



Early, But Fundamentally Correct

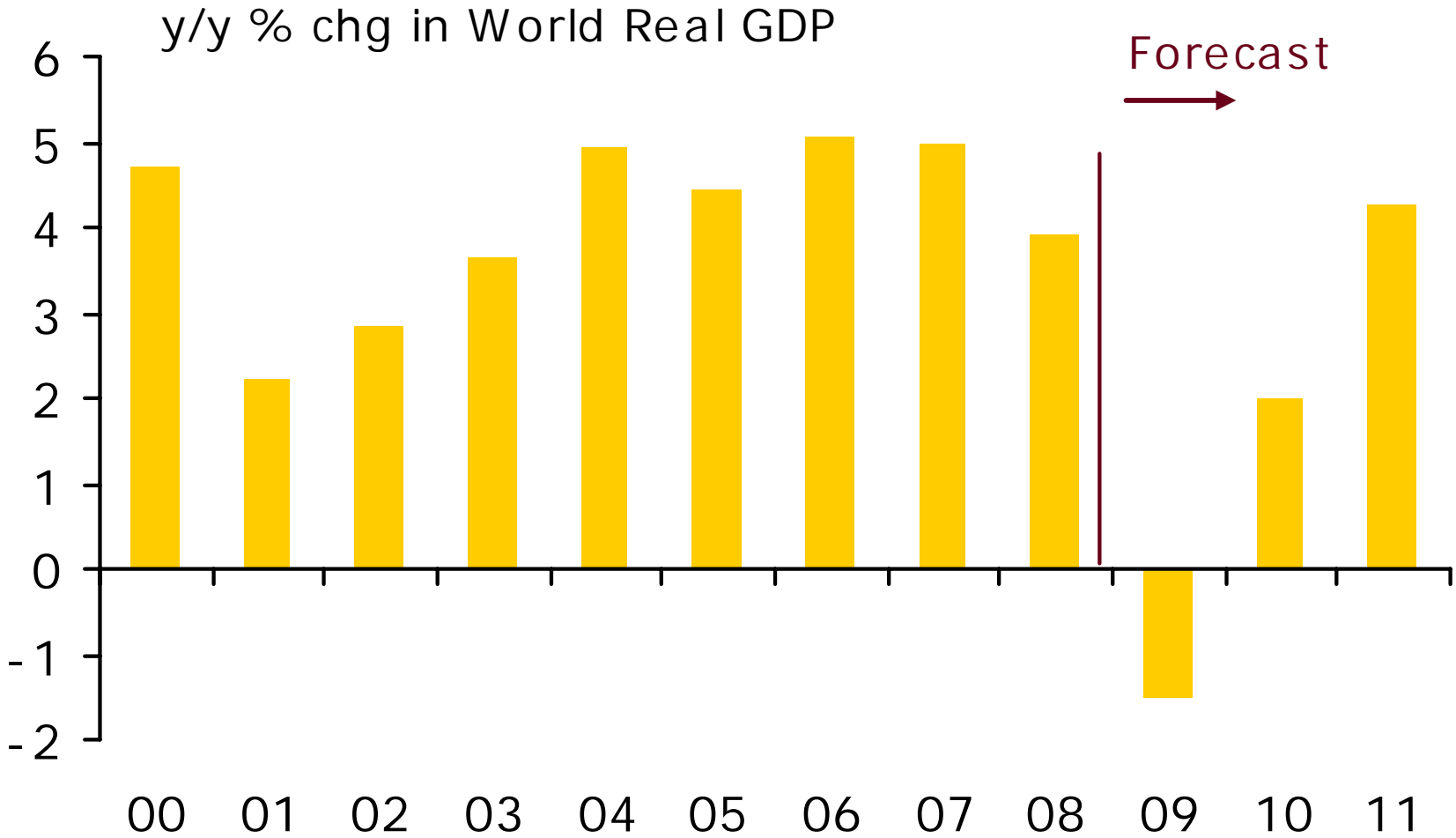
Economic Update

By Avery Shenfeld, Chief Economist & Managing Director

June 11, 2009

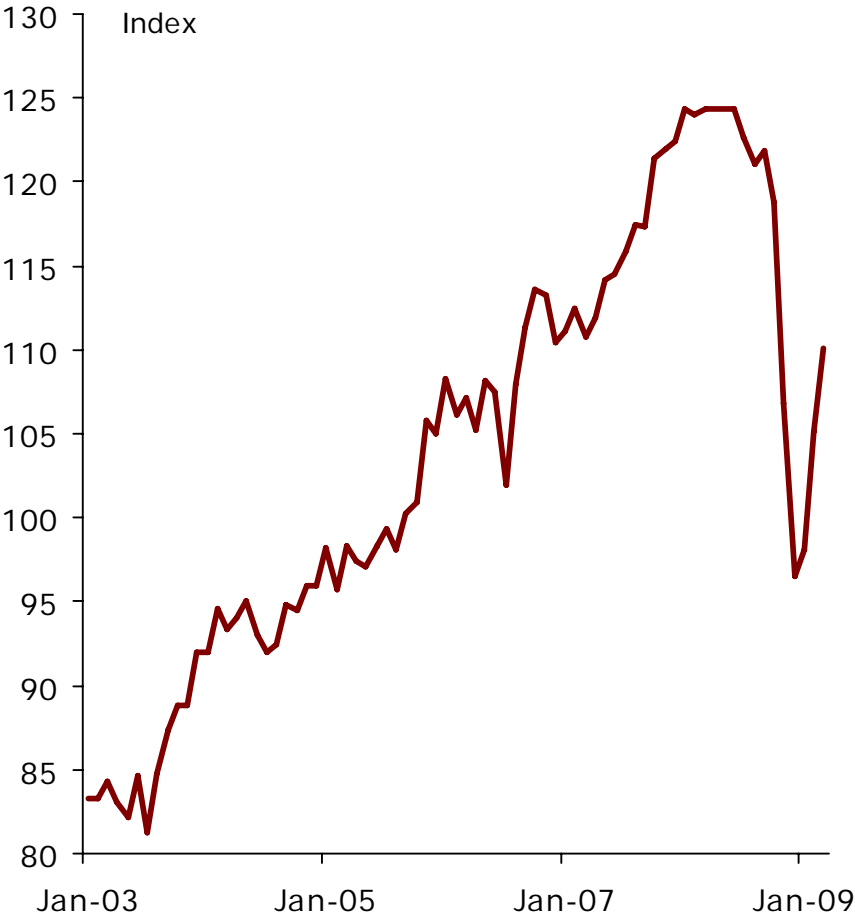


A Shock Heard 'Round the World

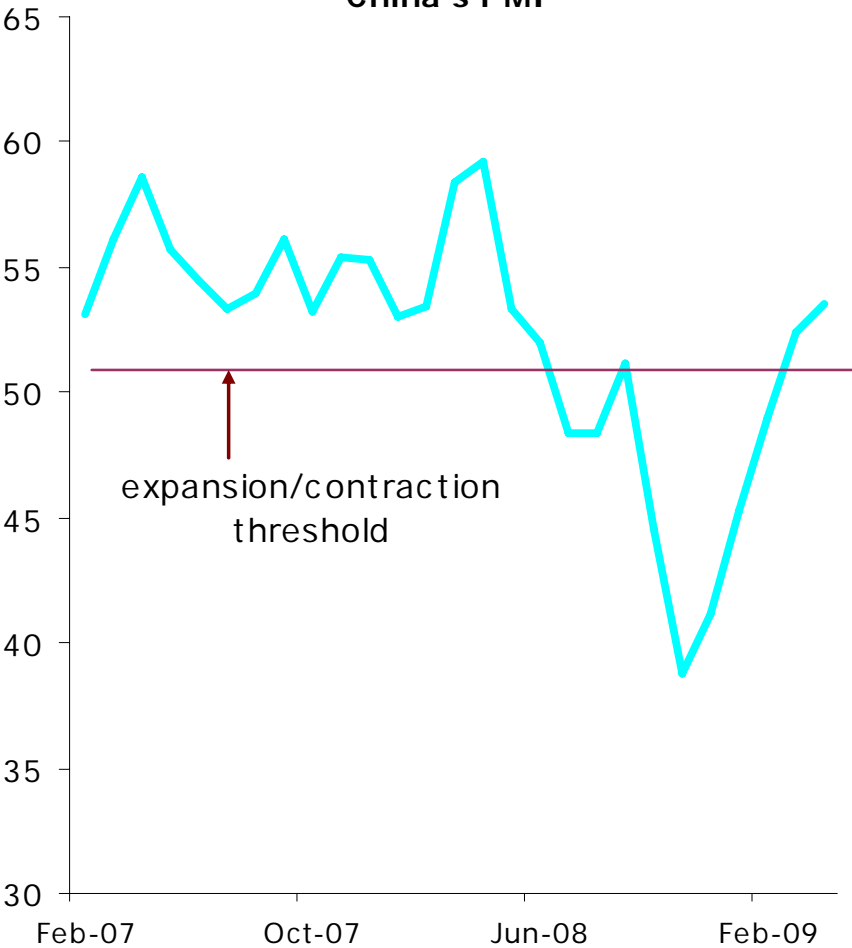


Bamboo Shoots

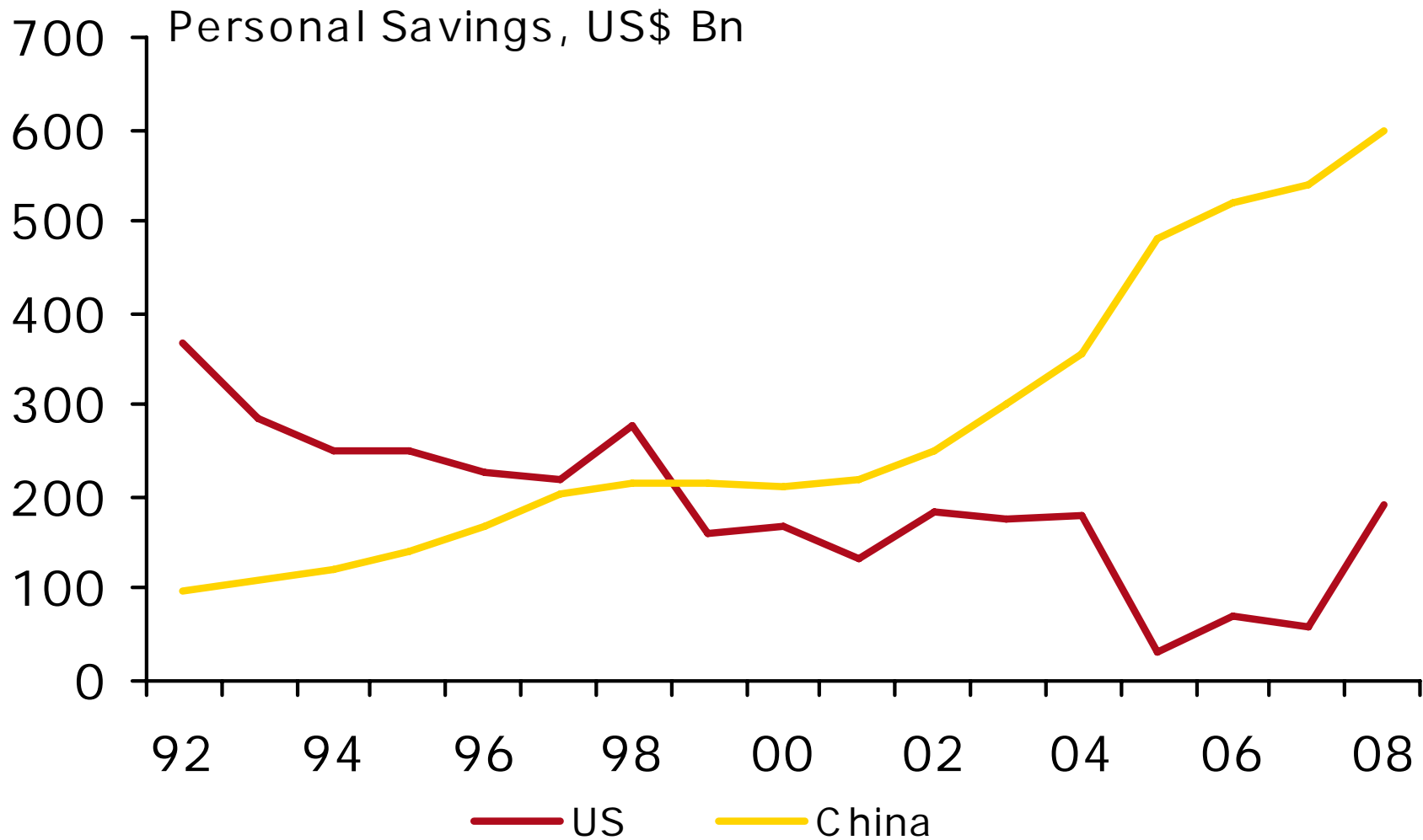
