

# Wait Until Next Year

*By Avery Shenfeld, Chief Economist & Managing Director*

January 2013

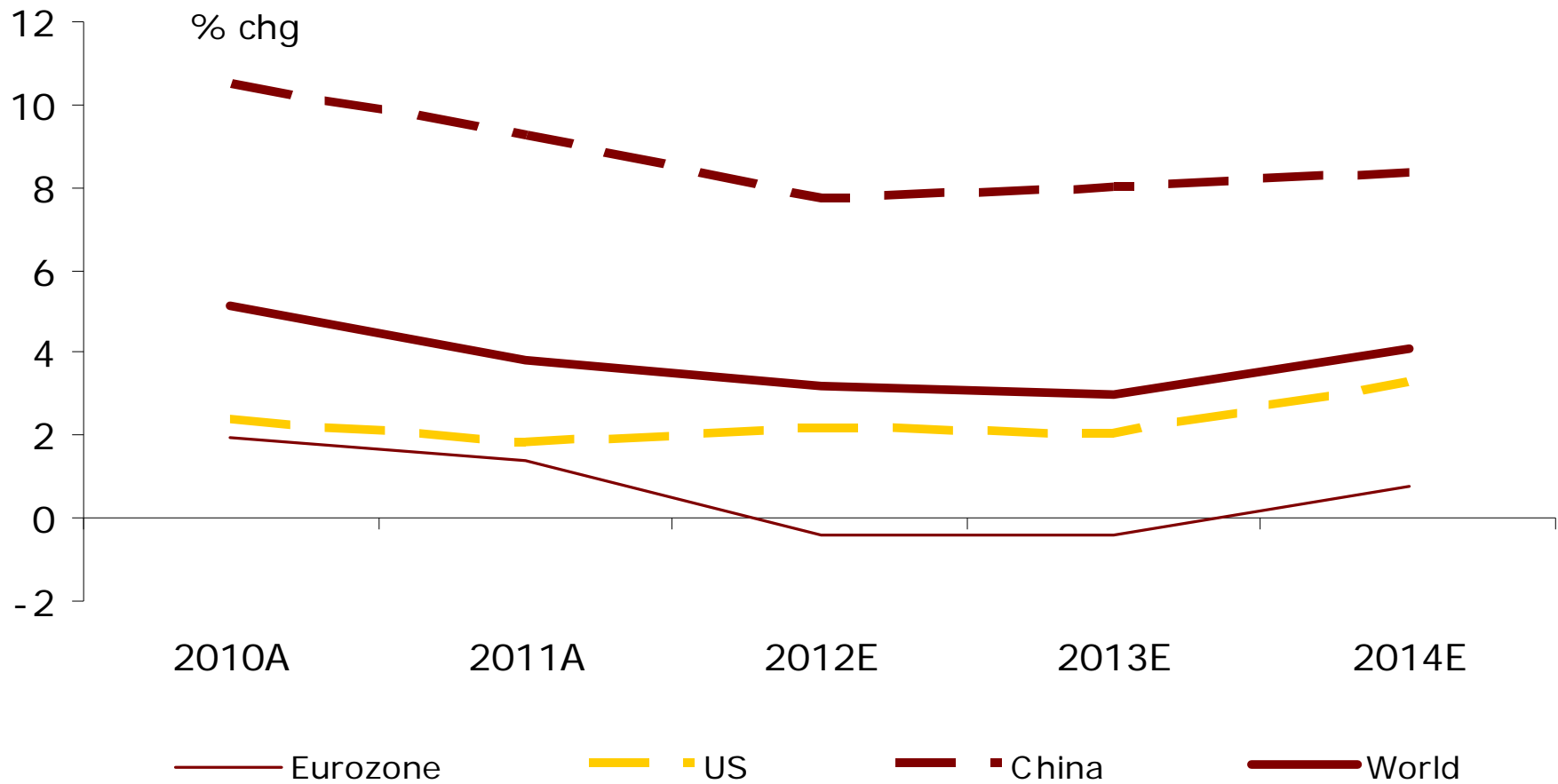


# Tough Times for The Global Economy

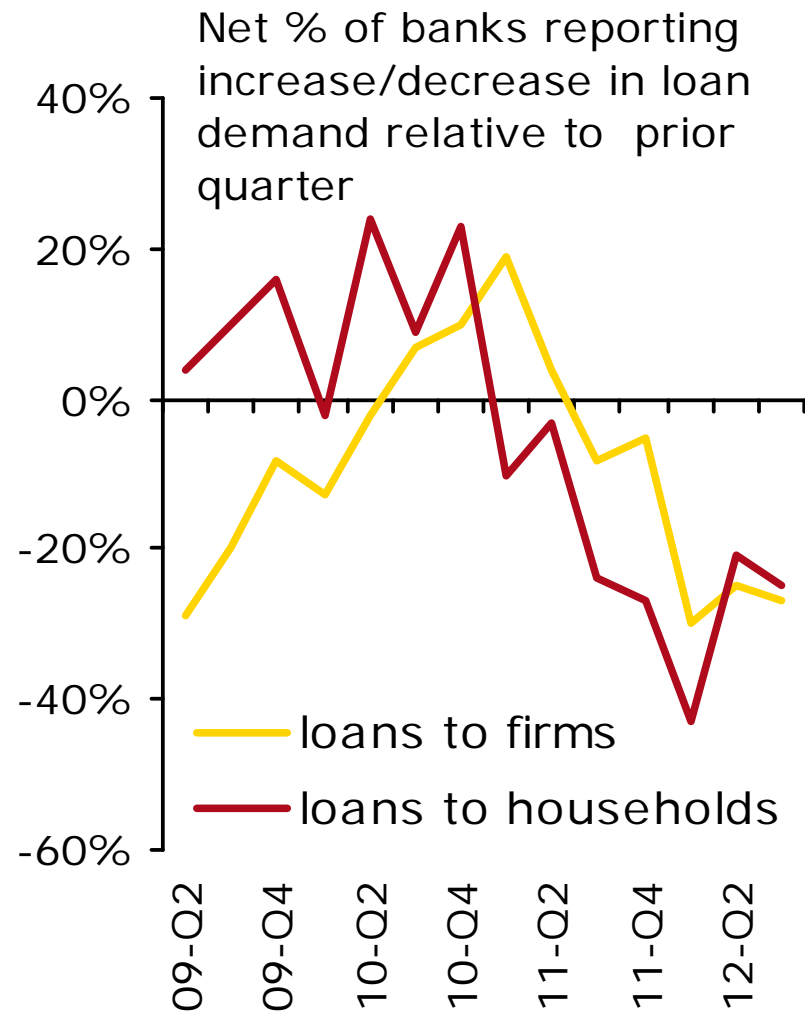
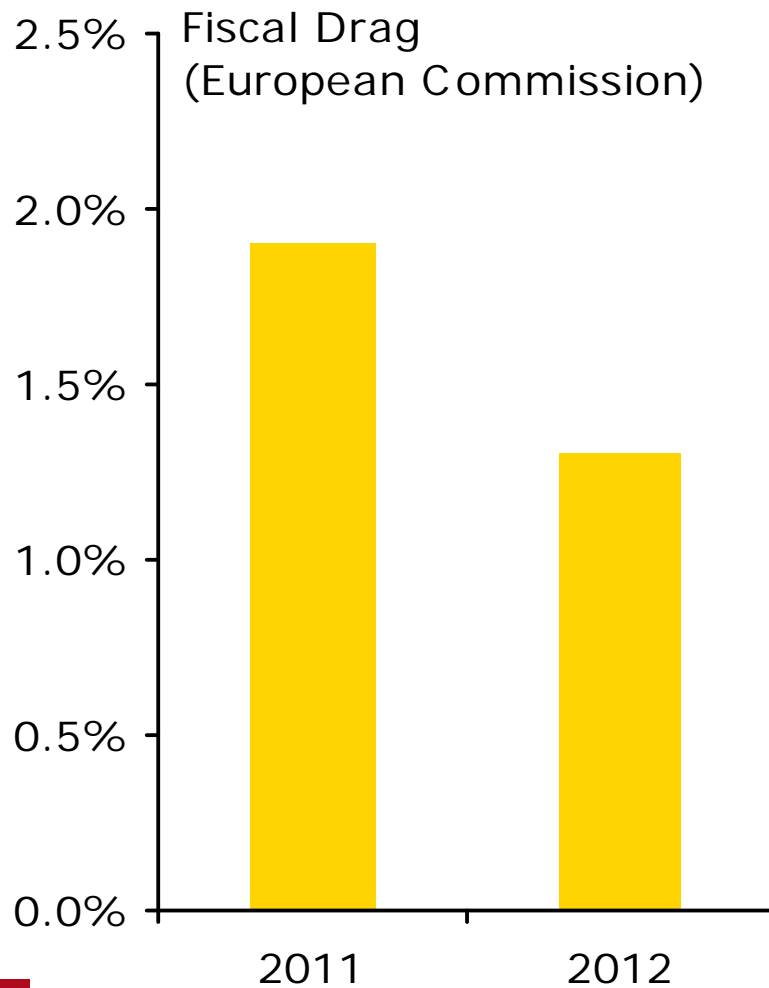
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# World GDP Growth: No Pick-up 'Till 2014



