HEADWINDS FOR CANADA,
TAILWINDS FOR US

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Global Outlook

Tailwinds for US in 2013
US Grows 2.3%...
With Upside Potential
Canada Grows 1.8%

Risks:
US Fiscal Cliff
European Debt Crisis
Canadian Household Debt
Oil Patch Slowdown
China Hard Landing

Global Growth Stronger Next Year

<table>
<thead>
<tr>
<th>(ann % chng)</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global GDP</td>
<td>5.1</td>
<td>3.8</td>
<td>3.0</td>
<td>3.5</td>
<td>3.8</td>
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</table>

Modest Economic Growth Ahead

Real GDP

<table>
<thead>
<tr>
<th>(q/q % chng : ar)</th>
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<tbody>
<tr>
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<td></td>
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<tr>
<td>Canada</td>
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<td>US</td>
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<td>13</td>
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<td>14</td>
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<tr>
<td>Canada 2.6</td>
</tr>
<tr>
<td>US 1.8</td>
</tr>
<tr>
<td>2.0 1.8 2.3</td>
</tr>
<tr>
<td>2.2 2.3 3.2</td>
</tr>
</tbody>
</table>

“2% is the New 3%”

Charts 1-2
Obama Wins Big!

Grand Fiscal Deal
Coming
FINALLY!

Fiscal Tightening

United States (% of GDP)

3-Year Change in Federal Budget Balance

Source: OMB
Why Did US Debt Ratio Rise?

Public Debt – United States (% of GDP)

- Bush-Era Tax Cuts
- Wars in Iraq and Afghanistan
- Economic Downturn
- TARP, Fannie, Freddie
- Recovery Measures
- Other Debt

Debt without These Factors

Projected Debt under Current Policies

Source: CBPP analysis on Congressional Budget Office Estimates

Government Debt Concerns


- Markets Focus on Spain
- US “Fiscal Cliff”, Major US Budget Deal in 2013

Source: OECD Economic Outlook, May 2012
North America Outperforms

Fiscal Austerity Weighs on Europe, 2013 Recovery

Real GDP – G7 (y/y % chng)

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>Canada</th>
<th>Japan</th>
<th>Germany</th>
<th>France</th>
<th>UK</th>
<th>Italy</th>
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</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.2</td>
<td>2.0</td>
<td>1.5</td>
<td>0.9</td>
<td>0.1</td>
<td>-0.1</td>
<td>-2.1</td>
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<tr>
<td>2013</td>
<td>2.3</td>
<td>1.8</td>
<td>1.3</td>
<td>0.9</td>
<td>0.8</td>
<td>0.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>2014</td>
<td>3.2</td>
<td>2.3</td>
<td>1.7</td>
<td>1.7</td>
<td>1.4</td>
<td>1.3</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: [2012-14] BMO Capital Markets forecasts

Emerging Economies Continue to Lead...But Clearly Slowing

Emerging Markets Account for Three-quarters of Global Growth – Record!

<table>
<thead>
<tr>
<th>Region</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.8</td>
<td>3.0</td>
<td>3.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>6.2</td>
<td>4.4</td>
<td>5.1</td>
<td>5.1</td>
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<tr>
<td>G7</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Ranked by 2013 Source: [2012-14] BMO Capital Markets forecasts

Charts 7-8
Emerging Economies’ Manufacturing Activity Cools

Industrial Production (y/y % chng)

China  
India  
Brazil  

Real GDP  
China 9.3 7.7 8.3 8.5  
India 6.5 4.0 5.5 5.5  
Brazil 2.7 1.2 3.5 3.7  

China Cuts Rates, Following India and Brazil

Easing Monetary and Fiscal Policy

Oil and Loonie Still Mix

(as of December 4, 2012)

WTI Crude Oil = (US$/bbl)  
Canadian Dollar = (US¢/C$)

C$ Parity

Charts 9-10
Trade Balances: Diverging Paths

US Trade Deficit Improving

Canada (C$ blns)

