

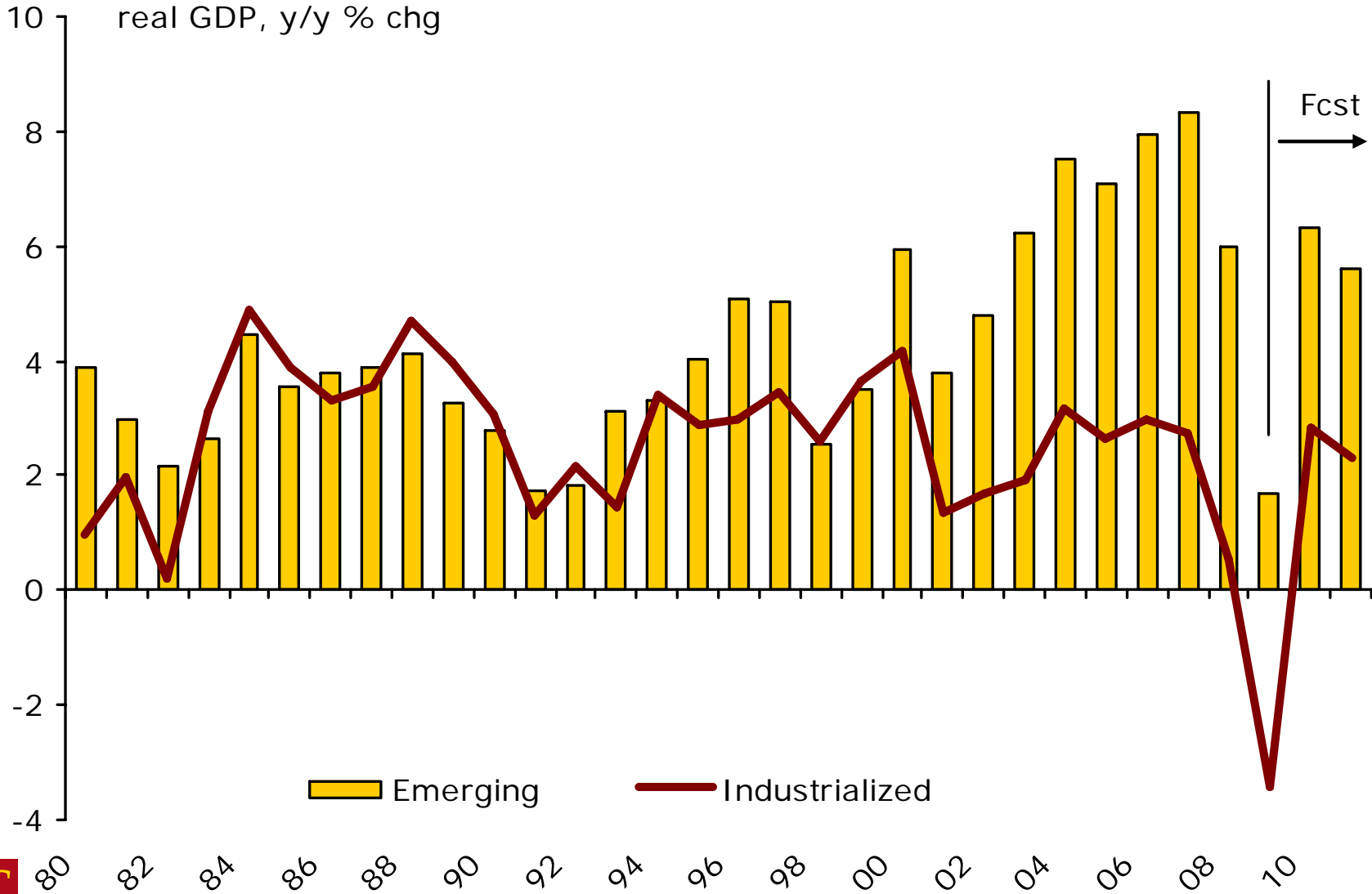
# Take it Easy

*By Avery Shenfeld, Chief Economist & Managing Director*

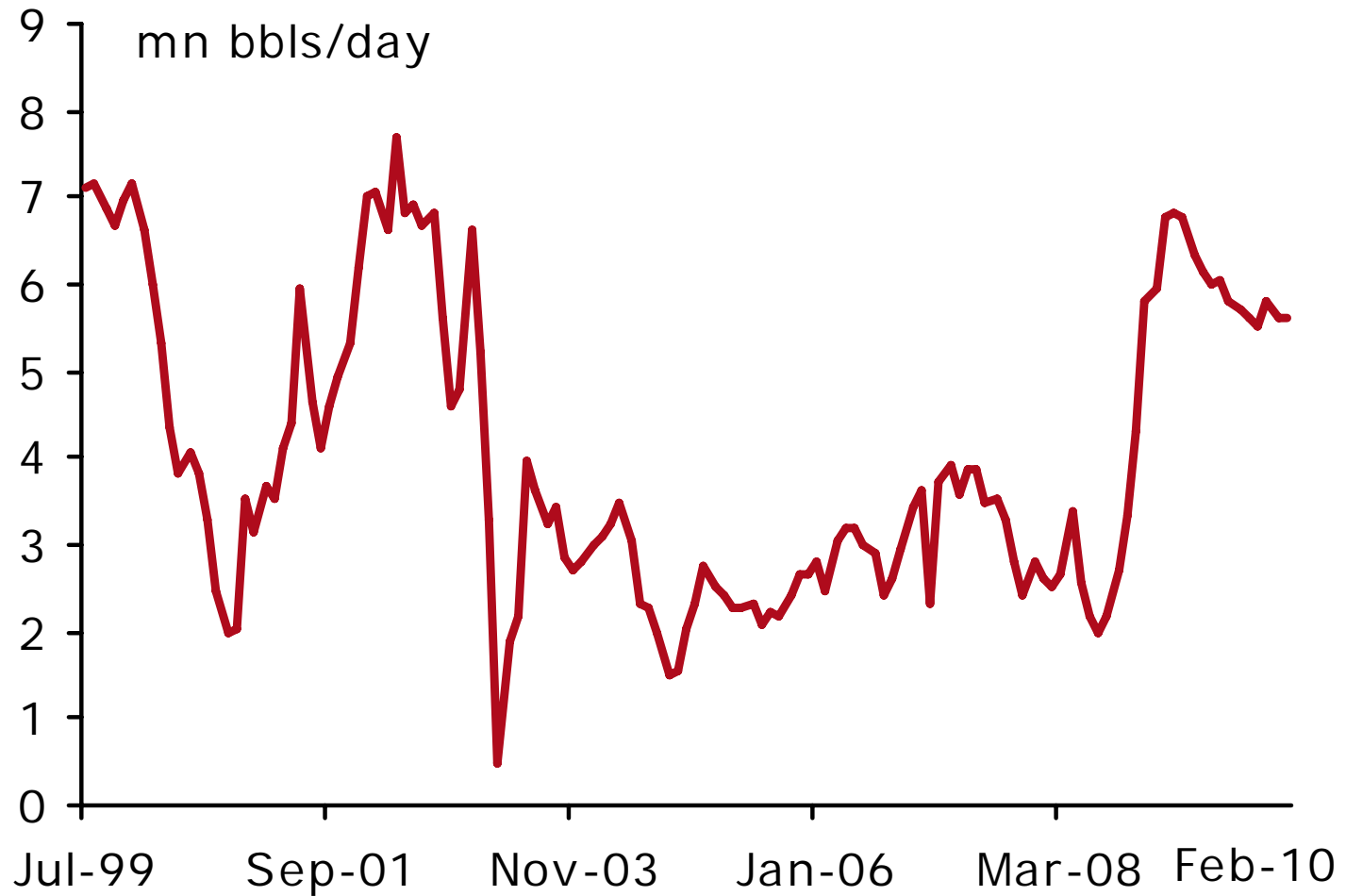
April 2010



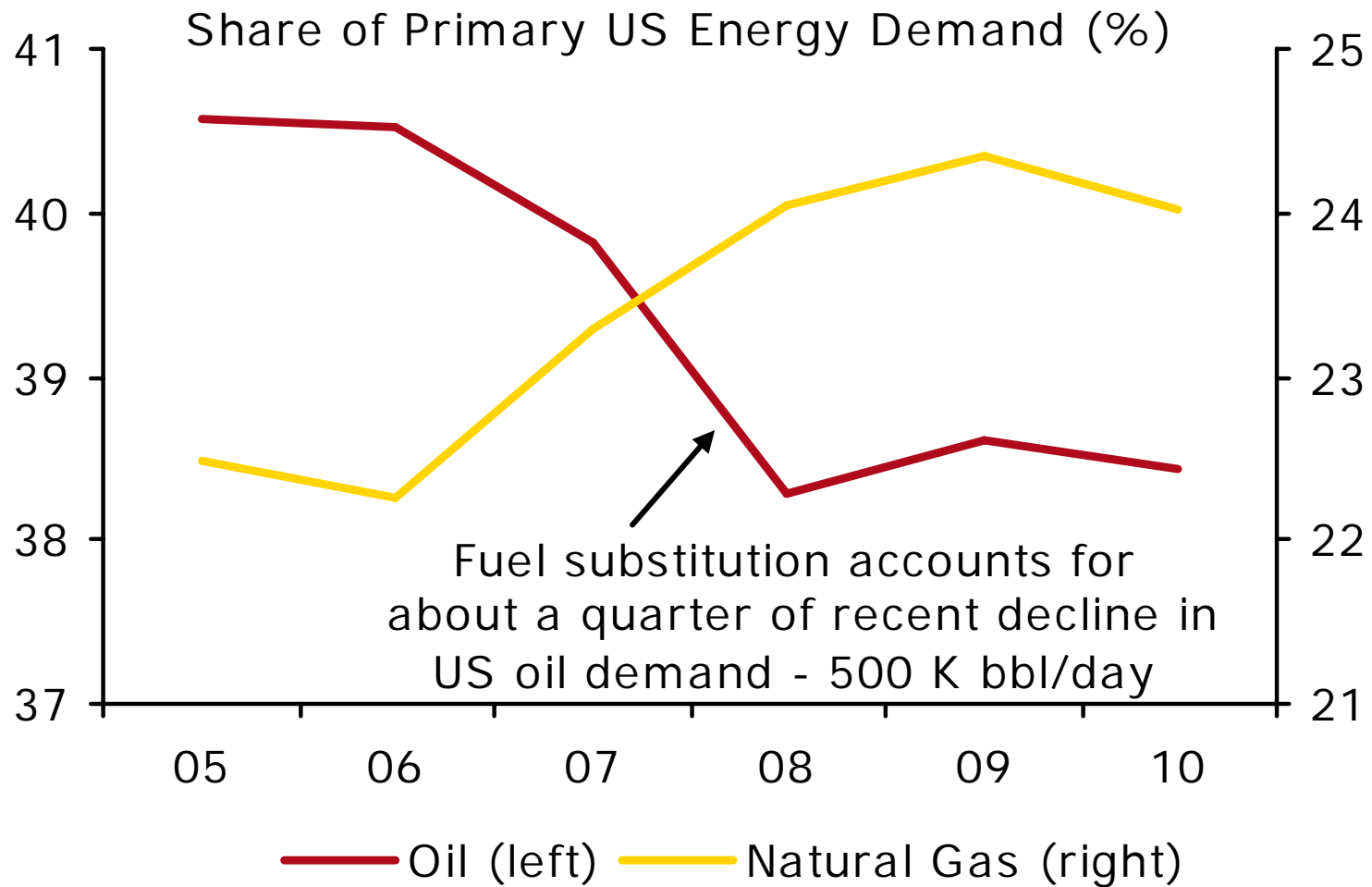
# Forecast Global Growth of 4% Includes Huge Edge for Emerging Markets



## OPEC Spare Capacity Caps Oil Prices in 2010-11



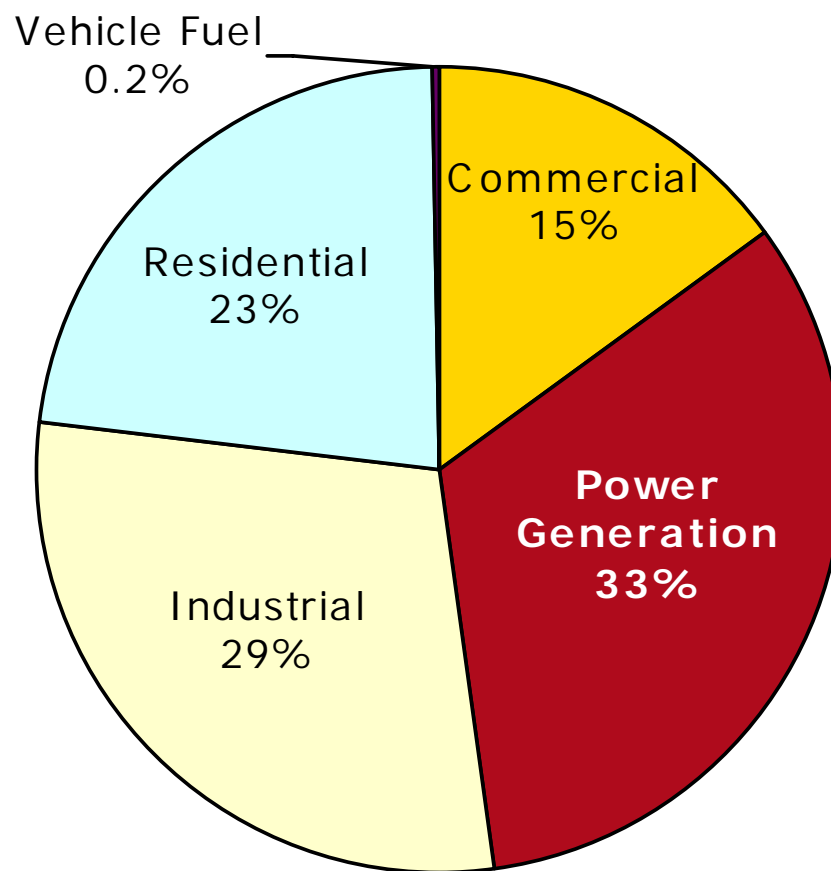
## Americans Using More "Low Cost" Natural Gas, Less Oil