# European Fiscal Drag Has Eased (L), But Private Sector is Still Weakening (R)



Source: EC, ECB

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**"Spain is not Greece"** – Elena Salgado, Spanish Finance Minister, February 2010

**"Portugal is not Greece"** – *The Economist*, April 2010

**"Greece is not Ireland"** – George Papaconstantinou, Greek Finance Minister, November 2010

**"Spain is neither Ireland nor Portugal"** – *The Economist*, April 2010

**"Ireland is not in 'Greek Territory'"** – Brian Lenihan, Irish Finance Minister, November 2010

**"Neither Spain nor Portugal is Ireland"** – Angel Gurría, Secretary-General OECD, November 2010

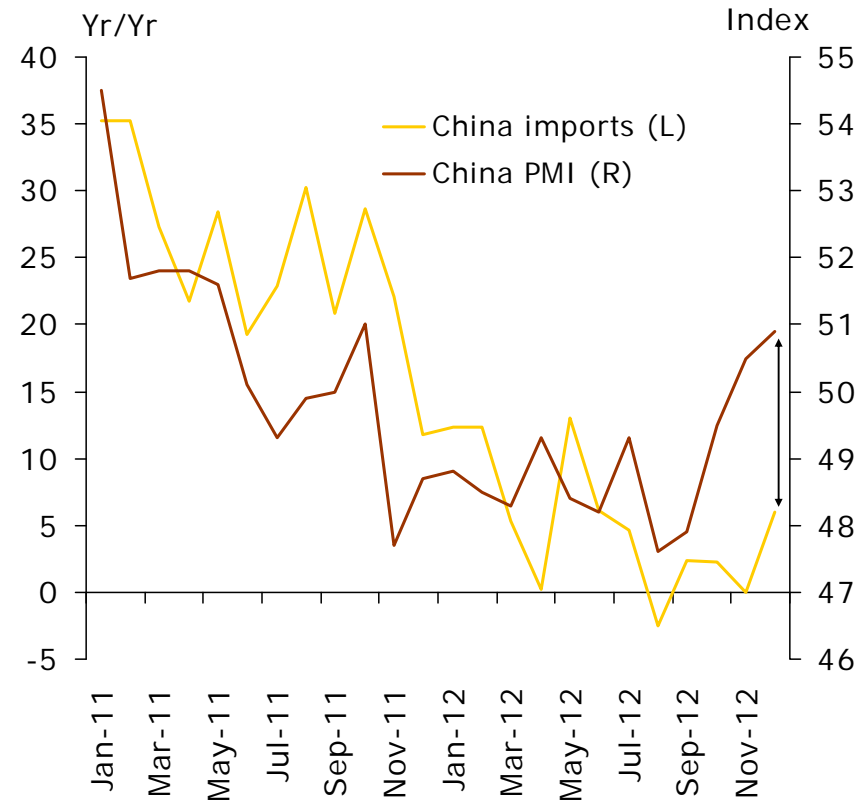
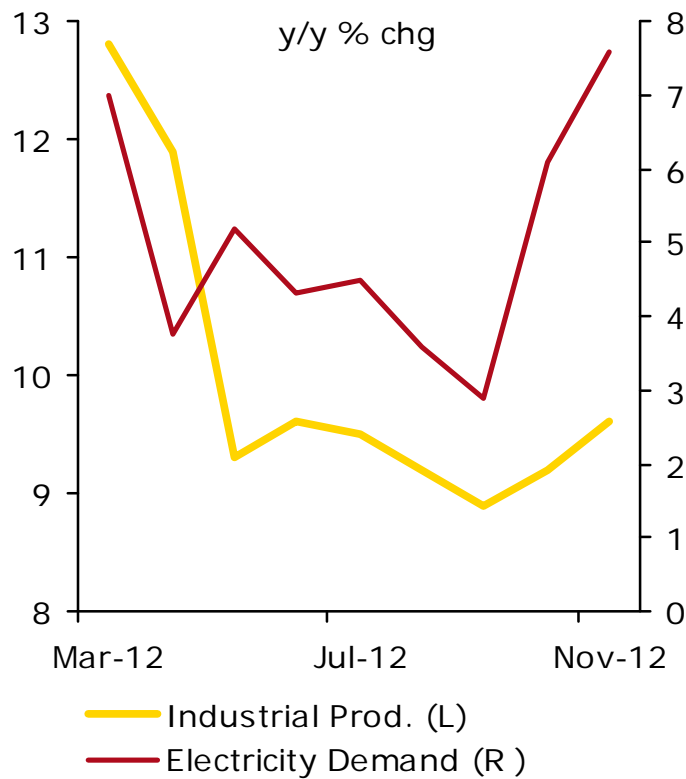
**"Italy is not Spain"** – Ed Parker, Fitch MD, June 12, 2012

**"Spain is not Uganda"** – Mariano Rajoy, Spanish Prime Minister, June 2012

**"Uganda does not want to be Spain"** – Sam Kutesa, Minister of Foreign Affairs, June 13, 2012

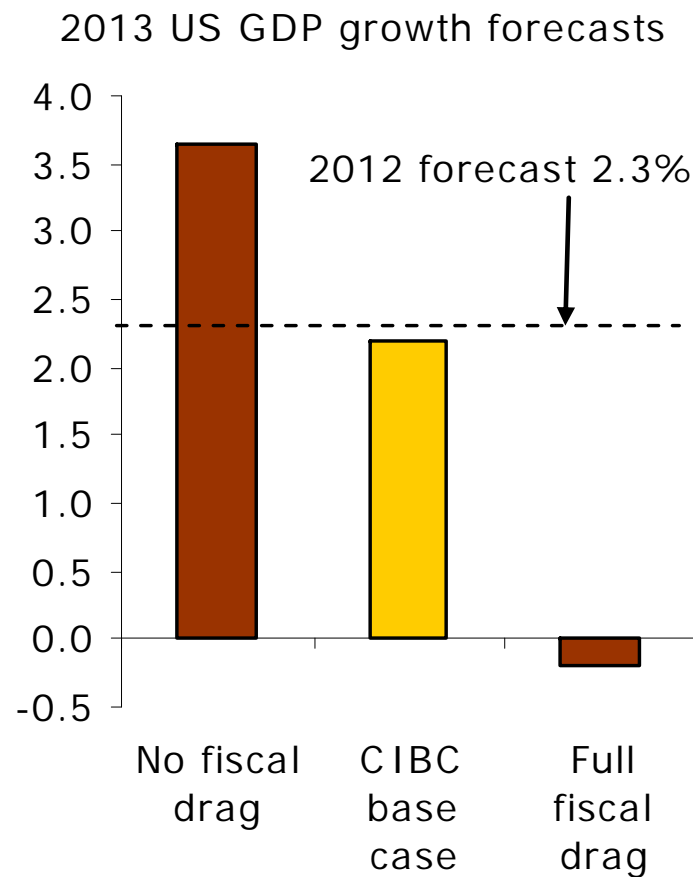
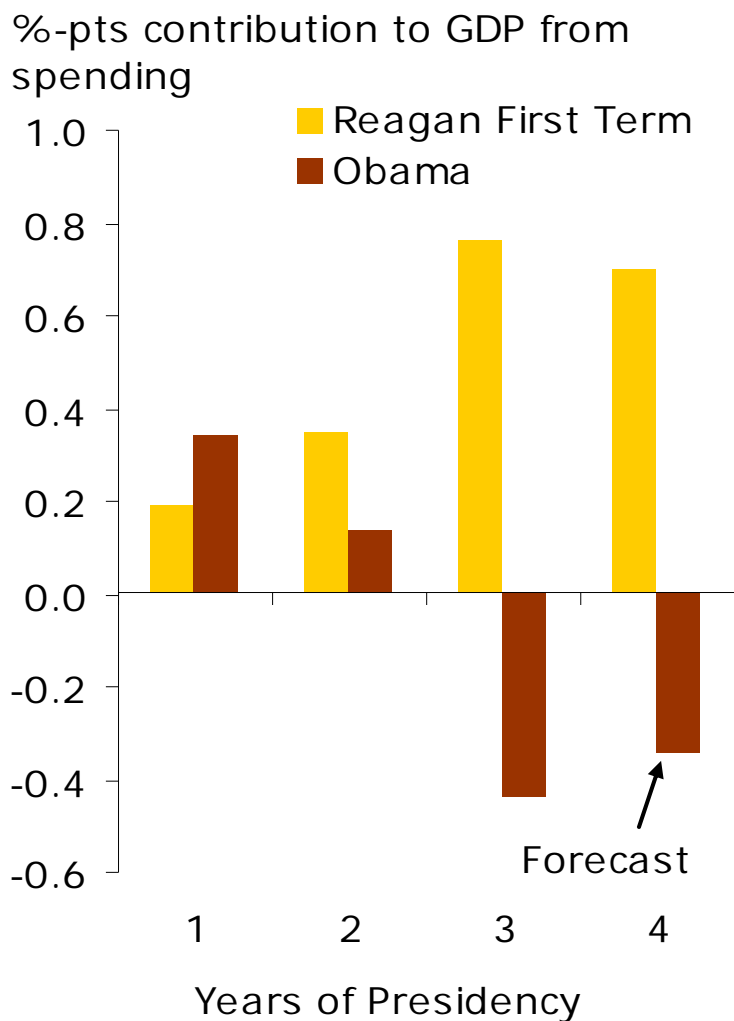


