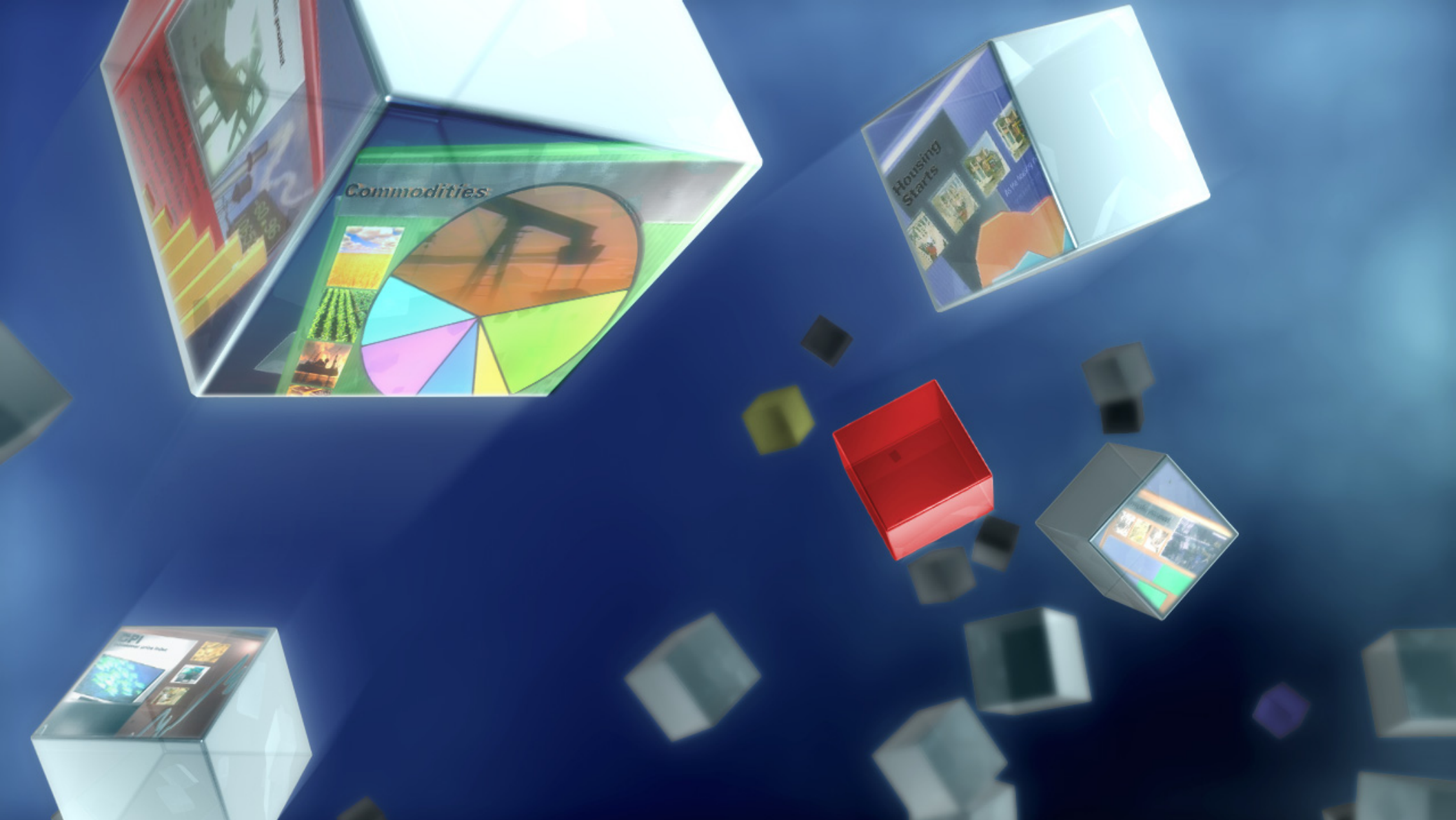


# Global turmoil: Canadian implications

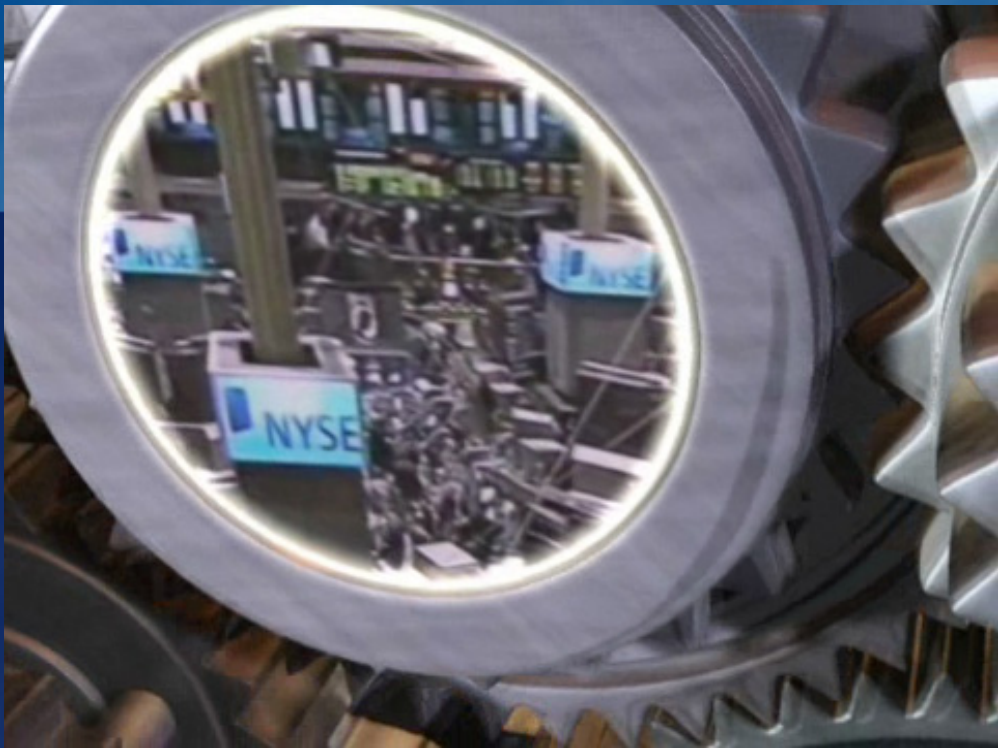
Douglas Porter, CFA Deputy Chief Economist & Managing Director, BMO Capital Markets



# Financial market turmoil

United States – 2008 (as of October 21, 2008)





# Economic outlook weak

US recession risk

G-7 recession risk

Credit crunch

Interest rates fall

Oil prices fall

**Wall Street landscape radically changed**



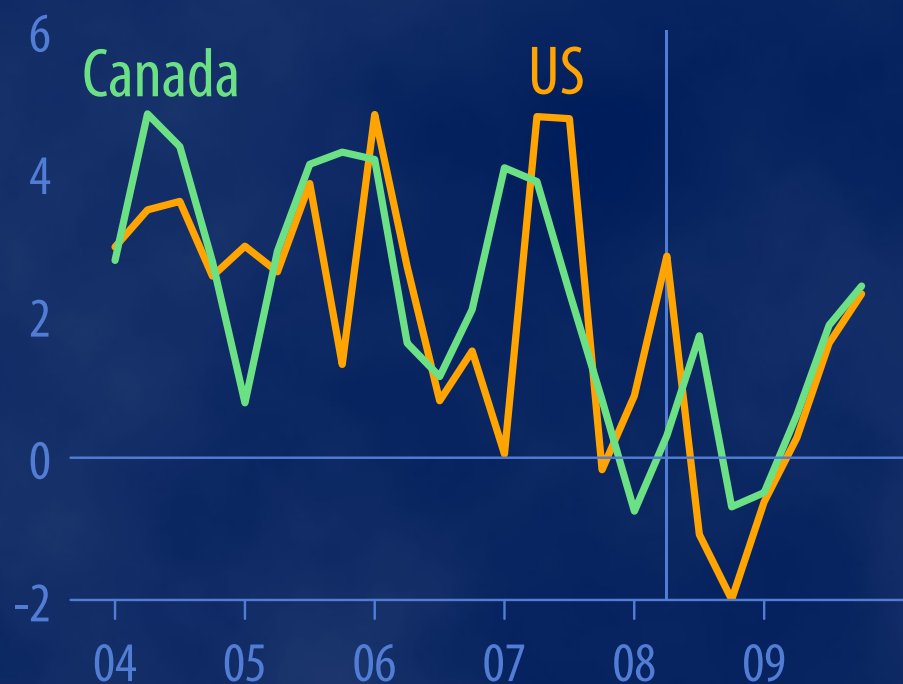


# Growth brakes

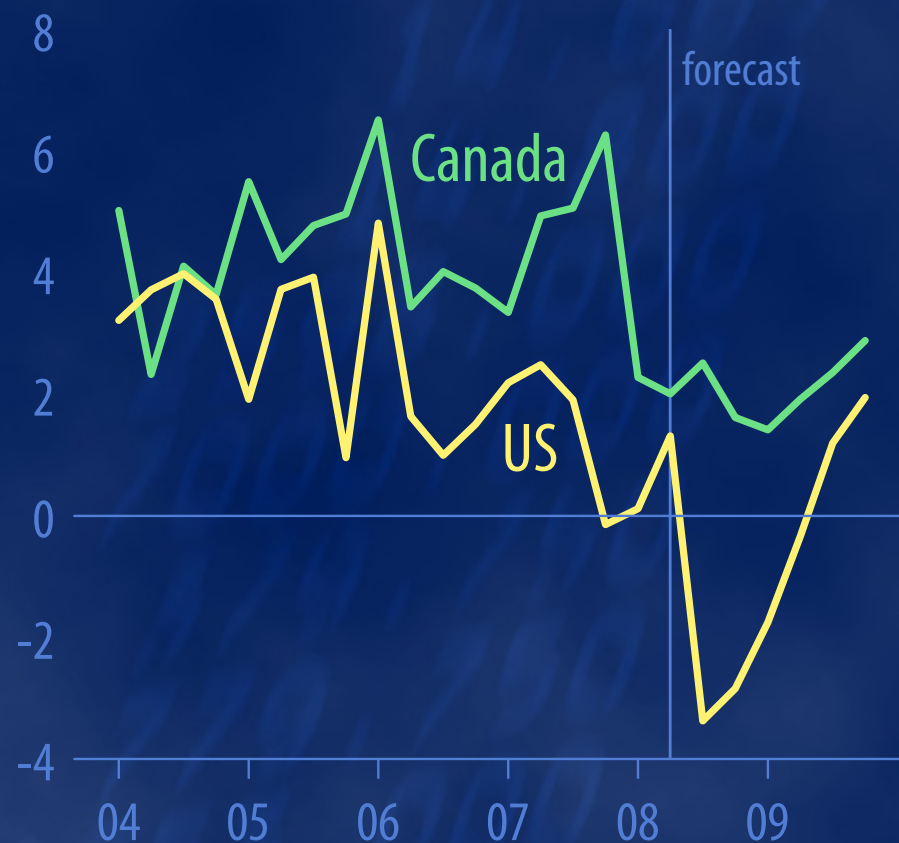
(q/q % chng : ar)

|        | 07  | 08  | 09   |
|--------|-----|-----|------|
| Canada | 2.7 | 0.7 | 0.5  |
| US     | 2.0 | 1.3 | -0.1 |

