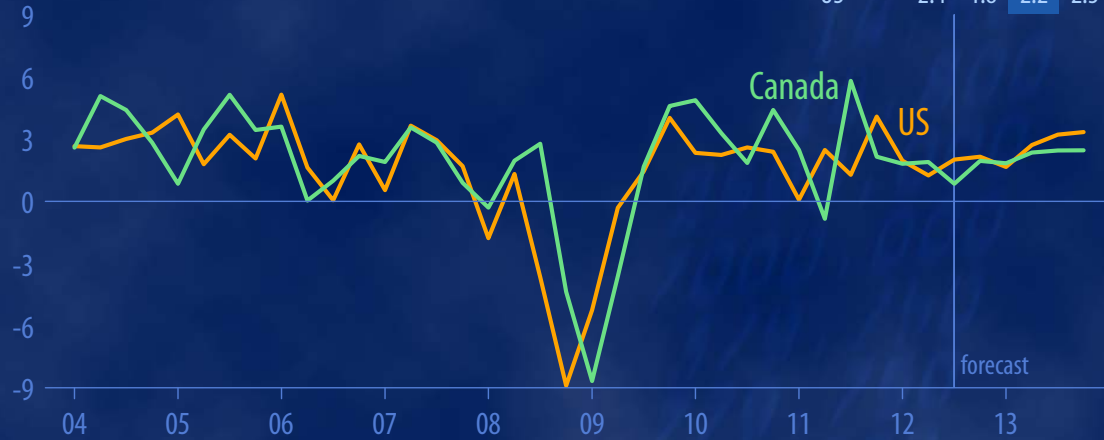
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Modest Growth Ahead

(q/q % chng : ar)

Real GDP



Double Dip Avoided

Canada: 2012:Q3 = BMO Capital Markets estimate

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Is The US Poised to Rebound?



Policy Gridlock: Fiscal Cliff Ahead?

Fiscal Tightening

Taxes

Spending

Housing Turnaround

Unemployment Remains High

Gas Prices

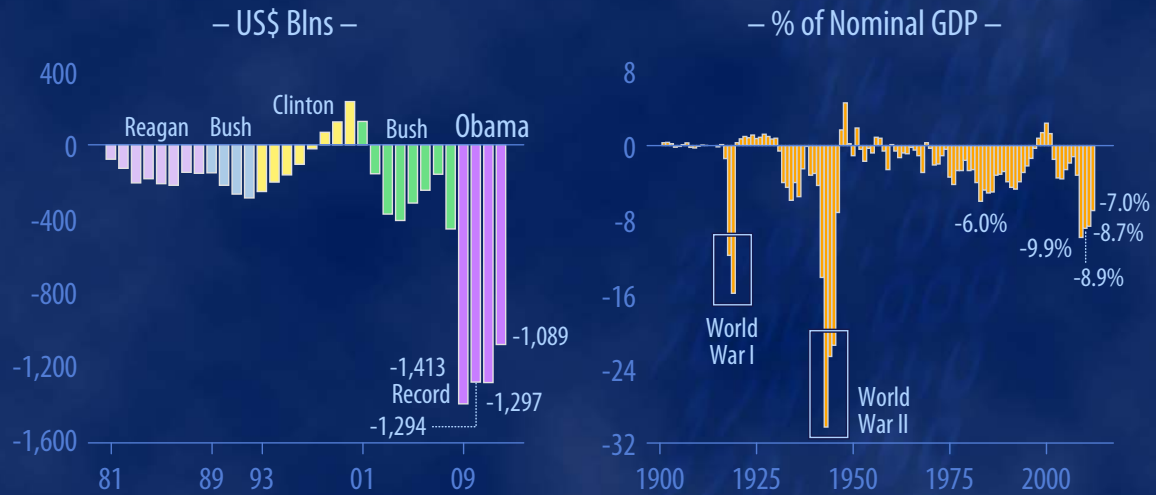
Modest Job Growth

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US Budget Deficit: Fiscal Cliff Ahead?

Budget Balance – United States



S&P Downgrades US to AA+

Source: CBO

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Do the Right Thing



“You can always count on Americans to do the right thing - after they’ve tried everything else.”

Winston Churchill

“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.”