# China: Not As Much Gain Where it Counts As Imports Still Lackluster

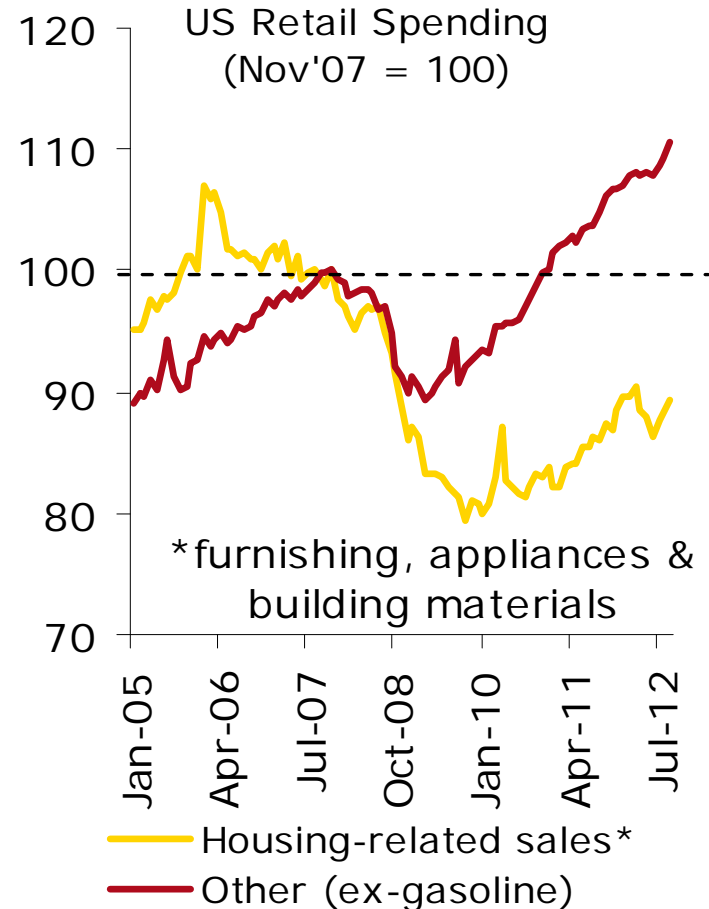
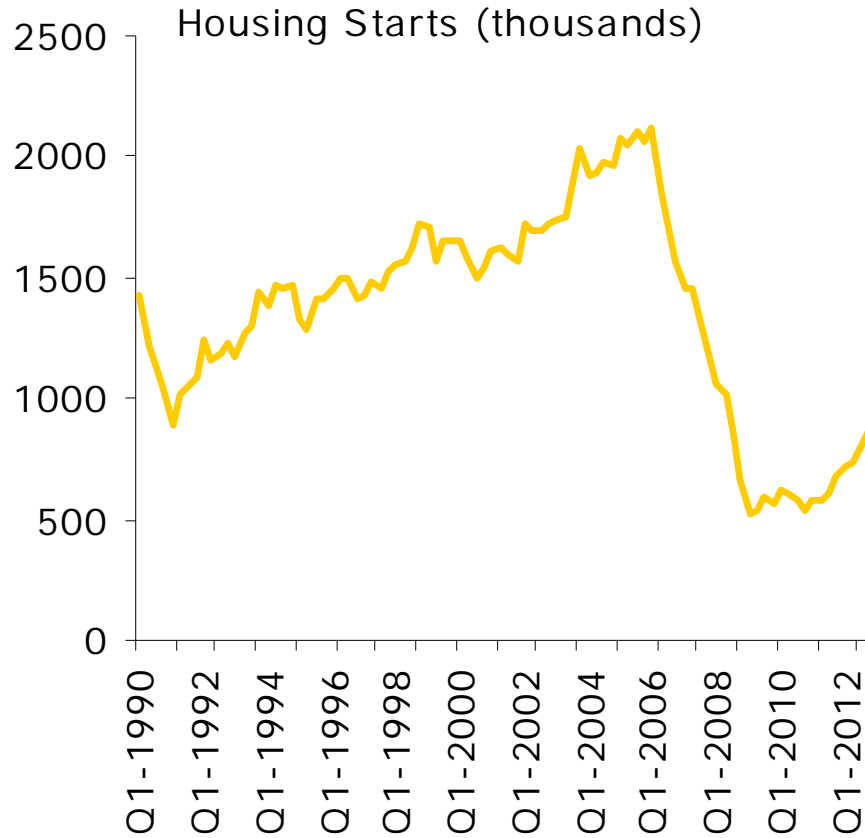