## Real GDP



## Final domestic demand

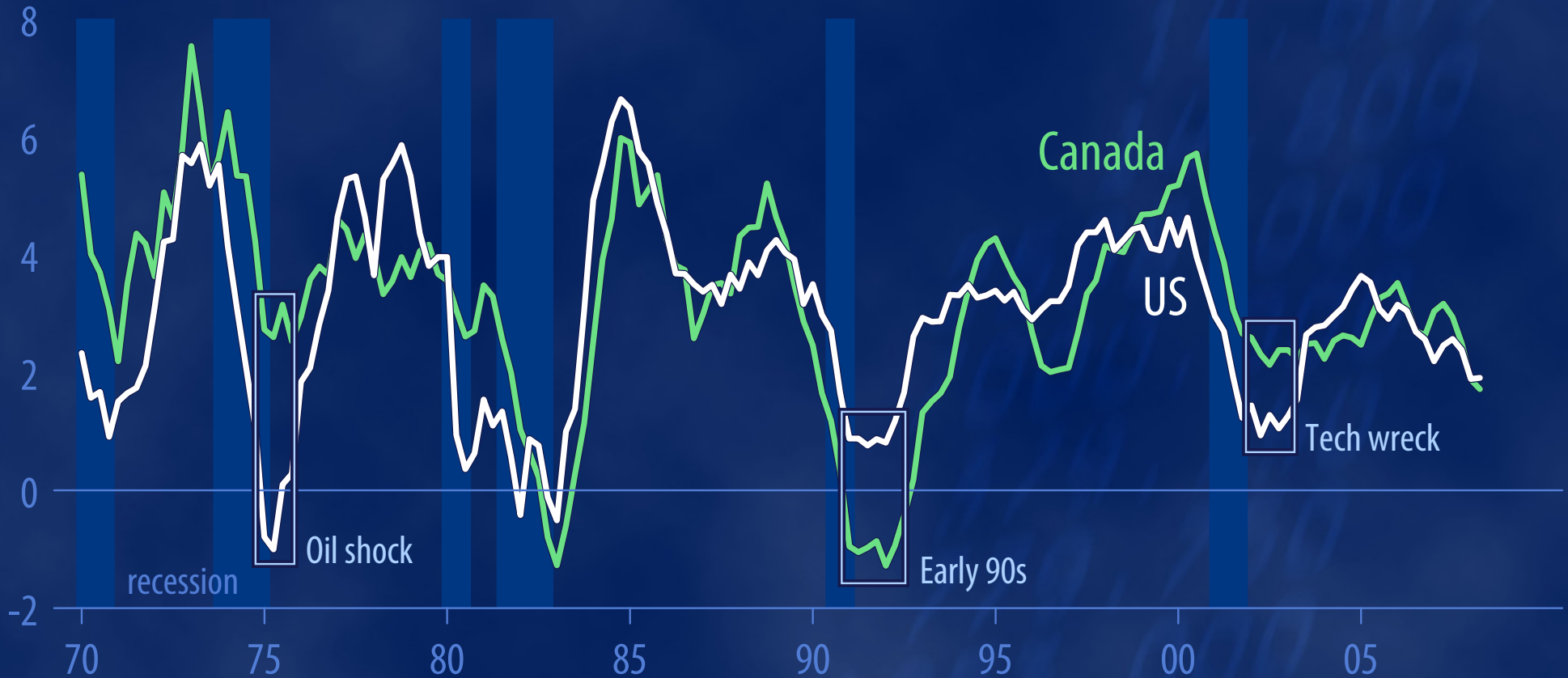


Final domestic demand = Real GDP less net exports and inventories

# US and Canada: Similar, not identical

(2-yr % chng : annualized)

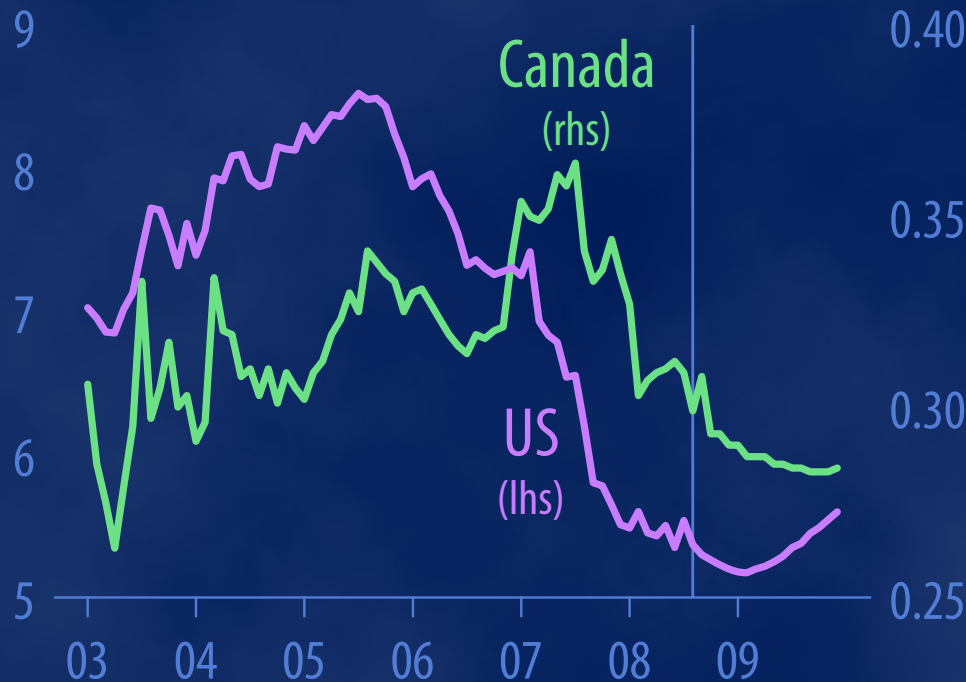
## Real GDP



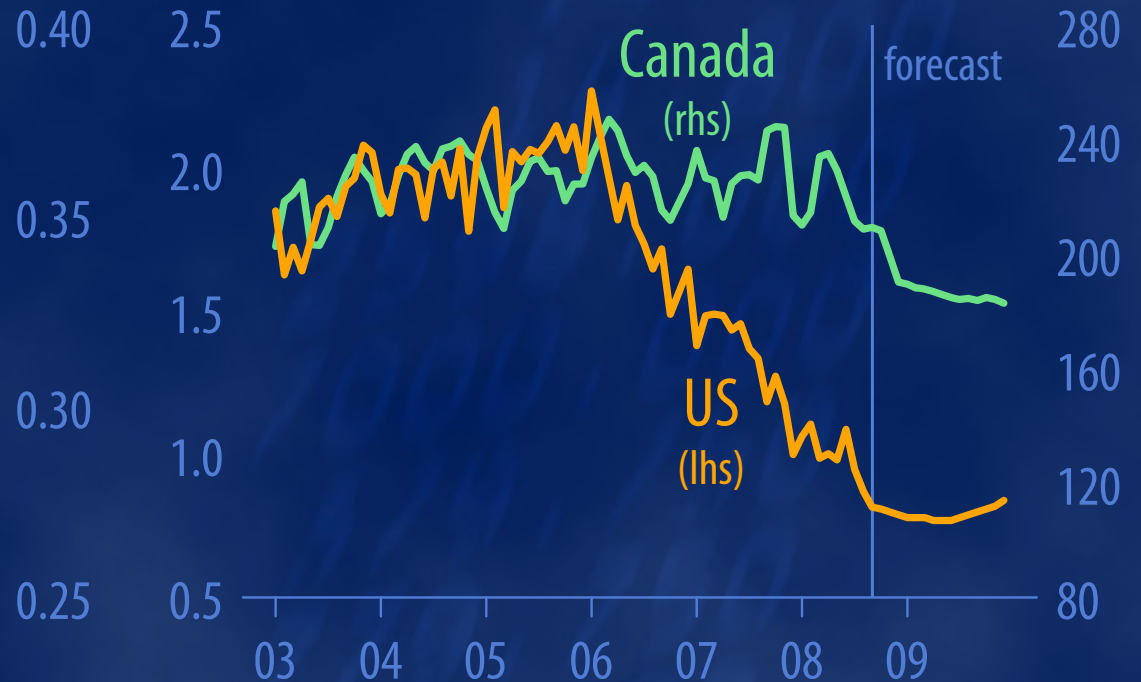
# US housing contracts deeply

(annual rates)

## Home sales (mlns)



## Housing starts



## Canadian housing slowing

Home sales: Canada = Existing US = Existing + new

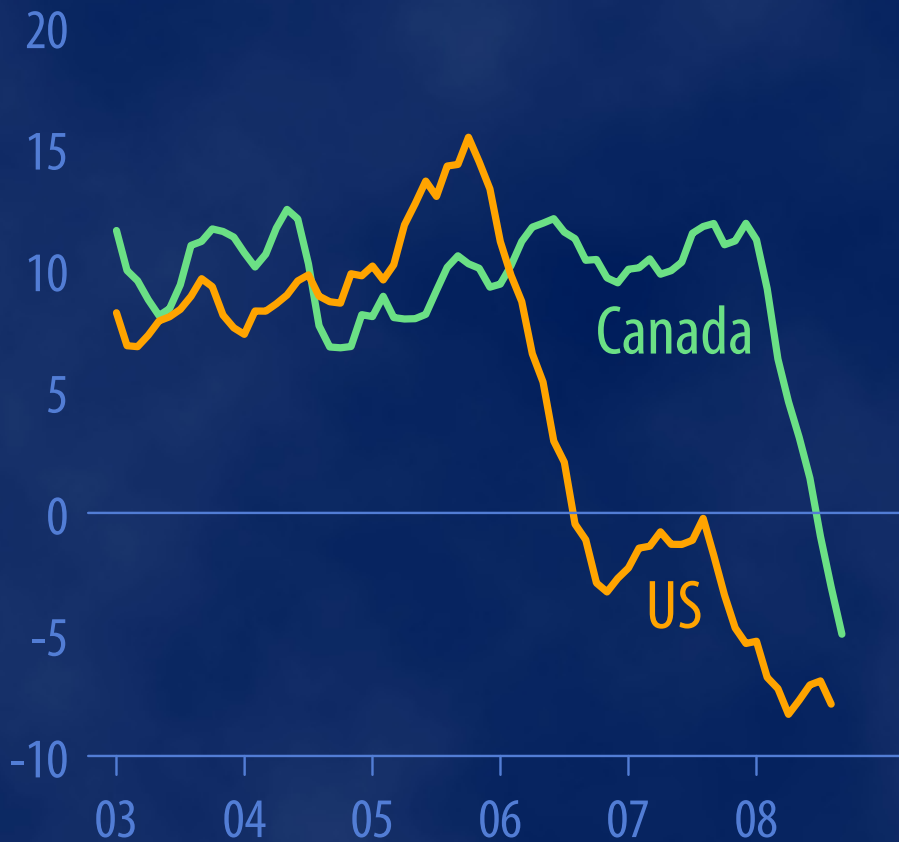
Housing starts: Canada = (000s : 3-mnth ma) US = (mlns)