## Factory Rebound Will Lift US Natural Gas Demand

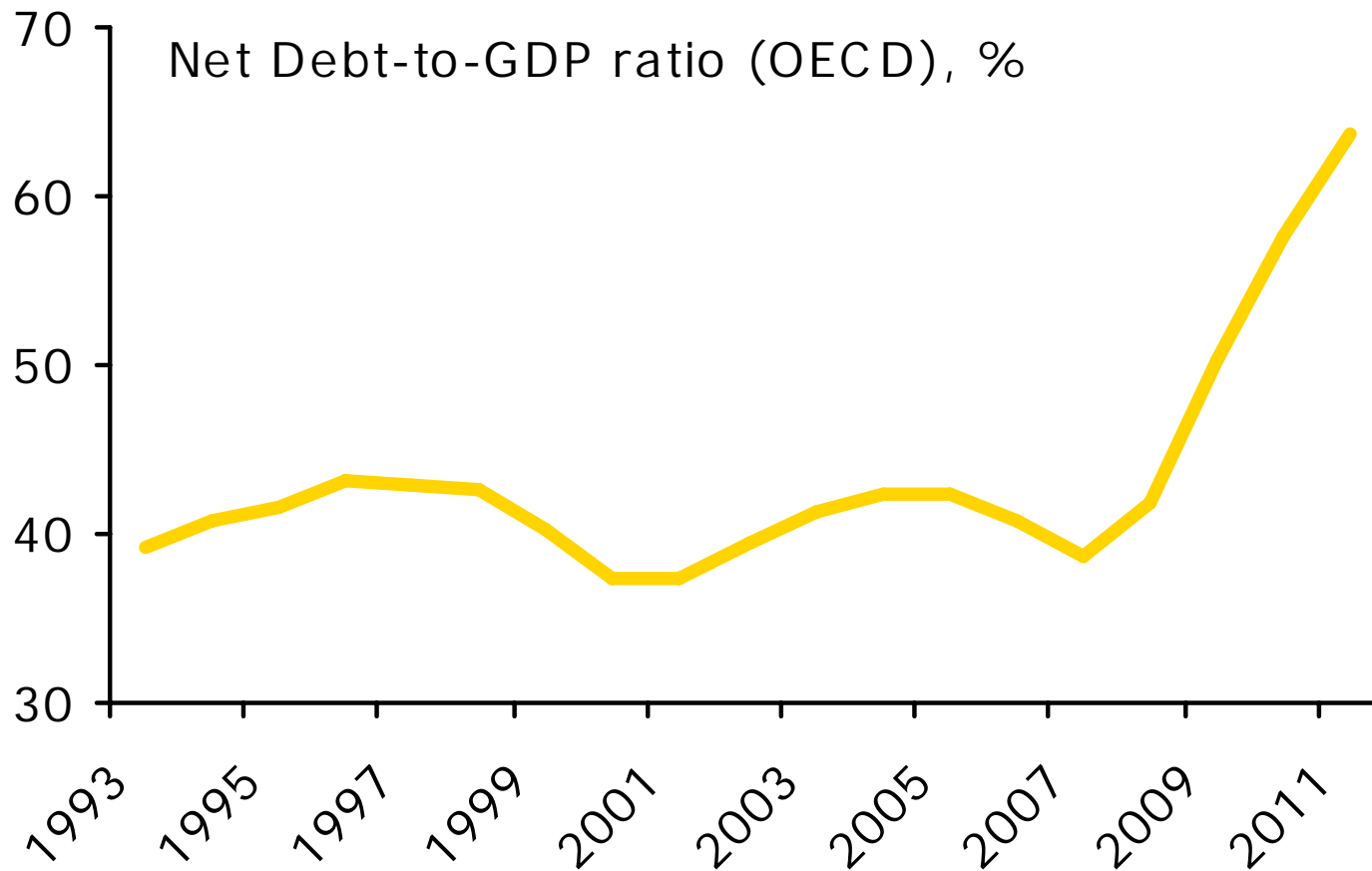
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### US Natural Gas Demand by Sector (2009)



Source: US DoE, CIBC Estimates

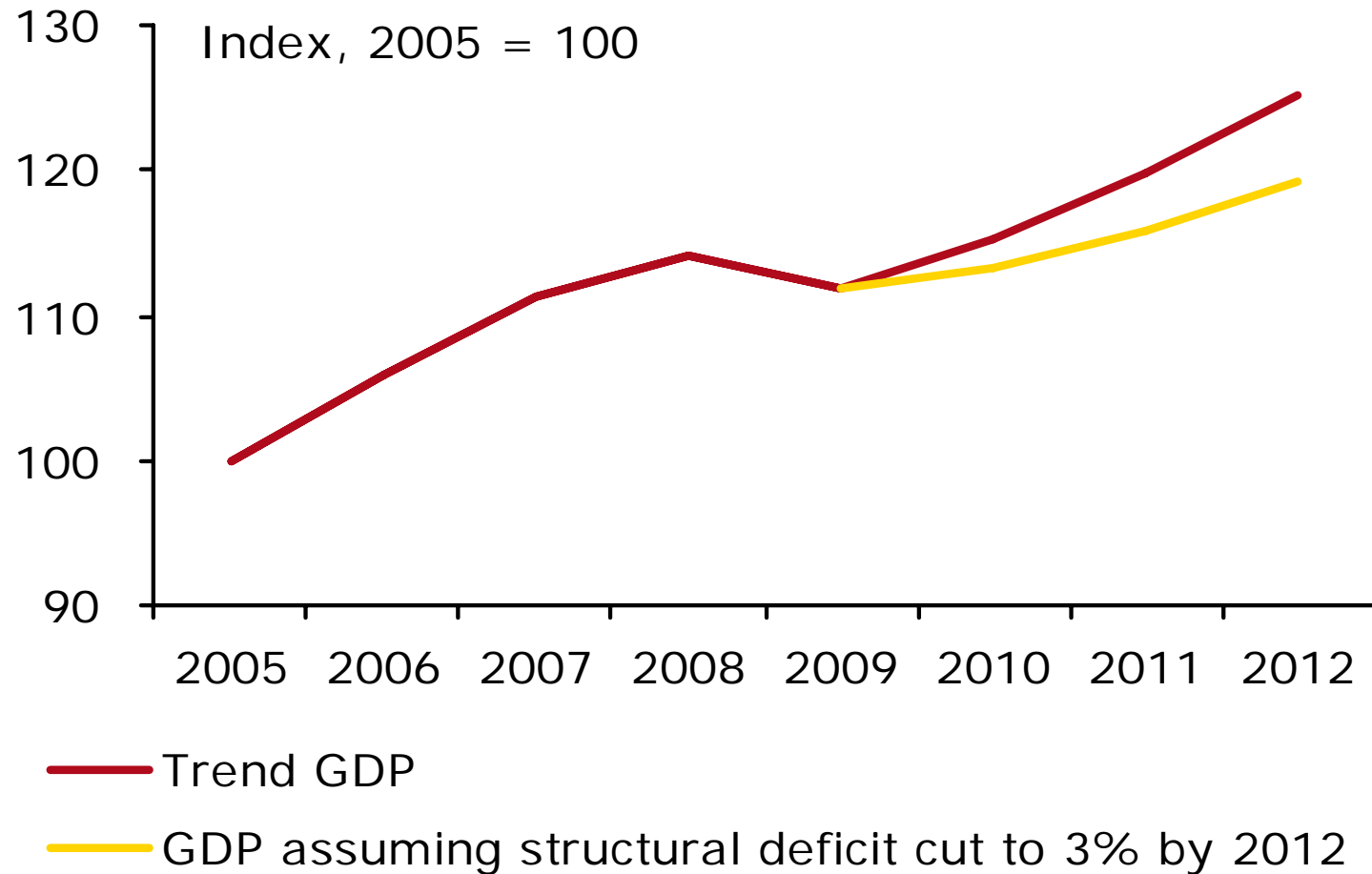
## Government Net Debt Soars in OECD



Source: OECD, CIBC



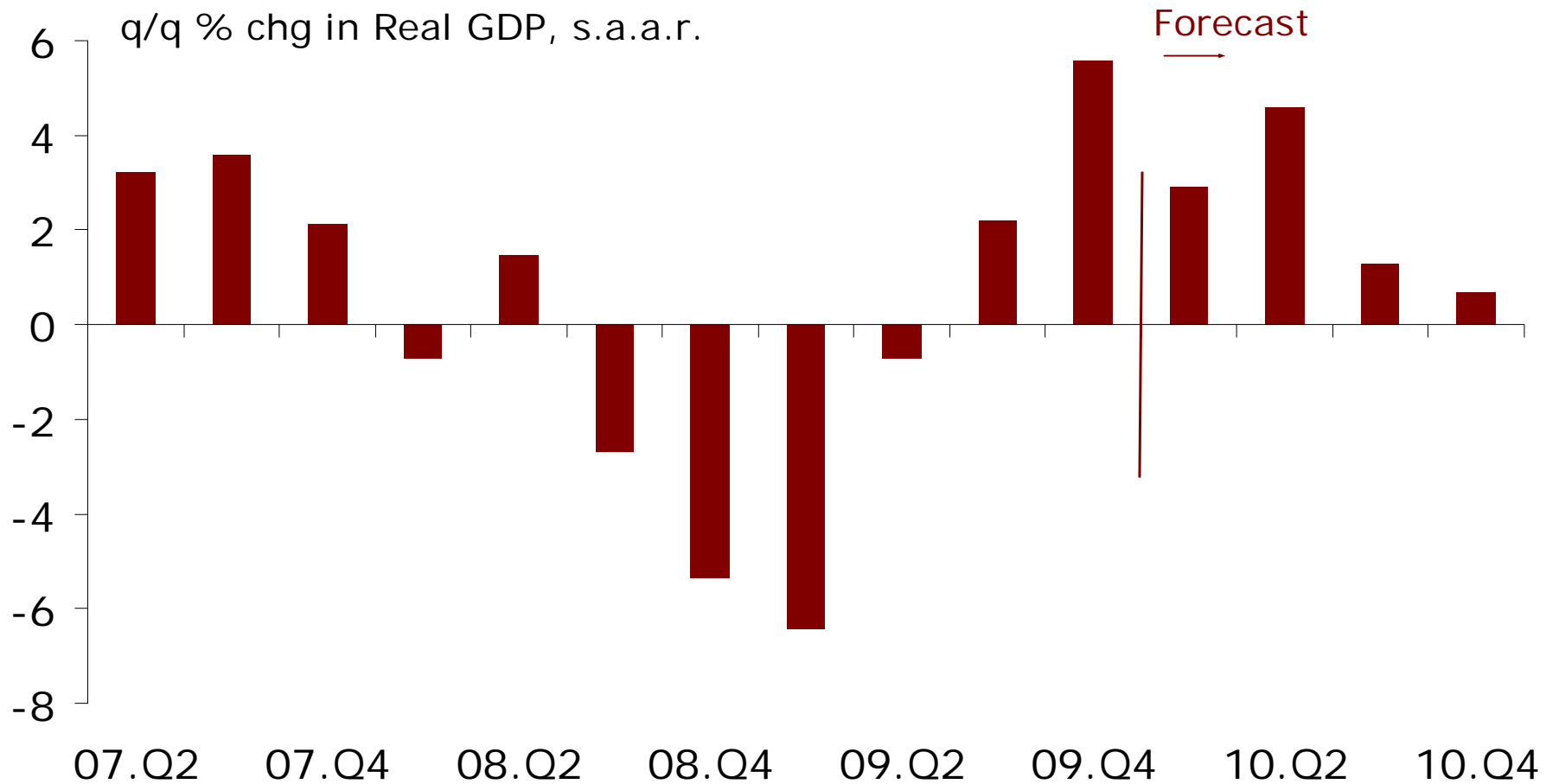
## Hitting 3% Deficit Target by 2012 Would Cut G7 Growth by 2% Per Annum