Source: Markit, HSBC, Bloomberg, CIBC

# Obama Was No Ronald Reagan (L) Fiscal Drag Delays US Acceleration (R)



# Record Low US Mortgage Rates Starting to See Results

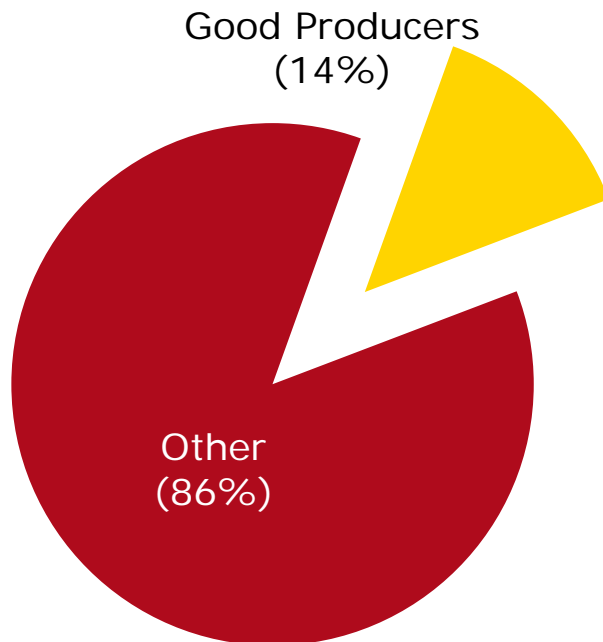


Source: Fannie Mae, MBA, Bloomberg, CIBC

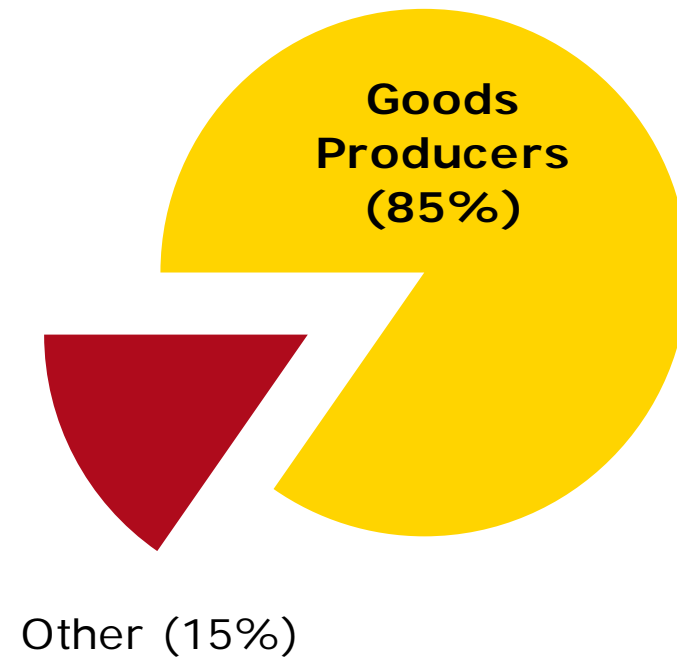


# Goods Sector a Small But Important Share of Payroll Employment

Share of Payroll Employment

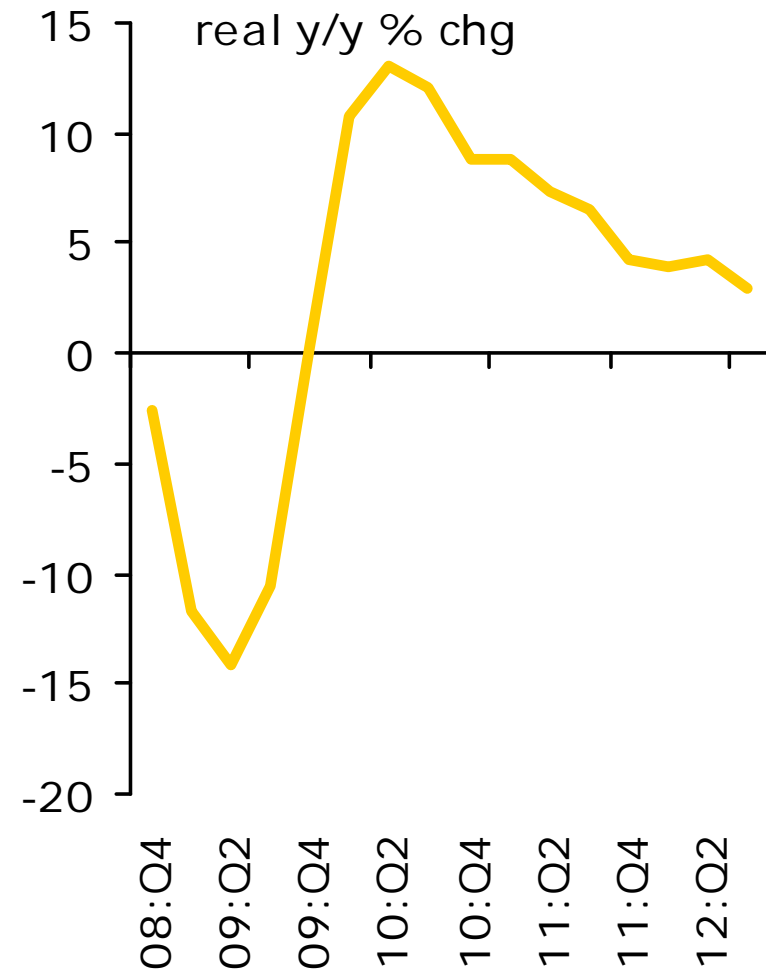
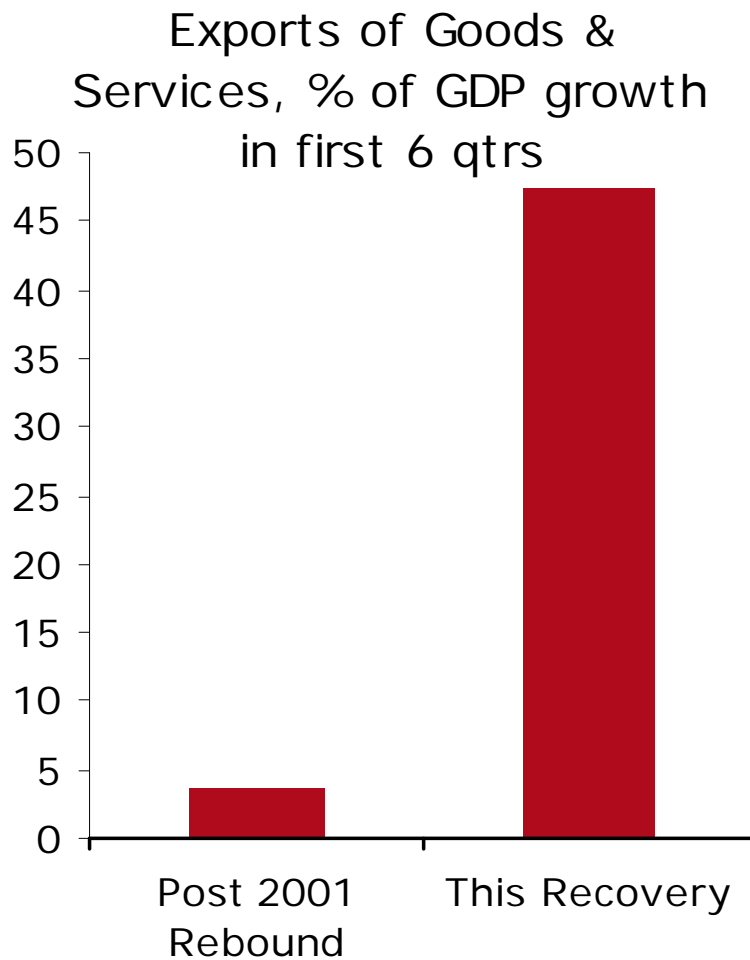


