

ECONOMIC UPDATE

CANADA	09Q3A	09Q4F	10Q1F	10Q2F	10Q3F	10Q4F	2008A	2009F	2010F	2011F
Real GDP Growth (AR)	0.4	3.5	3.8	3.1	1.5	1.9	0.4	-2.5	2.3	3.0
Real Final Domestic Demand (AR)	4.7	2.5	3.5	3.0	2.7	2.4	2.6	-1.5	3.0	2.5
All Items CPI Inflation (Y/Y)	-0.9	0.8	1.5	1.8	2.1	1.7	2.4	0.3	1.8	2.0
Core CPI Ex Indirect Taxes (Y/Y)	1.6	1.6	1.7	1.7	1.7	1.6	1.7	1.8	1.7	2.0
Unemployment Rate (%)	8.6	8.6	8.3	8.2	8.3	8.4	6.1	8.3	8.3	8.1
U.S.										
Real GDP Growth (AR)	2.2	4.0	4.0	3.3	1.4	0.7	0.4	-2.5	2.8	2.4
Real Final Sales (AR)	1.5	3.0	2.1	1.8	1.2	0.7	0.8	-1.6	1.8	2.2
All Items CPI Inflation (Y/Y)	-1.6	1.4	2.1	1.3	1.7	1.8	3.8	-0.4	1.7	3.0
Core CPI Inflation (Y/Y)	1.5	1.7	1.5	1.2	1.1	1.2	2.3	1.7	1.3	2.0
Unemployment Rate (%)	9.6	10.0	10.3	9.9	10.2	10.5	5.8	9.3	10.2	9.5

CANADA

After a slow start to Q4, it's going to take a strong December to meet our call for a 3.5% annualized pace for the quarter. We revamped our outlook in January's edition of "Forecast" and are now expecting a stronger first half of the year in line with the trade-related gains from the upswing stateside. While we took down a notch our inflation forecasts for 2010 after the latest below-consensus CPI report, we anticipate that strong first half growth will prompt the Bank of Canada to start the tightening cycle in Q3. But second half growth will disappoint as the impacts of US fiscal stimulus, inventory restocking and housing wealth's boost to Canadian consumption collectively fade.

UNITED STATES

Although US economic growth has returned after its deepest post-war recession, the pace of recovery will slow down significantly in the second half of 2010. We expect nonfarm payrolls to begin to head higher over the next couple of months, but that will not be enough to bring the unemployment rate down materially below 10% until late in 2011. Year-over-year inflation finally moved back into positive territory as last year's steep drop in energy prices fell out of the index, but core inflation should remain weighed down by significant economic slack until next year.

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