Korean Industrial Production



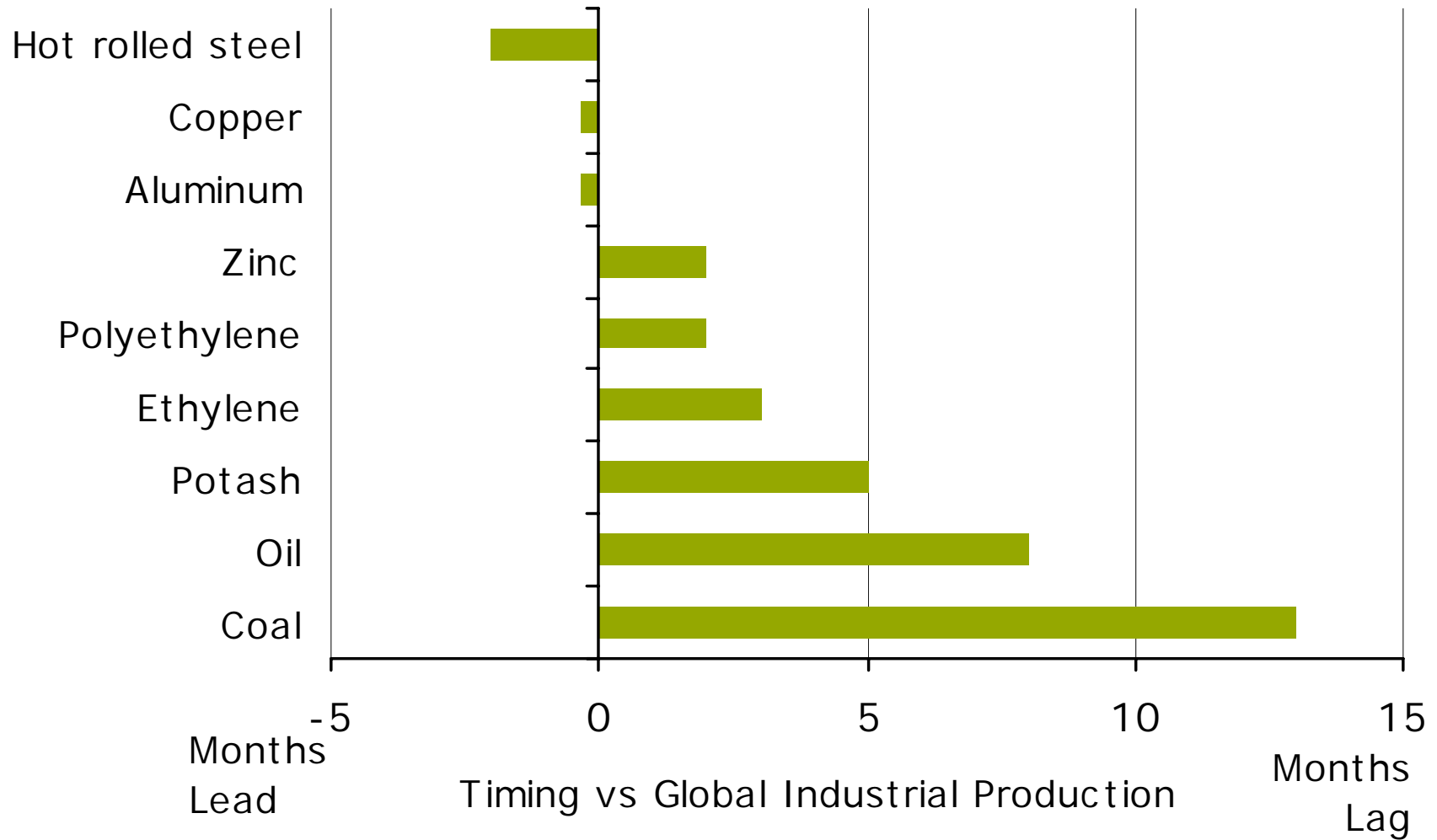
China's PMI



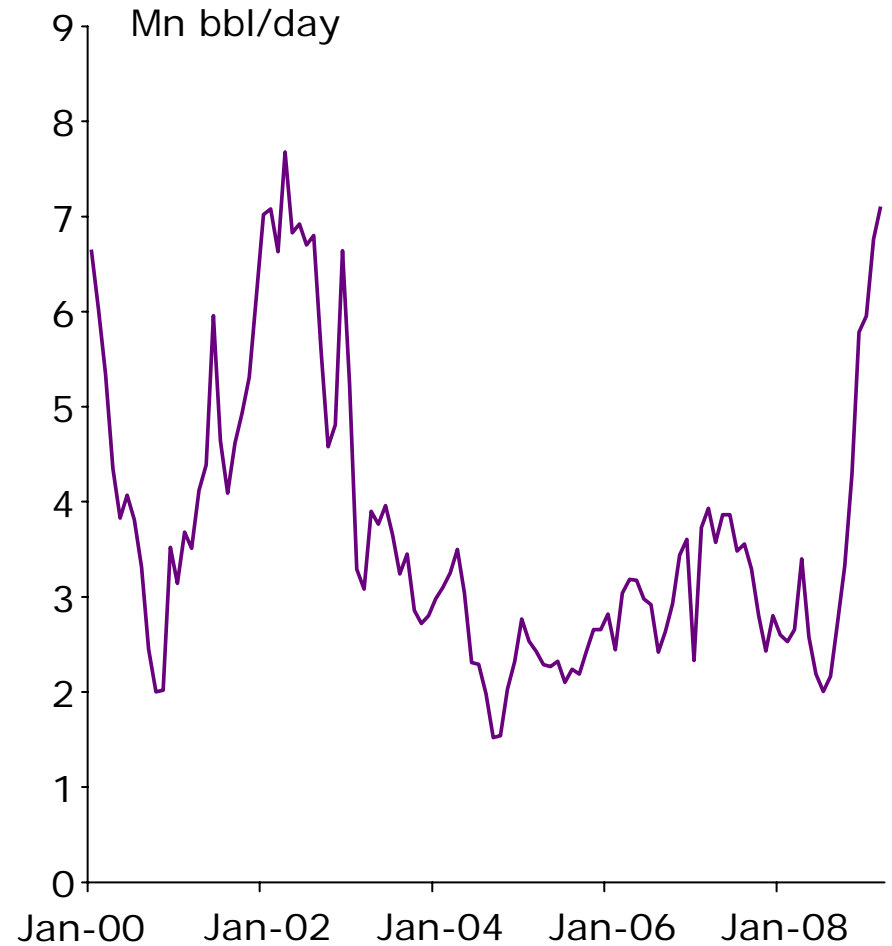
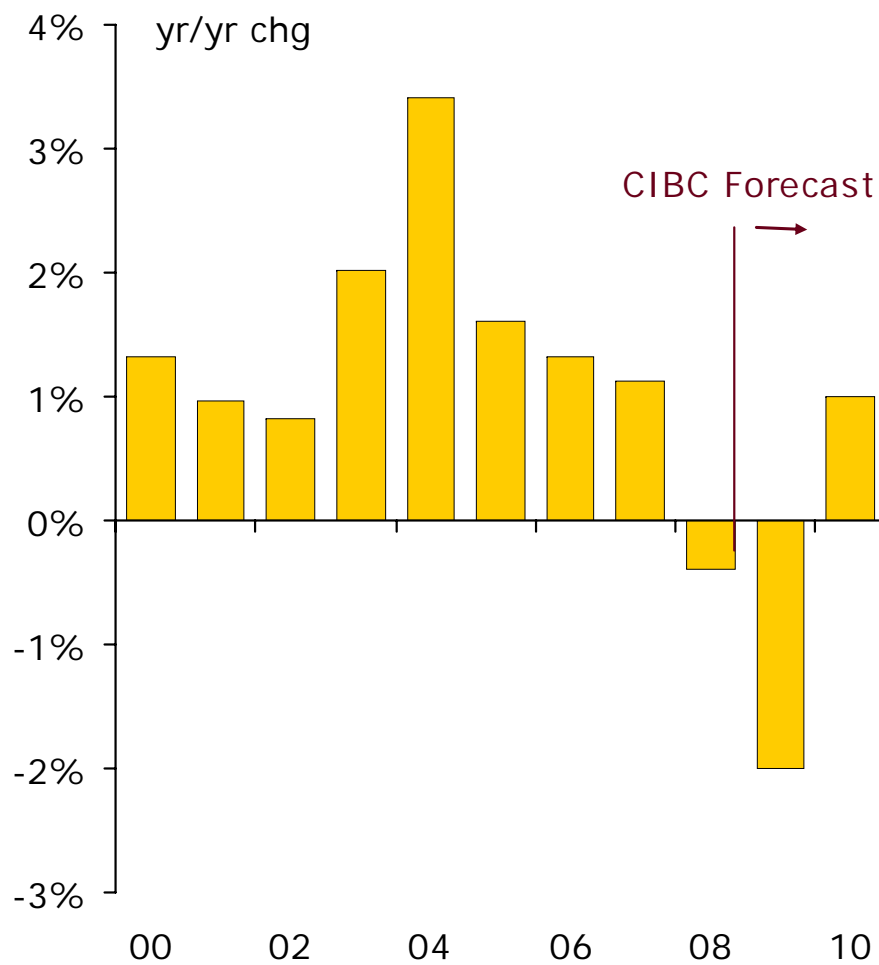
Emerging Markets' Savings Represents Potential Consumer Spending Power



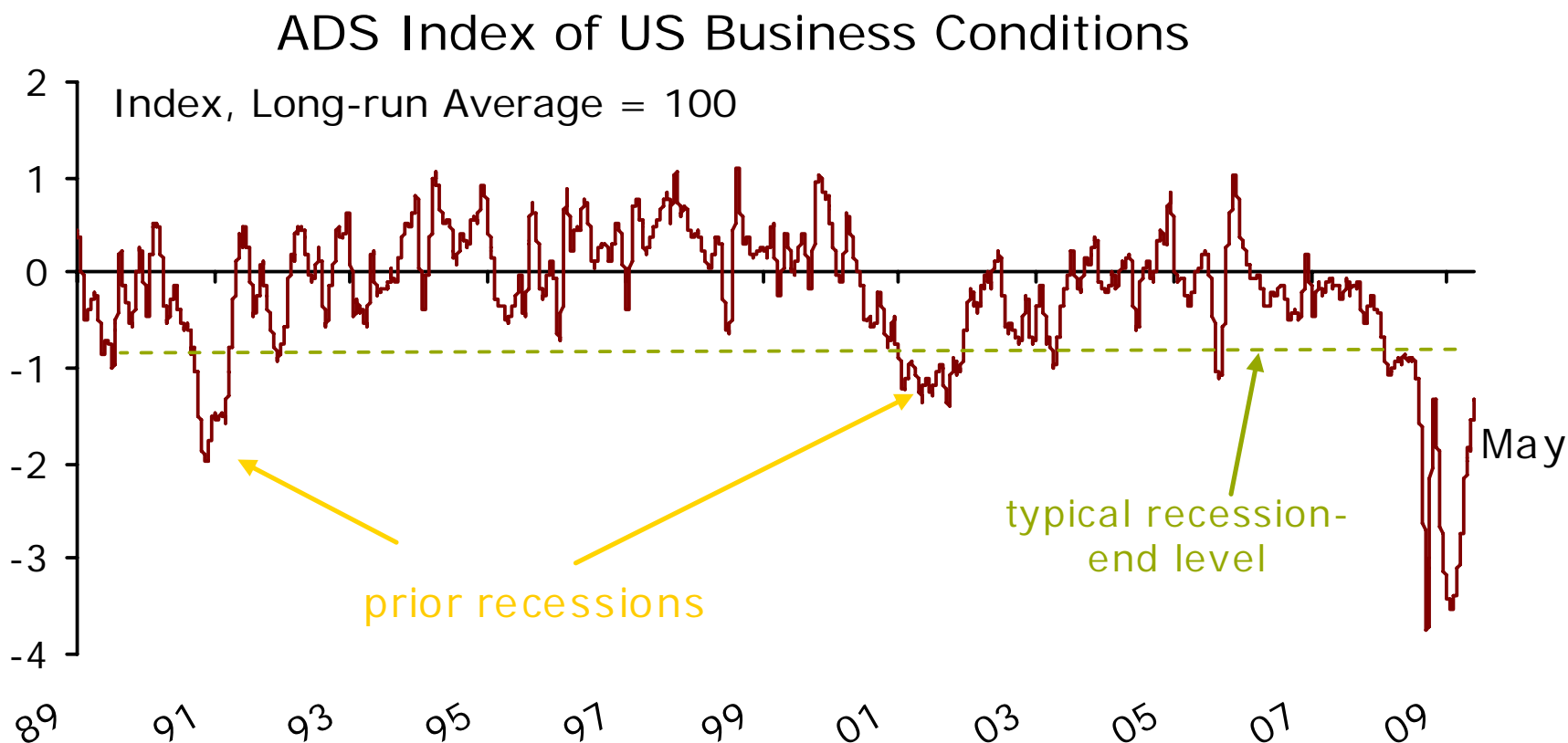
Historical Lag in Commodity Prices vs Global Industrial Production