Share of jobs still lost since recession



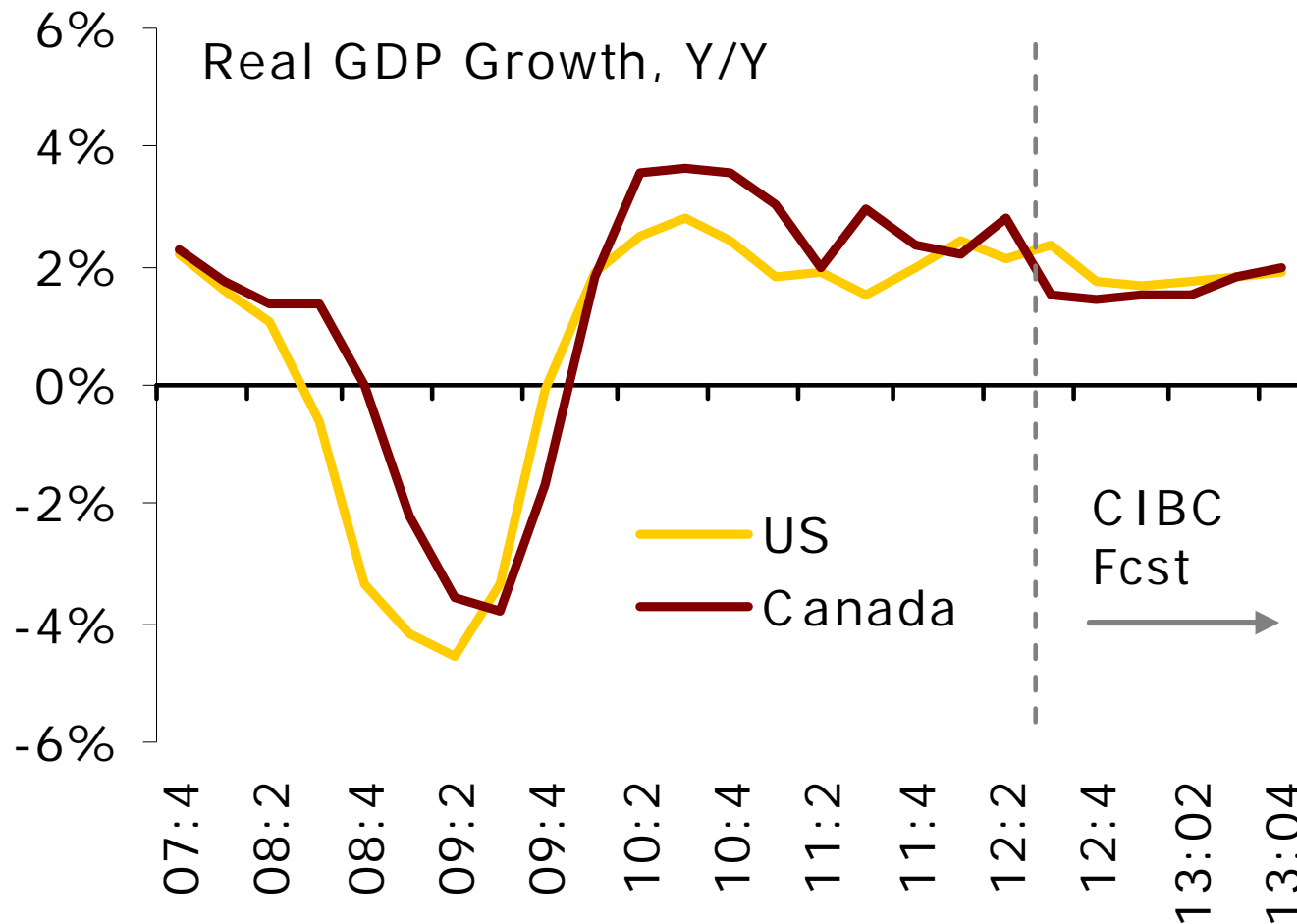
Source: BLS, CIBC

# US Exports Strong Early Showing (L) But Flagging on Weaker Global Picture (R)

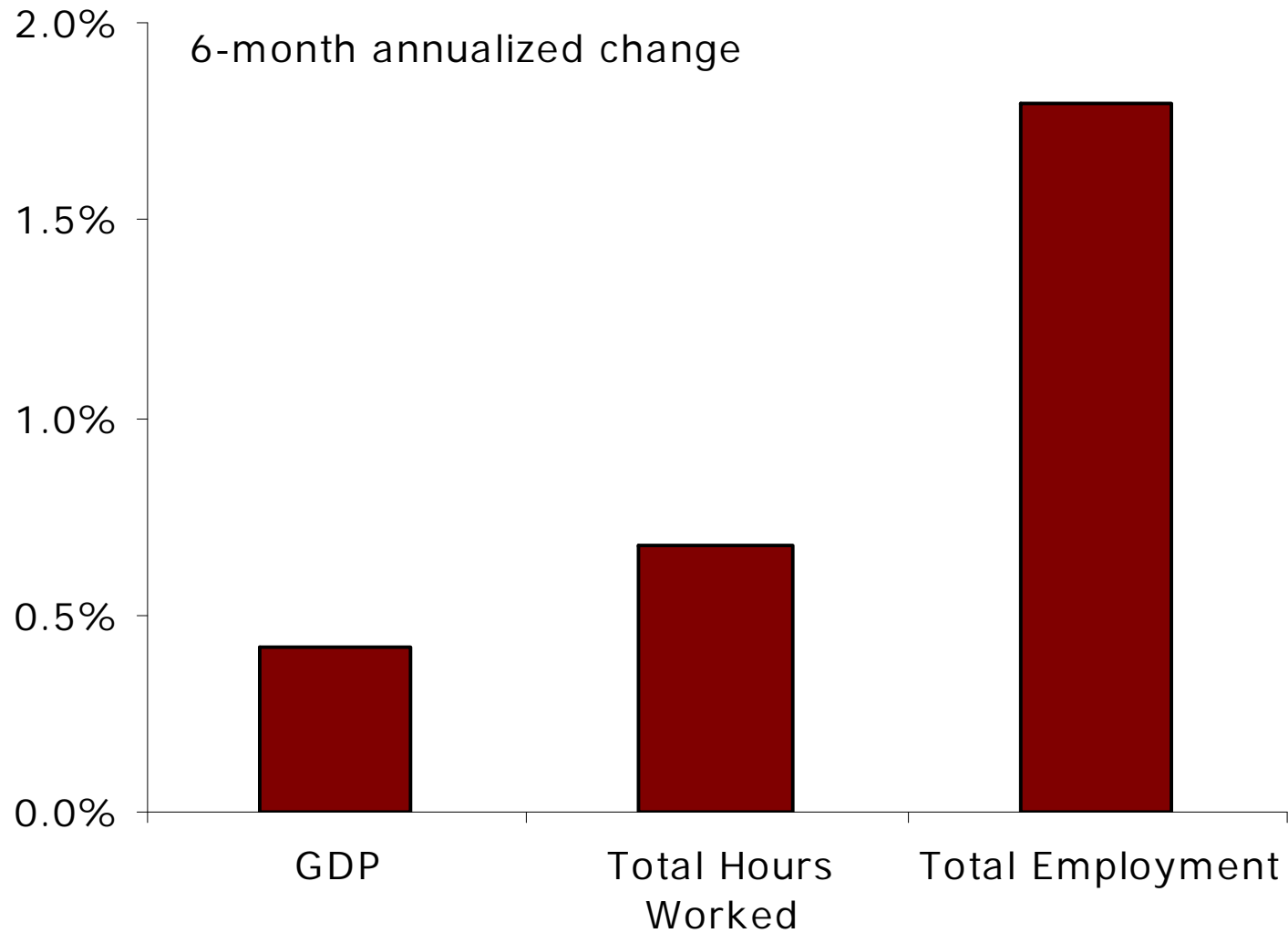


Source: Bureau of Economic Analysis

# Canada No Longer Outpacing US; Slowing to <2% in 2013 Delays Rate Hikes

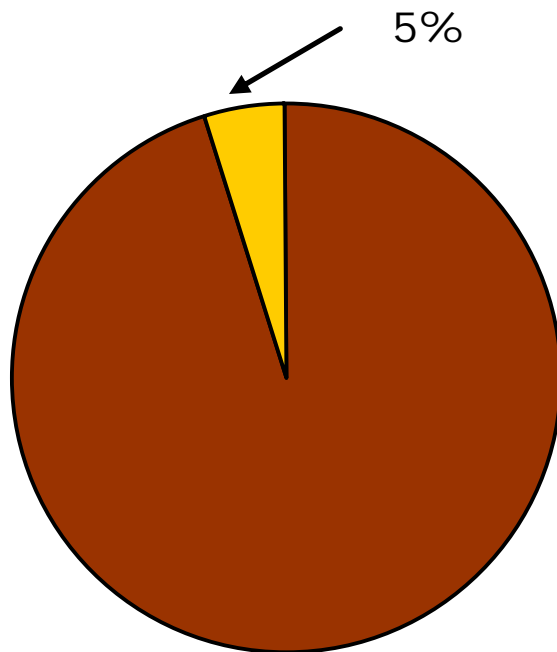