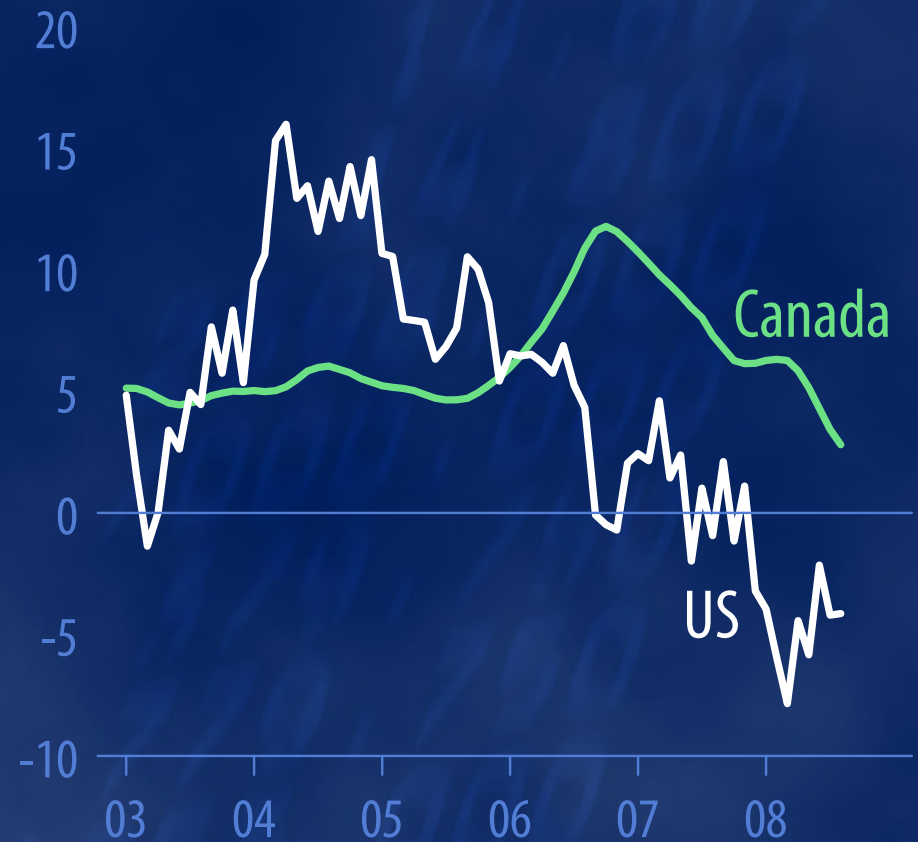
# Home price declines: Now playing in Canada?

Home prices (y/y % chng : 3-mnth ma)

Existing



New

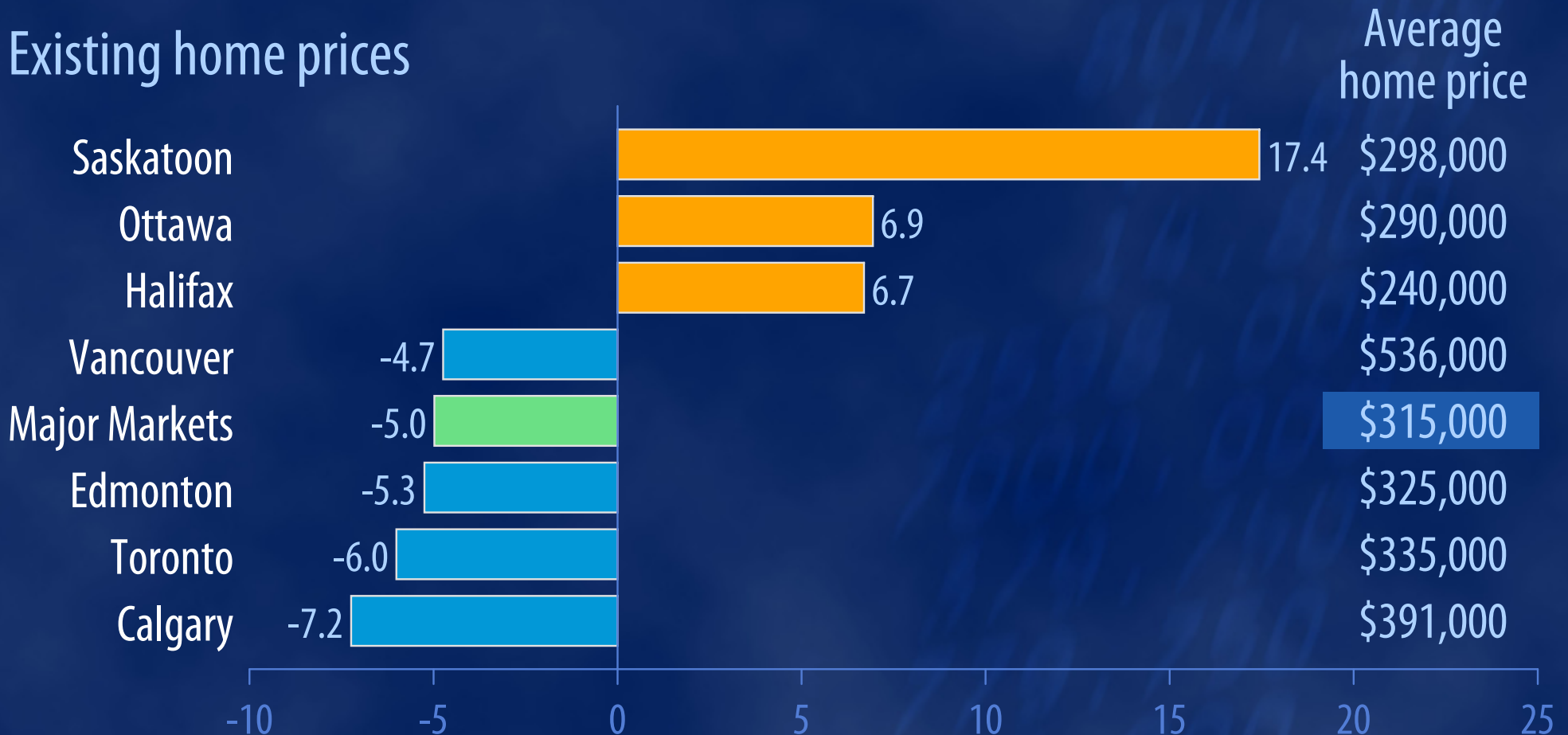




# Home price slowdown spreads

Canada – Major markets (3-mnth avg : y/y % chng : as of latest month)