Global Oil Demand Drop (Left) Leaves OPEC with Spare Capacity



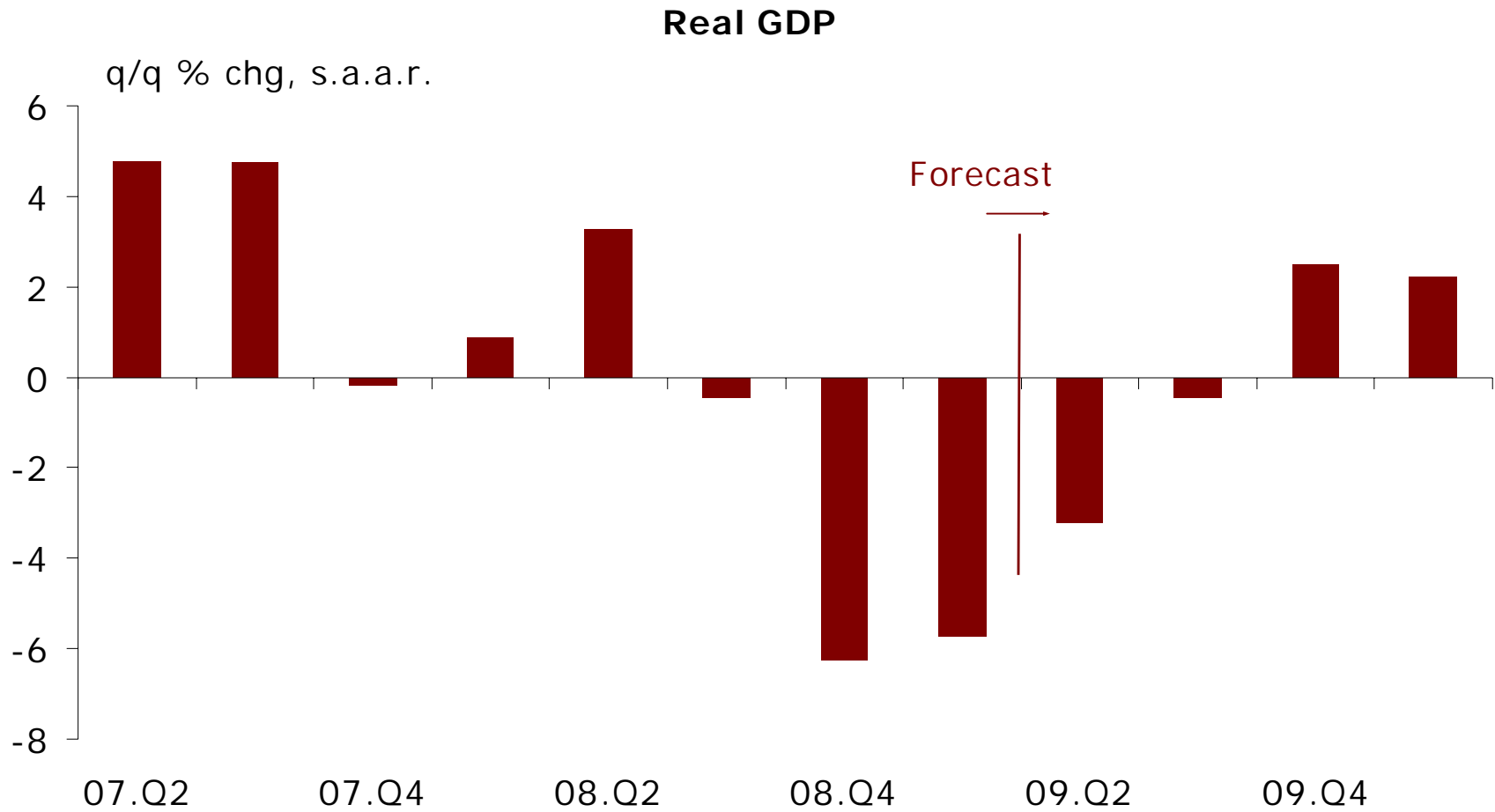
Recent US Indicators Still in Recession Range



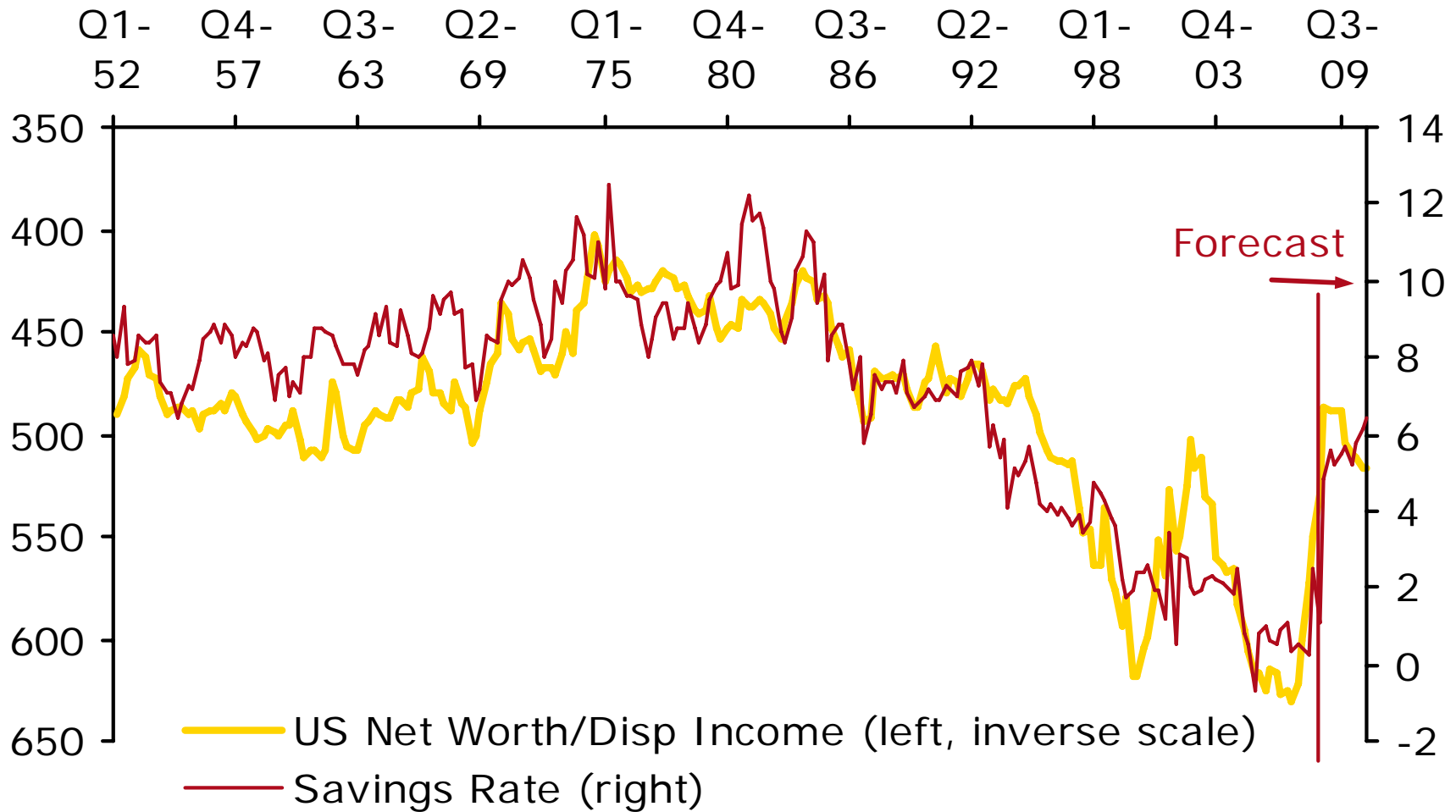
Source: Philadelphia Fed



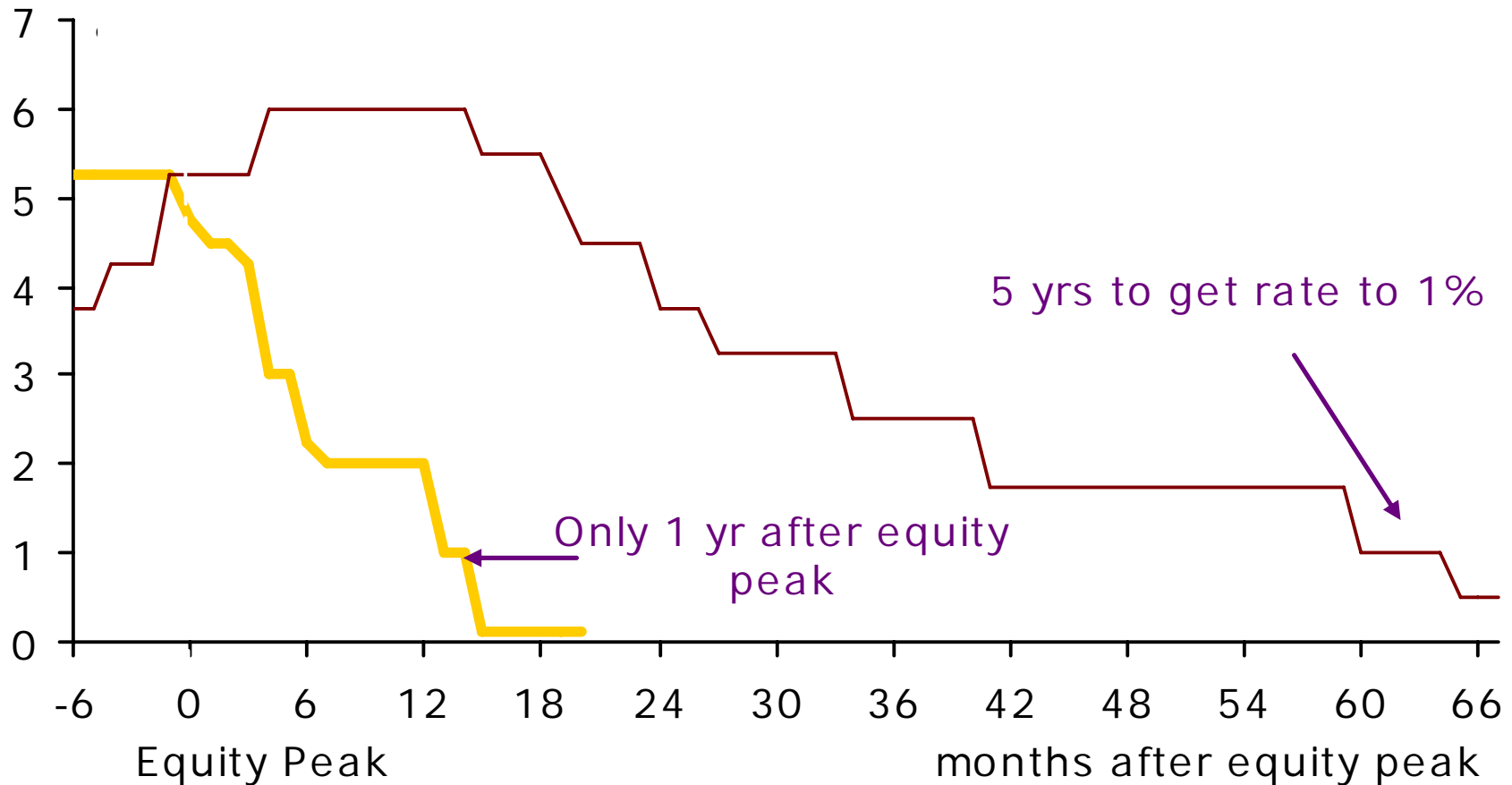
US Economy: Sharp Recession, Sub-Par Recovery