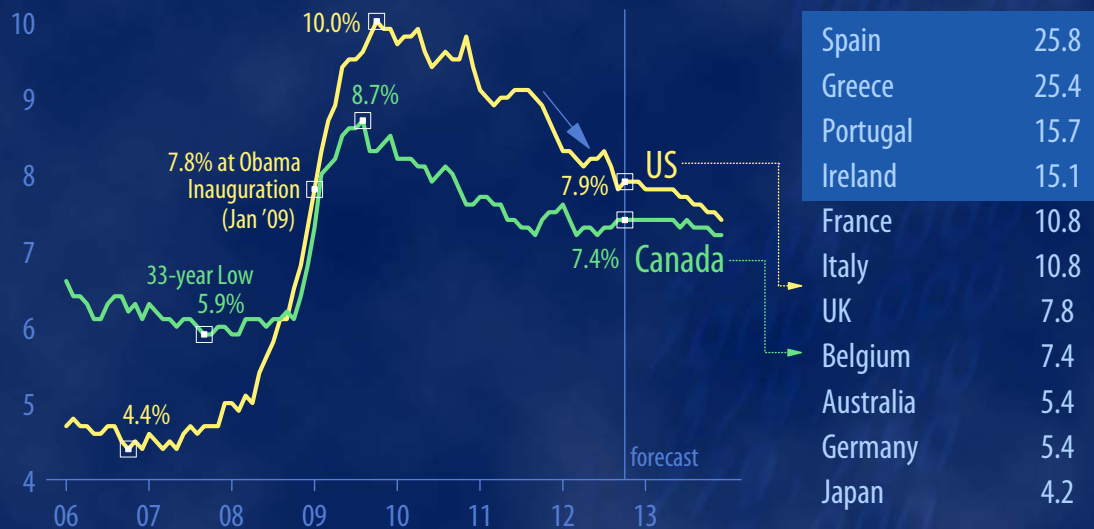
Winston Churchill

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Jobless Rates: Record Gap Narrows

Unemployment Rate (percent)



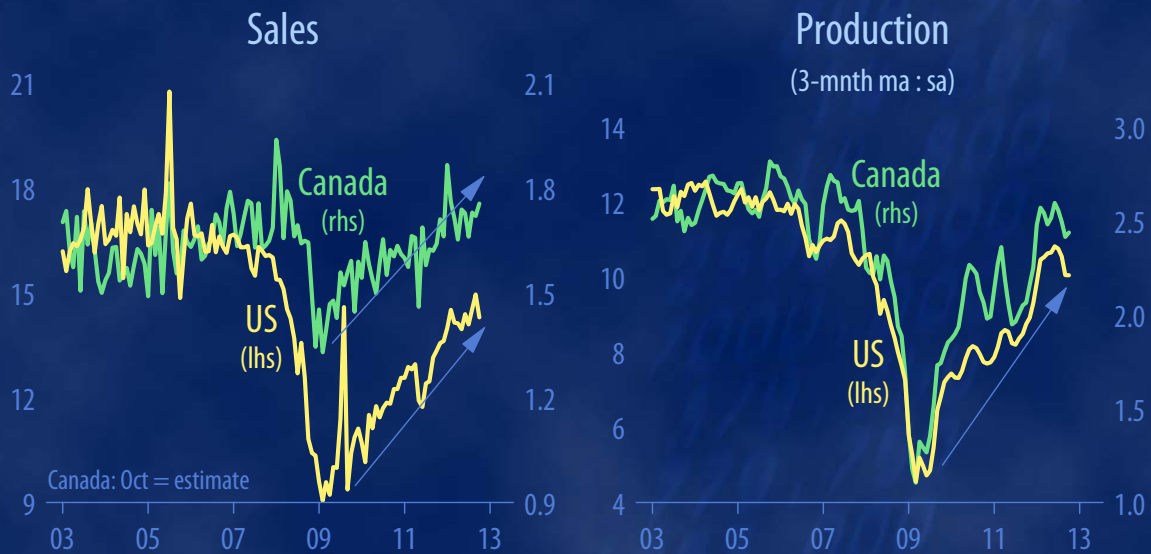
US Participation Rate at 30-year Low

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Big Positive: Auto Recovery

Vehicles (mlns : ar)



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Will Canadian Housing Crash?



Macleans,
March 2012

Canadian Business,
12 January 2012

Report on Business,
March 2012

Prices Double in 10 Years
Toronto Condo Boom

But...