Existing home prices



**Sales activity falling**



# US consumers worried



Housing collapse

Energy and food prices still high

Job uncertainty

Stocks weak

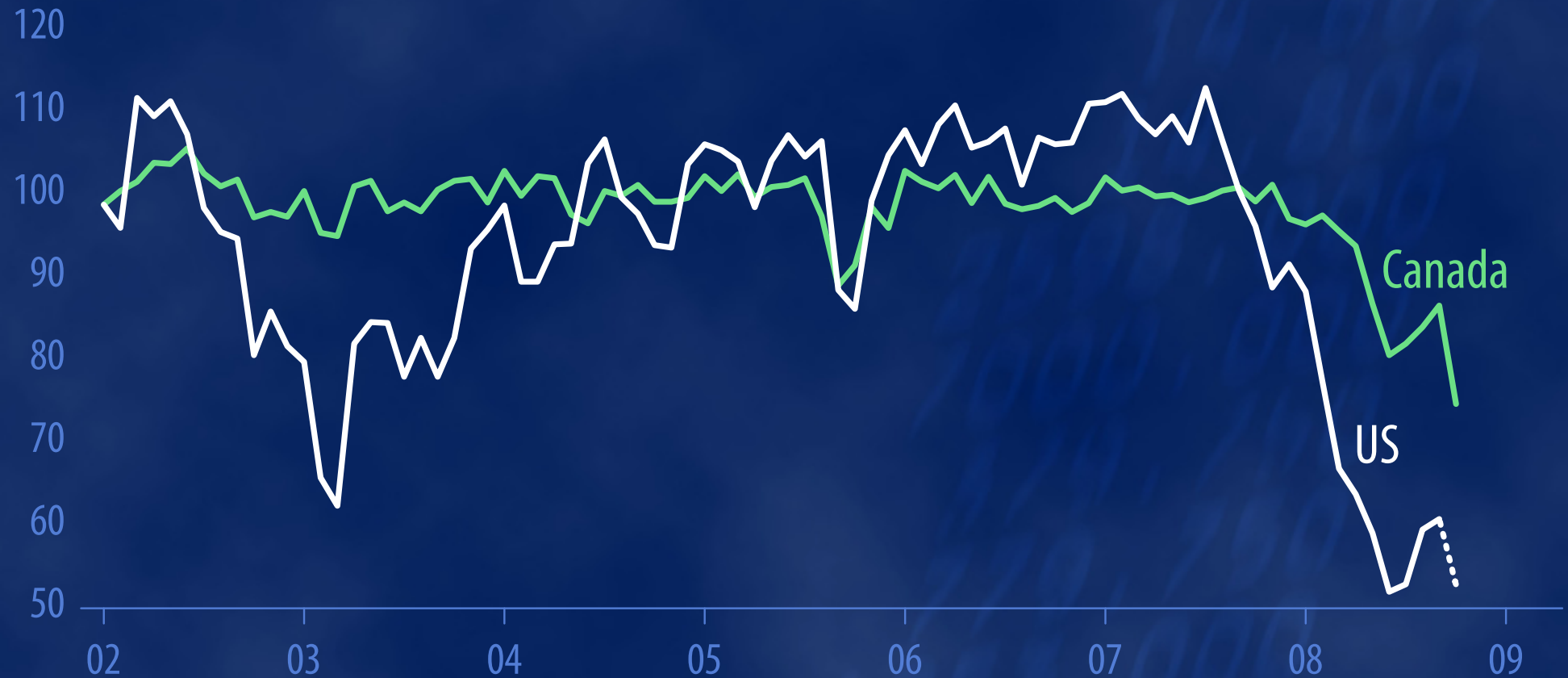
Credit tight

**Rebate cheques  
were little help**

# Canadian consumer confidence looks south

Conference Board

Consumer confidence indices

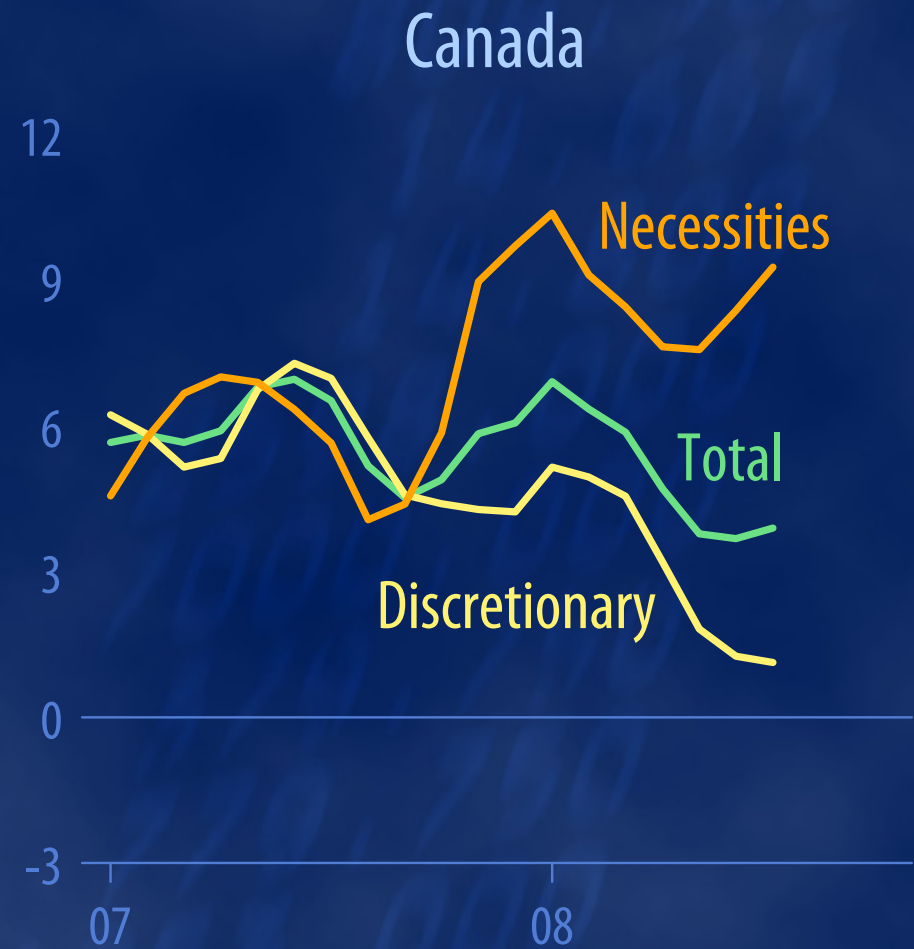
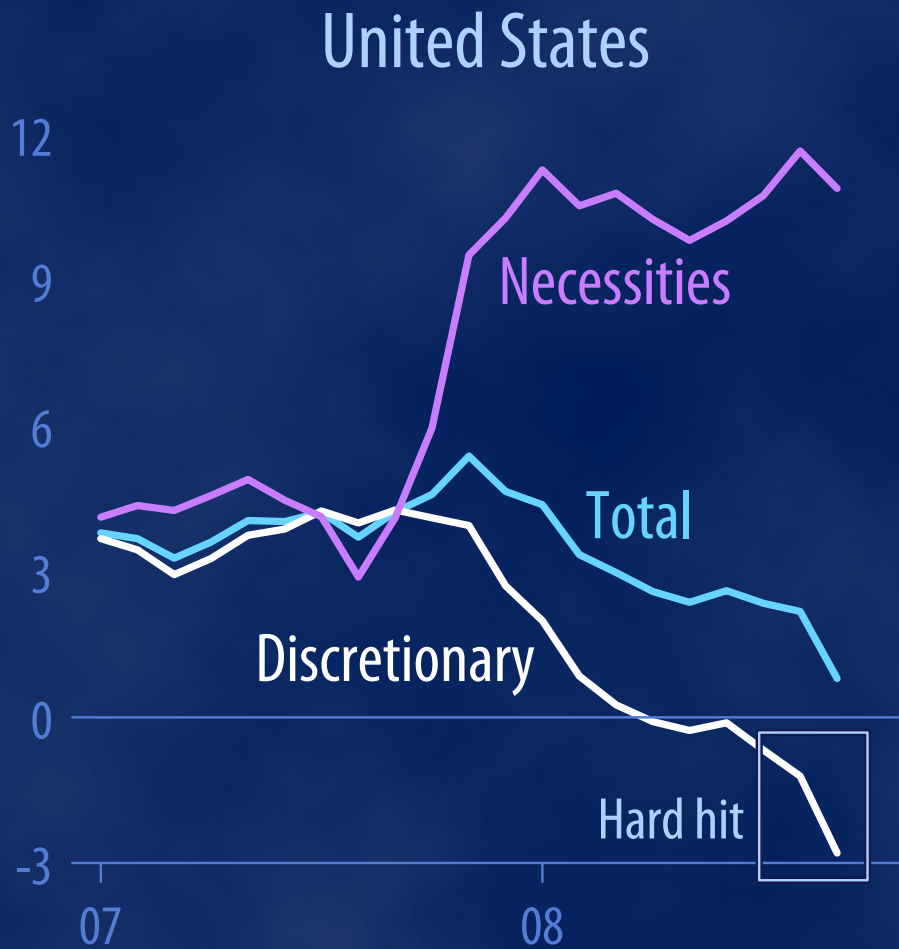


US: October 2008 = estimate



# Retail sales: Composition of spending

Retail sales (3-mnth ma : y/y % chng)



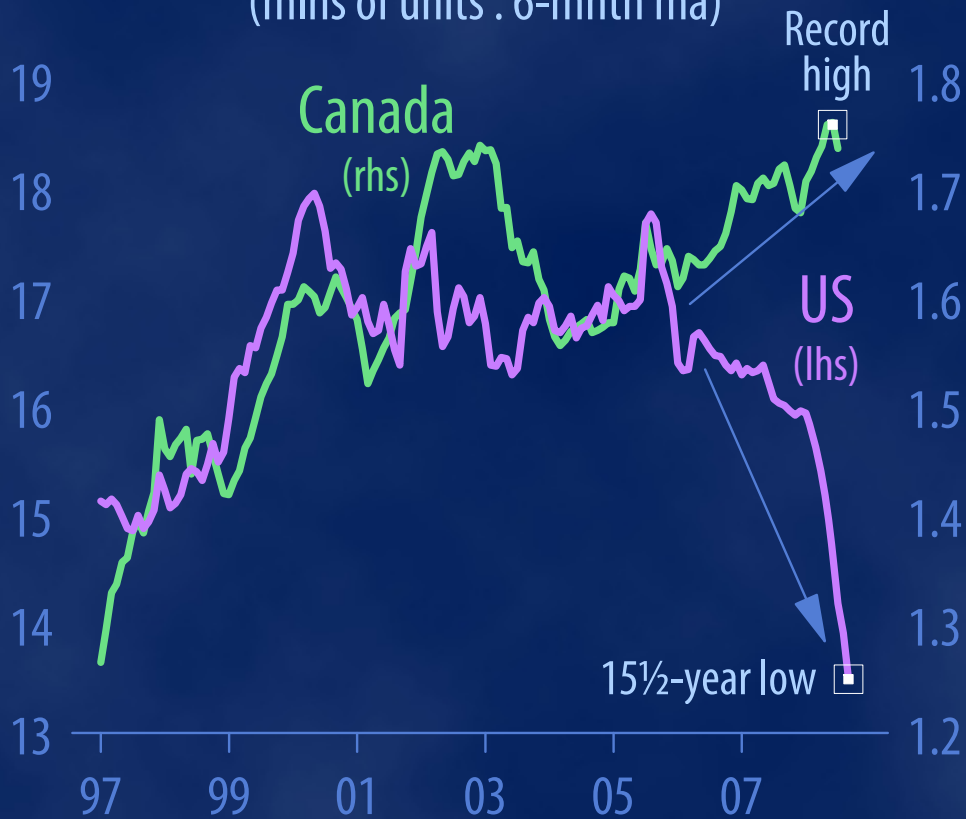
Necessities = food, health care, gas



# Separate ways

## Light vehicle sales

(mlns of units : 6-mnth ma)



## Employment rate

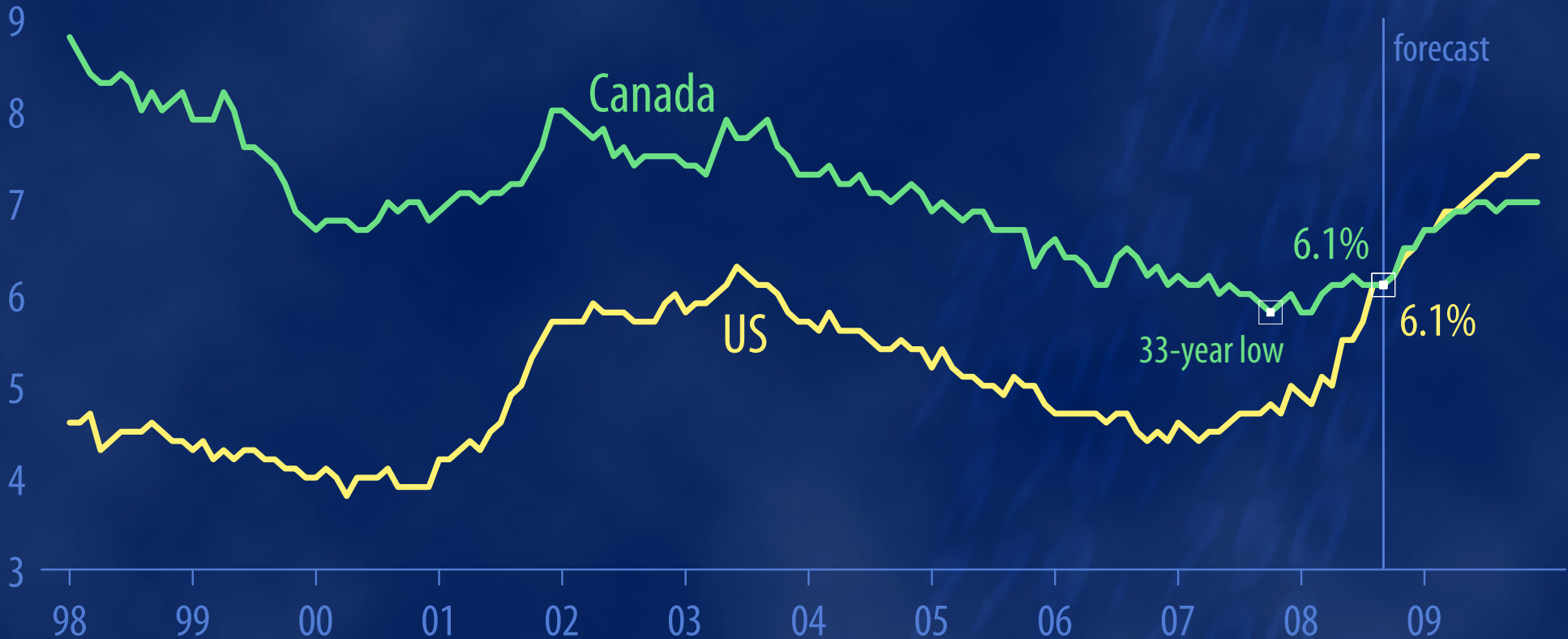
(employment as % of population)



# Unemployment rates: Convergence

(percent)

## Unemployment rates



**First time since February '82**

# Where is the job growth?

Canada (2-yr % chng : as of September 2008)