A Penny Saved ... is a Penny Not Spent



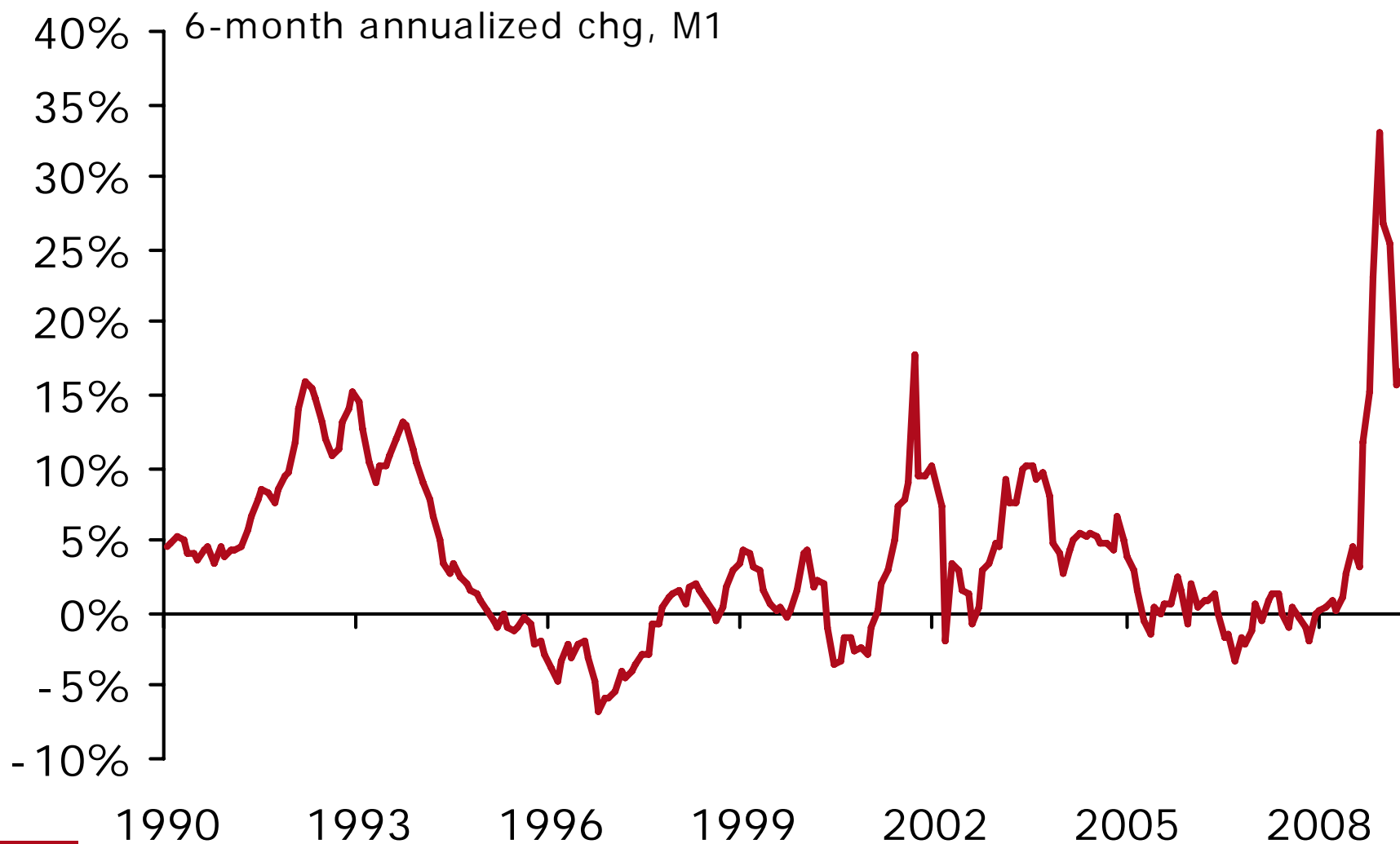
Fed Not Repeating Japan's 1990s' Errors



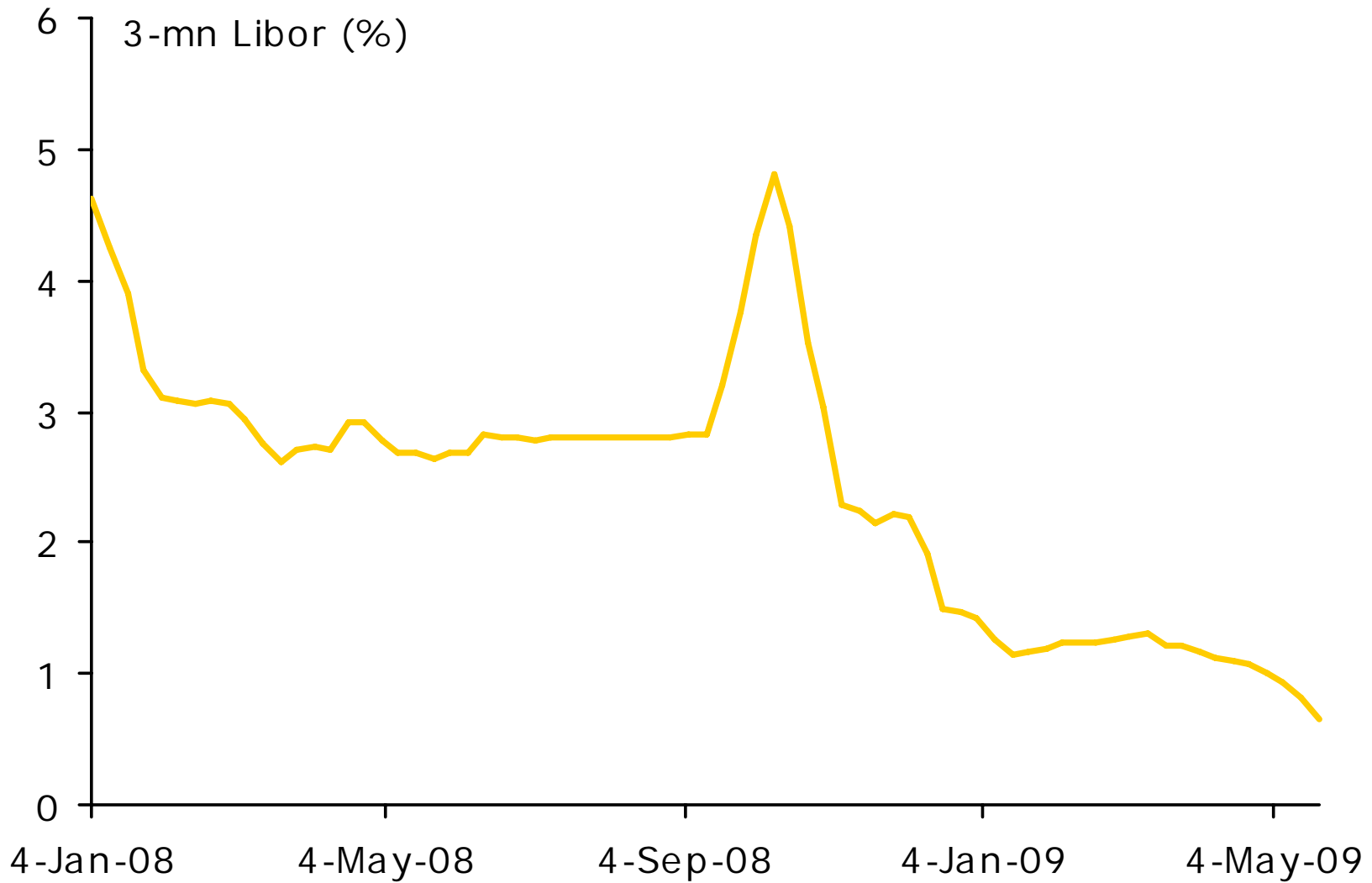
— Fed Funds Since Mar-07 — BoJ Overnight After Jun-89



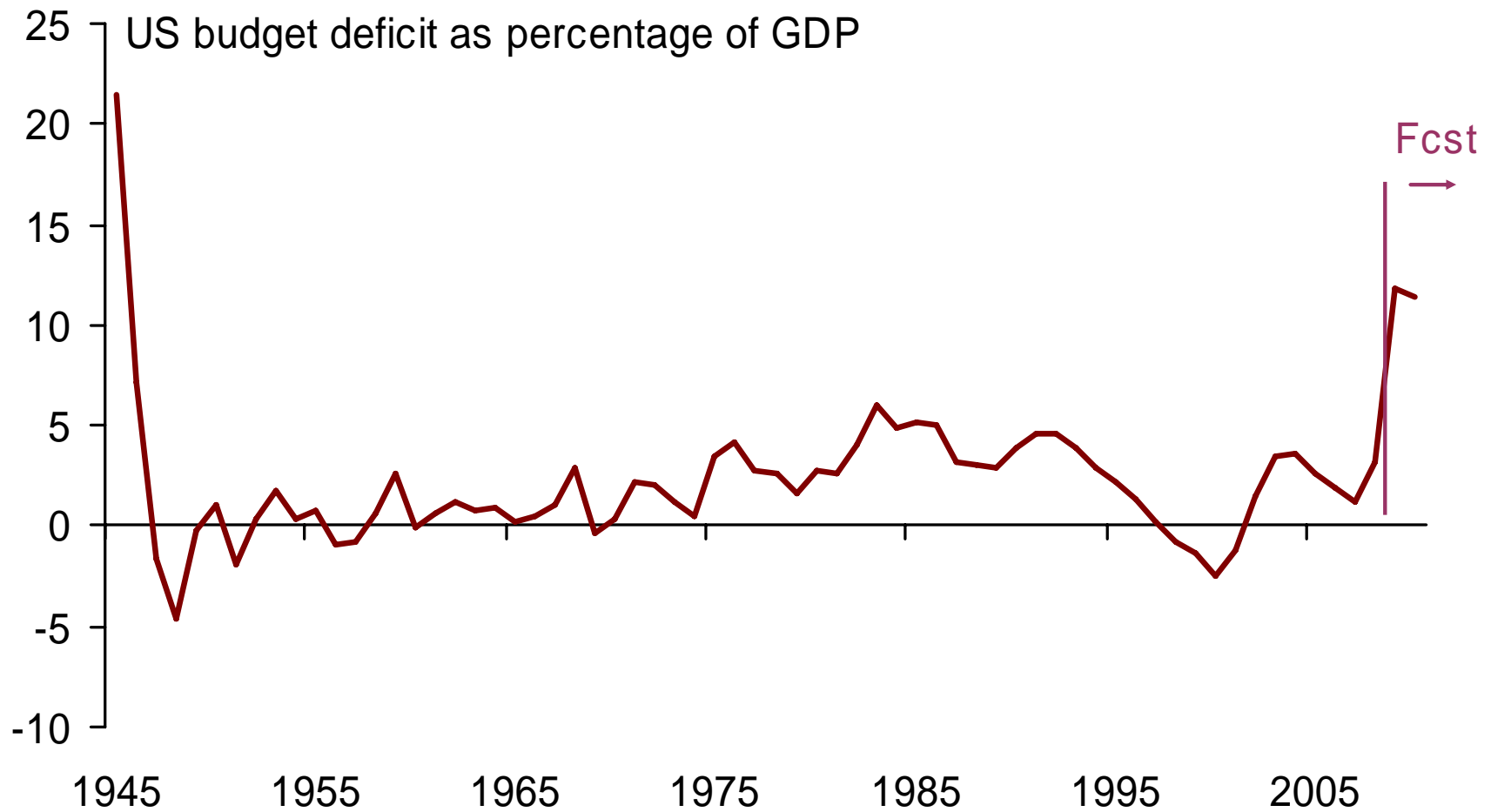
Fed Has the Printing Press Running Full Speed