# Jobs Surge, But Not Hours or Output What's Up With That?

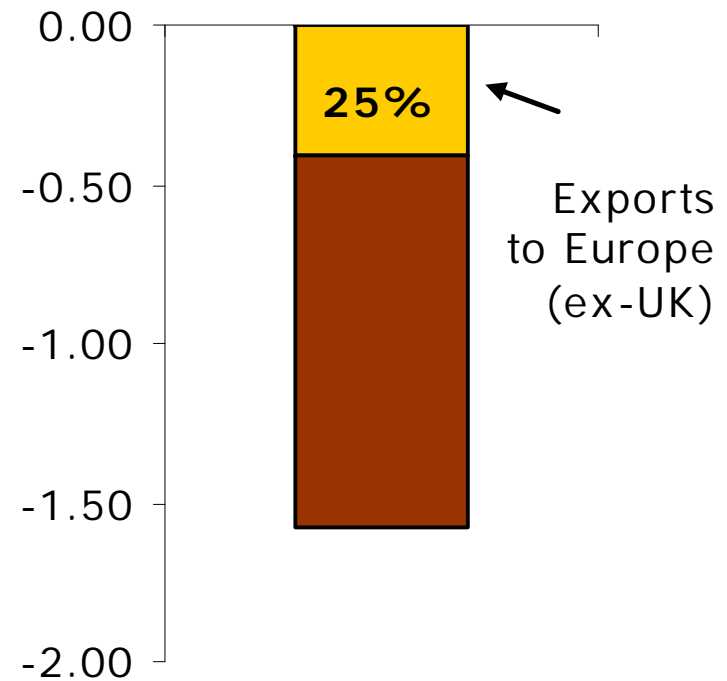


# Canadian Exports: Europe's Outsized Bite

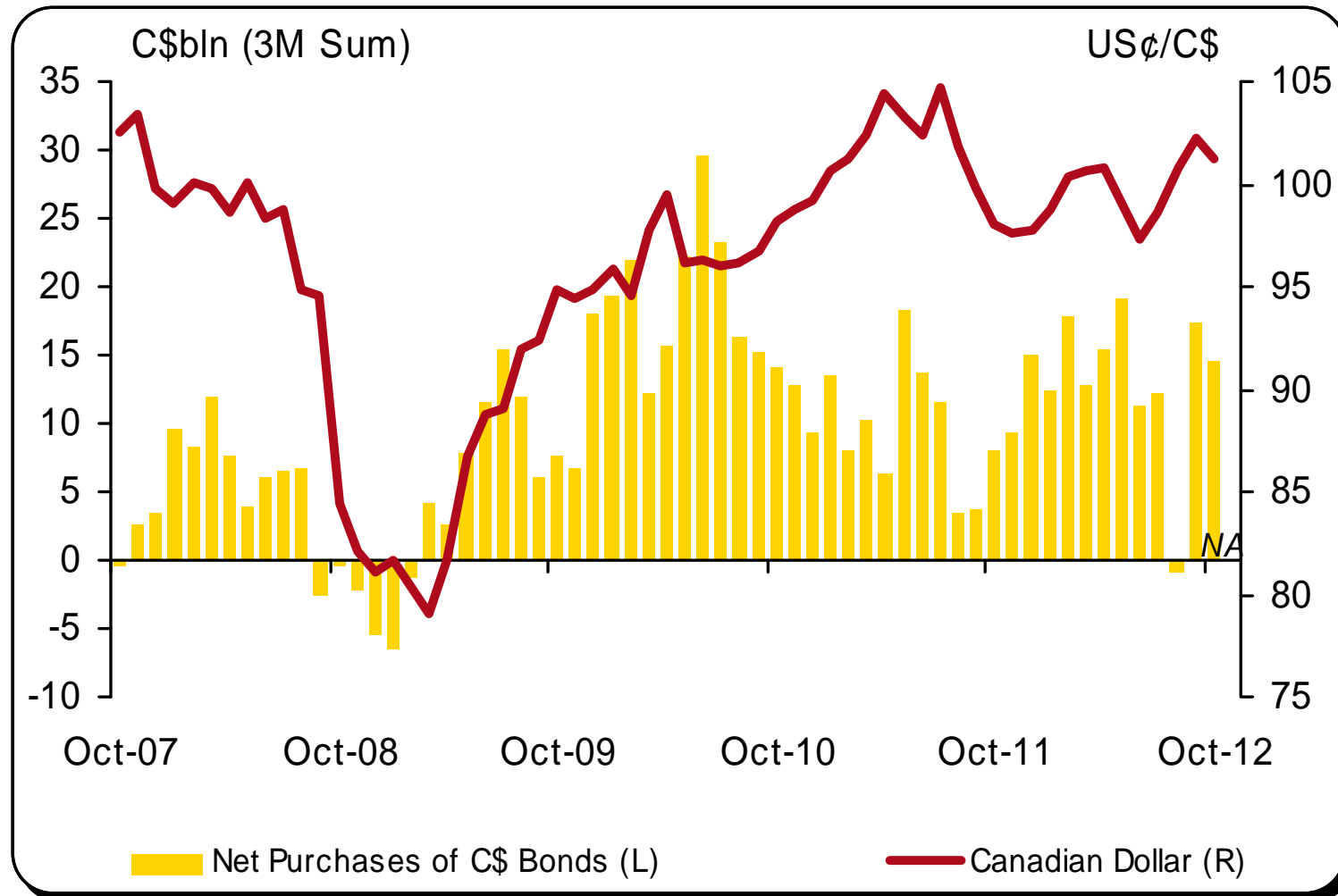
Share of Europe (ex-UK)  
in Cdn exports



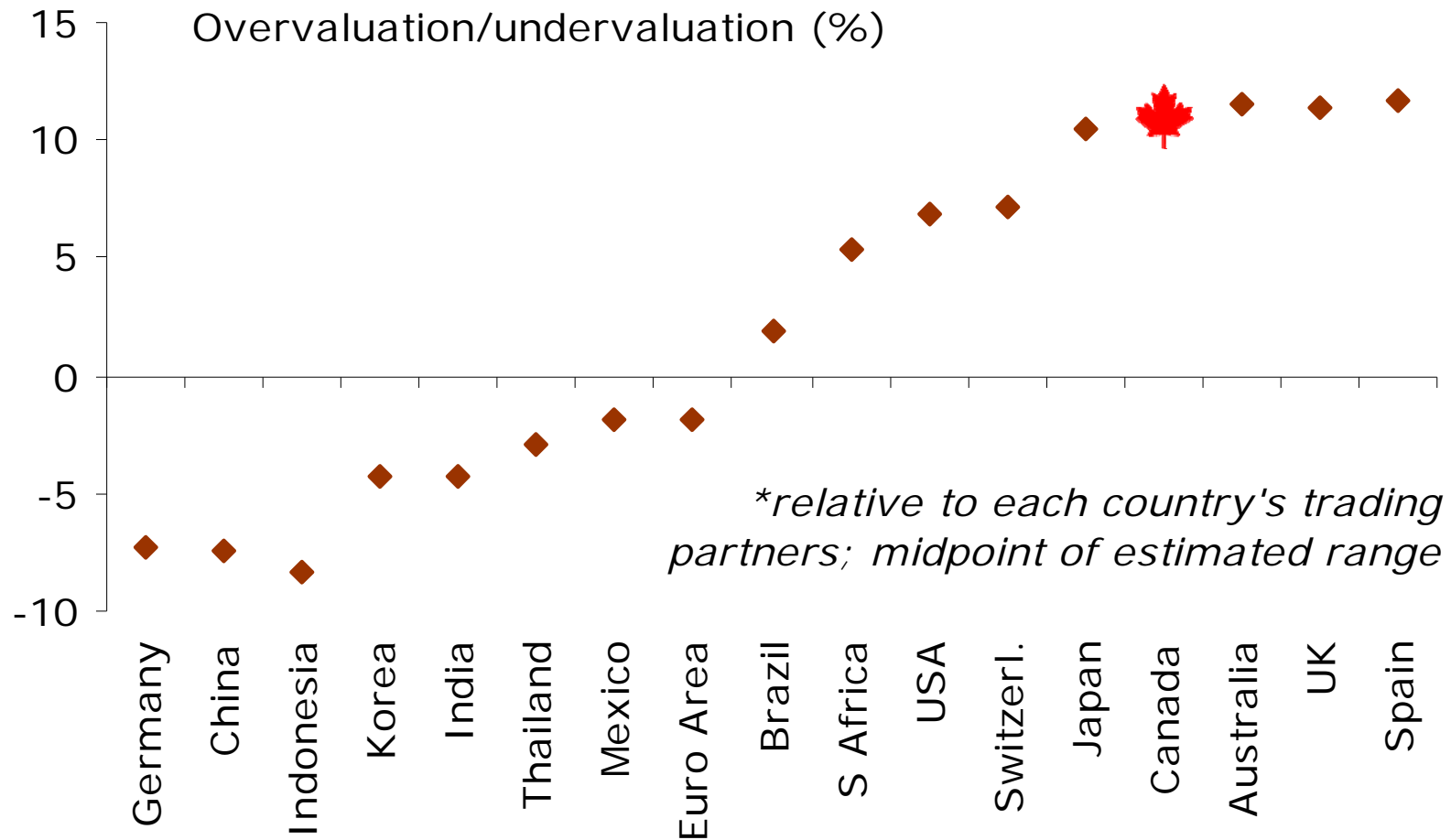
12-month change in Canadian  
exports  
(C\$, bns)