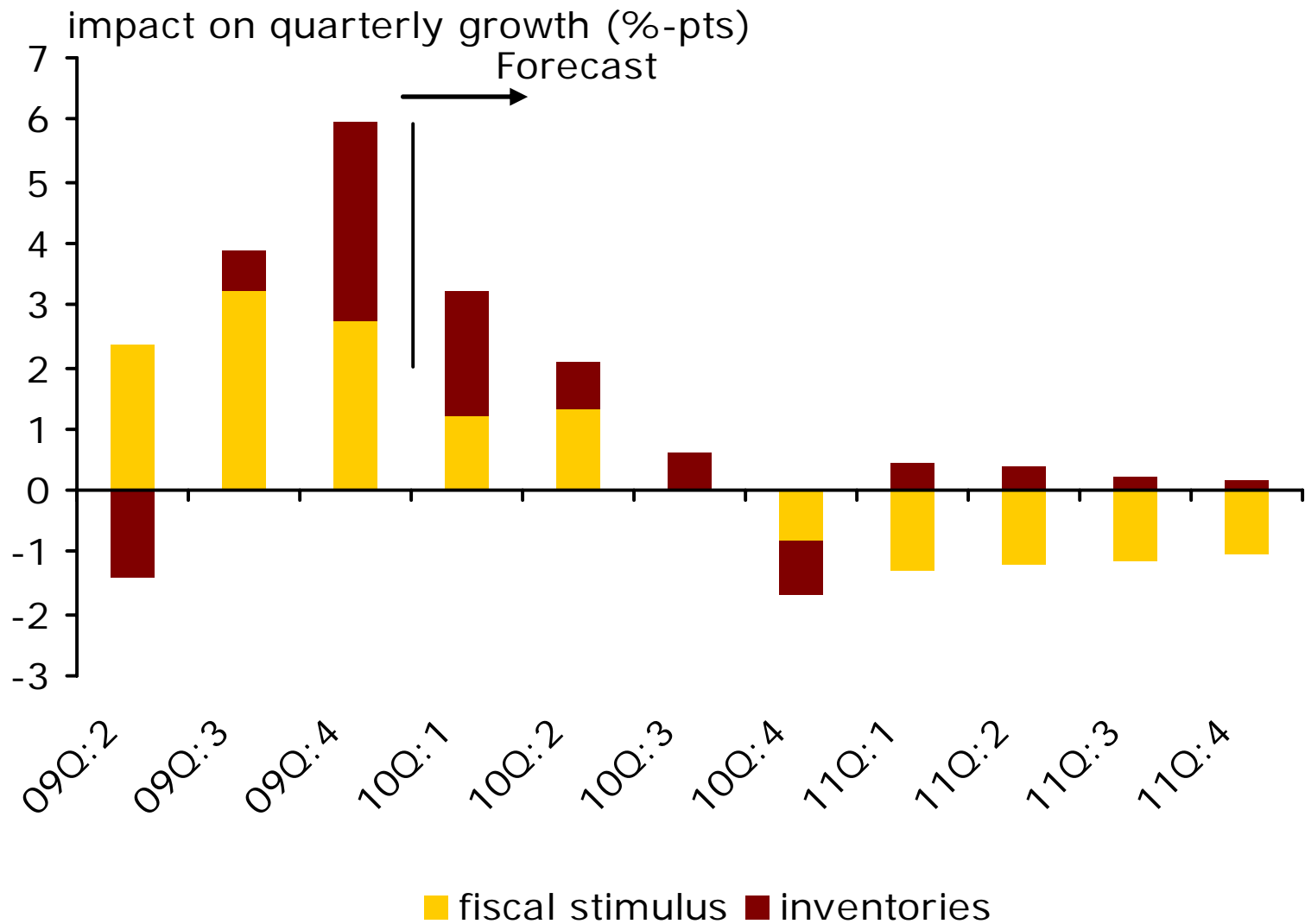
Source: IMF, OECD, CIBC



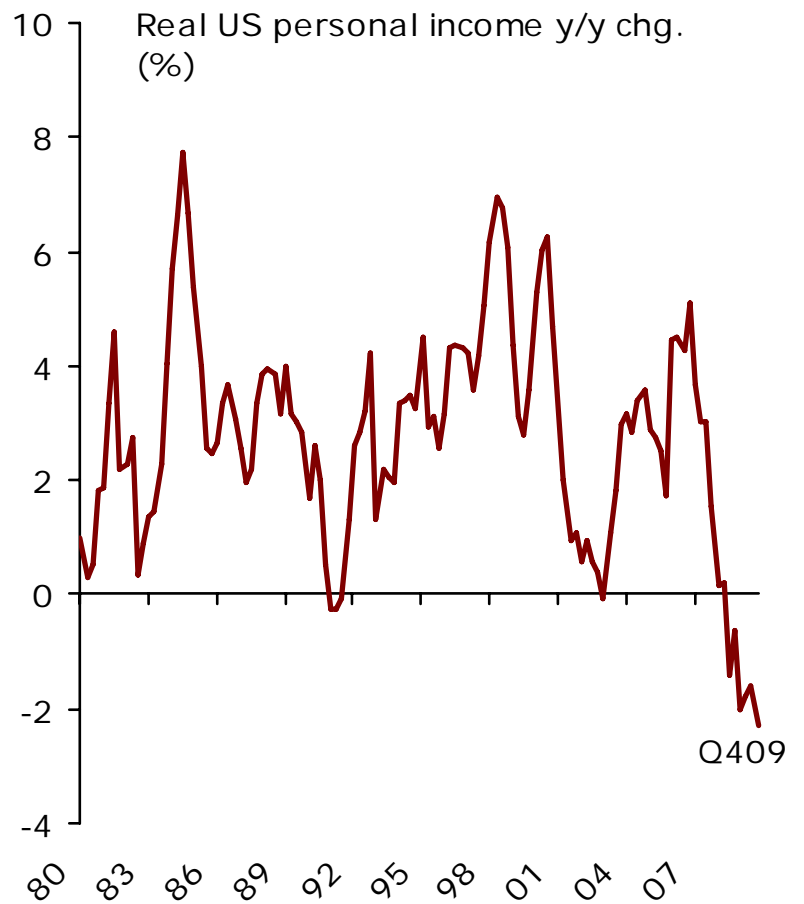
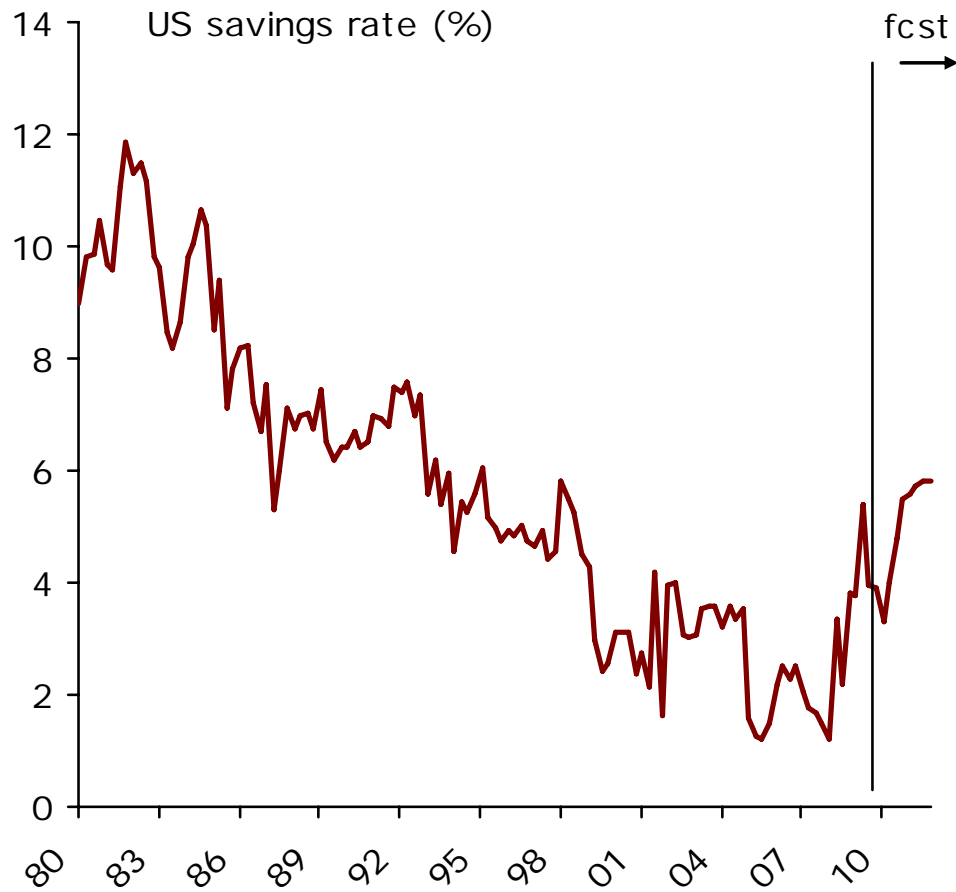
## US Economy: In Like a Lion, Out Like a Lamb



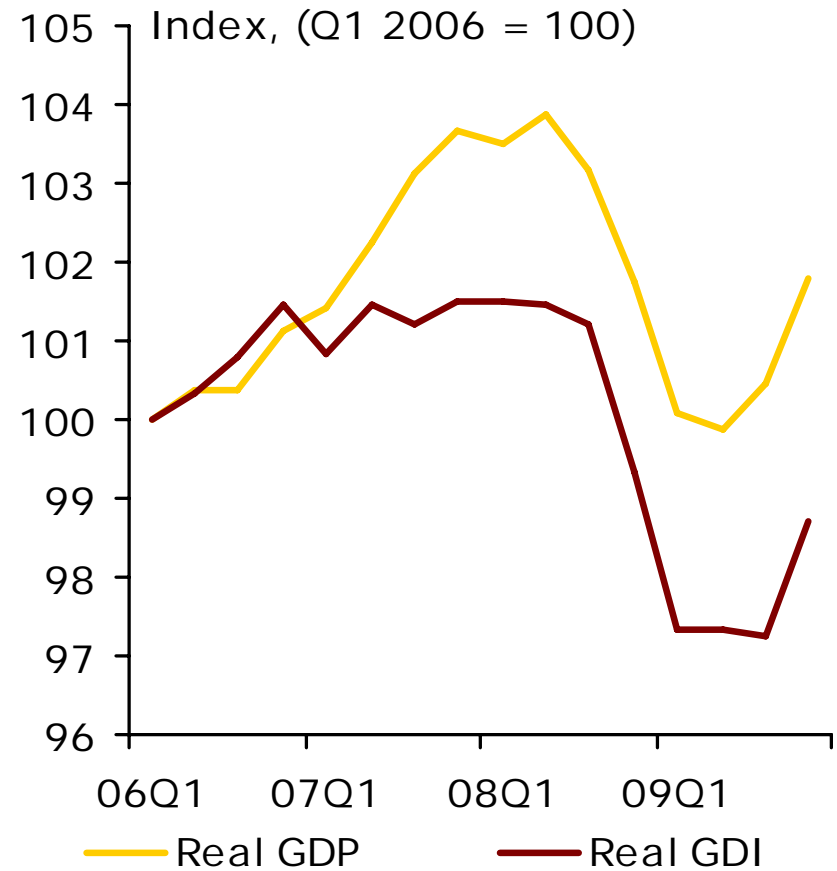
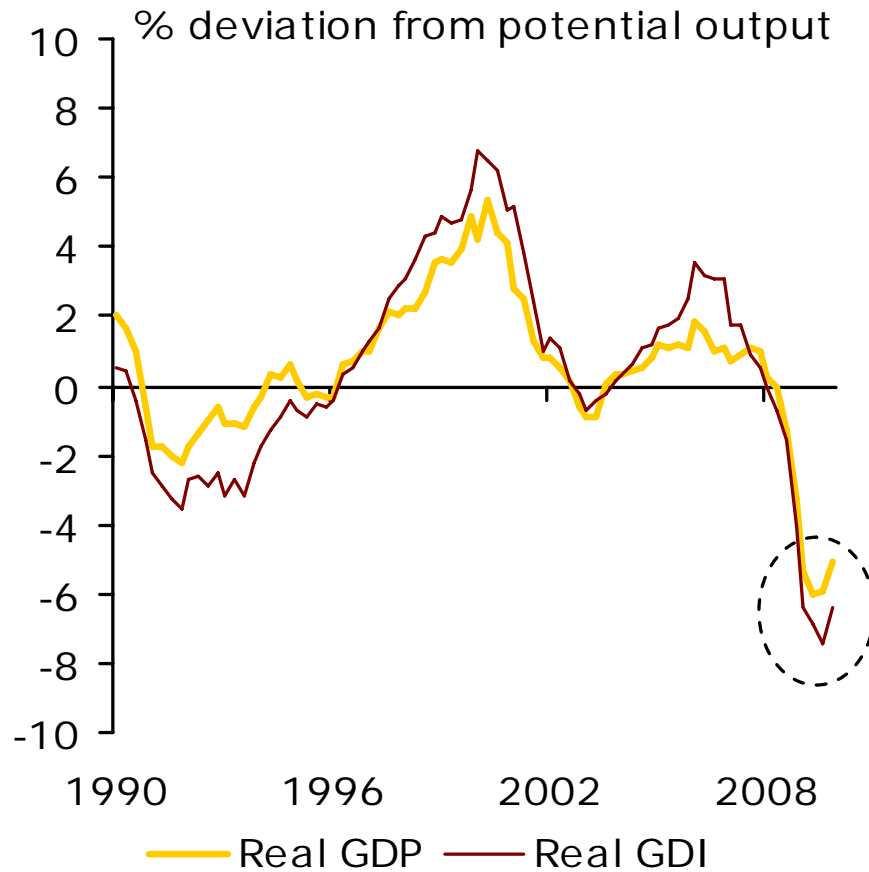
# Impact of US Stimulus Package and Inventory Changes on US GDP Growth