The Banking Crisis is Over

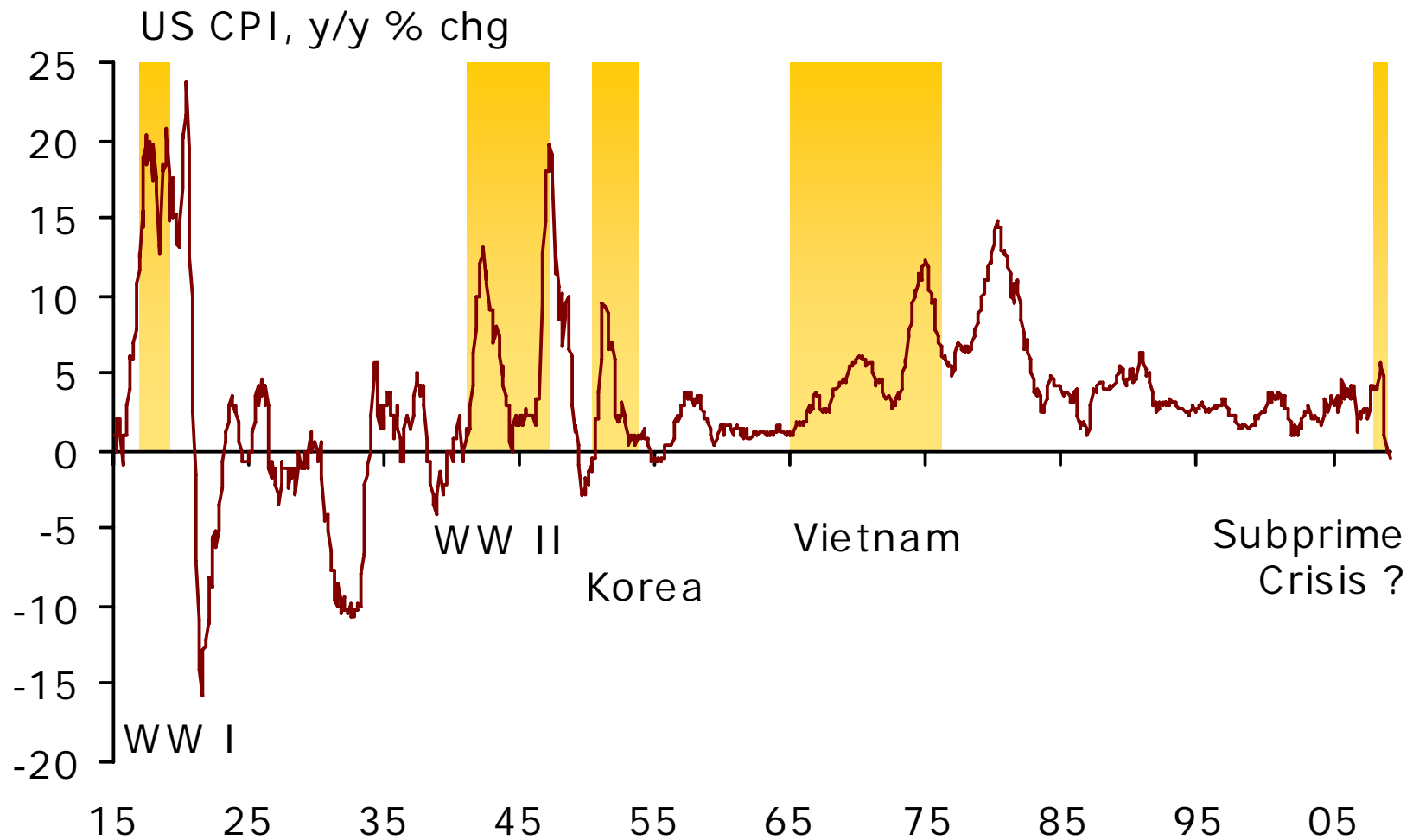


Fiscal Stimulus is Massive



Past War Debts Were Inflationary

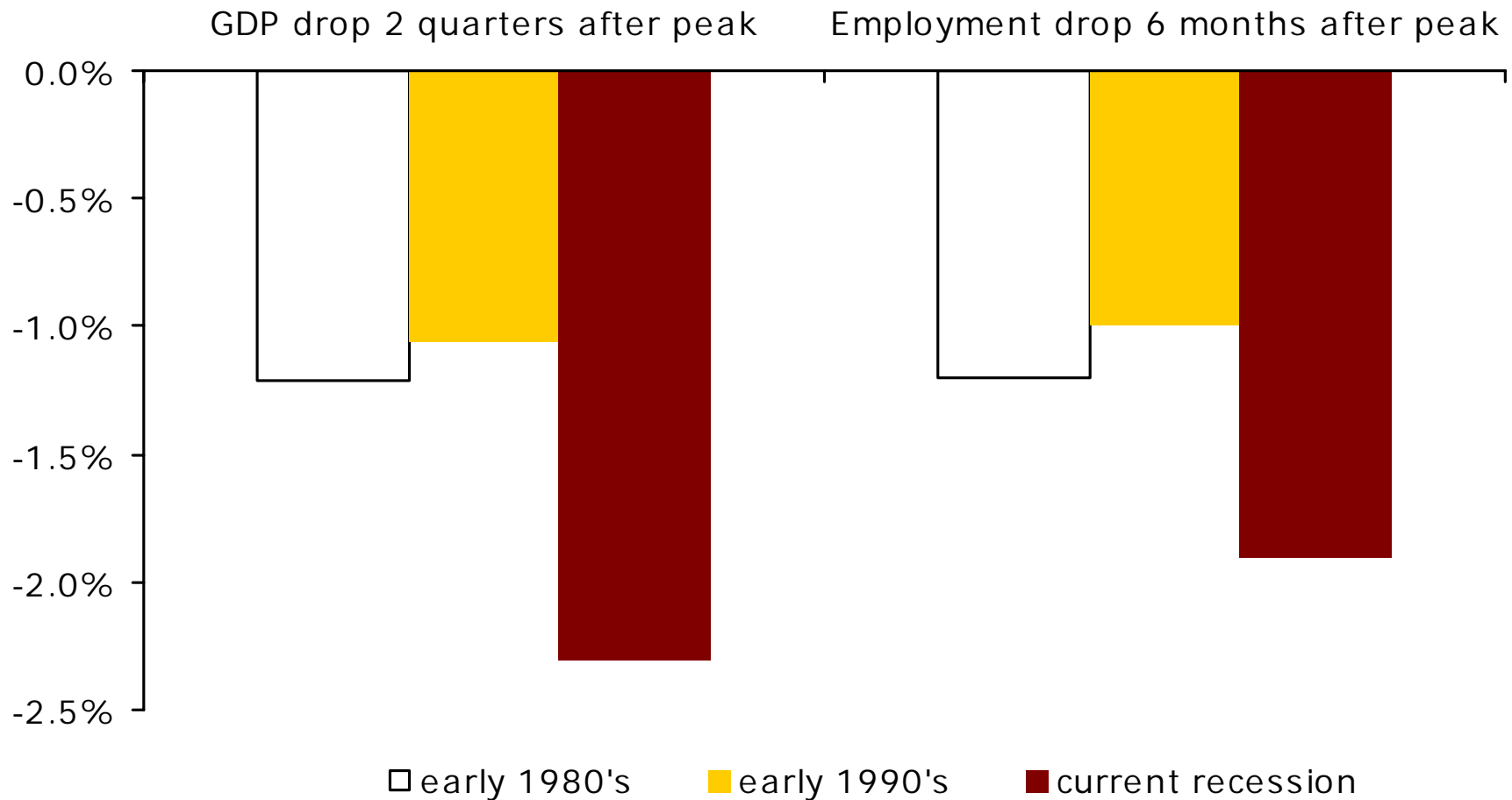
Look For 5%+ US CPI in 2011



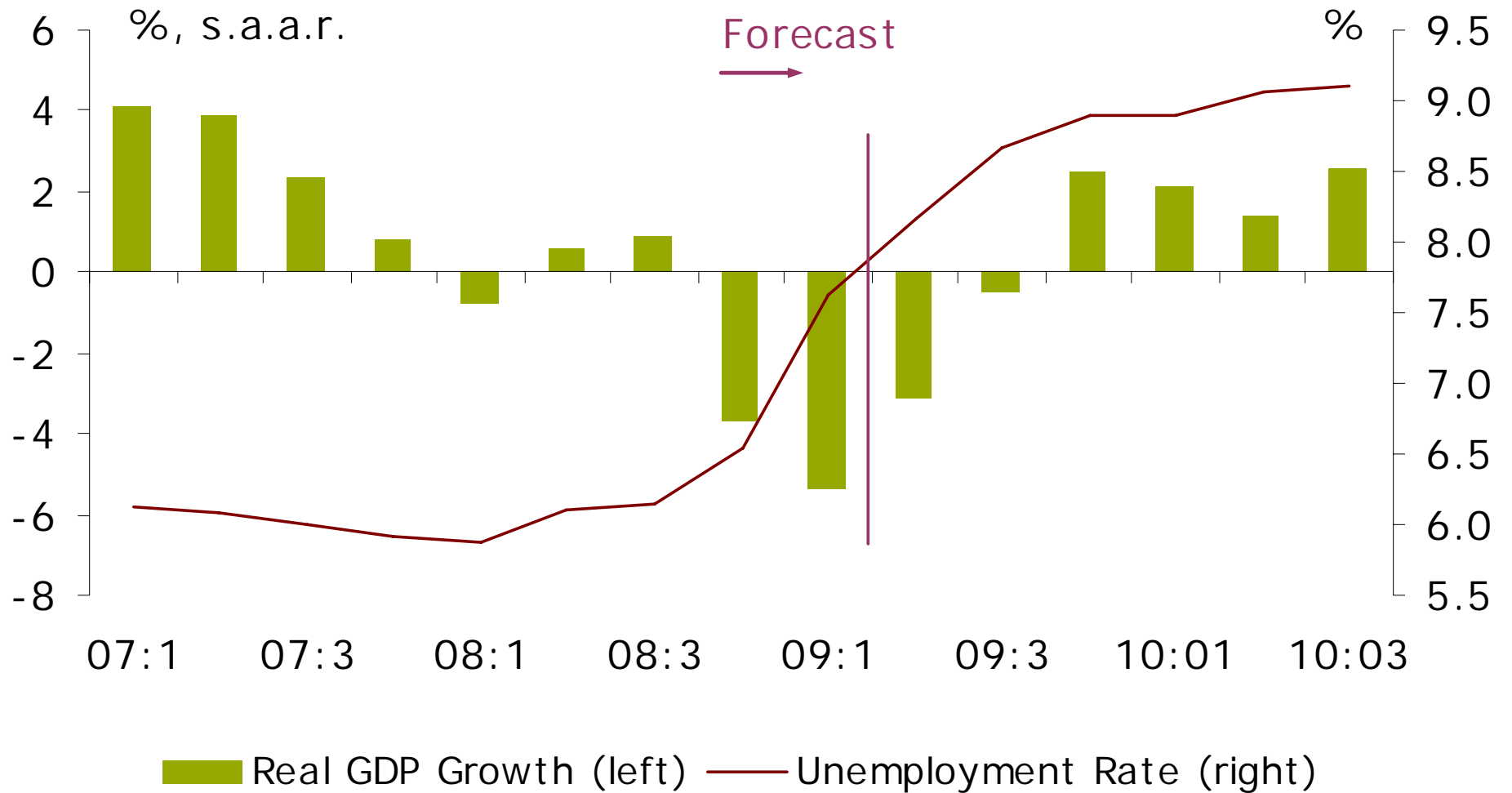
US Dollar on Long-Term Slide



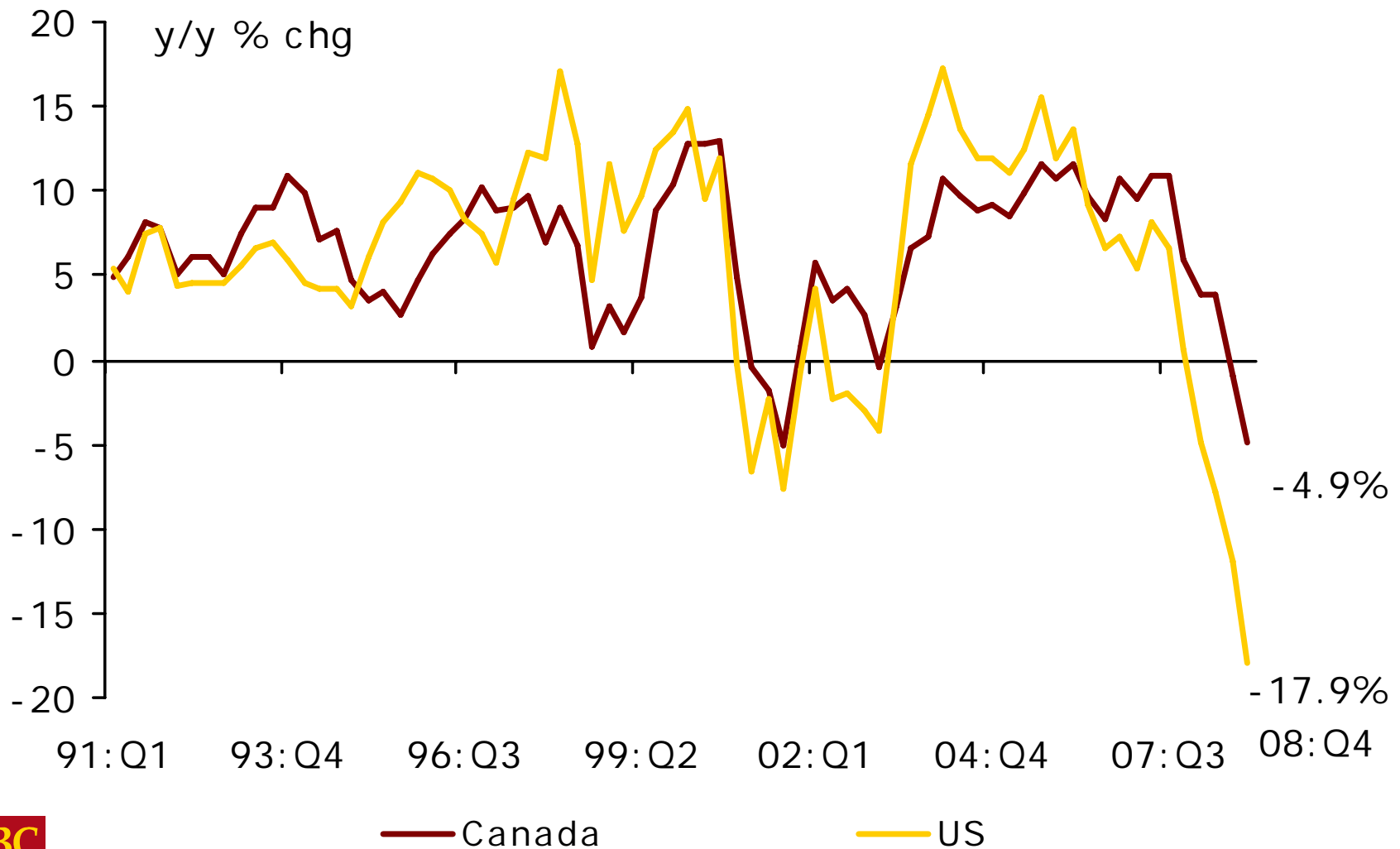
Canada's Recession: Steeper Dive This Time