Affordability Normal
Markets Balanced

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Canadian Housing Finally Cooling



US Turning the Corner

House Prices = Canada: Teranet Composite 11 US: FHFA House Price Index

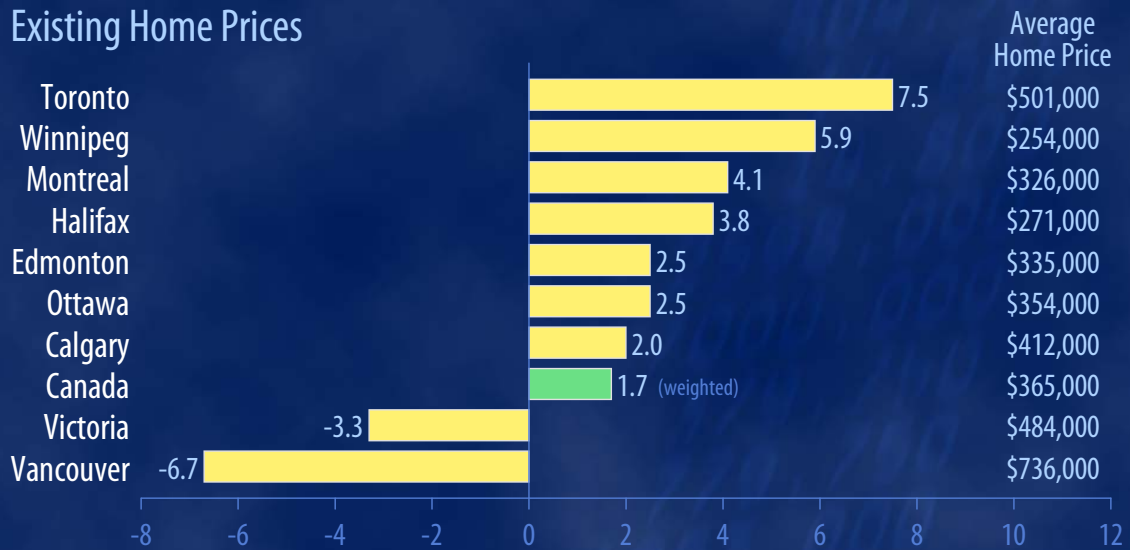
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Canadian House Prices: Vancouver Manoeuvre

Canada (y/y % chng : January-October 2012)

Existing Home Prices



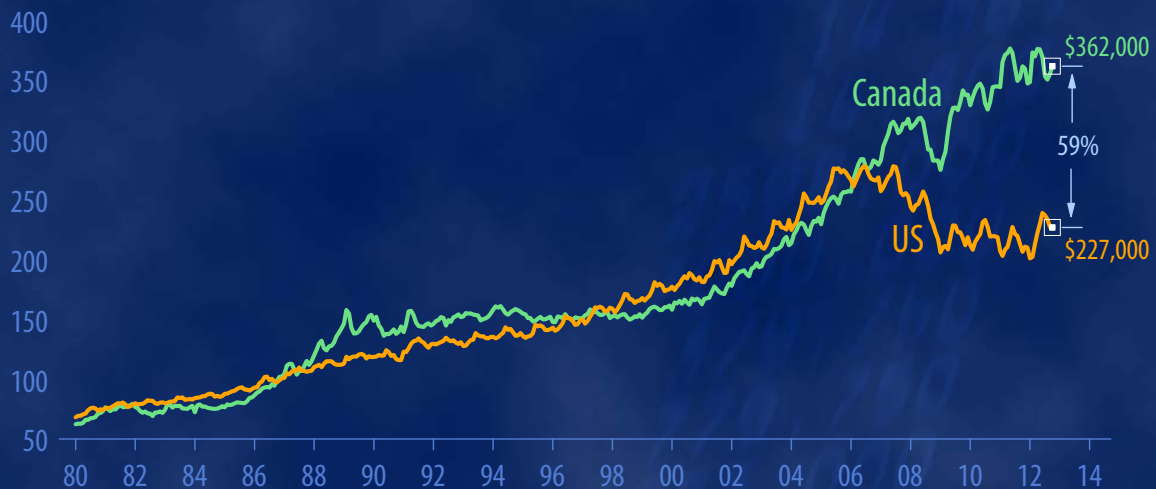
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Bargain Hunters Take Note (and a Passport)

(\$000s : local currency : nsa)