# American Consumers Waiting for Income Gains and Need to Save Again

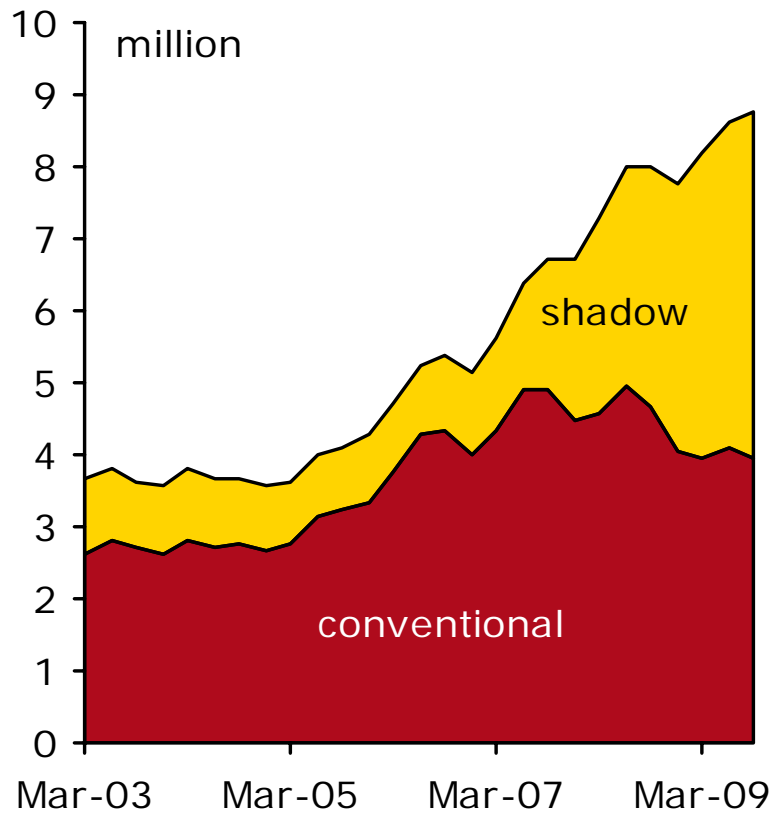


## US GDI Measure Hints Recession Was Deeper

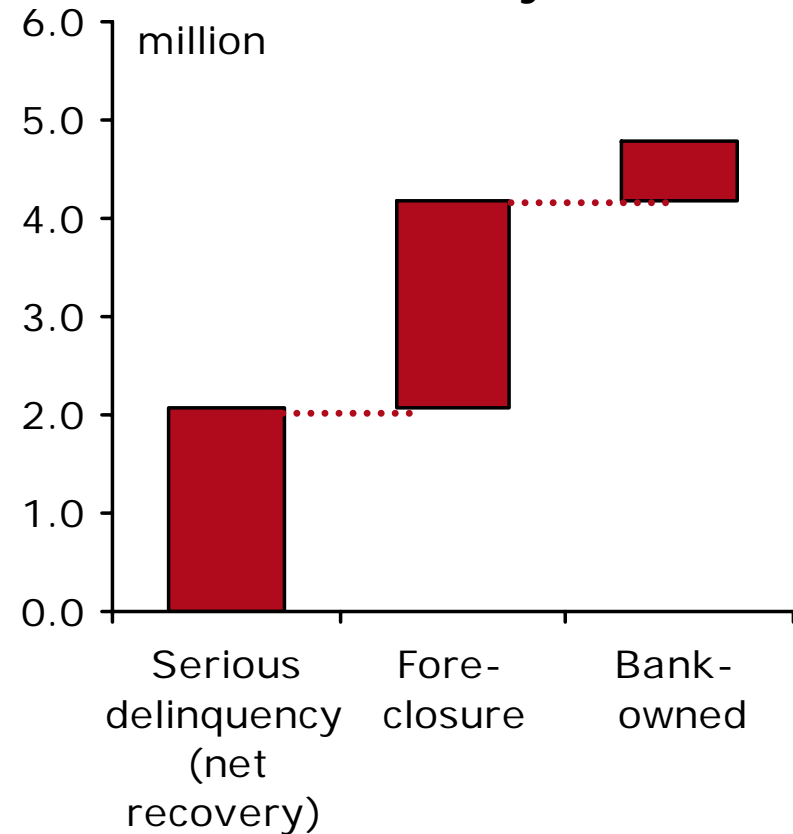


# Inventories Will Weigh on US Housing As Tax Credits and Fed MBS Support Expire

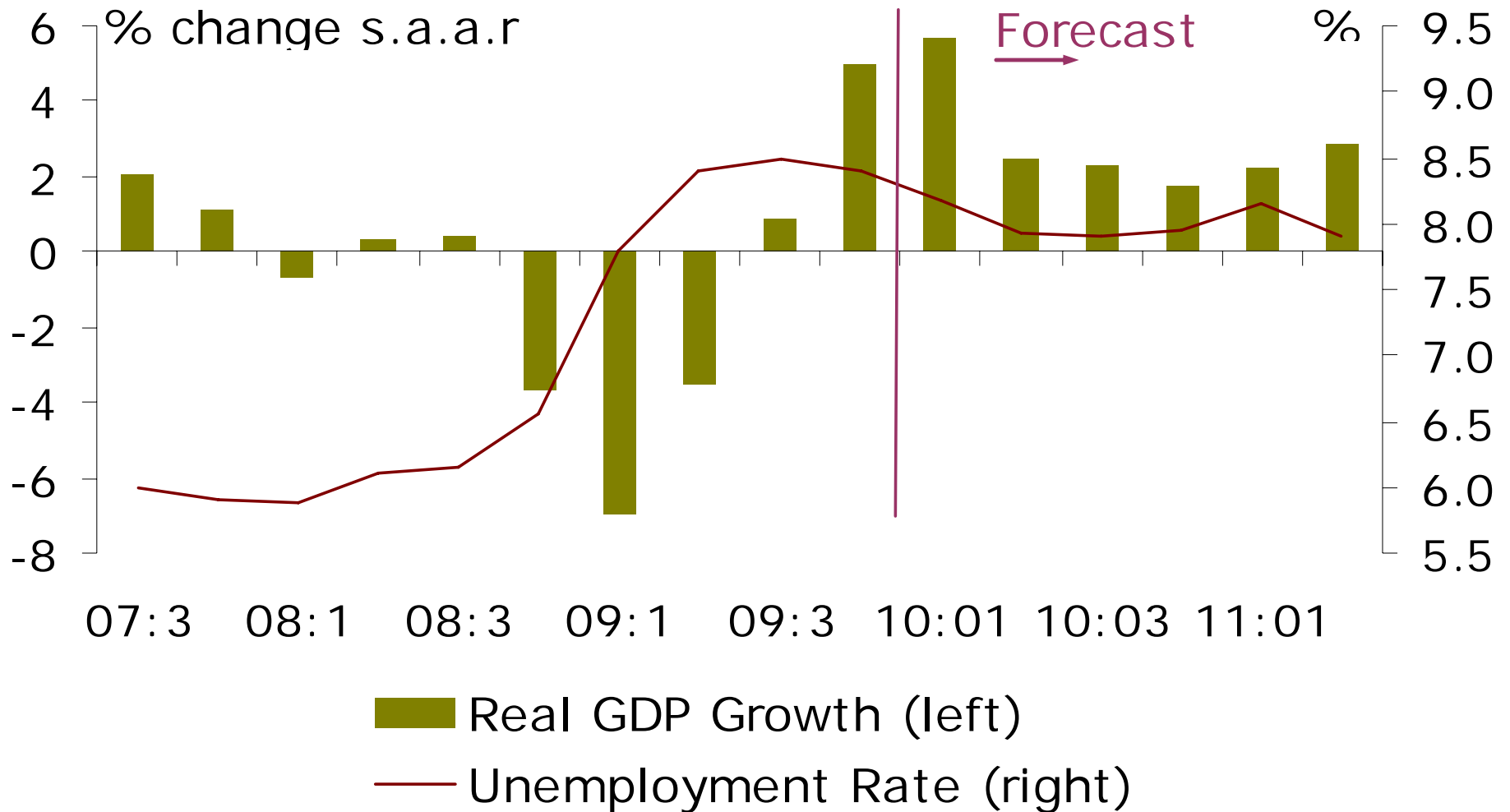
## Housing Inventory



## Composition of Shadow Inventory



## Canada's Boom Won't Last



## Western Provinces Expect Moderate Recovery

Y/Y % Chg	Real GDP			Nominal GDP		
	2009E	2010F	2011F	2009E	2010F	2011F
<b>Provincial Forecasts</b>						
BC	-2.7	2.2	2.3	-5.0	4.5	4.7
Alta	-2.5	2.6	2.9	-17.5	7.9	7.6
Sask	-1.6	2.6	3.3	-12.5	3.8	10.0
Man	-0.9	2.5	3.0	-0.2	4.0	4.6
Ont	-3.4	2.7	3.2	-3.5	4.4	5.0
Qué	-1.4	2.3	2.6	-0.4	4.0	4.5
NB	-0.5	1.7	NA	1.0	3.9	NA
NS	0.2	1.9	1.2	-1.0	4.4	2.7
PEI <sup>1</sup>	NA	NA	NA	NA	NA	NA
N&L	-8.9	4.0	3.1	-26.7	10.9	8.9
<b>Canada Forecasts</b>						
Provincial <sup>2</sup>	-2.6	2.5	2.8	-6.2	4.9	5.4
Federal	-2.5	2.6	3.2	-4.6	4.9	5.4
CIBC <sup>3</sup>	-2.6	3.0	2.5	-4.5	6.4	5.4

1. 2010 Budget has yet to be tabled

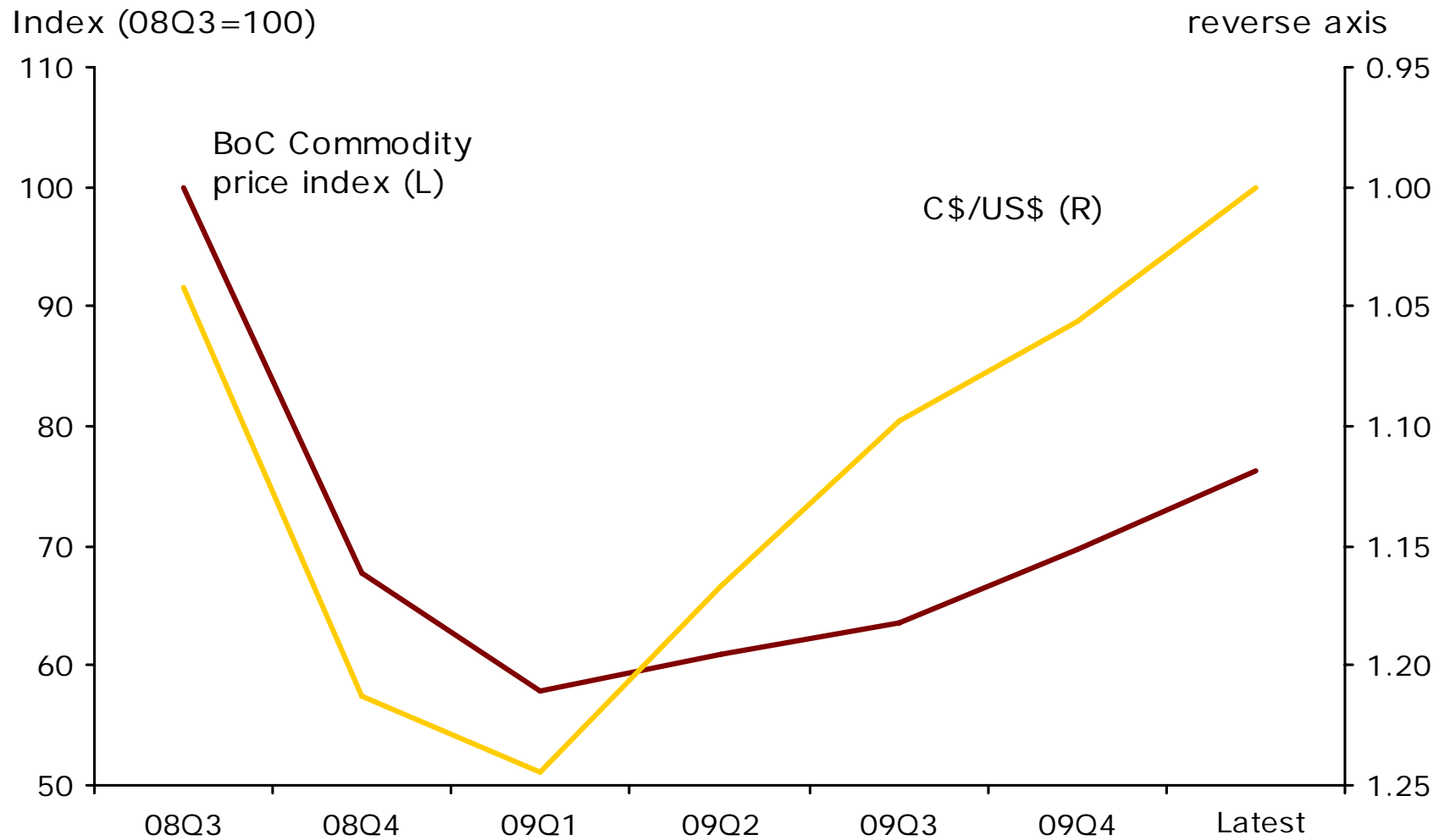
2. Weighted average of individual provincial forecasts