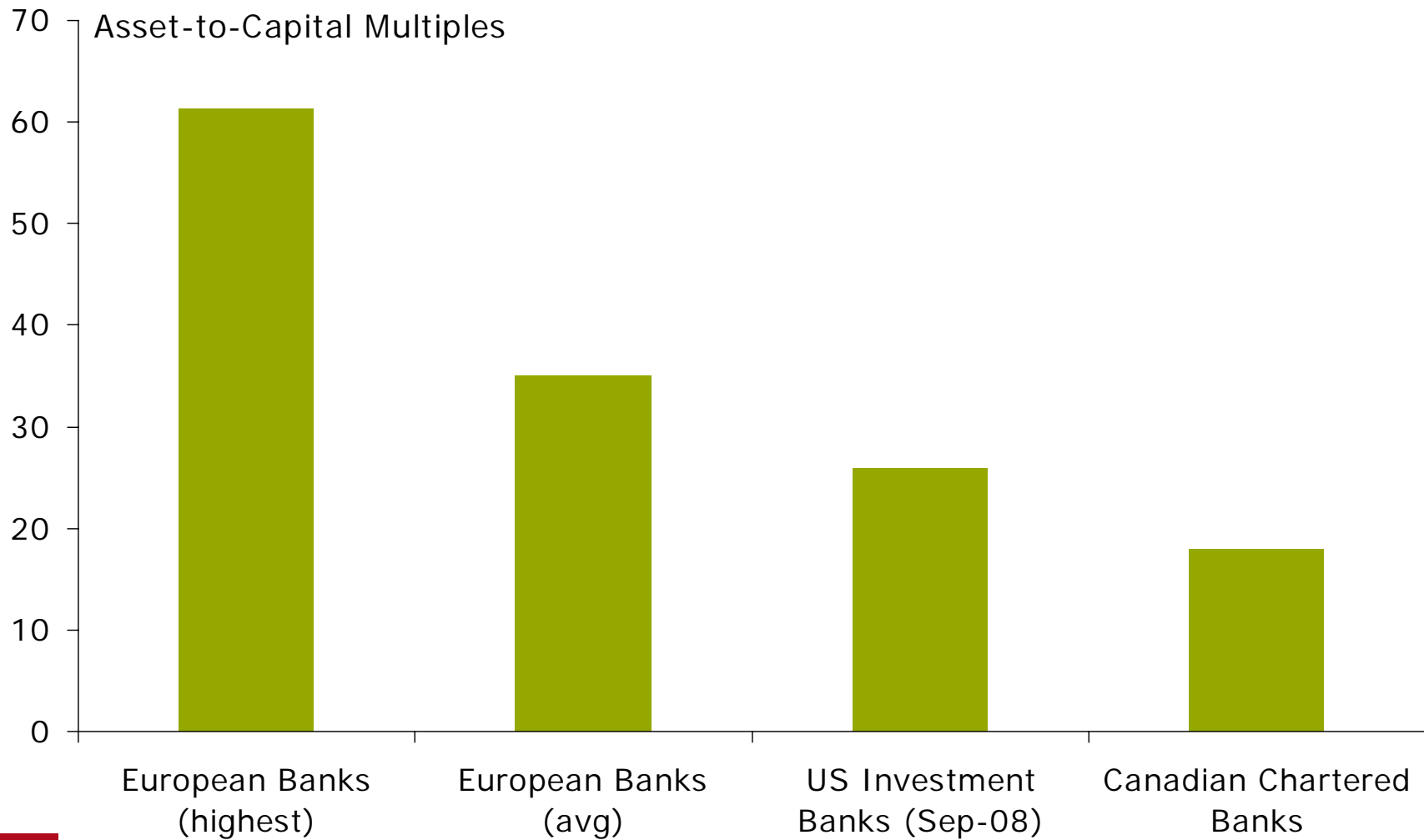
Recovery Will Also Be Sub-Par



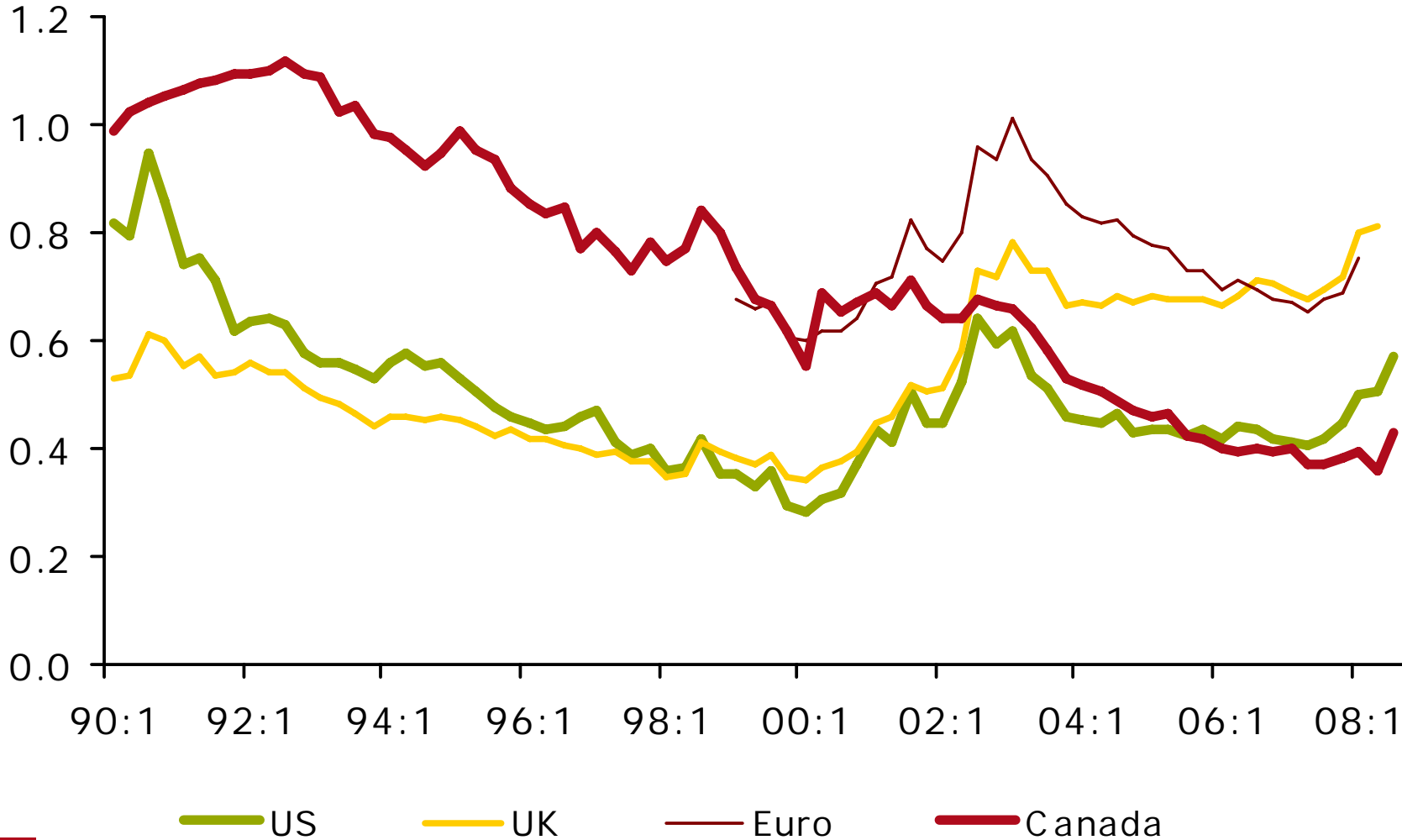
Milder Decline in Household Net Worth



Canadian Banks Less Levered Pre-Crisis

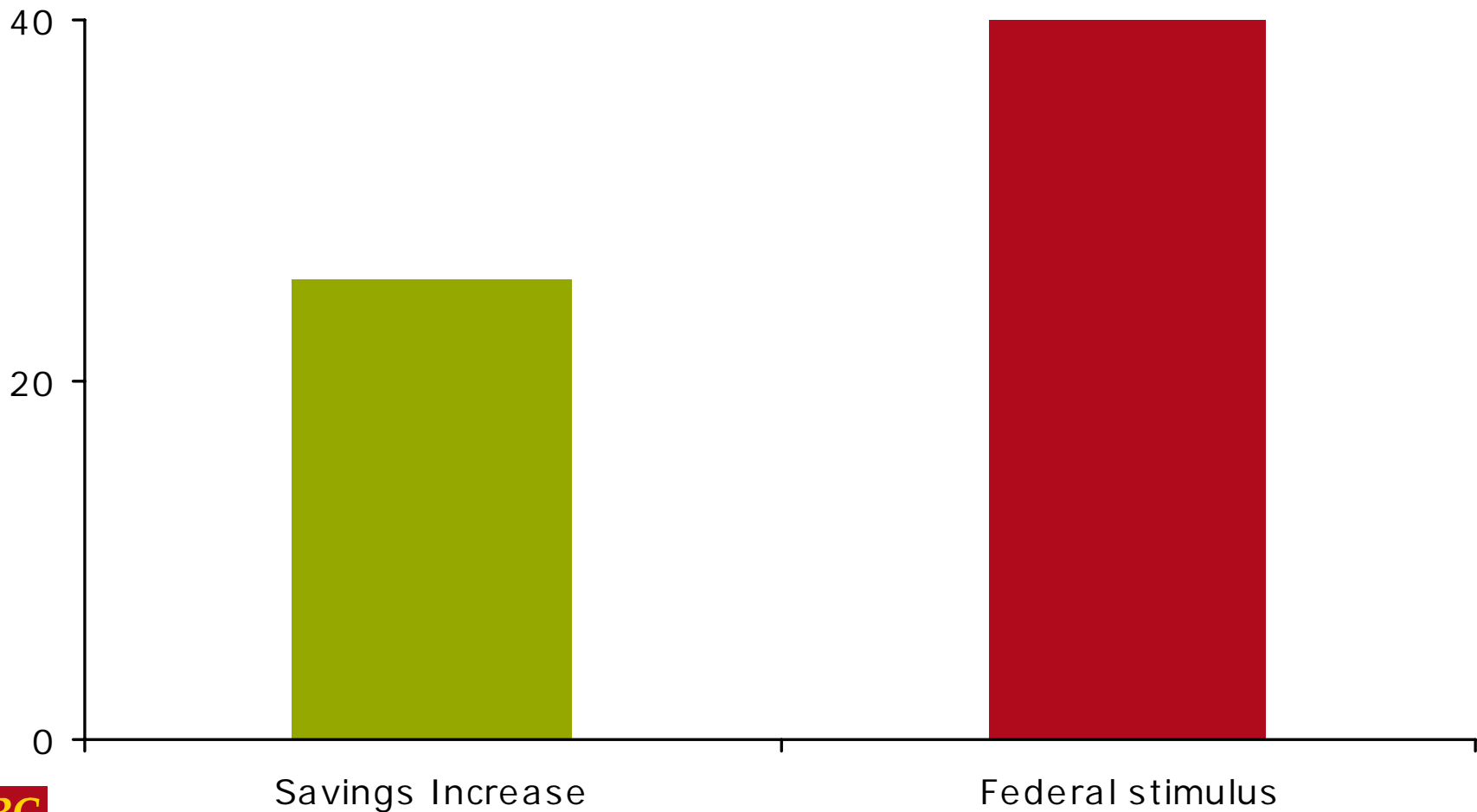


Non-Financial Debt/Equity Lower in Canada

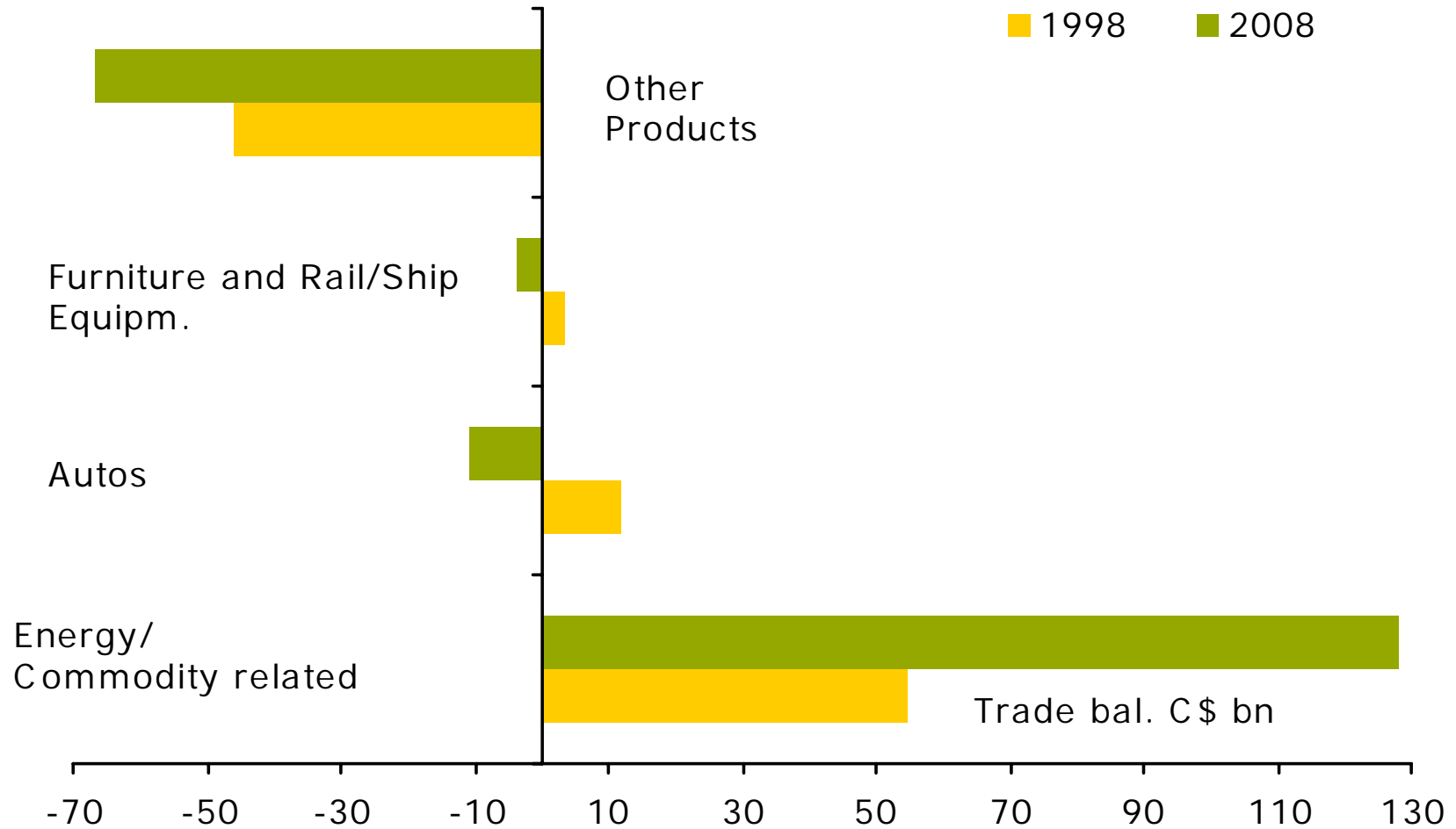


Government Dissaving Will More Than Offset Household Saving

Projections in C\$ Bn (2009/10 and 2010/11 cumulative)