Average Home Price



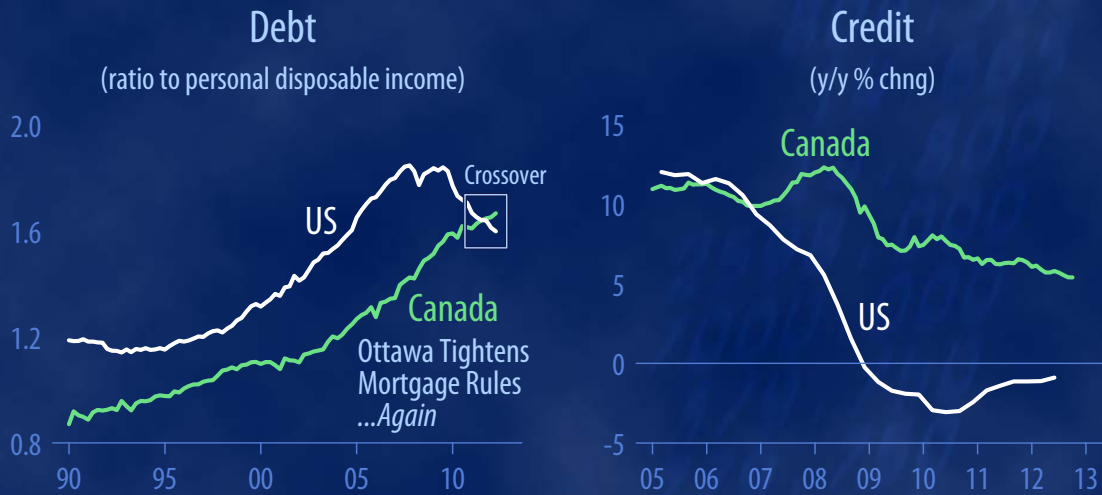
US = single-family homes

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Canadian Consumers: Still Borrowing

Households



Debt Burdens Now Similar

Household Debt includes household and unincorporated business debt Household Credit = Consumer Credit and Residential Mortgages

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Is the Commodity "SuperCycle" Over?



- China Slowing
- US Growing
- Middle East Turmoil
- European Risk

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Loonie and Commodities: Ties Loosen

Canada (as of November 27, 2012)

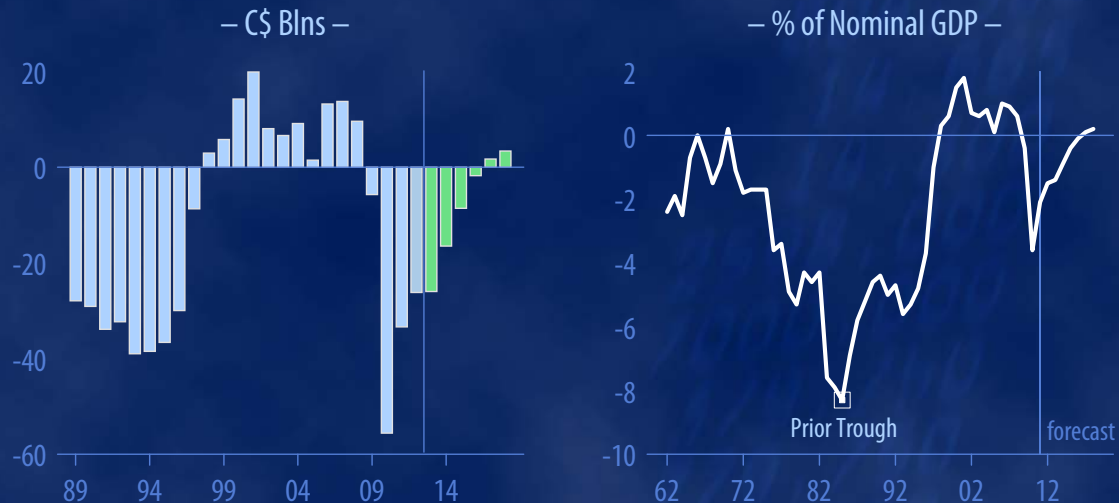


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Ottawa's Finances Better

Federal Budget Balance – Canada



Deficit Elimination Plan Knocked Back One Year

Source: Federal Fiscal Update

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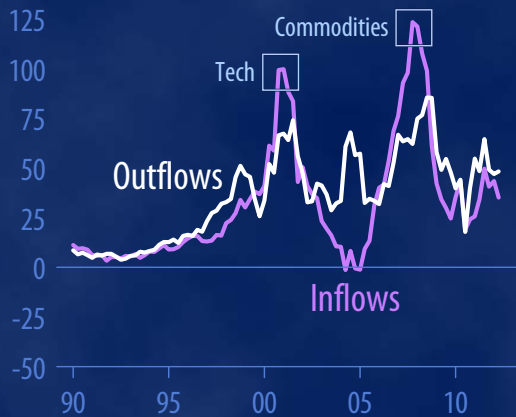
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Capital Inflows Cool Slightly

Canada (C\$ blns)