3. CIBC's current national forecast

Source: Provincial budgets, CIBC



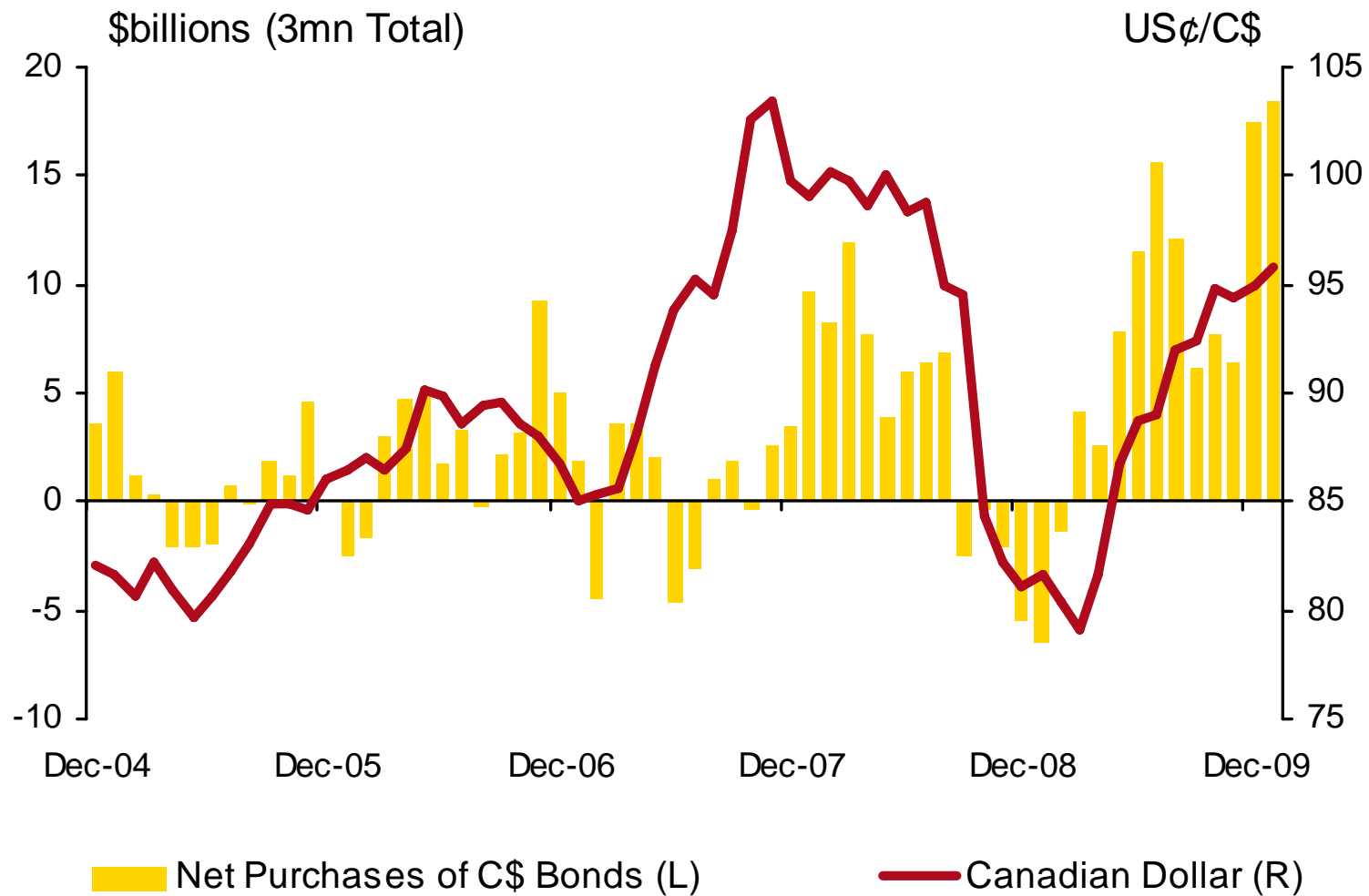
## C\$ Overvalued Relative to Commodities



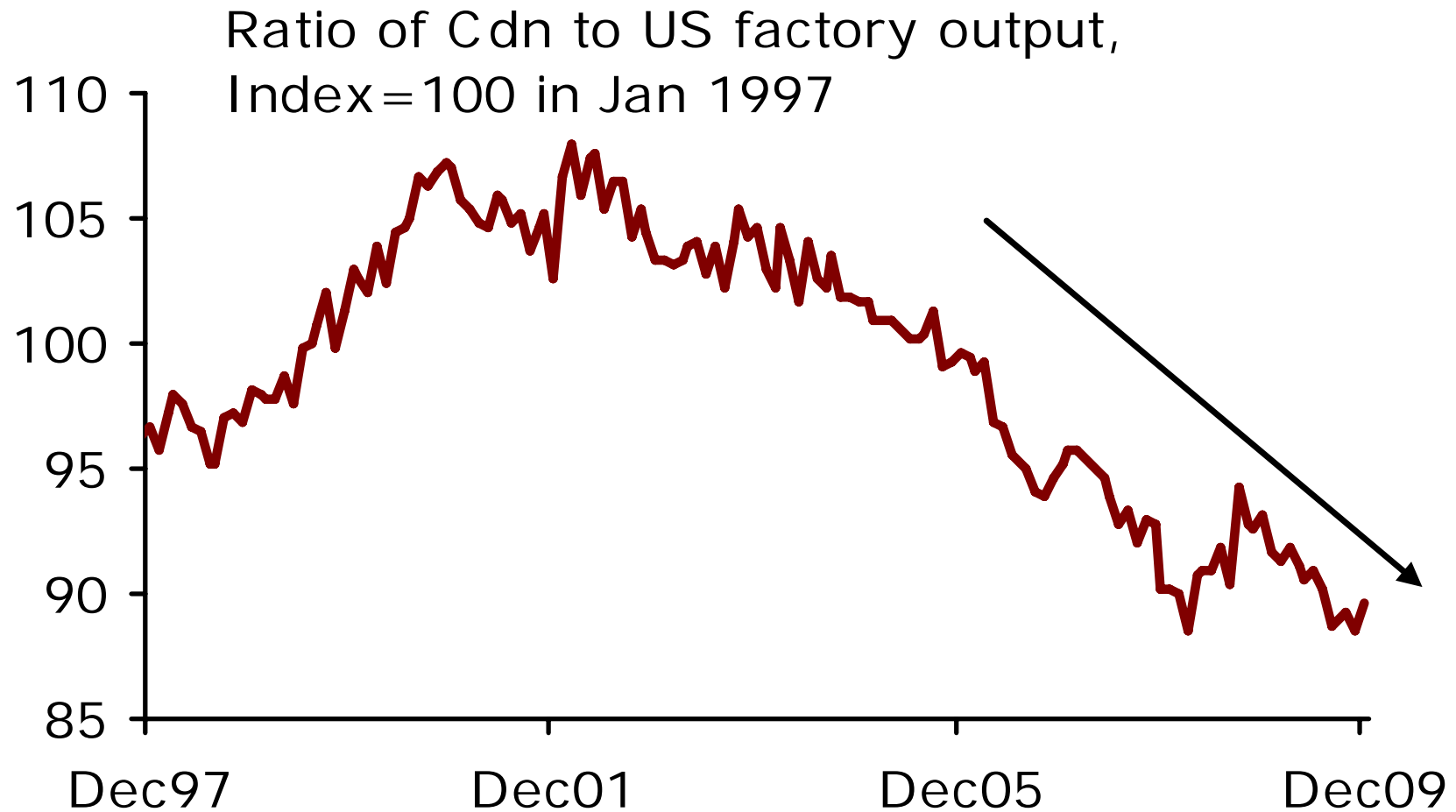
Source: Statistics Canada, CIBC



## Fixed Income Inflows Driving C\$ Appreciation C\$ to Average Slightly Above Parity Through 2011



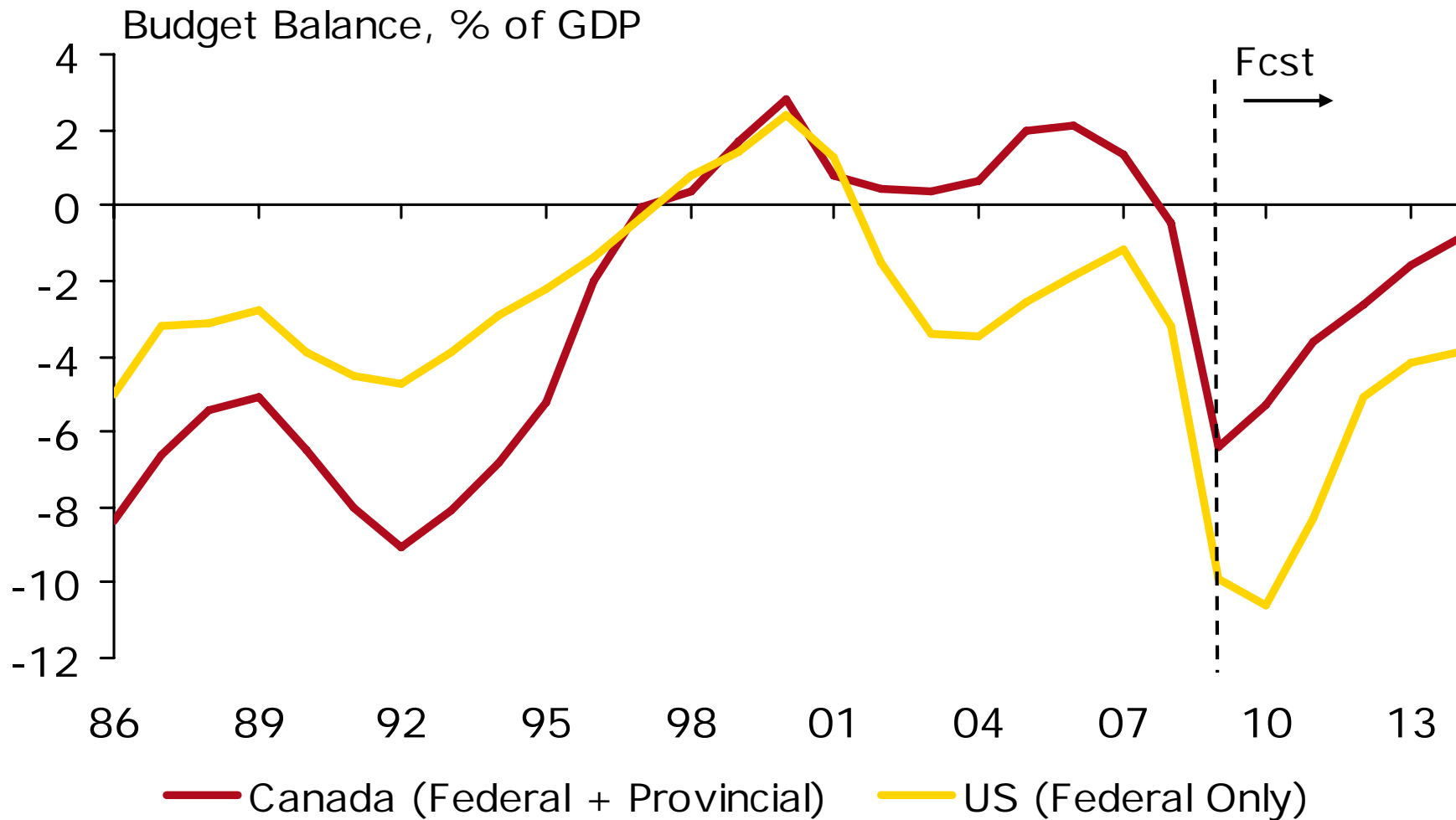
## Strong Loonie Sees Canada Cede Manufacturing Share