## Employment



Public sector: 7.7% Private sector: 2.6%

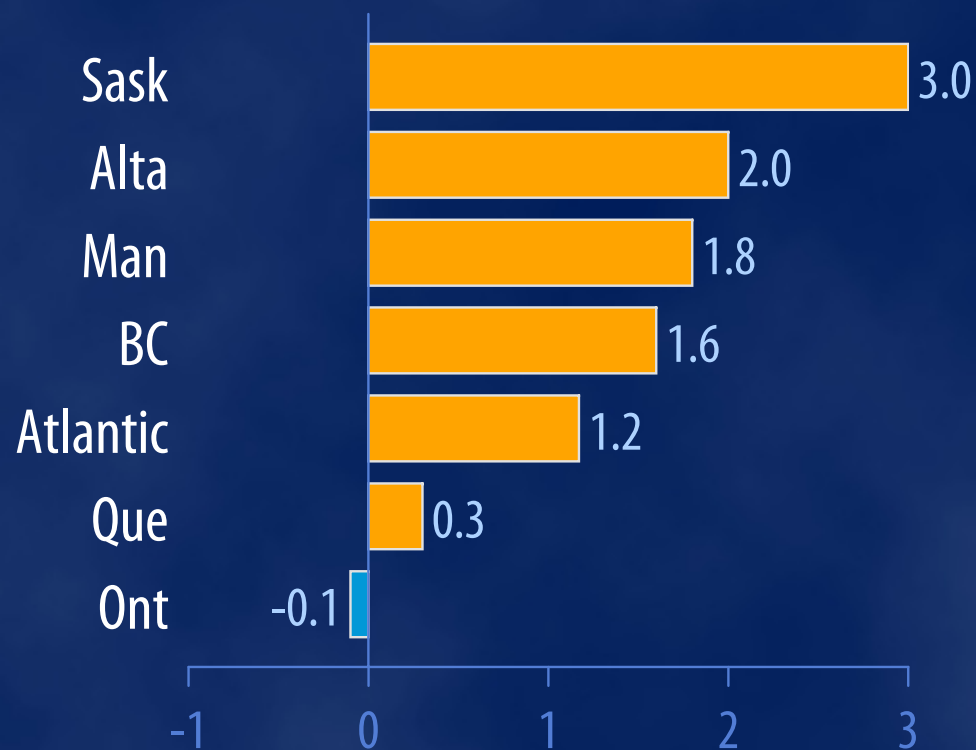


# Ontario recession risk

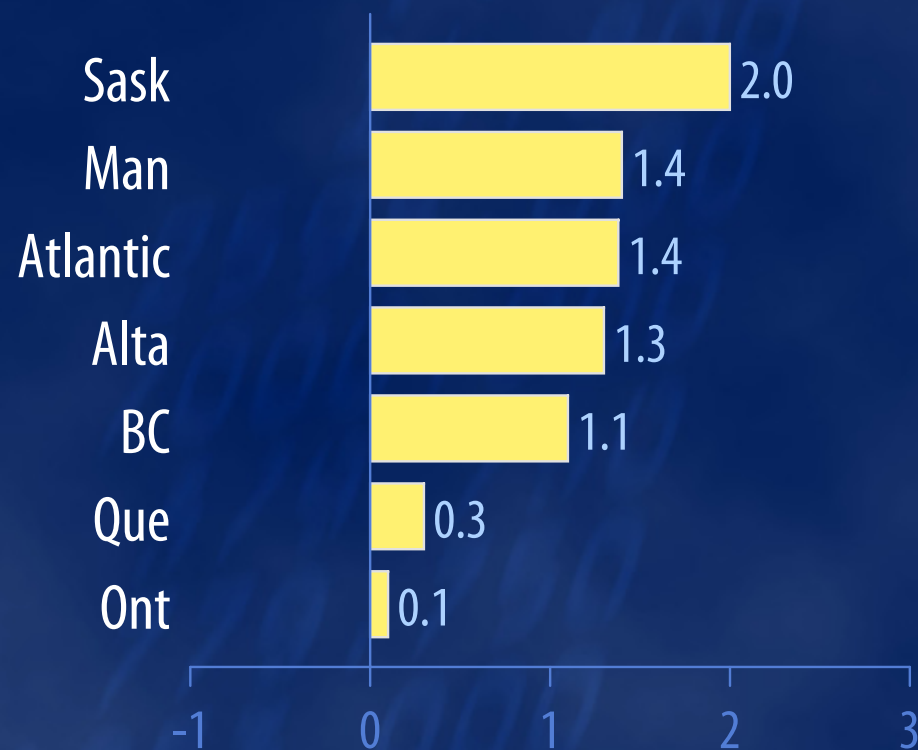
Real GDP – Canada (y/y % chng)

|        | 07  | 08  | 09  |
|--------|-----|-----|-----|
| Canada | 2.7 | 0.7 | 0.5 |

2008



2009



Source: BMO Capital Markets forecasts

# Ontario manufacturing jobs hit by C\$

Canada



Ontario manufacturing employment = (000s : lhs)

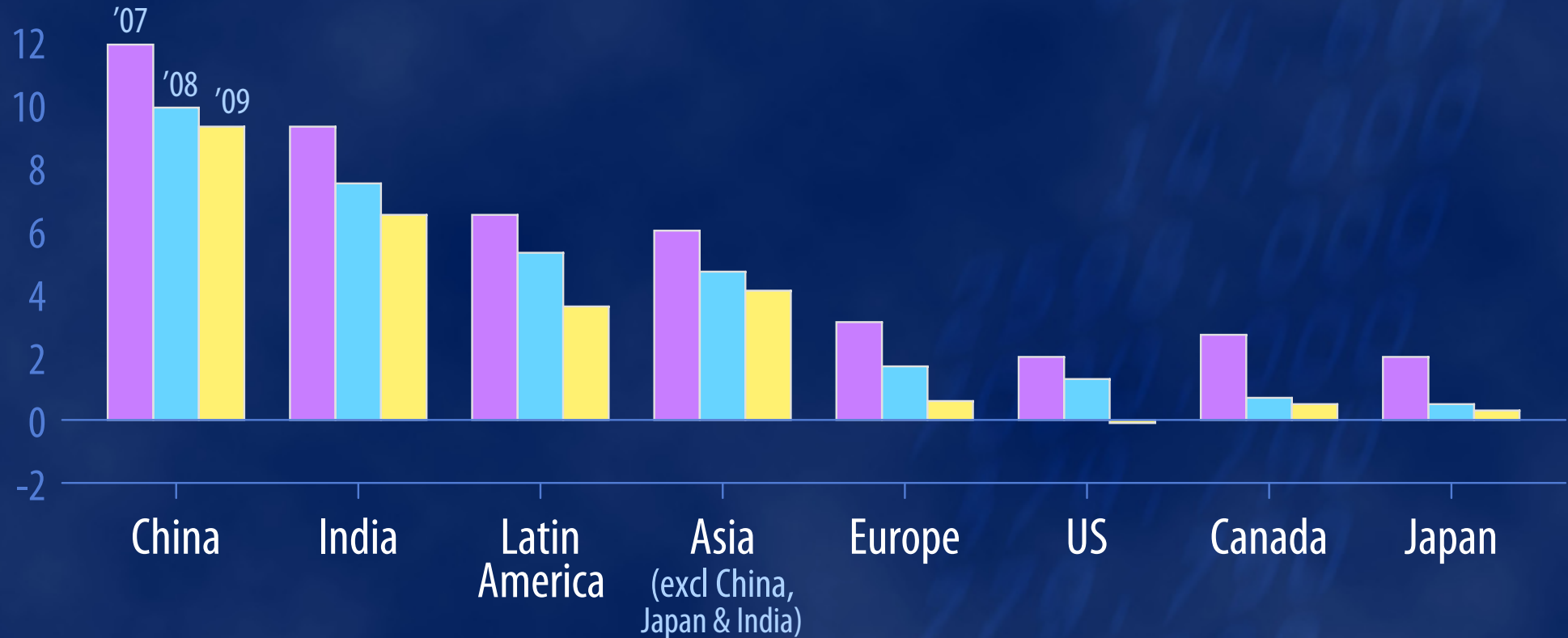
C\$ = (C\$/US : 24 months lead : rhs)



# Global growth chills

(ann % chng)

Real GDP



|       | 07  | 08  | 09  |
|-------|-----|-----|-----|
| World | 4.9 | 3.7 | 2.8 |

## Emerging markets also slow

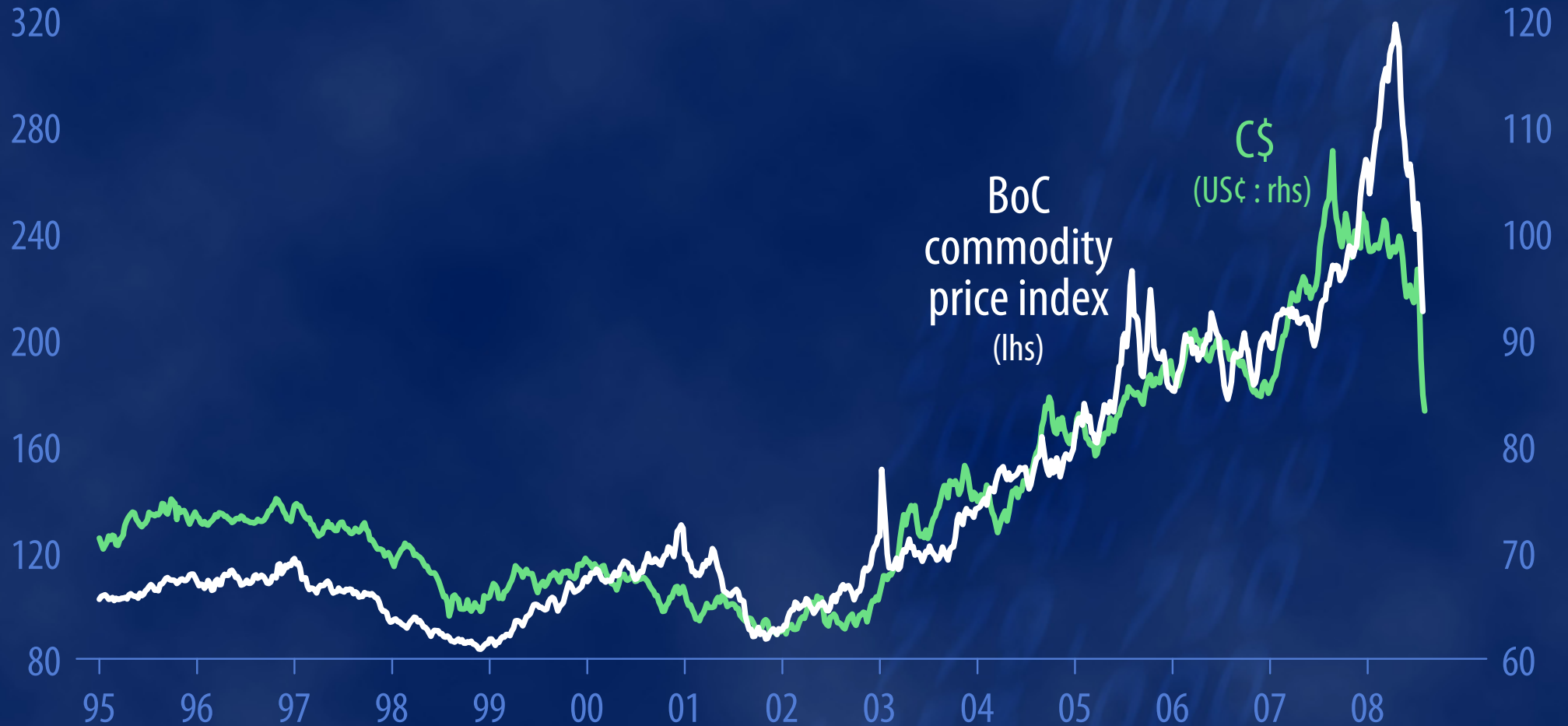
Ranked by '08

Source: [2008 & 2009] BMO Capital Markets forecasts



# Loonie flies after commodity prices

Canada

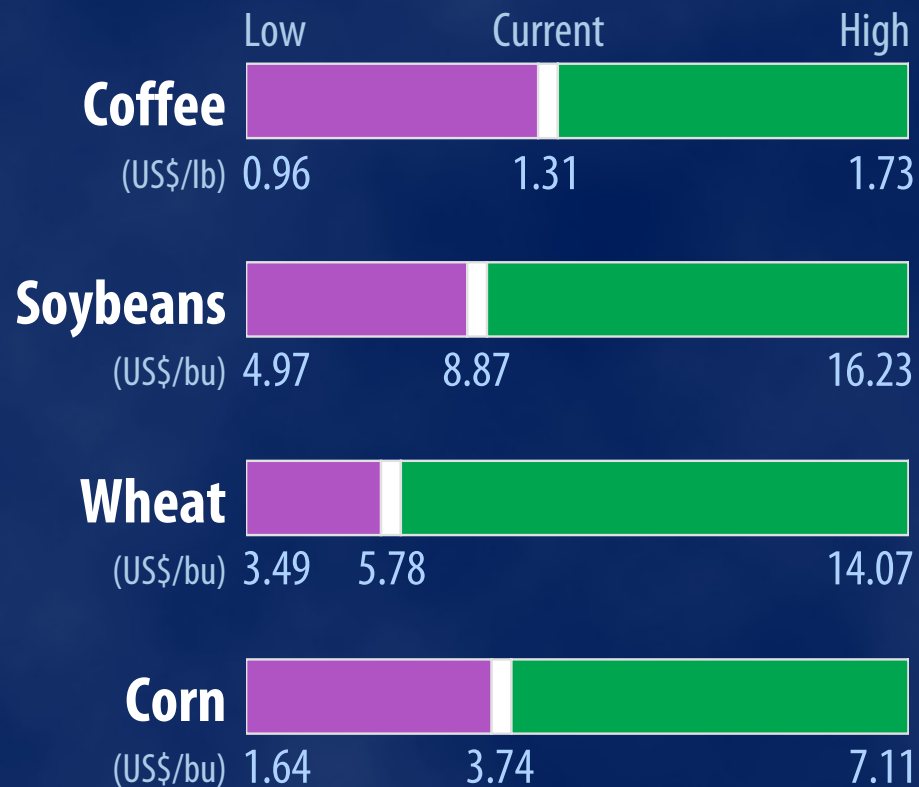


# Commodity price pullback

Commodity price range (since January 2005)

