

ECONOMIC UPDATE

CANADA	10Q1A	10Q2F	10Q3F	10Q4F	11Q1F	11Q2F	2009A	2010F	2011F
Real GDP Growth (AR)	6.1	2.6	2.5	1.4	1.7	2.9	-2.5	3.2	2.5
Real Final Domestic Demand (AR)	4.7	6.4	2.3	1.6	2.1	1.9	-1.8	4.3	2.4
All Items CPI Inflation (Y/Y)	1.6	1.4	1.8	1.5	1.6	2.0	0.3	1.6	1.9
Core CPI Ex Indirect Taxes (Y/Y)	1.9	1.8	1.6	1.6	1.5	1.8	1.8	1.7	1.8
Unemployment Rate (%)	8.2	8.0	8.0	8.1	8.2	8.2	8.3	8.1	8.1
U.S.									
Real GDP Growth (AR)	3.7	2.4	1.9	1.7	0.7	2.5	-2.6	2.6*	1.9
Real Final Sales (AR)	1.1	1.3	2.0	1.6	1.3	2.6	-2.1	1.3	2.1
All Items CPI Inflation (Y/Y)	2.4	1.8	1.2	1.1	0.9	1.3	-0.4	1.6	1.5
Core CPI Inflation (Y/Y)	1.3	0.9	0.9	0.7	1.0	1.1	1.7	1.0	1.1
Unemployment Rate (%)	9.7	9.7	9.8	10.1	9.8	9.8	9.3	9.8	9.6

* Assumes 10:Q2 GDP growth revised down to approx. 1-1/2% SAAR

CANADA

Second quarter GDP growth should come in just under the Bank of Canada's estimates but still above potential, which means that the negative output gap continues to narrow. But the US slowdown already in evidence and a cooling in home building here will adversely impact Canadian growth ahead. The corresponding deceleration in job creation should have the unemployment rate creep higher, which, together with the tame inflation outlook, will help keep the BoC on hold until mid-2011. We trimmed our forecasts for both headline and core inflation in response to the downside surprises in the July CPI report.

UNITED STATES

We materially scaled back our GDP forecast for both 2010 and 2011. Although we still don't see a double dip as the most likely outcome, a more job-challenged consumer, softer housing market and weaker near-term outlook for capital spending all suggest Q3 GDP will trail our earlier projections. States are clearly in a restraint mode. Our forecast assumes that Congress moves into the White House camp by softening the fiscal drag next year through an extension of tax cuts, if not exactly in the fashion proposed by Obama. Still, ample slack means that core inflation is unlikely to rise much from its record low.

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