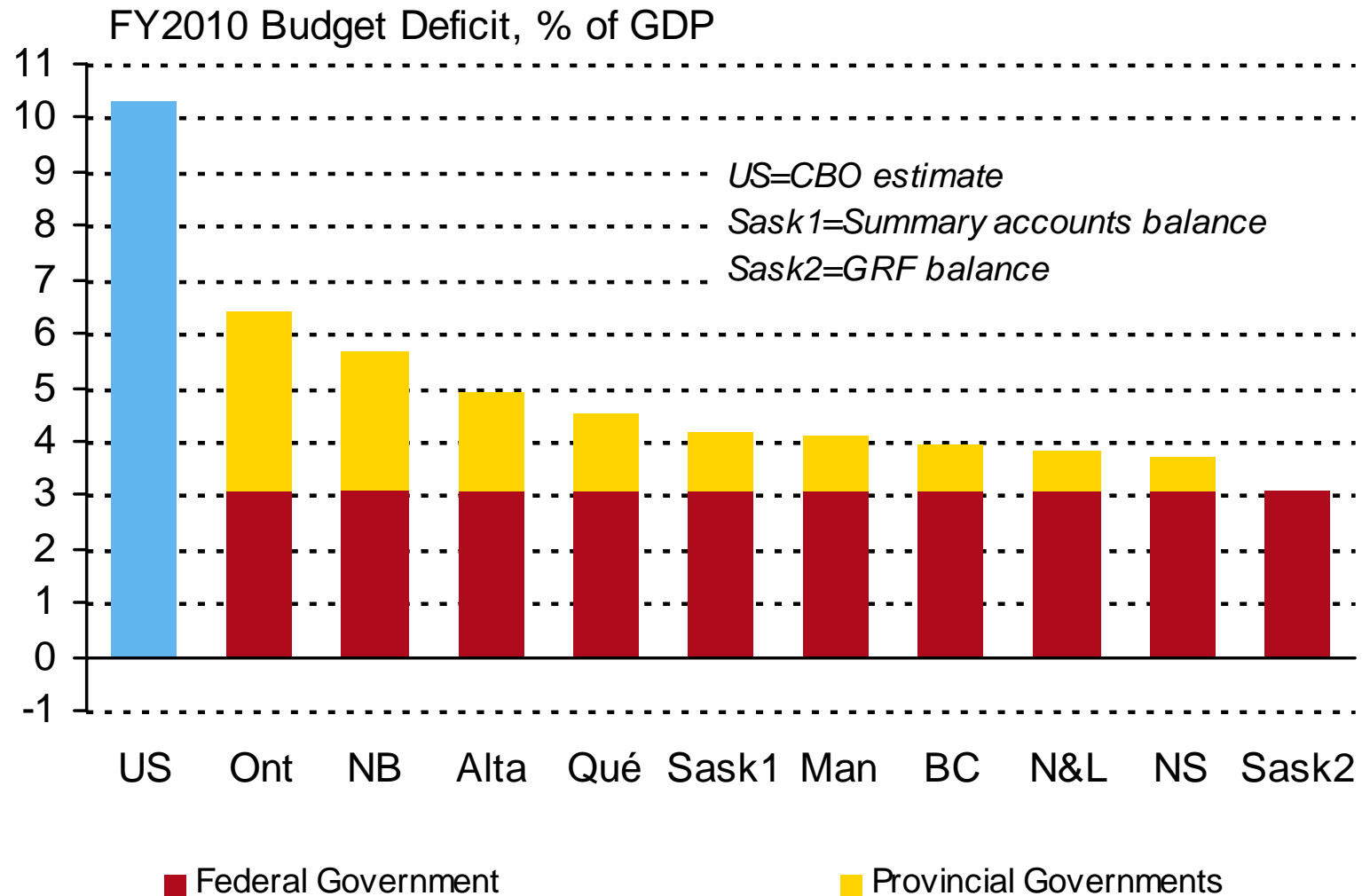
Source: Statistics Canada, CIBC



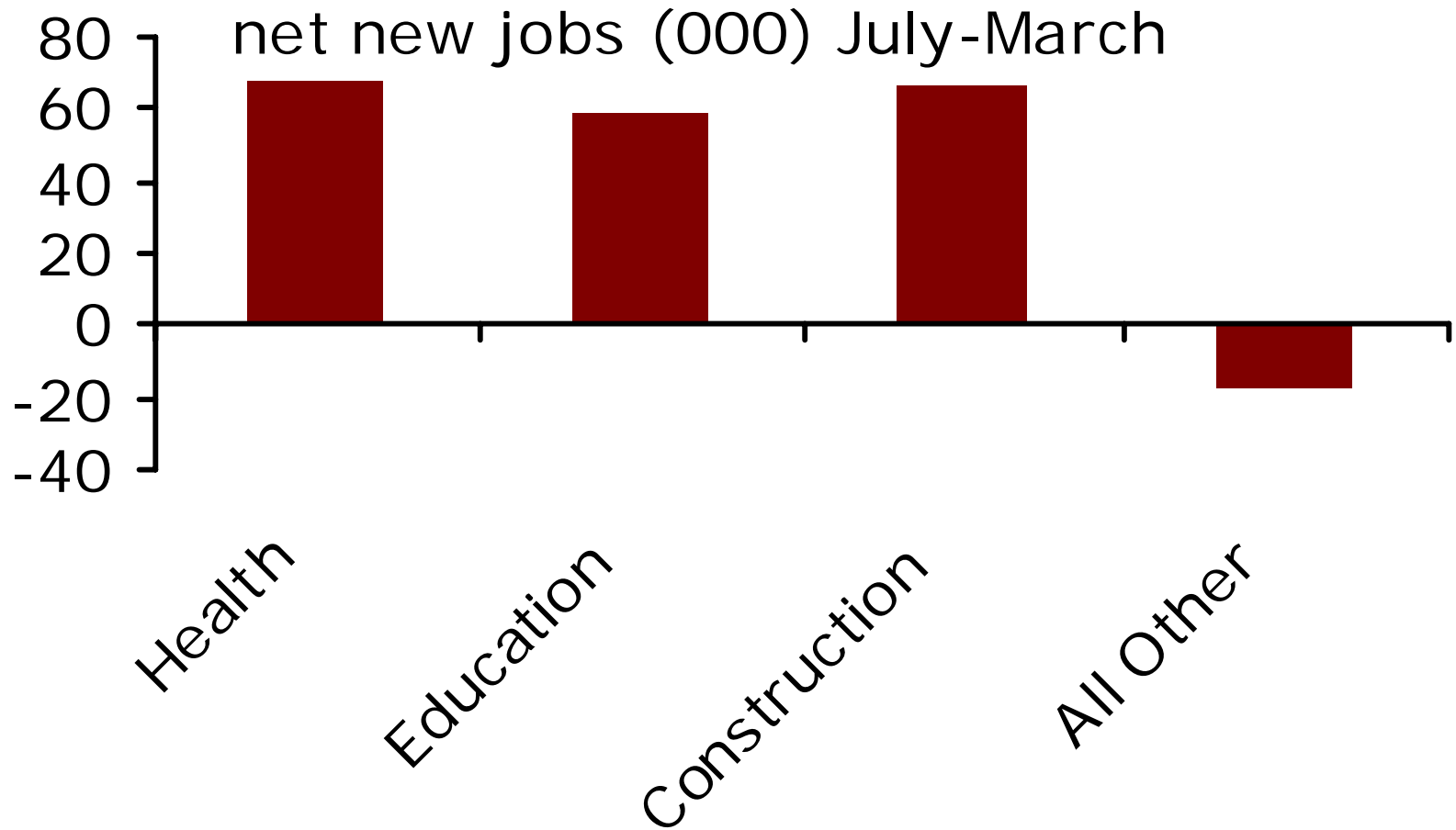
# Canada's Deficits Not as Alarming But Restraint is Coming



## Provincial Deficit Plans for 2010/11

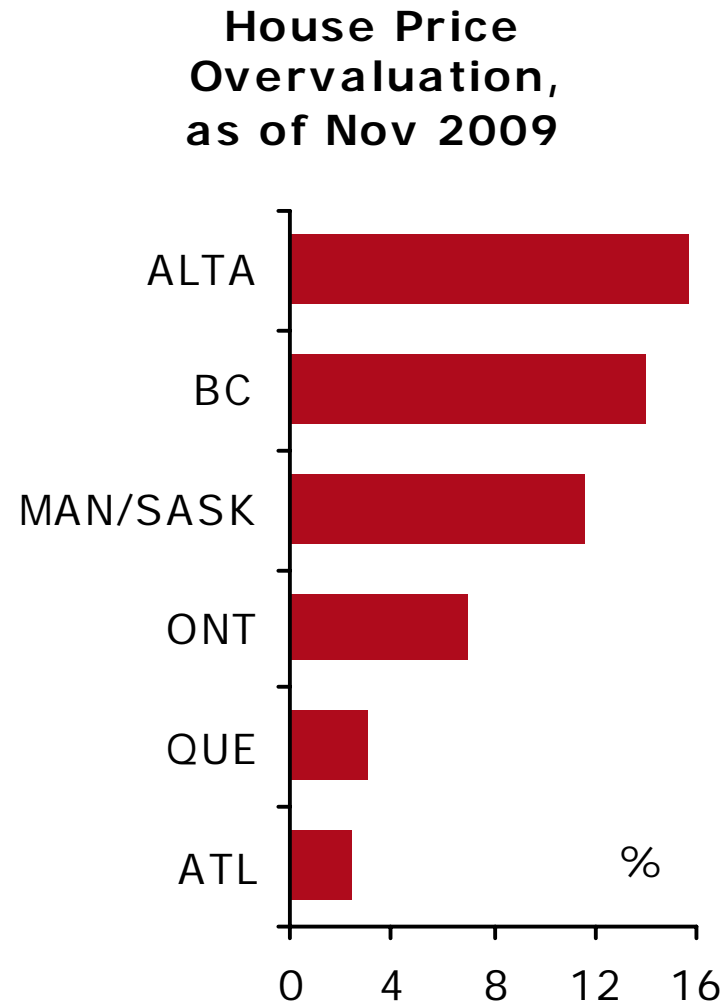
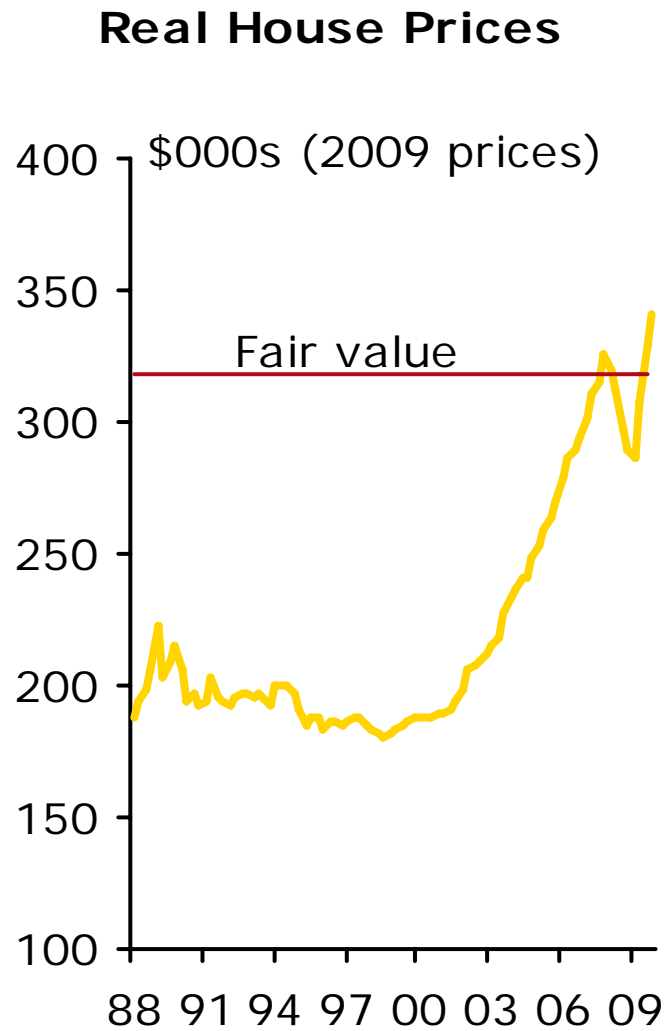


## Job Gains Have Leaned on Government Stimulus



Source: Statistics Canada, CIBC

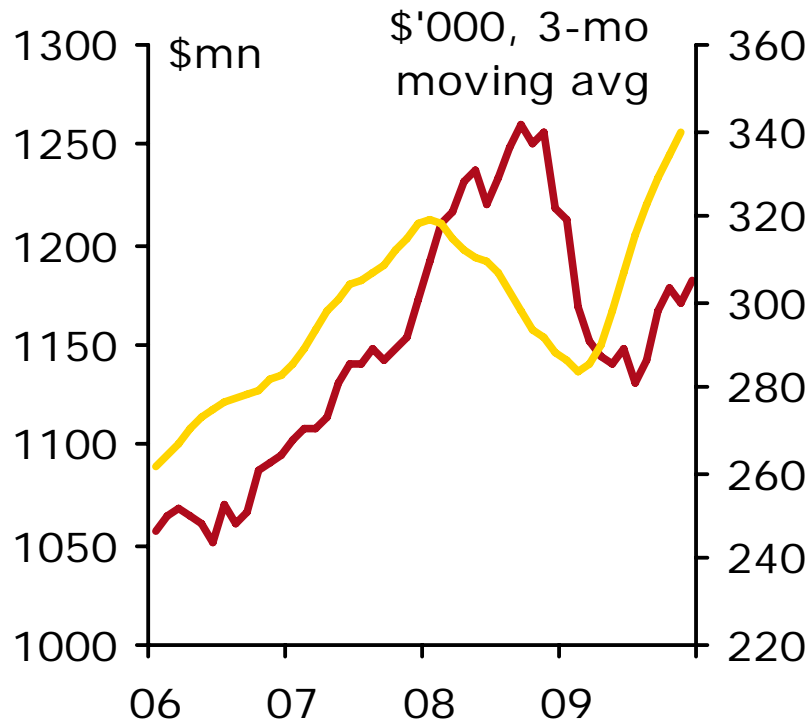
# Canadian House Prices Starting to Overshoot



Source: CREA, IMF, CIBC

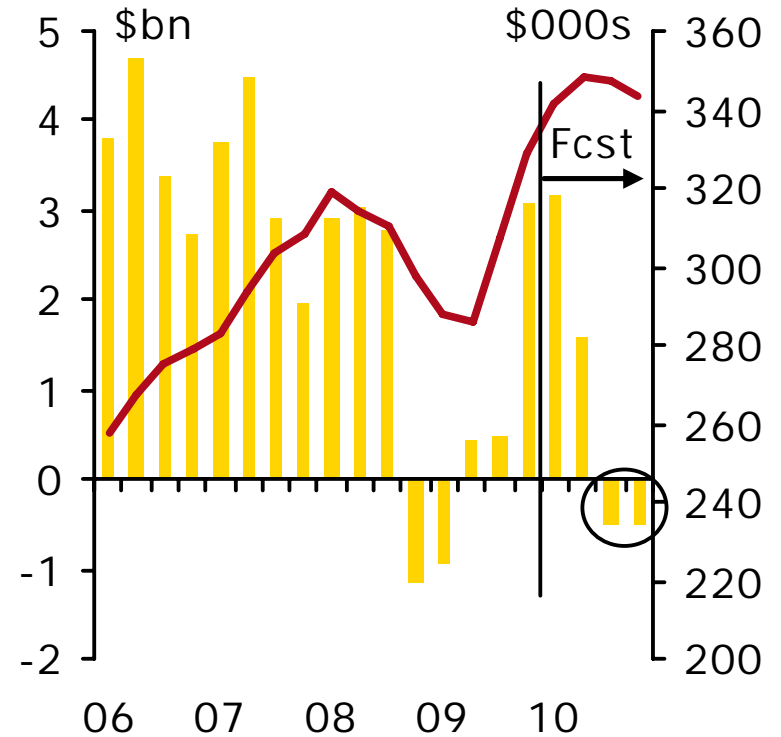
# Housing Now a Boost, Later a Drag

### House Prices lead Construction Jobs



— Construction employment (L)  
 — Avg house price (R)