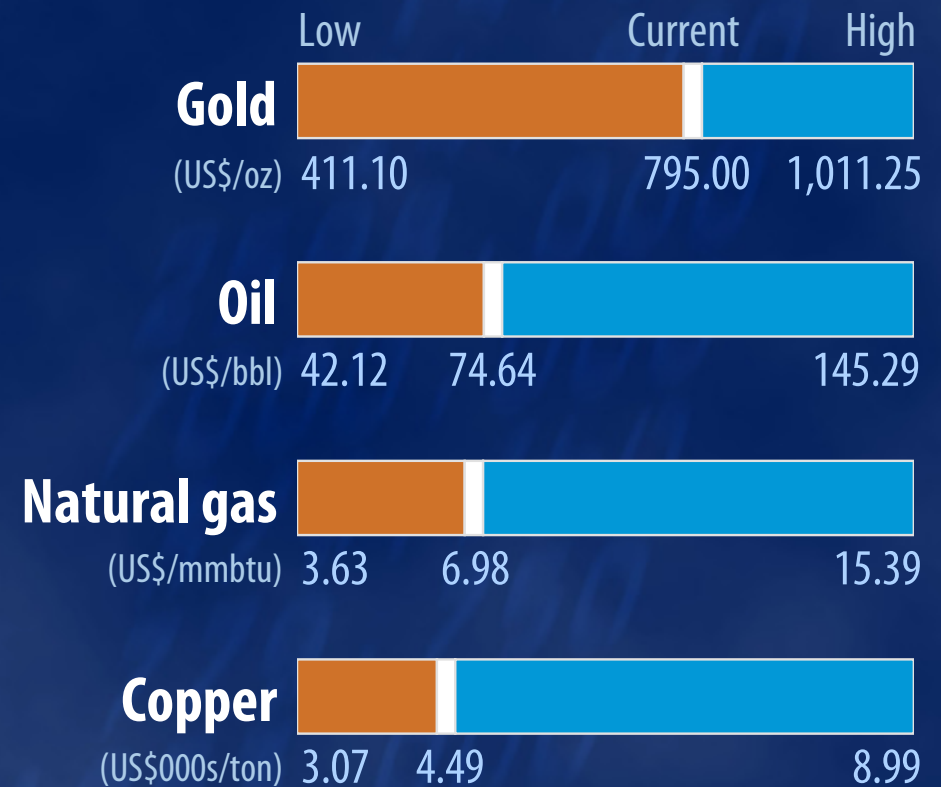
## Foodstuffs

(as of October 20, 2008)



## Metals & energy

(as of October 21, 2008)



# Real commodity prices: Long-term view

(ratio)

## Commodity prices-to-US CPI



Commodity prices = FIBER Industrial Materials Index

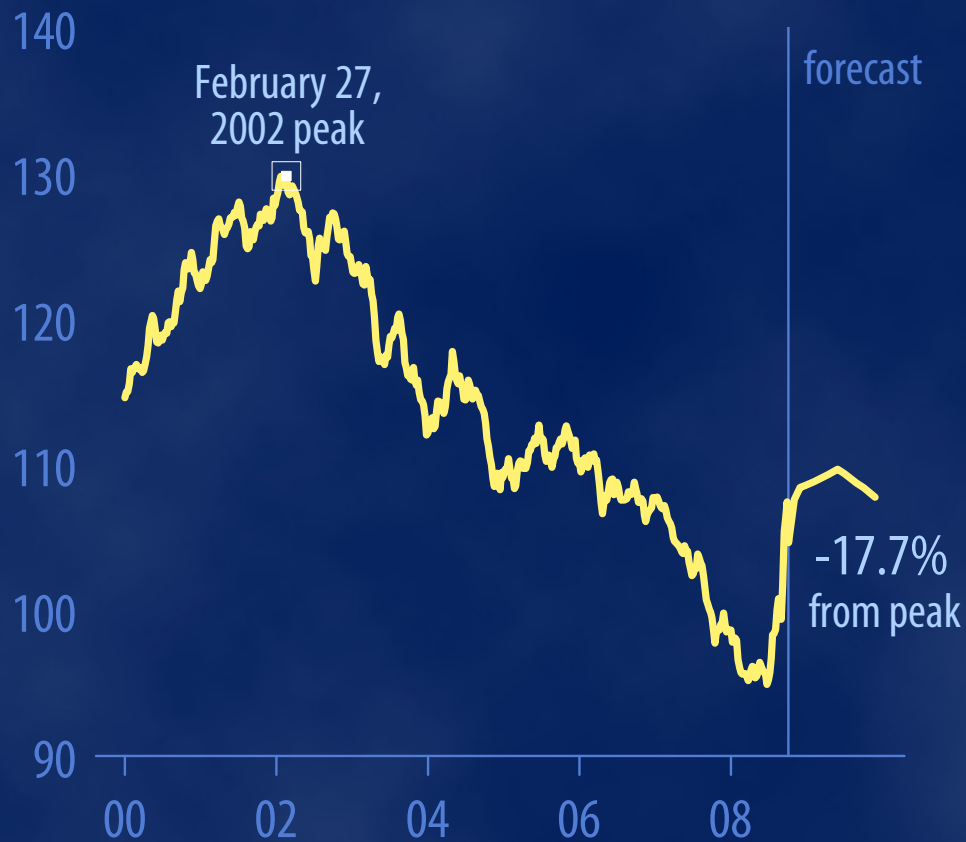
October 2008 = estimate



# US dollar off the bottom

(as of October 21, 2008)

## Broad trade-weighted US\$

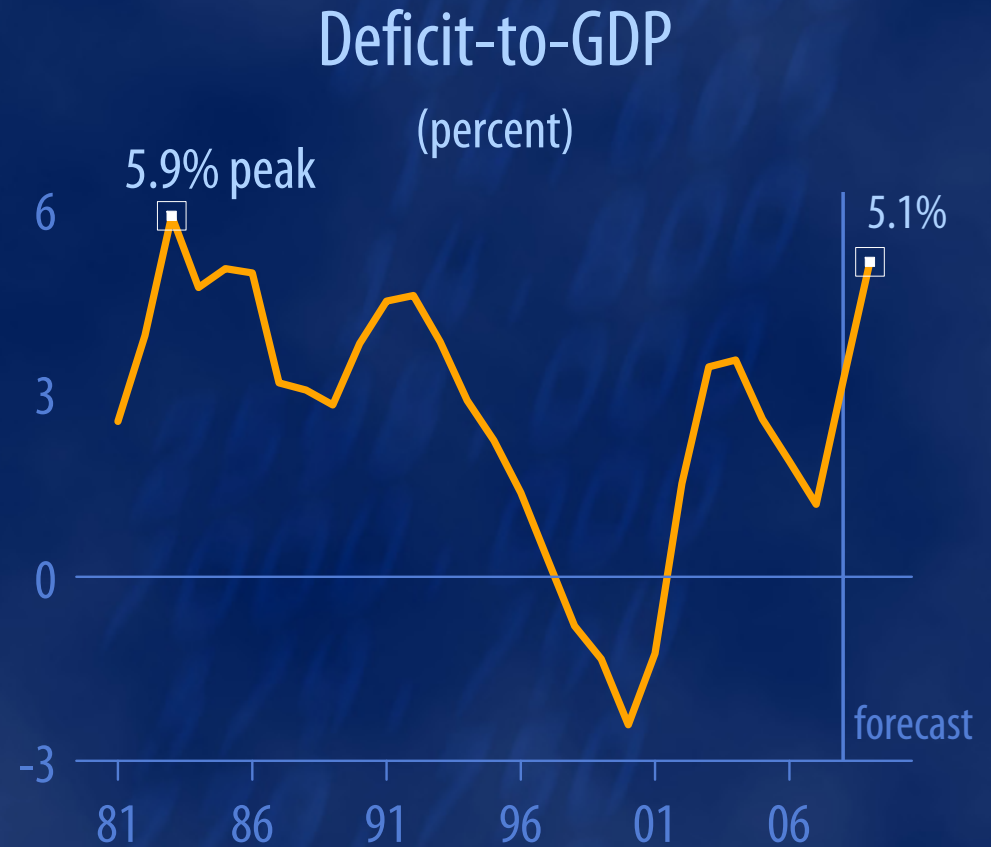
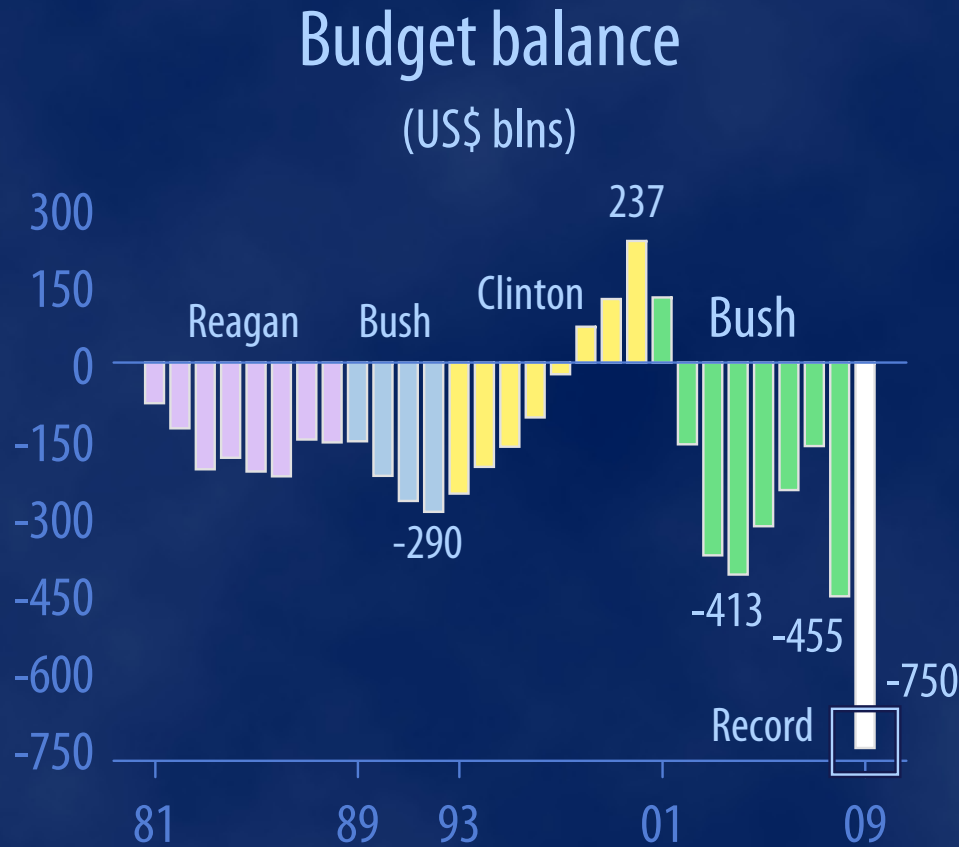


| % Chng (vs US\$) | Feb '02 peak to present | 2008 y-t-d |
|------------------|-------------------------|------------|
| Euro             | 52.5                    | -9.8       |
| Swiss franc      | 48.0                    | -1.9       |
| Yen              | 33.6                    | 10.8       |
| Canadian \$      | 32.8                    | -18.4      |
| Australian \$    | 32.5                    | -22.1      |
| Chinese yuan     | 21.2                    | 6.8        |
| UK pound         | 20.0                    | -14.3      |
| Mexican peso     | -31.6                   | -17.9      |