United States (US$ blns)

Canadian Consumers Tighten Belts

Canadian:
Deleveraging
Housing Cools

US Pent-up Demand... Not in Canada
**Consumer Confidence**

- **Spending Growth Slows**

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

**Jobless Rates: Record Gap Narrows**

Unemployment Rate (percent)

- **US Participation Rate at 30-year Low**

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>26.2</td>
</tr>
<tr>
<td>Greece</td>
<td>25.4</td>
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<tr>
<td>Portugal</td>
<td>16.3</td>
</tr>
<tr>
<td>Ireland</td>
<td>14.7</td>
</tr>
<tr>
<td>Italy</td>
<td>11.1</td>
</tr>
<tr>
<td>France</td>
<td>10.7</td>
</tr>
<tr>
<td>Finland</td>
<td>7.9</td>
</tr>
<tr>
<td>UK</td>
<td>7.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>7.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>7.5</td>
</tr>
<tr>
<td>Australia</td>
<td>5.4</td>
</tr>
<tr>
<td>Israel</td>
<td>5.4</td>
</tr>
<tr>
<td>Germany</td>
<td>5.4</td>
</tr>
<tr>
<td>Japan</td>
<td>4.2</td>
</tr>
<tr>
<td>Norway</td>
<td>3.0</td>
</tr>
</tbody>
</table>
US Household Balance Sheets Improve

Households

Total Liabilities
(ratio to personal income)

Net Worth
(% of disposable income)

Thanks to Deleveraging, Stock Market Rally and Housing Recovery

Households include nonprofit organizations and unincorporated businesses

US Housing Improves

Homes – United States

Sales and Inventories
(mlns)

Price Indices
(y/y % chng)

Best Affordability in At Least 41 Years

Inventories = (nsa) include new and existing homes available for sale, and homes in foreclosure
**Canadian Housing Momentum Fades**

- **Housing Starts** (000s : ar)
- **Existing Home Sales** (mlns : ar)
- **Home Prices** (y/y % chng)

**US Turning the Corner**

House Prices = Canada: Teranet Composite 11  US: FHFA House Price Index

**Canadian Prices Cooling**

- **Average House Price – Canada** (y/y % chng)

**Price-to-Income Ratios**

<table>
<thead>
<tr>
<th>City</th>
<th>2011</th>
<th>2001</th>
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</thead>
<tbody>
<tr>
<td>Canada</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Vancouver</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Toronto</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Calgary</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

**Toronto: Detached Homes Outperform Condos**

Charts 17-18
Financial Markets

Interest Rates: Low for Long
Loonie Stays Strong
Canadian Stocks Underperform

Mark Carney Leaving BoC

No Change in BoC Policy
BoC On Hold

(\%: as of December 4, 2012)

**Overnight Rate**

Open-ended Fed Quantitative Easing

Fed Commits to Low Rates Until Mid-2015

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Long Yields Extremely Low

(\%: as of December 4, 2012)

**10-year Bonds**

Current Spread 9 bps

**Fixed Mortgage Rate**

Flight to Safety
US Outperforms (as of December 4, 2012)

S&P 500
- October 9, 2007: 10.1% Loss
- September 14, 2012: -54.8%
- March 9, 2009: -56.8%

DAX
- July 16, 2007: 8.3% Loss
- May 2, 2011: -54.8%
- March 6, 2009: -56.8%

TSX
- June 18, 2008: 19.5% Loss
- April 5, 2011: -49.8%
- March 9, 2009: -54.8%

Canadian Economy: Challenges & Opportunities

Challenges:
- Global Government Debt
- Strong C$ (Strong Canadian Dollar)
- High Household Debt
- Weak Productivity
- Declining US Energy Imports

Opportunities:
- Emerging Economy Demand
- Foreign Investment Inflows
- Canadian Banks Strong
- Fiscal Position Strong

Output Gap Closing