# Fiscal Performance Attracts Safe Haven Flows Leaves C\$ Near Parity in 2013



# Canadian Dollar Overvaluation\* Helps Keeps Bank of Canada On Hold in 2013



Source: IMF, BIS, CIBC

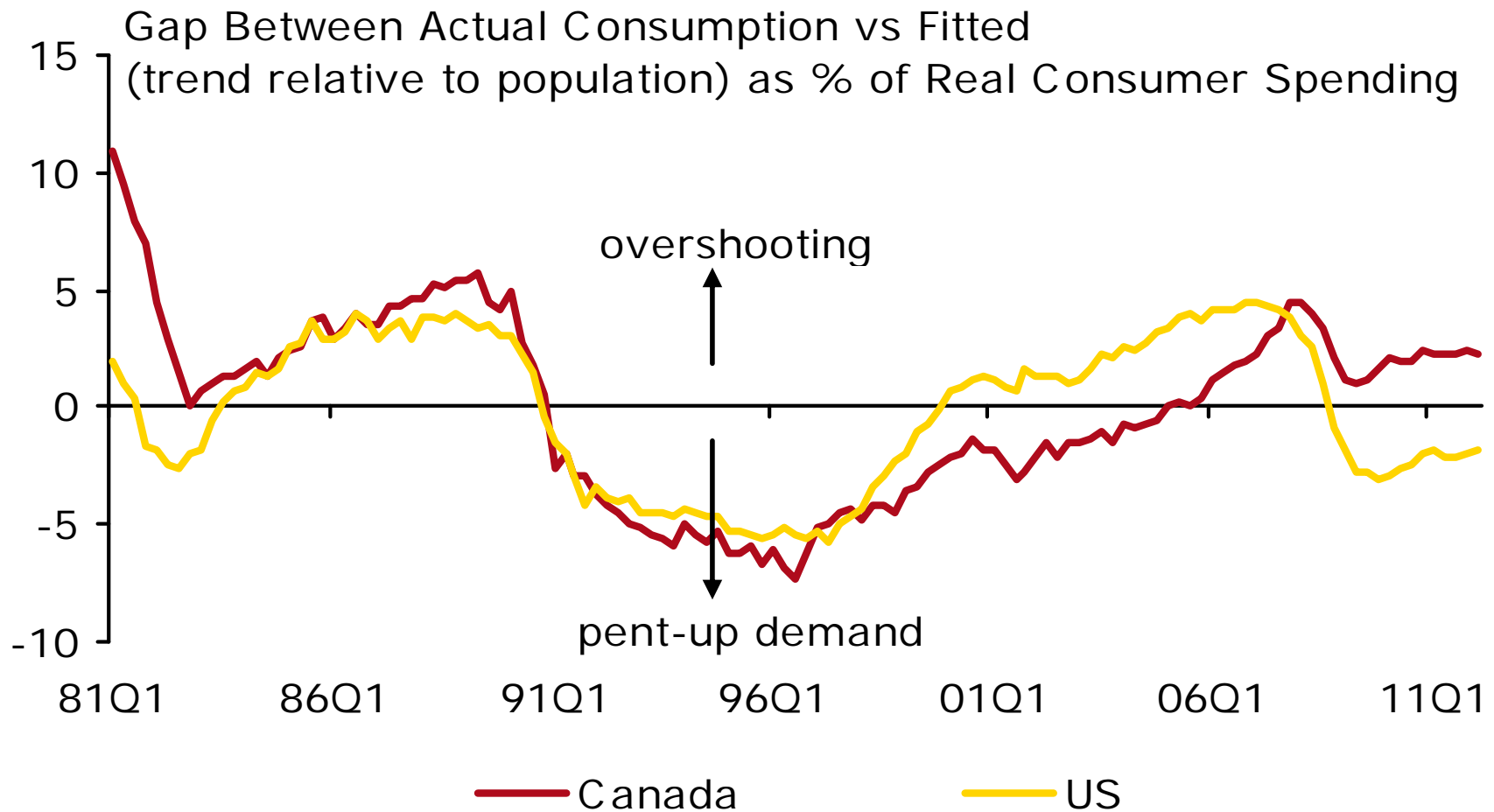
		Average		
		2012 (f)	2013 (f)	2014 (f)
Oil (WTI)	\$/bbl	94	93	98
Natural Gas	\$/Mn Btu	2.75	3.50	3.75
Gold	\$/troy oz	1675*	1700*	1600*
Copper	\$/lb	3.65	3.60	3.85
Lumber**	\$/'000 bd ft	288	385	415
Potash	\$/tonne	431	420	450
<i>* end of period</i>		<i>** 1st Futures</i>		