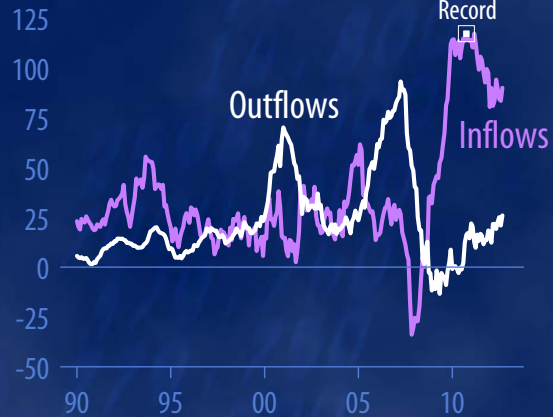
Direct Investment Flows

(4-qtr ms)



Portfolio Investment Flows

(12-mnth ms)

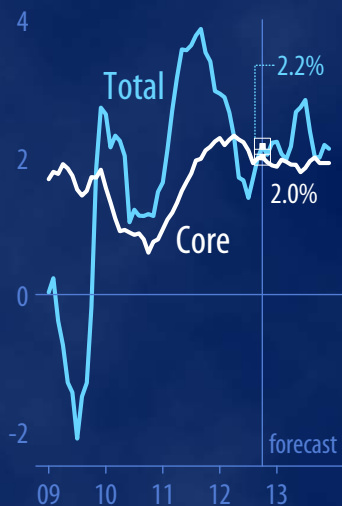


Mostly Fixed Income

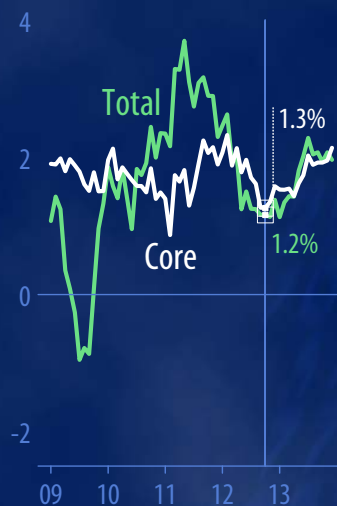
Inflation Easing

Consumer Price Index (y/y % chng)

United States

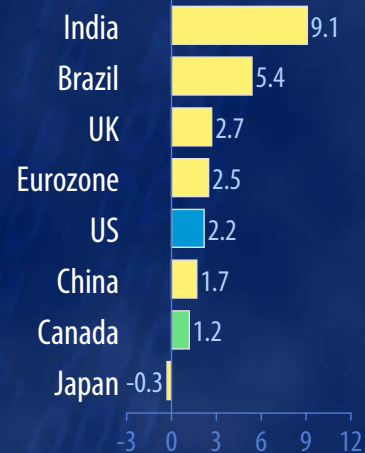


Canada



Total CPI

(latest month)



What Does this Mean for Interest Rates?



Overnight Rates: Low for Long

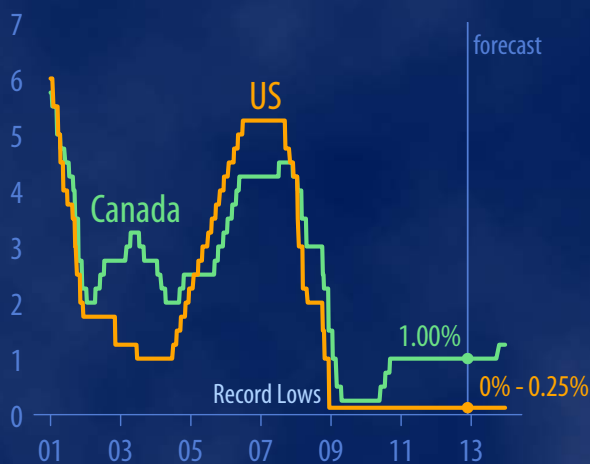
Loonie Stays Strong

Bond Yields: Record Lows

Interest Rates: Low for Longer

(% : as of November 27, 2012)

Overnight Rate

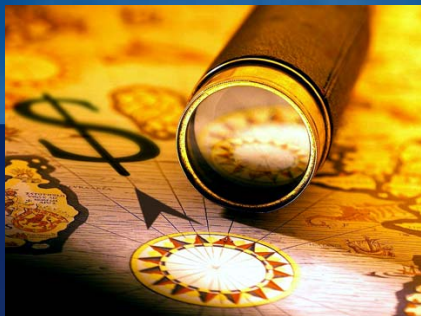


US at Zero for 7 Years?

10-year Bonds



Historic Lows



Canadian Outlook: Challenges & Opportunities

Challenges:

- Global Government Debt
- Strong C\$
- High Household Debt
- Demographics

Opportunities:

- Emerging Economy Demand
- Foreign Investment Inflows
- Strong Corporate Balance Sheets
- Low Borrowing Costs

Stop and Start Expansion