# US budget shortfall headed for record high

United States



## Next President faces huge constraints and unpopular decisions

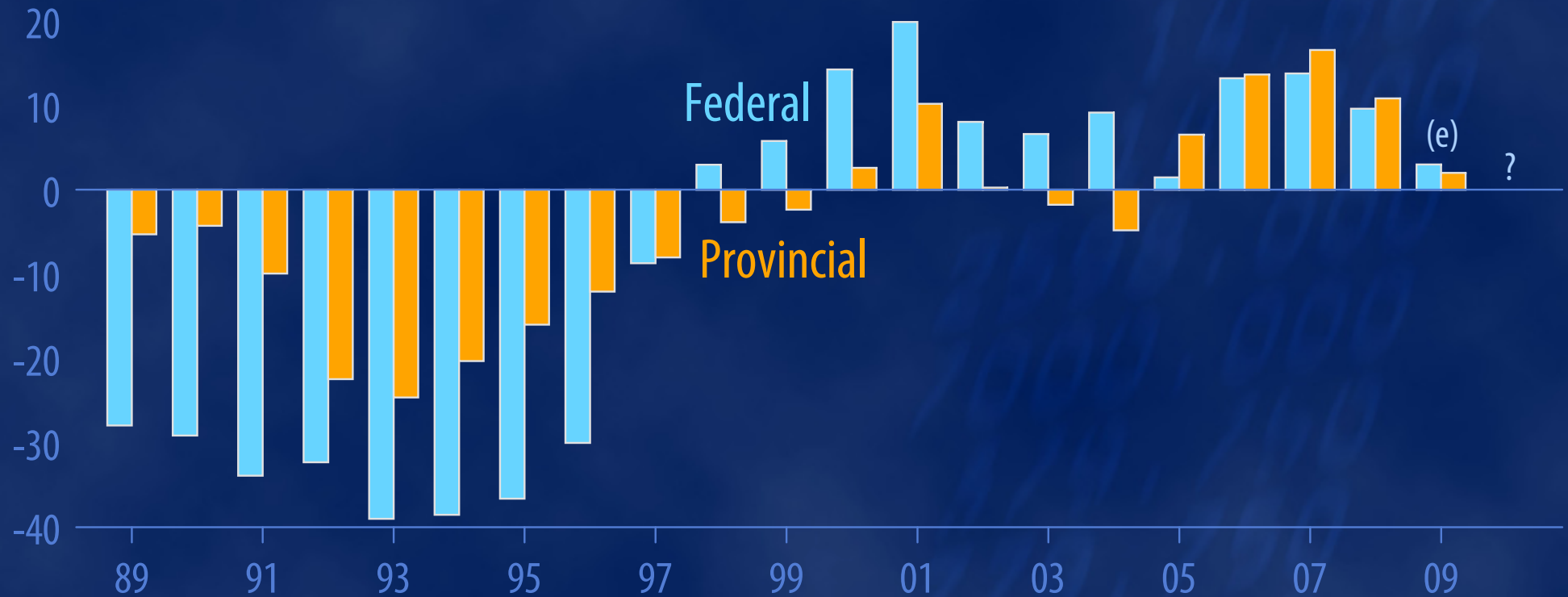
2009 = BMO Capital Markets forecast



# Canada: Still in surplus, for now

Canada (\$ blns)

Government budget balances



## End of an era?

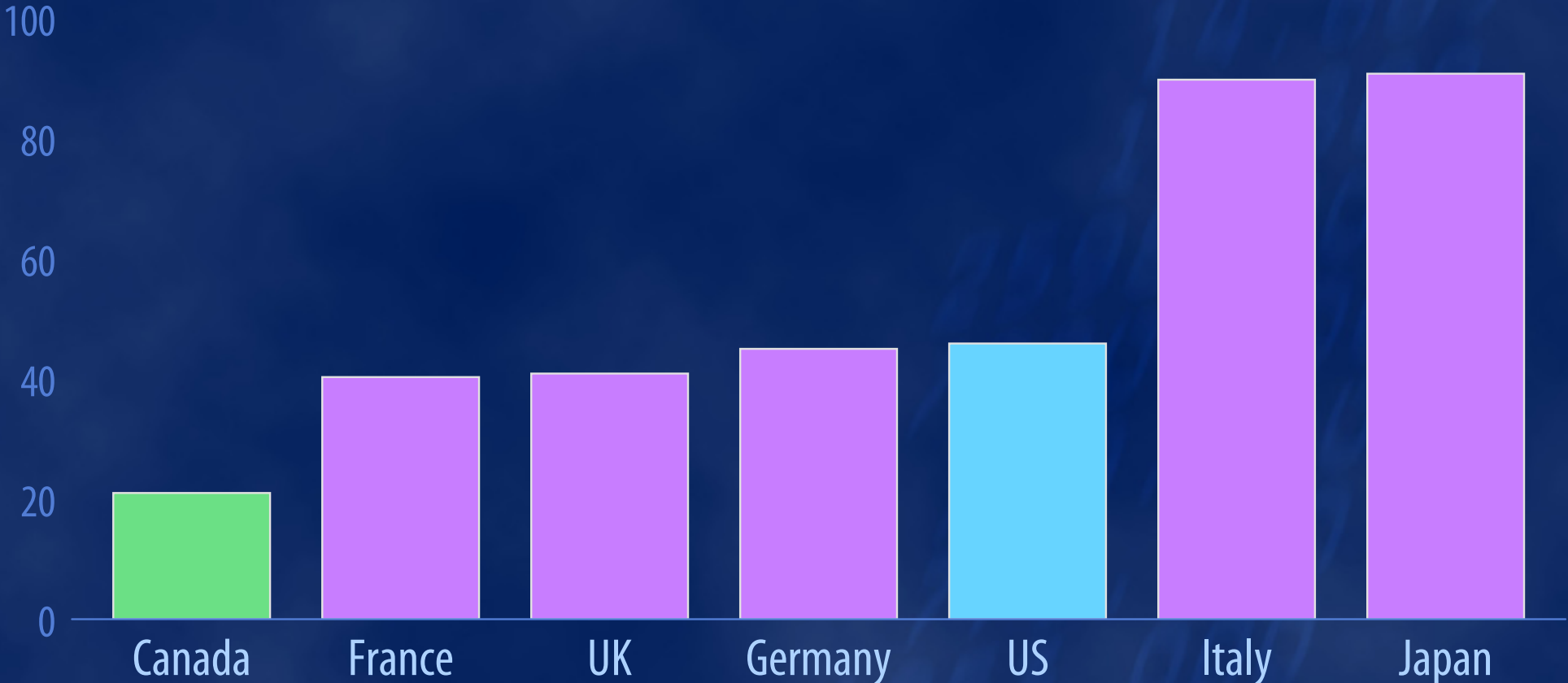
(e) = estimate



# Canada's fiscal fitness

G-7 – 2008 (% of GDP)

## Total government net debt



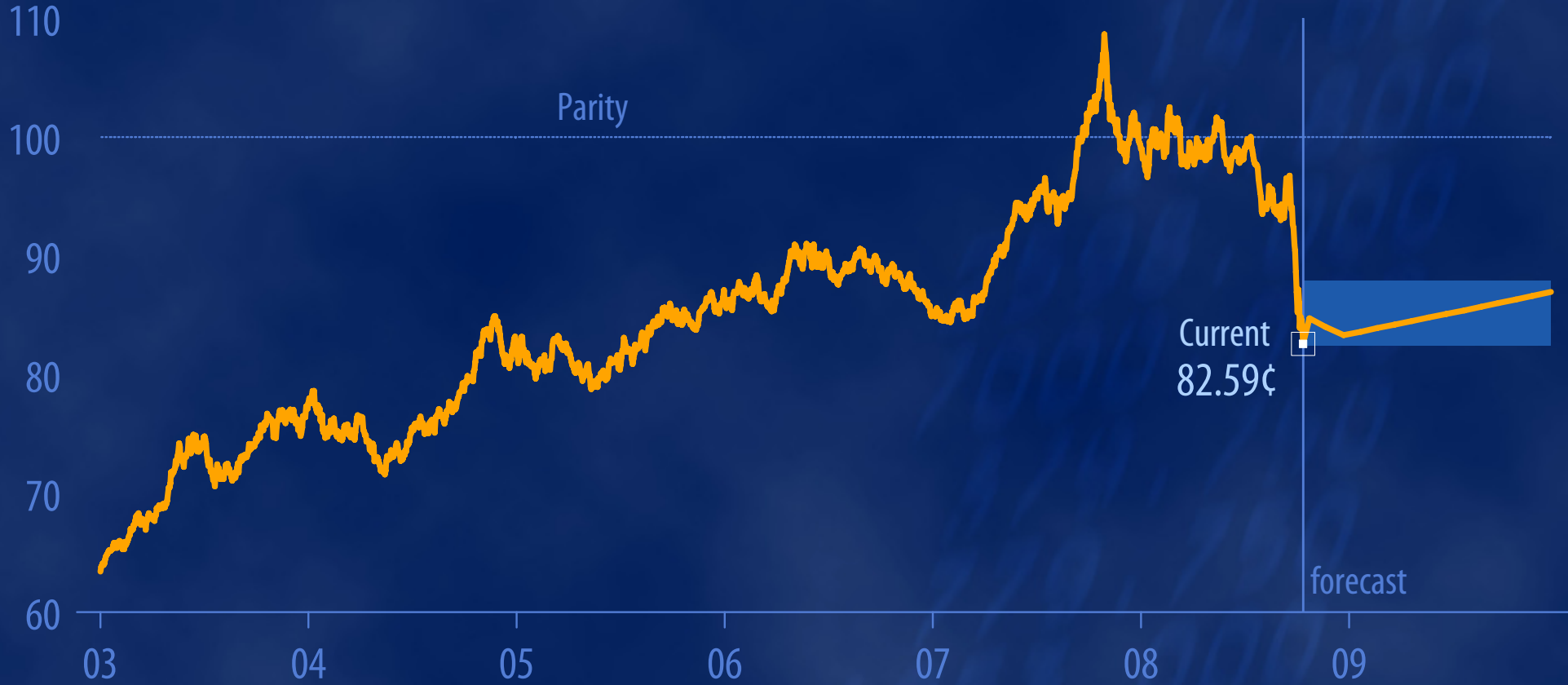
Sources: OECD



# Loonie weakens with economy and commodity prices

(US¢ : as of October 21, 2008)