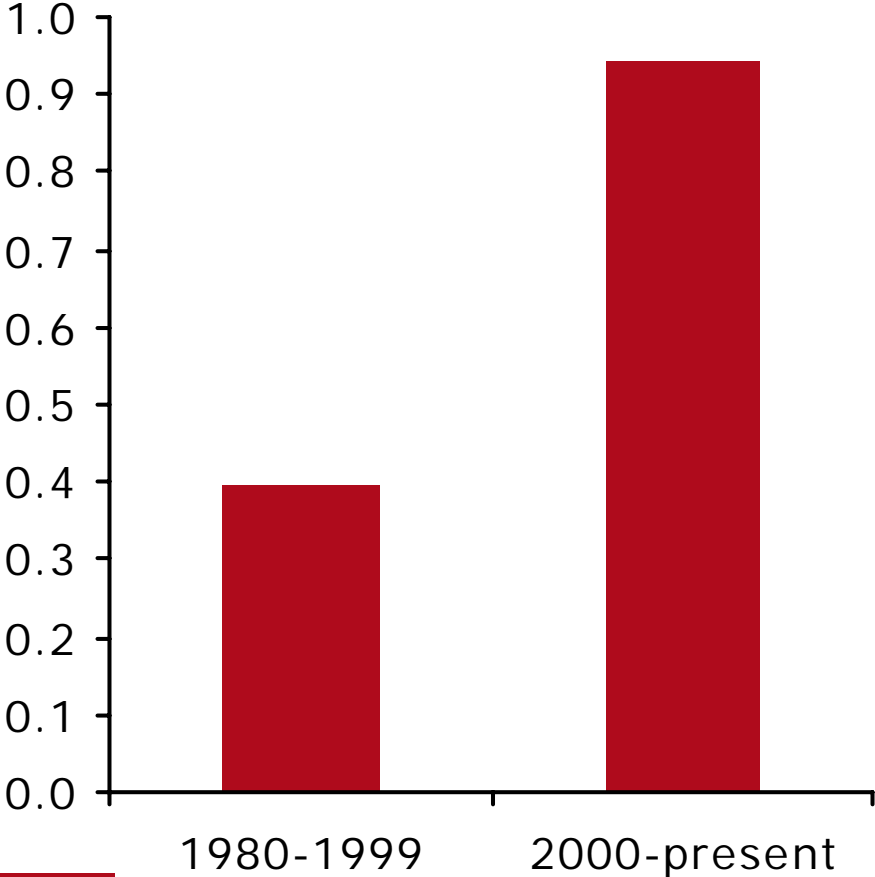


A Structural Shift in Canadian Trade

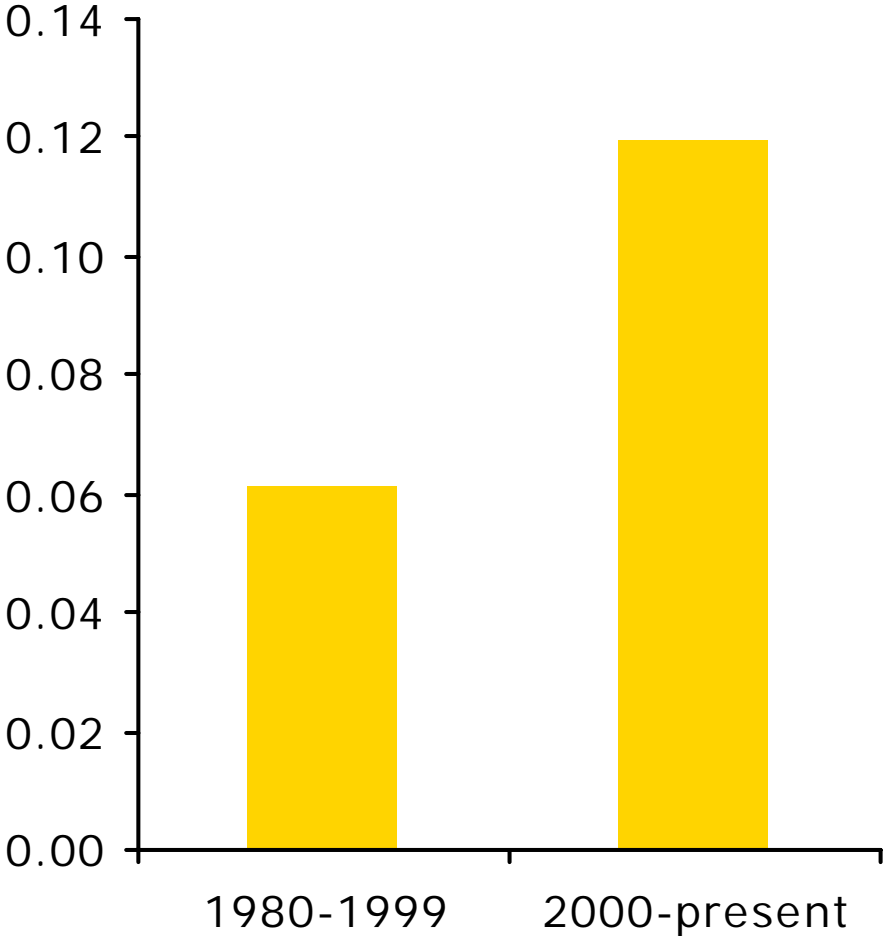


C\$ Now More Responsive to Commodities

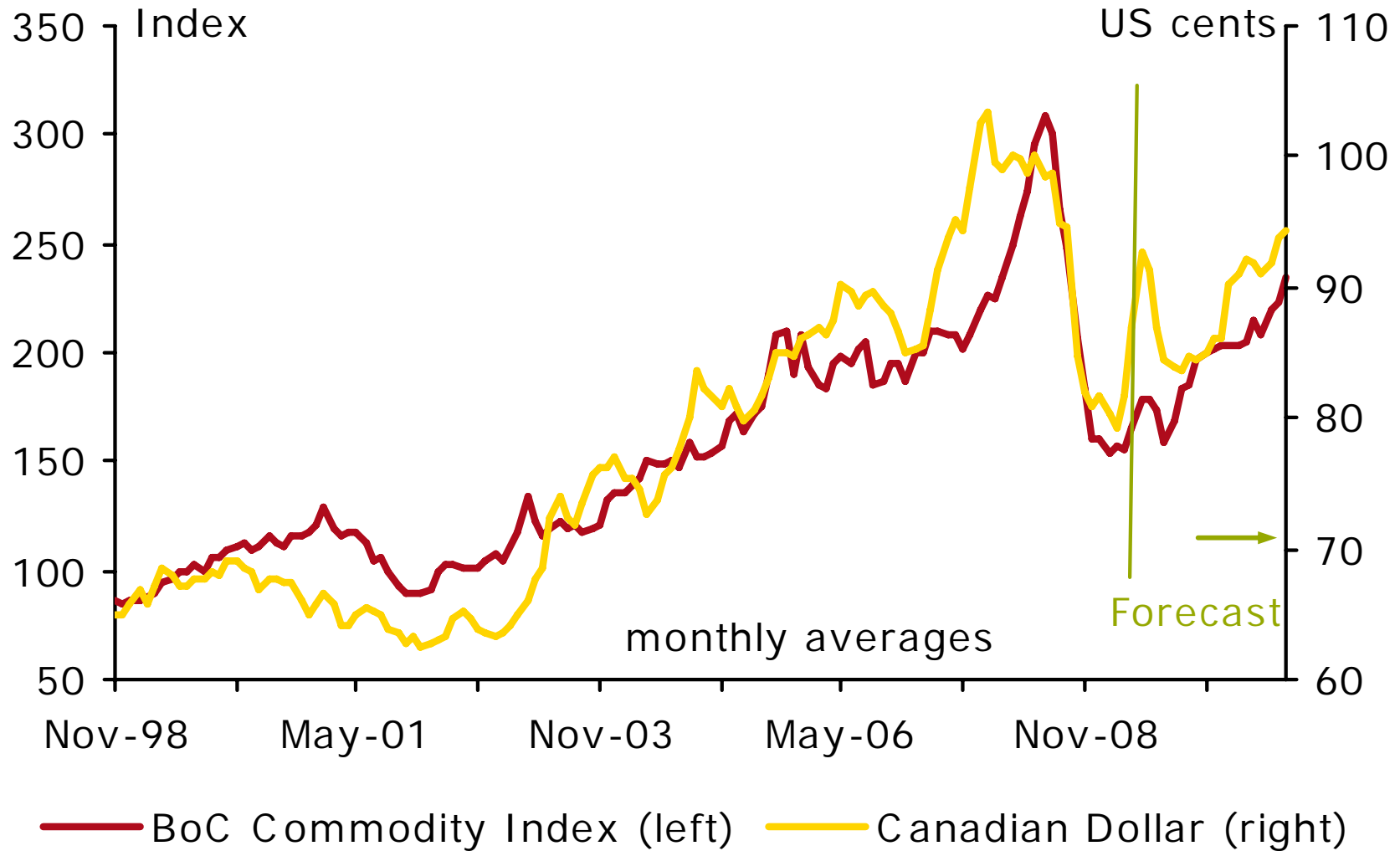
Correlation (Commodity price index and C\$)



C\$ standard deviation



C\$ Move Looks Early vs Commodities



TSX Cheap vs Long-Term Earnings



TSX Spring Move Eclipsed Any Pre-Recession-End Rally

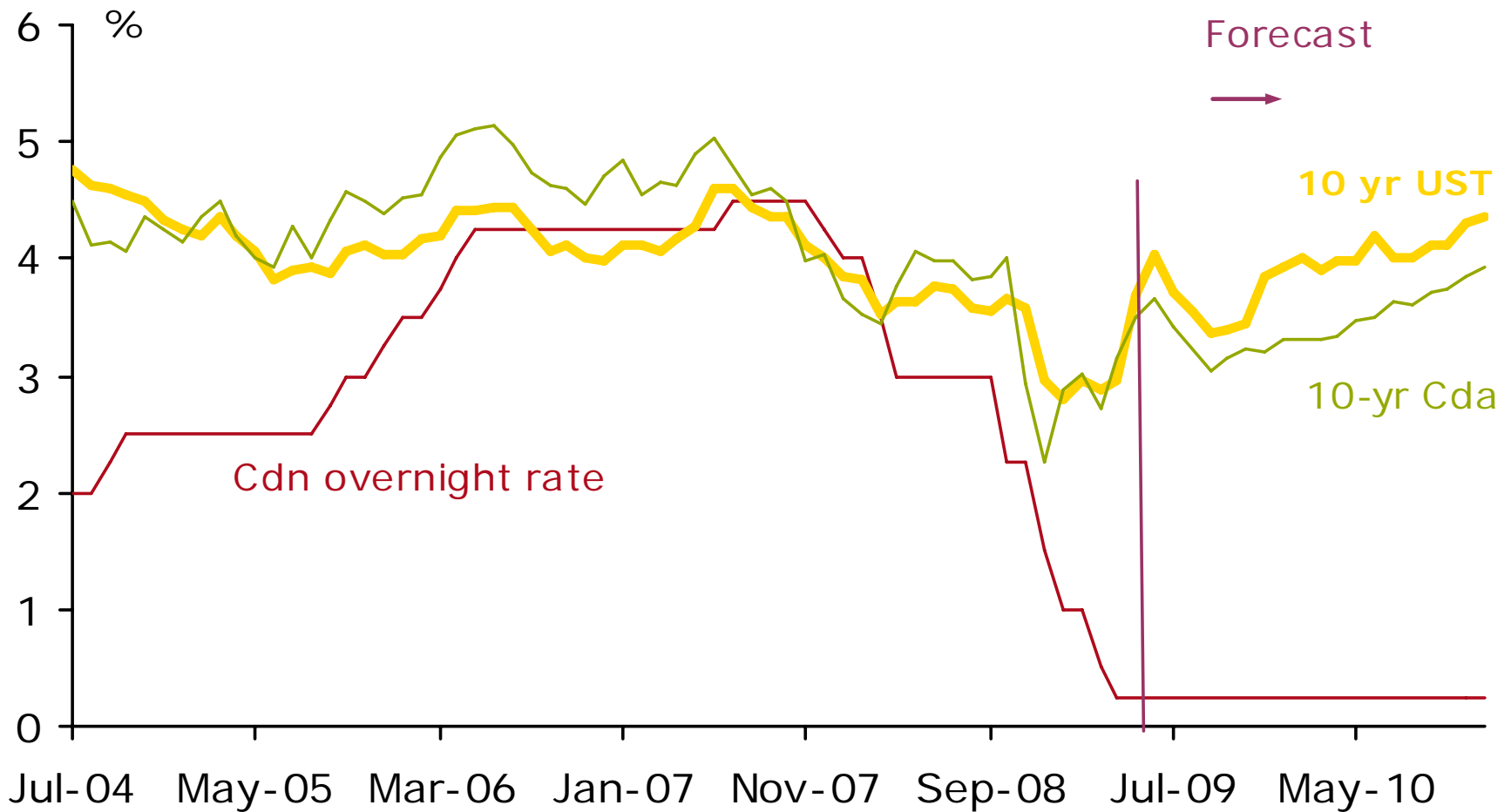
<u>US recession dates (coinciding with TSX bear markets)</u>	<u>TSX return over US recession</u>	<u>TSX return from its low to end of US recession</u>
1929-33	-75%	13%
1937-38	-27%	21%
1957-58	-21%	5%
1970	-11%	14%
1973-75	-26%	17%
1981-82	-22%	34%
1990-91	-1%	13%
2001 *	-8%	-17%
Median, past recessions	-22%	14%
Current Recession, 2007-?	-25% **	40% **