### Wealth Effect on Consumption

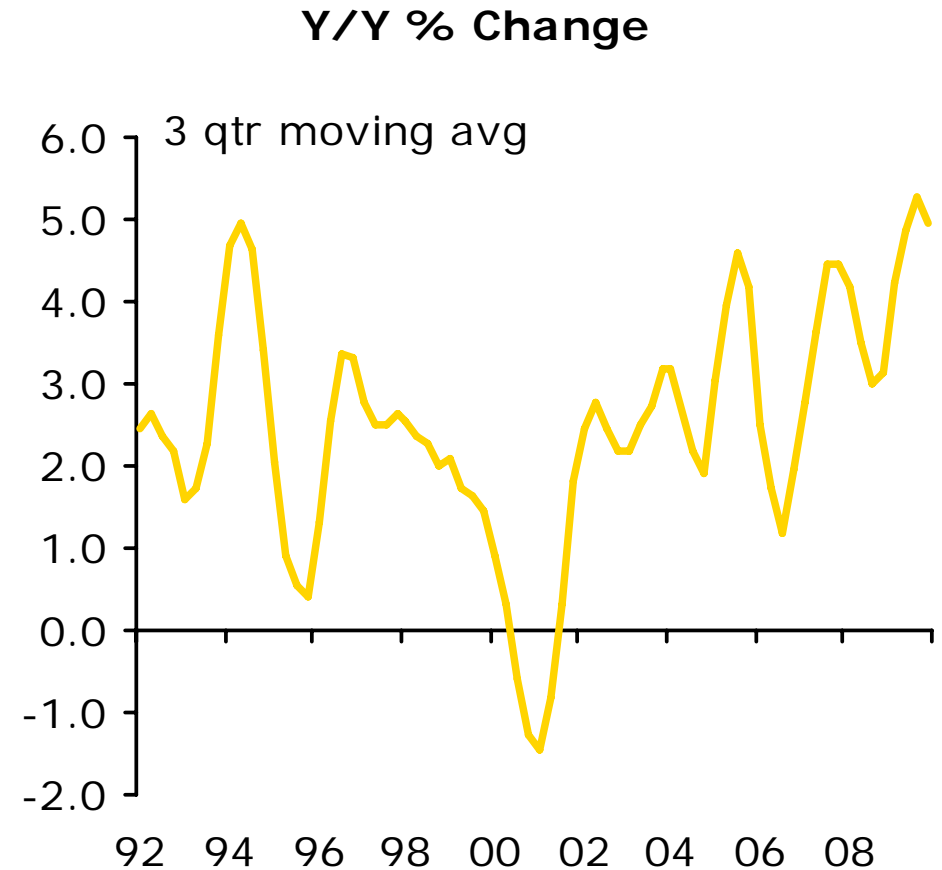
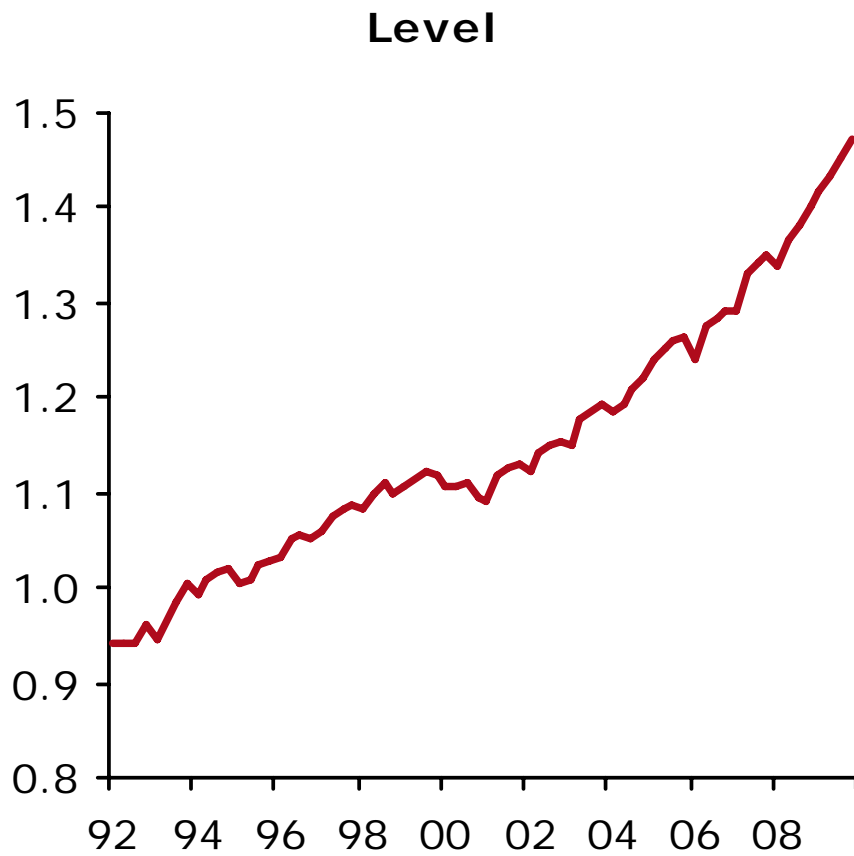


■ Housing wealth effect (L)  
 — Avg Home Price (R)

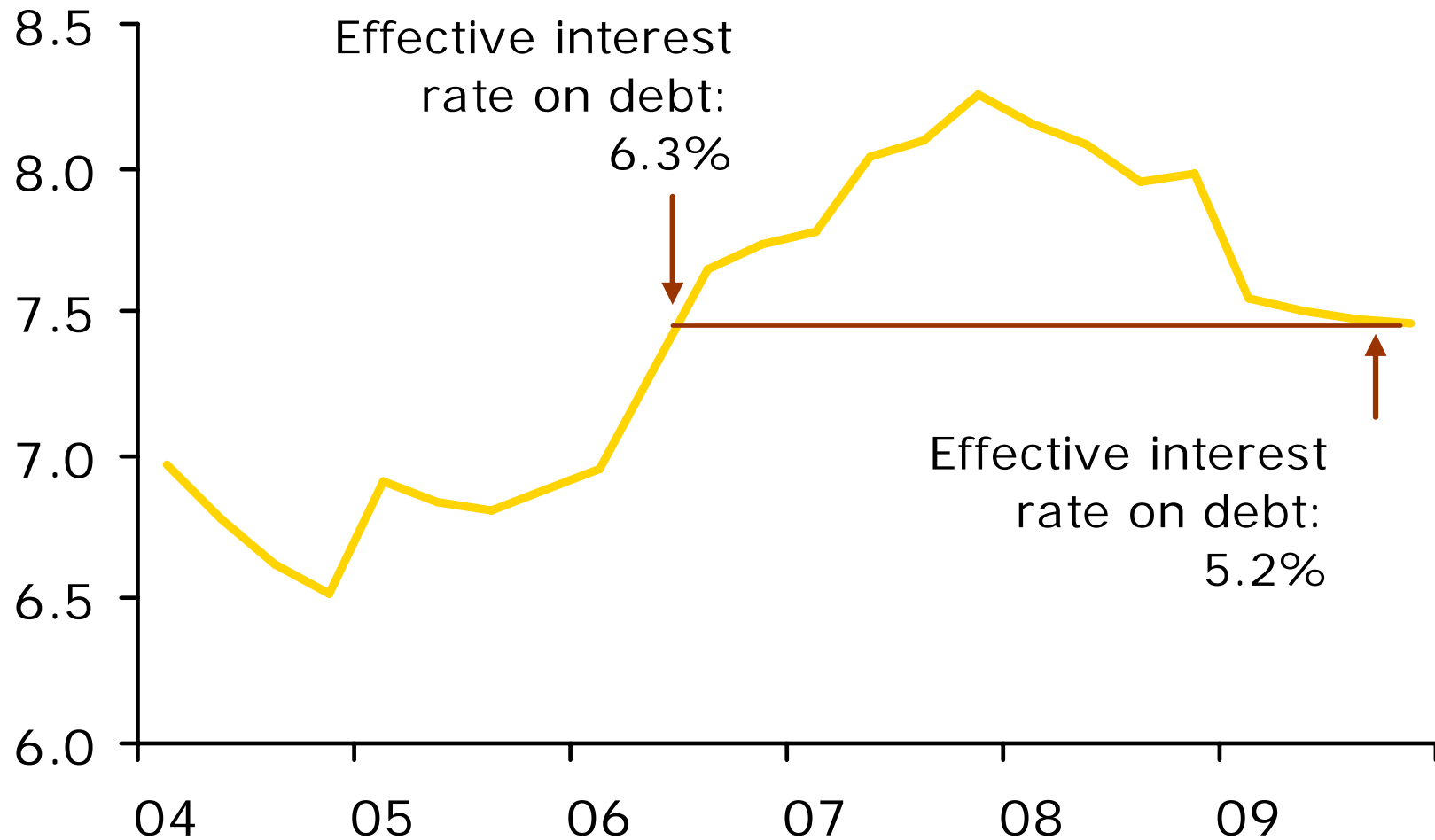


Source: CREA, Statistics Canada, Bank of Canada, CIBC

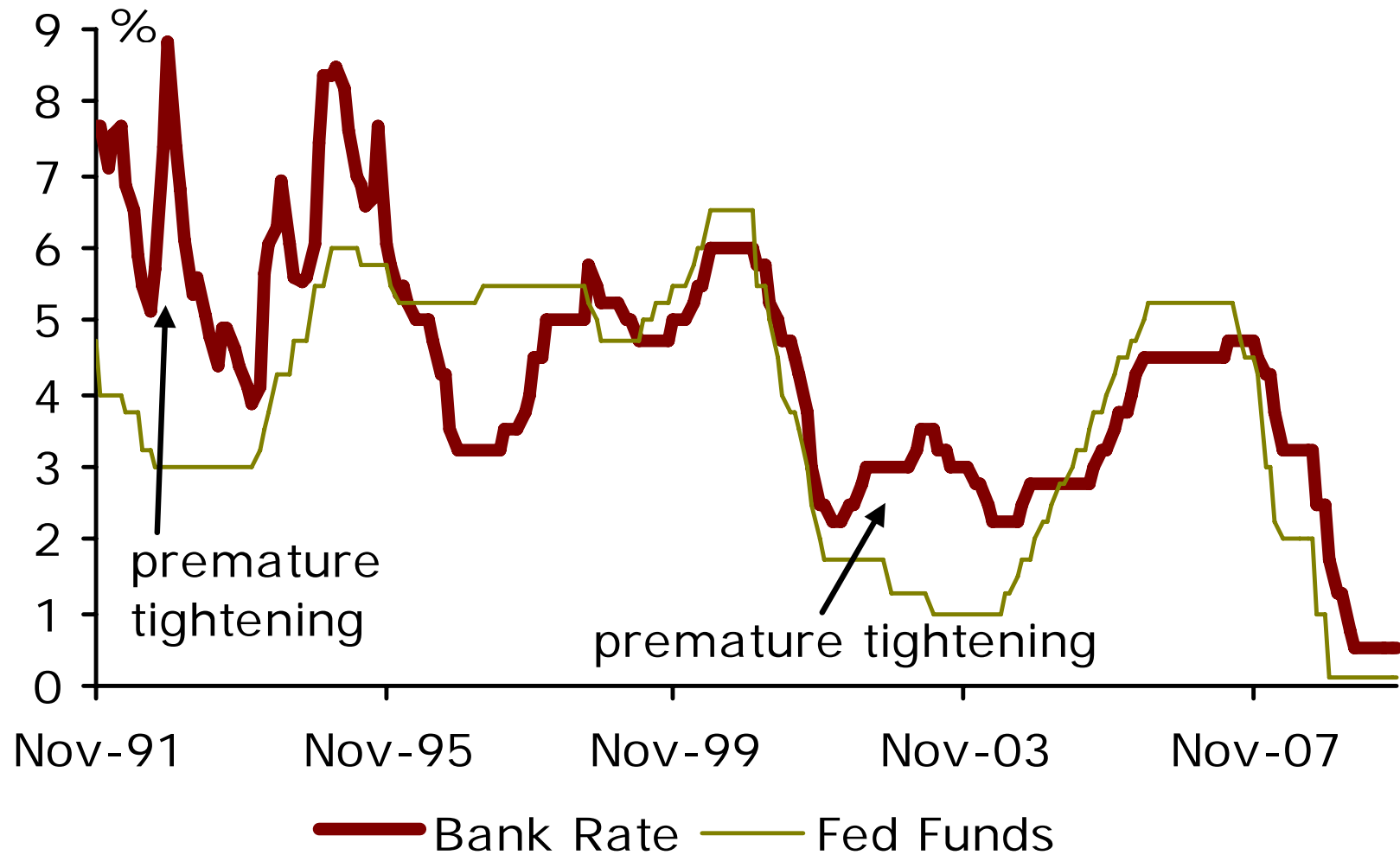
# Unprecedented Debt Accumulation During the Recession