## Canadian dollar

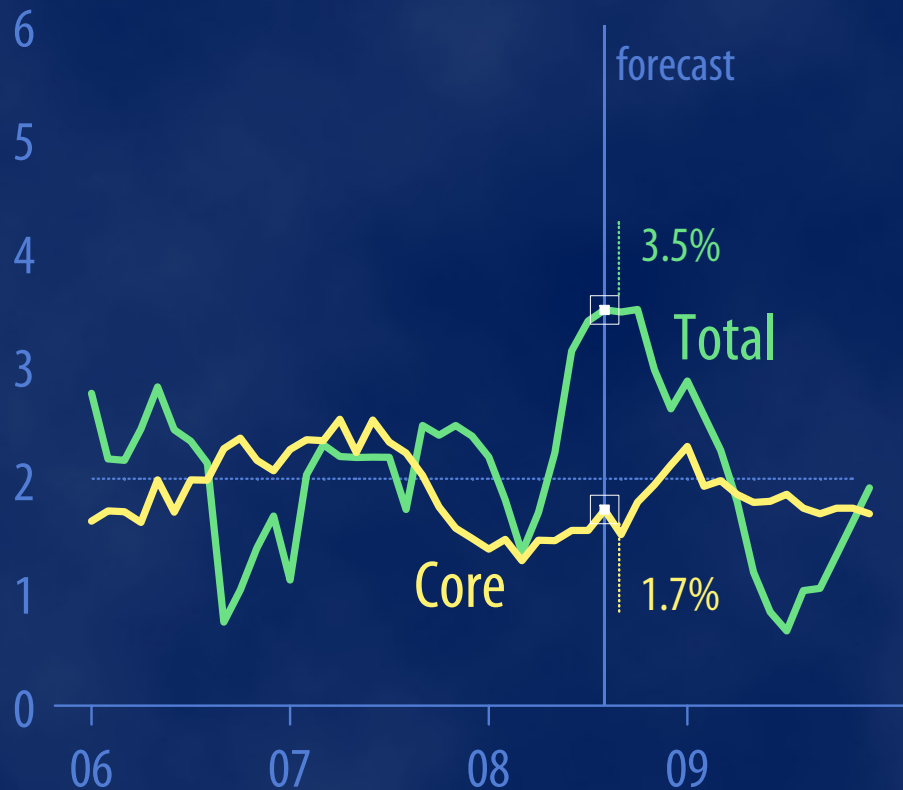




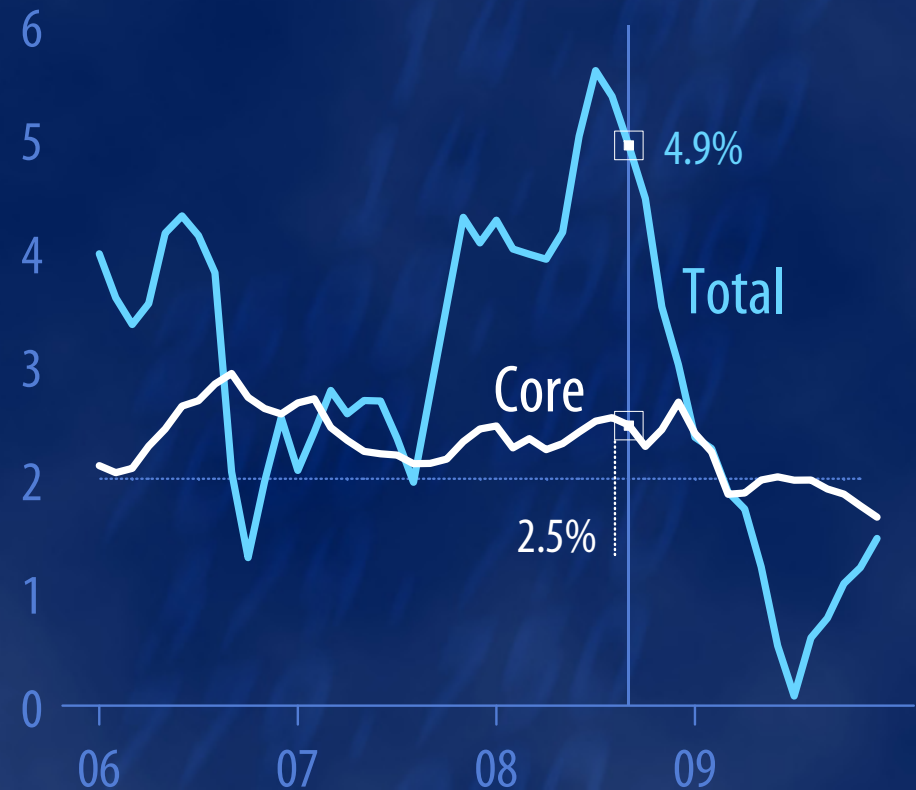
# Headline inflation should ease

Consumer price index (y/y % chng)

## Canada



## United States



## Core steady despite energy cost pass-through



# Inflation and deflation

Consumer price index – Canada (y/y % chng : as of August 2008)

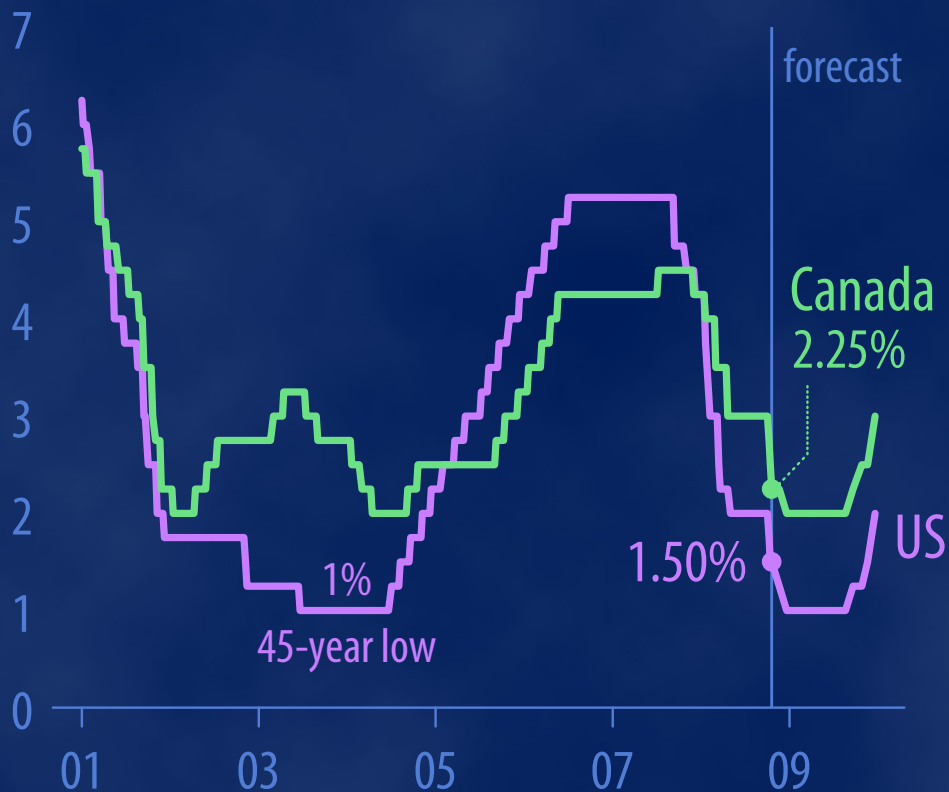
|                      | Deflationary |                   | Inflationary |
|----------------------|--------------|-------------------|--------------|
| Books                | -11.8        | Gasoline          | 26.3         |
| Video equipment      | -8.0         | Bread             | 18.2         |
| New cars             | -7.4         | Air fares         | 11.6         |
| Household appliances | -4.0         | Water charges     | 9.1          |
| Household furniture  | -3.3         | Mortgage interest | 8.1          |
| Tools                | -3.3         | Auto insurance    | 6.5          |
| Clothing             | -2.8         | Milk              | 5.4          |

**Core CPI 1.7%**  
**Overall CPI 3.5%**

# Interest rates fall

(% : as of October 21, 2008)

## Overnight rates



**More rate cuts coming**

## 10-year bonds

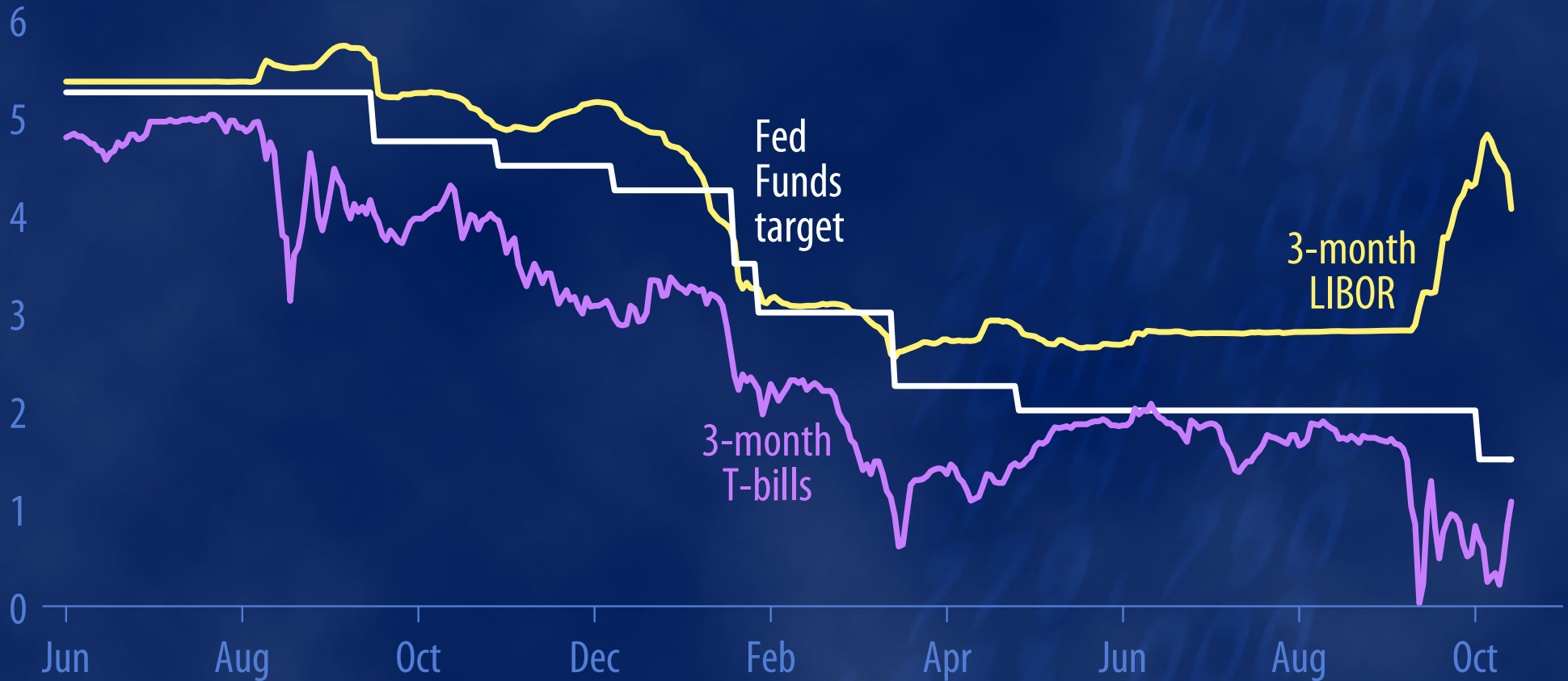


**Canada near 50-year low**

# Interest rates: Move apart

United States – 2007-2008 (percent)

## Interest rates





# Global bear market

(y-t-d % chng : as of October 21, 2008)

## Equity markets



# Stocks rebound before economy... Usually

Dow Jones Industrial Average



# US Election 2008

Taxes  
Budget  
Free trade: NAFTA  
Immigration  
Health care  
Social security  
Iraq



# Canada's misery index... Lacks misery

Canada (percent)

## Misery index



|                   |      |
|-------------------|------|
| Unemployment rate | 6.1% |
| Inflation rate    | 3.5% |

Unemployment rate + CPI inflation rate





# Global turmoil: Canadian implications

Douglas Porter, CFA Deputy Chief Economist & Managing Director, BMO Capital Markets