* Market fell for 10 months after official end of recession

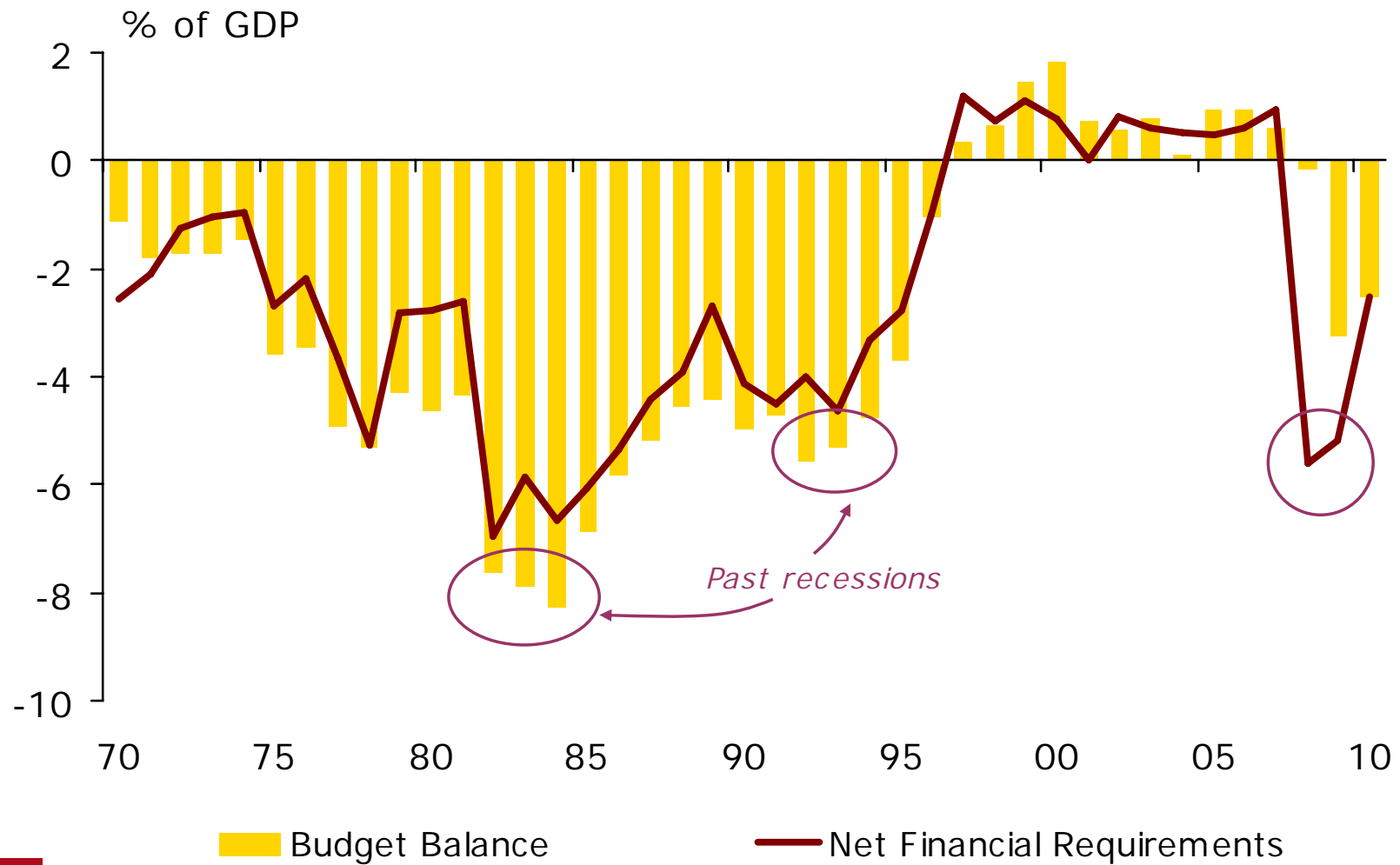
** Through Early June



Corrective Rallies Will Be Short-Lived But Canadas Will Outperform

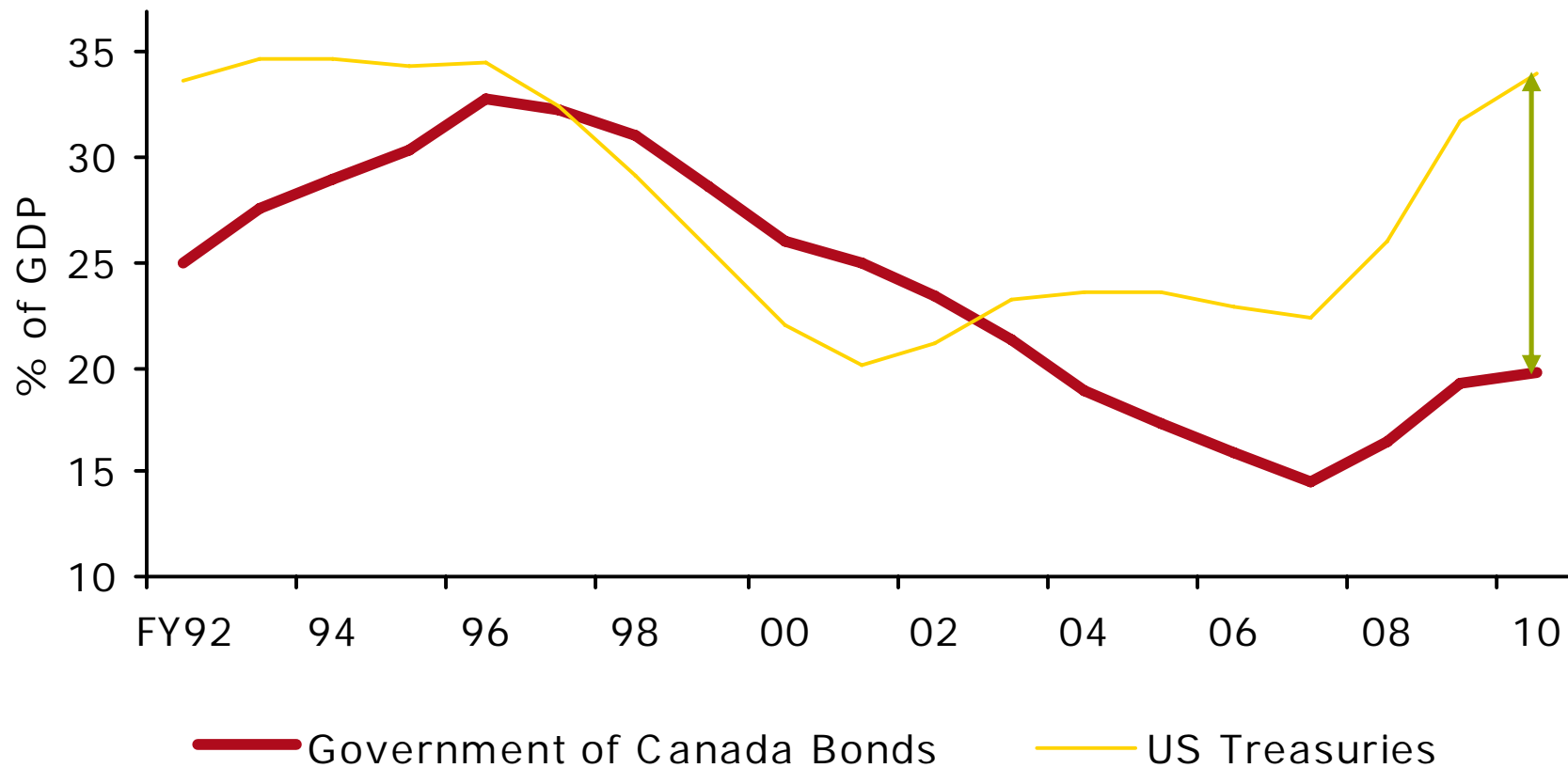


Gov't of Canada Issuance Elevated vs Deficits

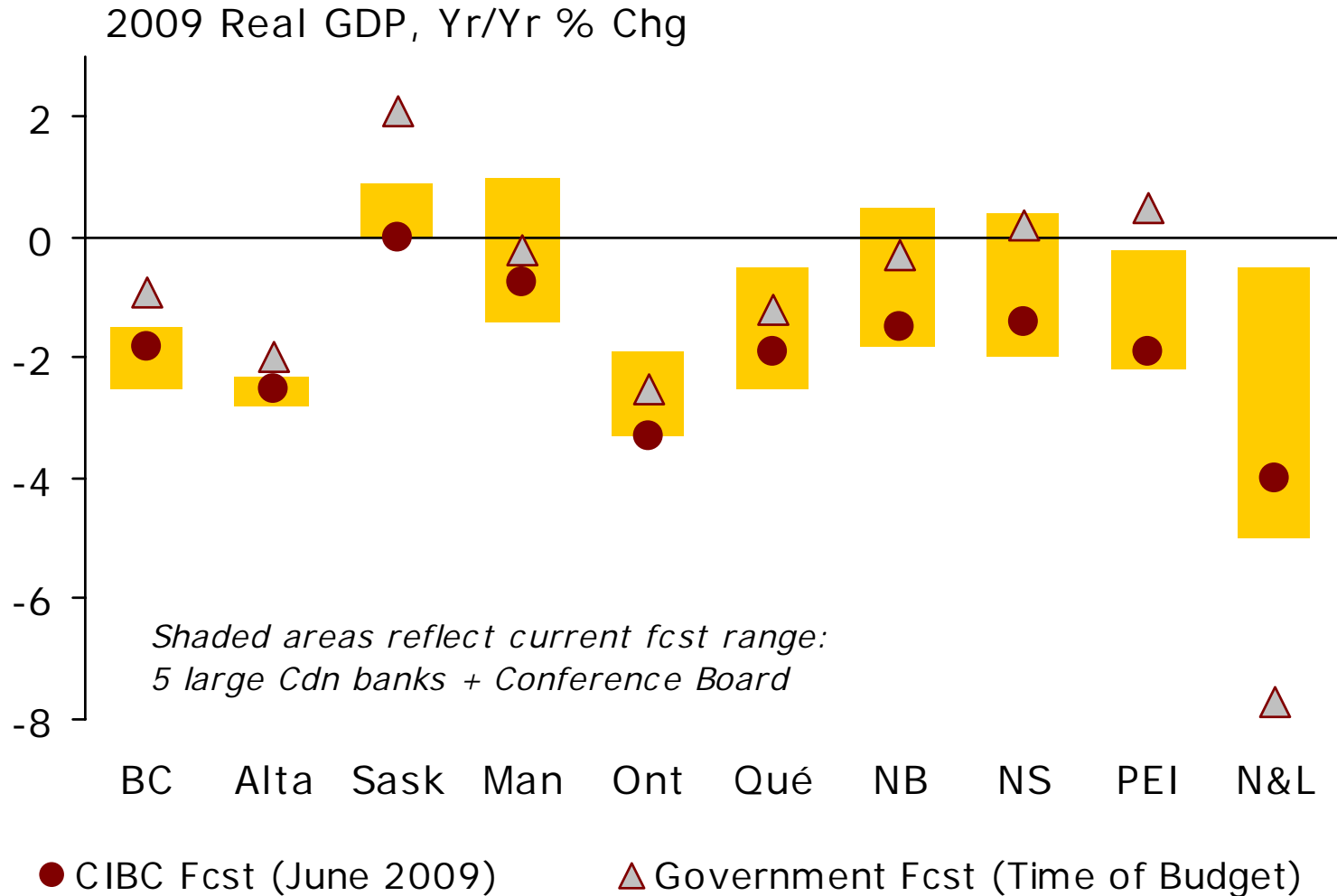


Less Pressure from Canadian Borrowing Less Temptation to Inflate Debt Away

Outstanding Canadas vs Treasuries



Provincial Deficit Target Near \$30 Bn Based on Earlier, More Optimistic Forecasts



Still Some Room for Spread Narrowing