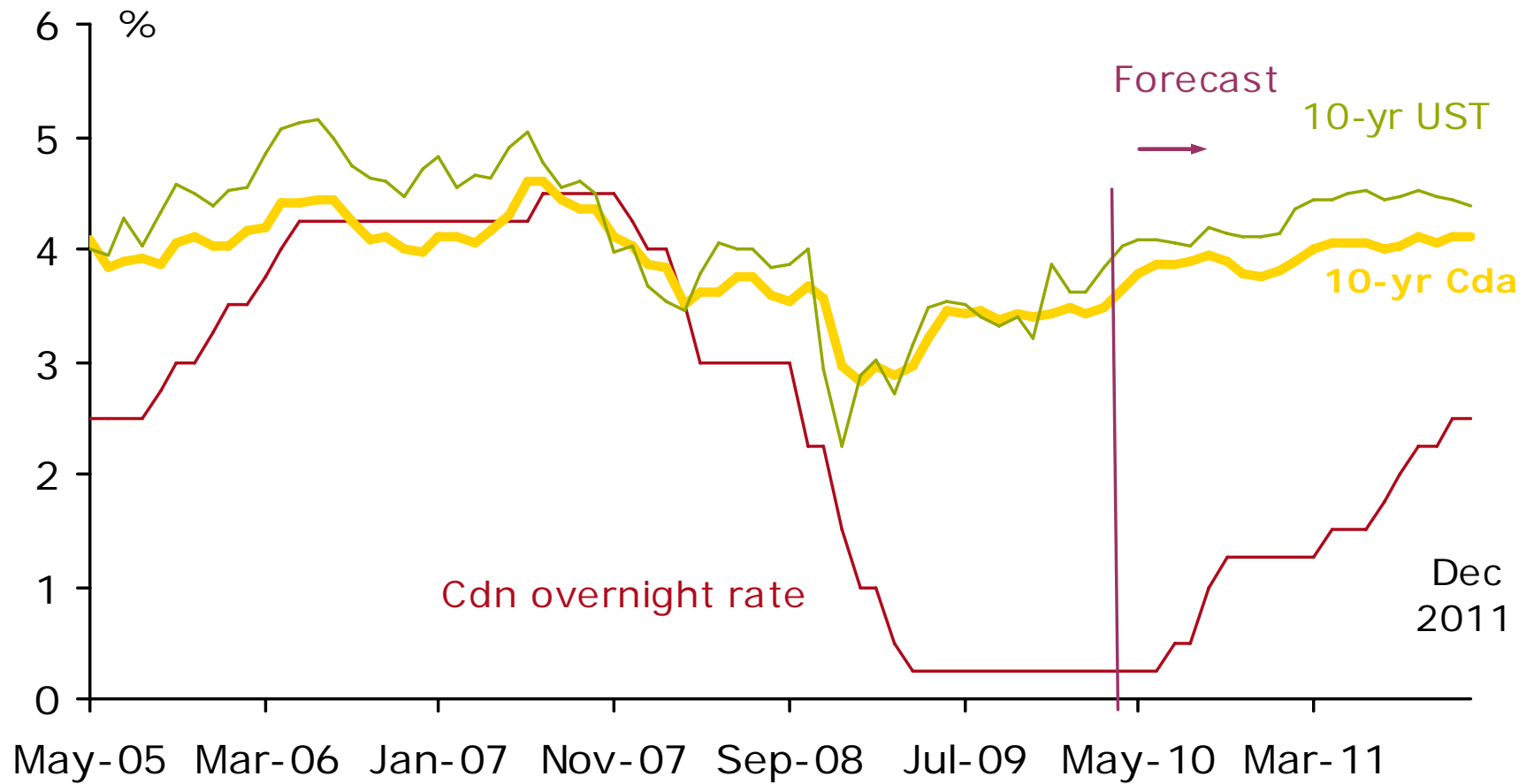
## Debt Service Burden High Given Low Rates



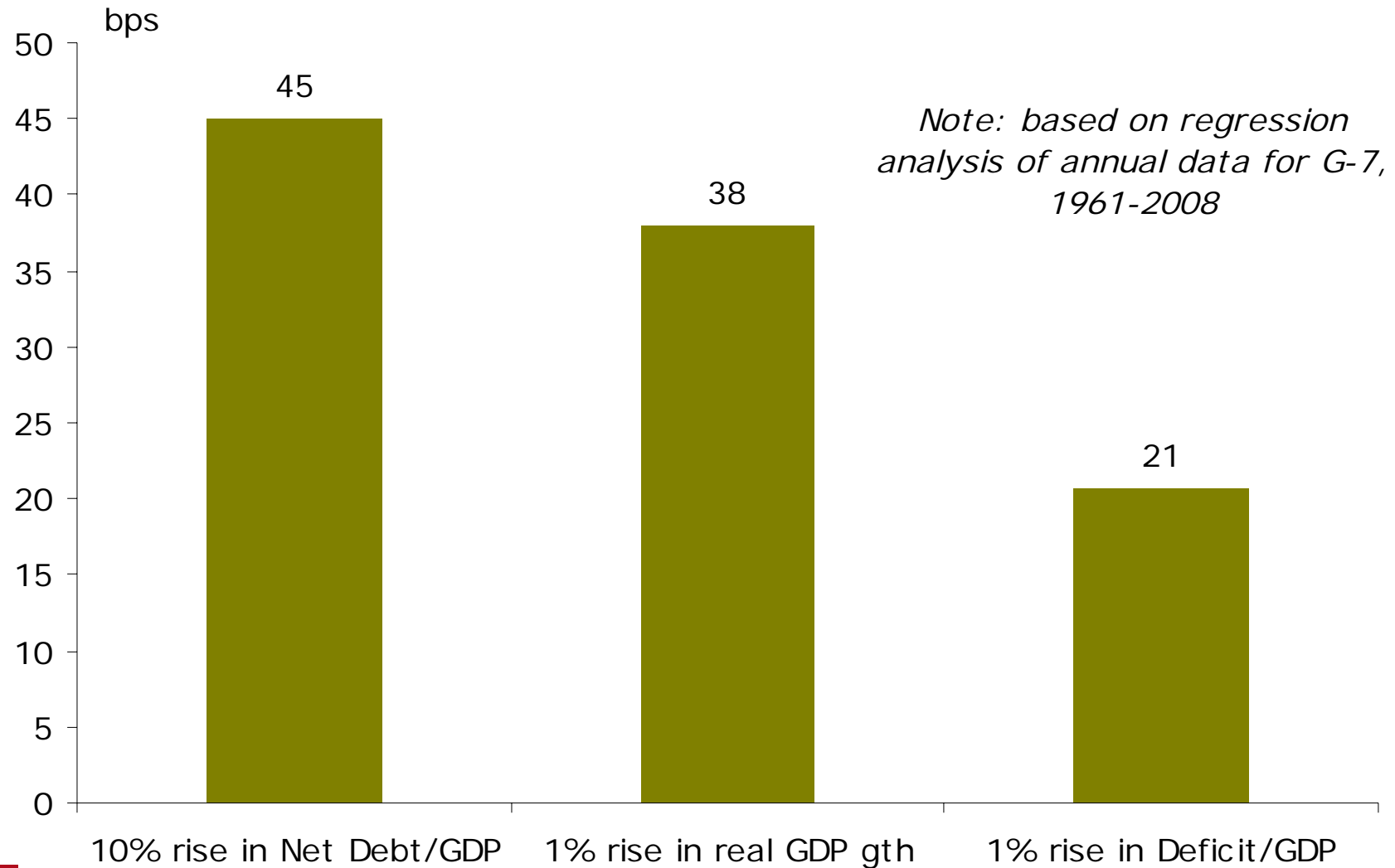
## Bank of Canada Has Hiked Prematurely in Past



# Hikes Will Still Leave Rates Low by Historical Standards



# Impact of Fiscal & Economic Performance on Long Bond Yields – International Experience



## Elevated Government Borrowing Puts Pressure on Yields

	2008/09A	2009/10A	2010/11F	2011/12F
<b>Gross Issues (C\$billions)</b>				
Canadas (C\$)	75	102	95	85
CMB	46	42	40	42
Provincial	53	77	78	73
Municipal	4	5	5	4
<b>Total</b>	<b>178</b>	<b>226</b>	<b>218</b>	<b>204</b>
<b>Net Issues (C\$billions)</b>				
Canadas (C\$)	41	73	60	28
CMB	27	24	18	18
Provincial	21	47	50	44
Municipal	1	2	2	1
<b>Total</b>	<b>90</b>	<b>146</b>	<b>130</b>	<b>91</b>
<b>Provincial Share of Government Supply (%)</b>				
<i>Gross</i>	30	34	36	36
<i>Net</i>	23	32	38	48

Source: CIBC



## Stocks Outperform Bonds Around First Rate Hike

Rate Trough	<u>6-months before</u>		<u>6-months after</u>	
	TSX Comp.	Bonds*	TSX Comp.	Bond*
Jul-58	15.3	2.0	12.5	-0.8
Sep-60	-0.5	10.4	23.2	-0.6
Jul-63	1.1	1.8	11.8	1.9
Mar-73	7.6	7.2	2.4	0.5
Feb-78	2.7	1.5	25.4	5.8
Jul-80	10.7	3.4	3.2	2.4
May-83	34.3	12.4	7.1	4.5
Mar-87	27.3	8.3	5.7	-5.5
Aug-92	-3.4	10.7	3.0	2.7
Feb-94	8.2	3.8	-0.5	-4.3
Jun-97	9.6	3.4	4.9	6.1
Mar-02	15.7	1.0	-20.6	7.4
Aug-04	-3.8	0.9	16.4	2.1
Avg, % (simple)	10.3	3.9	4.1	2.7
<b>Avg, % . (ann.)</b>	<b>21.7</b>	<b>8.0</b>	<b>8.3</b>	<b>5.5</b>



\*Scotia Capital Universe Bond Index, 1956-89, BIGAR Broad Composite, 1990-2004, DEX Universe Bond Index, 2004-present.

Note: Geometric Averages, data for individual time periods is unannualized.

# Interest and Exchange Rate Outlook

		2010				2011			
END OF PERIOD:		7-Apr	Jun	Sep	Dec	Mar	Jun	Sep	Dec
<b>CDA</b>	Overnight target rate	0.25	0.25	1.00	1.25	1.25	1.75	2.25	2.50
	98-Day Treasury Bills	0.29	0.60	1.15	1.05	1.15	1.75	2.35	2.55
	2-Year Gov't Bond	1.83	1.90	2.35	2.15	2.40	2.85	3.00	3.25
	10-Year Gov't Bond	3.68	3.70	3.80	3.75	4.00	4.05	4.00	4.05
	30-Year Gov't Bond	4.13	4.20	4.40	4.30	4.35	4.40	4.35	4.45
<b>U.S.</b>	Federal Funds Rate	0.15	0.15	0.15	0.25	0.75	1.50	2.00	2.25
	91-Day Treasury Bills	0.20	0.15	0.15	0.20	1.00	1.50	1.80	2.05
	2-Year Gov't Note	1.10	1.10	1.20	1.35	2.20	2.45	2.80	3.00
	10-Year Gov't Note	3.96	3.96	4.05	4.10	4.45	4.45	4.35	4.50
	30-Year Gov't Bond	4.85	4.80	4.95	4.85	5.05	5.05	5.00	5.10
	Canada - US T-Bill Spread	0.09	0.45	1.00	0.85	0.15	0.25	0.55	0.50
	Canada - US 10-Year Bond Spread	-0.28	-0.26	-0.25	-0.35	-0.45	-0.40	-0.35	-0.45
	Canada Yield Curve (30-Year — 2-Year)	2.30	2.30	2.05	2.15	1.95	1.55	1.35	1.20
	US Yield Curve (30-Year — 2-Year)	3.75	3.70	3.75	3.50	2.85	2.60	2.20	2.10
<b>EXCHANGE RATES</b>	CADUSD	1.00	0.99	1.02	1.01	0.96	1.00	1.01	1.02
	USDCAD	1.00	1.01	0.98	0.99	1.04	1.00	0.99	0.98
	USDJPY	94	93	90	87	86	86	85	85
	EURUSD	1.34	1.35	1.41	1.45	1.47	1.48	1.50	1.51
	GBPUSD	1.52	1.48	1.55	1.61	1.65	1.68	1.72	1.74
	AUDUSD	0.929	0.940	0.960	1.000	0.990	0.995	1.000	1.020
	USDCHF	1.07	1.08	1.05	1.03	1.02	1.03	1.02	1.02
	USDBRL	1.76	1.80	1.75	1.72	1.70	1.69	1.67	1.65
	USDMXN	12.2	12.5	12.0	12.5	12.3	12.3	12.0	12.0



## Major Economic Indicators

<b>CANADA</b>	<b>2006A</b>	<b>2007A</b>	<b>2008A</b>	<b>2009A</b>	<b>2010F</b>	<b>2011F</b>
GDP at Market Prices	5.5	5.8	4.4	-4.5	<b>6.4</b>	<b>5.4</b>
GDP in \$2002	2.9	2.5	0.4	-2.6	<b>3.0</b>	<b>2.5</b>
Consumer Price Index	2.0	2.1	2.4	0.3	<b>1.8</b>	<b>2.1</b>
Unemployment Rate	6.3	6.0	6.2	8.3	<b>8.2</b>	<b>8.1</b>
Current Account Balance (C\$ Bn)	20.3	15.6	8.1	-41.3	<b>-31.5</b>	<b>-16.5</b>
Pre-tax Profits	5.1	4.1	5.7	-33.2	<b>11.5</b>	<b>15.0</b>
Housing Starts (K)	228	229	212	149	<b>210</b>	<b>205</b>
<b>UNITED STATES</b>						
GDP at Market Prices	6.0	5.1	2.6	-1.3	<b>3.9</b>	<b>4.6</b>
GDP in \$2005	2.7	2.1	0.4	-2.4	<b>3.0</b>	<b>2.5</b>
Consumer Price Index	3.2	2.9	3.8	-0.4	<b>1.5</b>	<b>2.0</b>
Unemployment Rate	4.6	4.6	5.8	9.3	<b>9.9</b>	<b>9.5</b>
Current Account Balance (US\$ Bn)	-803.5	-726.6	-706.1	-410.0	<b>-510.0</b>	<b>-470.0</b>
Pre-tax Profits (with IVA/CCA)	10.5	-4.1	-11.8	-7.0	<b>17.5</b>	<b>9.2</b>
Housing Starts (Mn)	1.8	1.3	0.9	0.6	<b>0.6</b>	<b>0.8</b>