Source: Bloomberg, CIBC

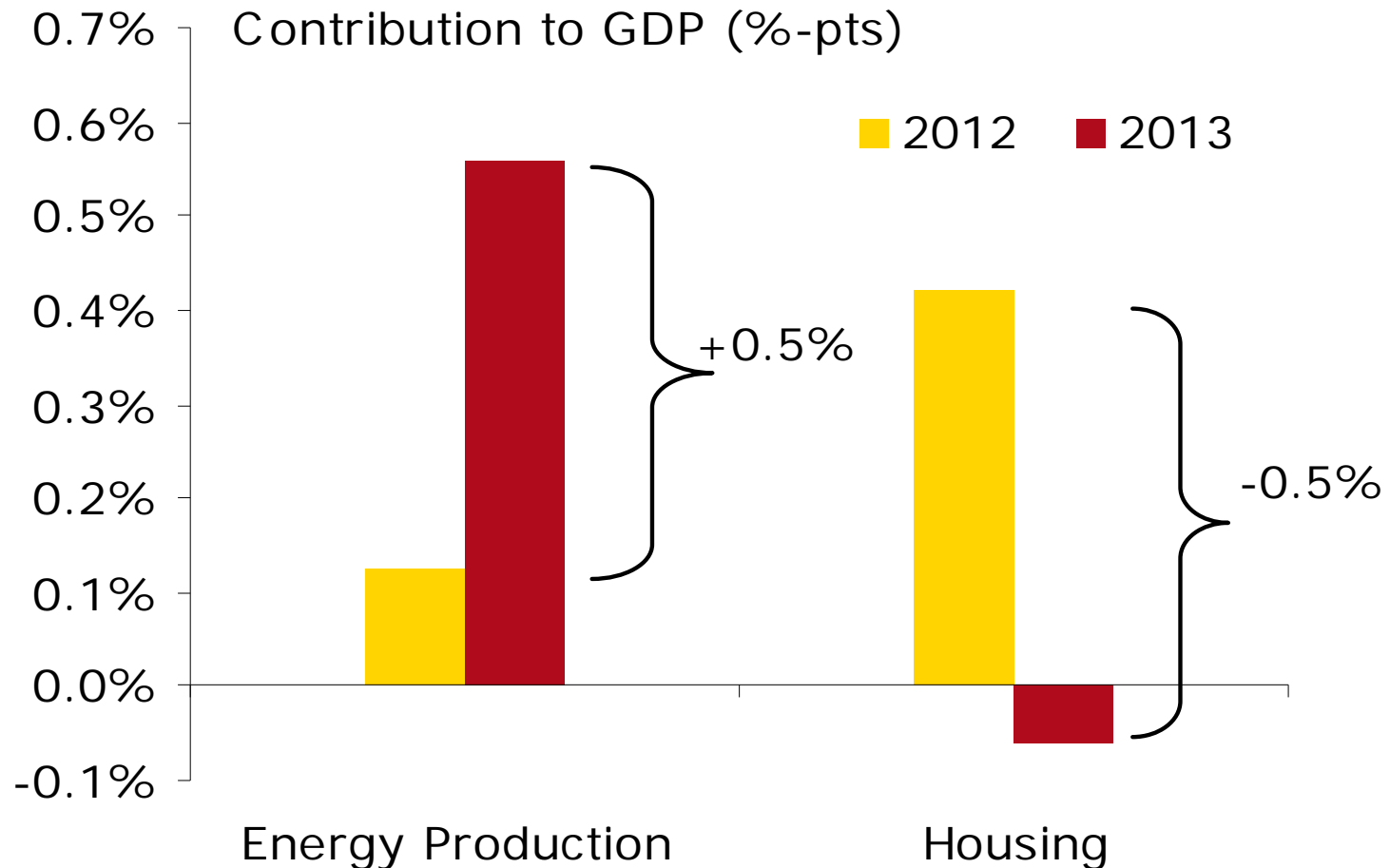


# No Pent-up Demand in Canadian Consumption; US Retailers Have More Upside

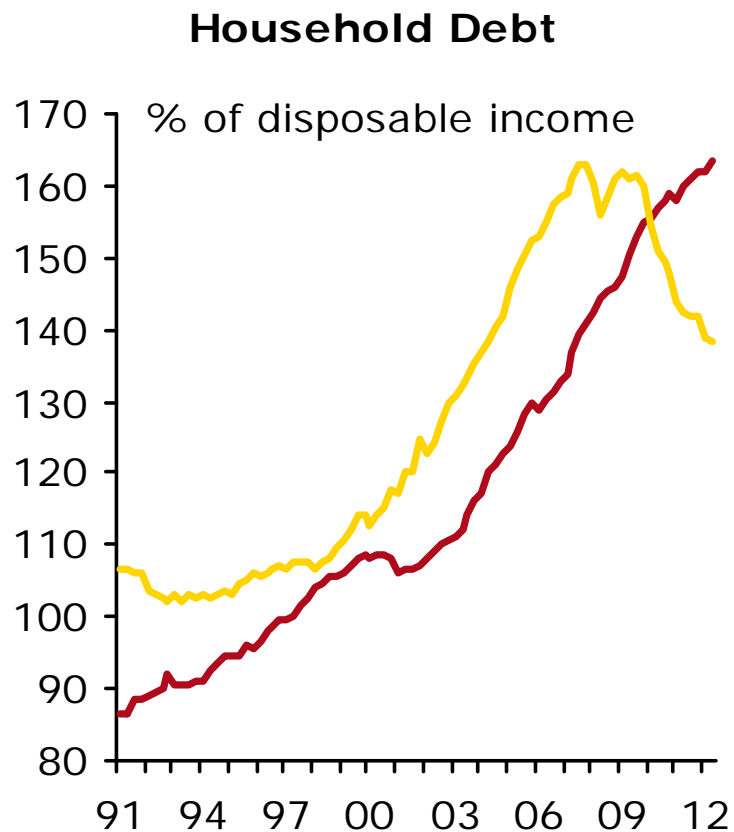


Source: US Department of Commerce, Statistics Canada, CIBC

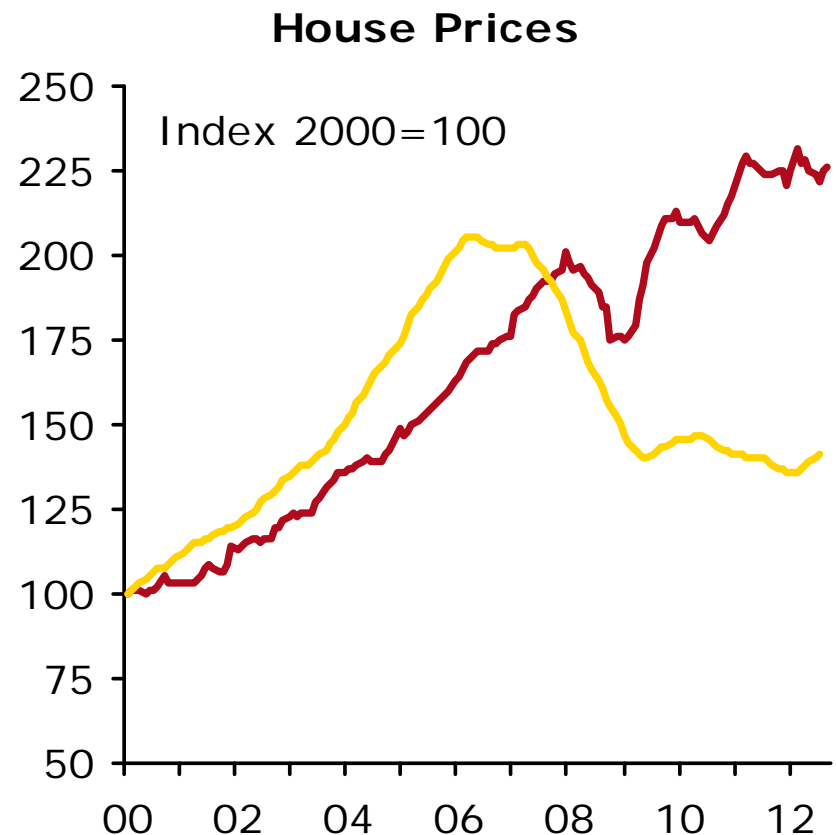
# Canada: Building Fewer Houses/Condos Offsets Energy Sector Rebound



# Uh Oh: Where the US Led, Will Canada Follow?



— Canada — US



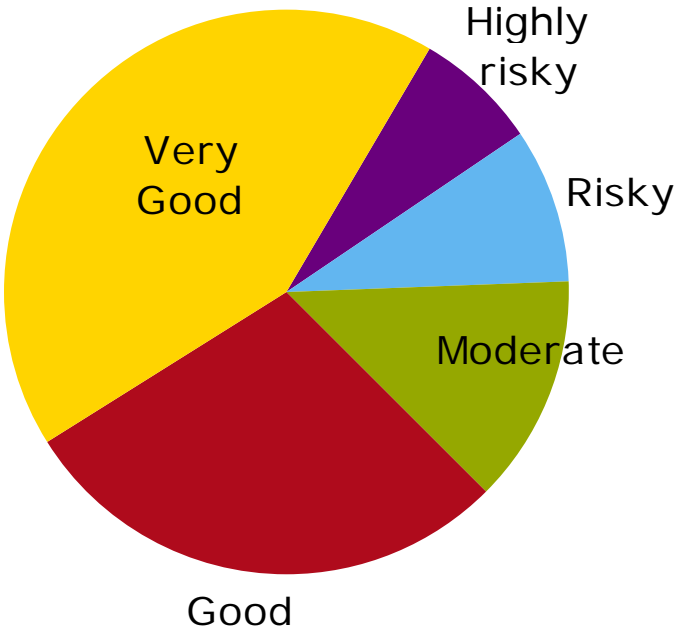
— Canada (CREA)  
— US: S&P/Case-Shiller Price Index



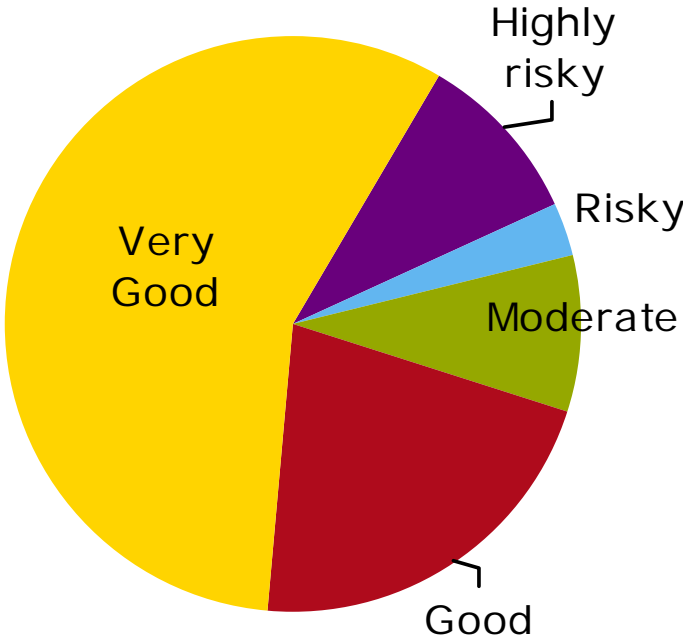
Source: StatCan, Federal Reserve Board, CREA, Standard & Poor/s, CIBC

# No Notable Deterioration in Credit Score Distribution in Canada

2008



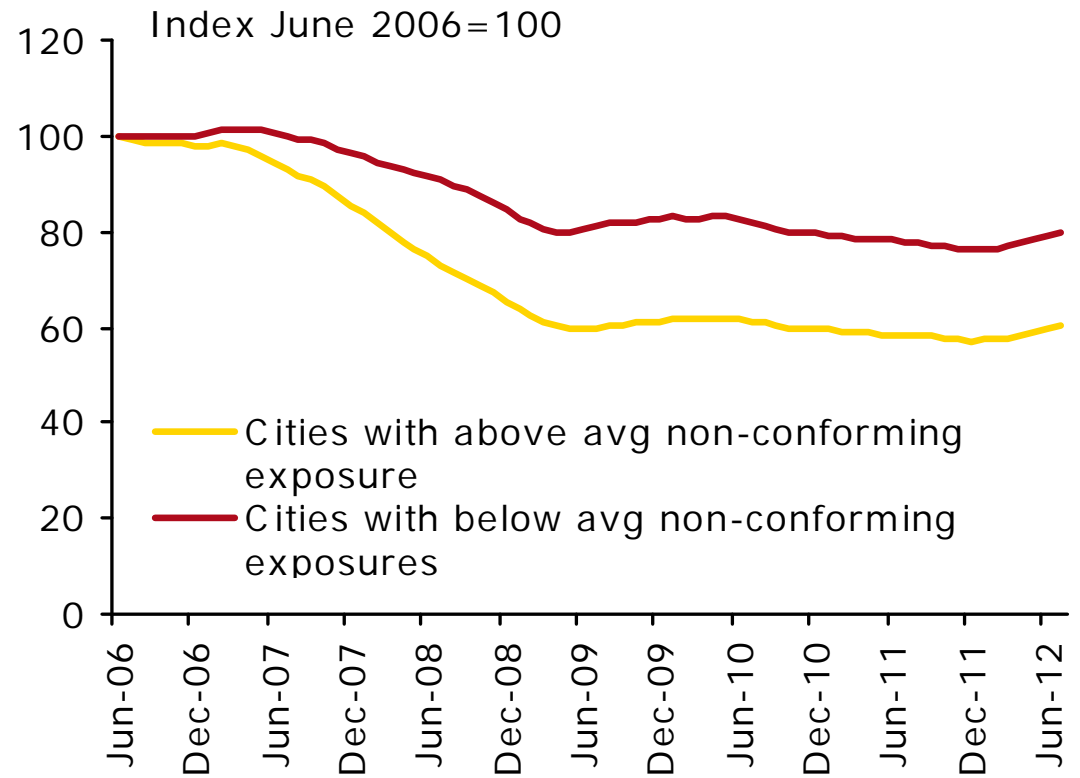
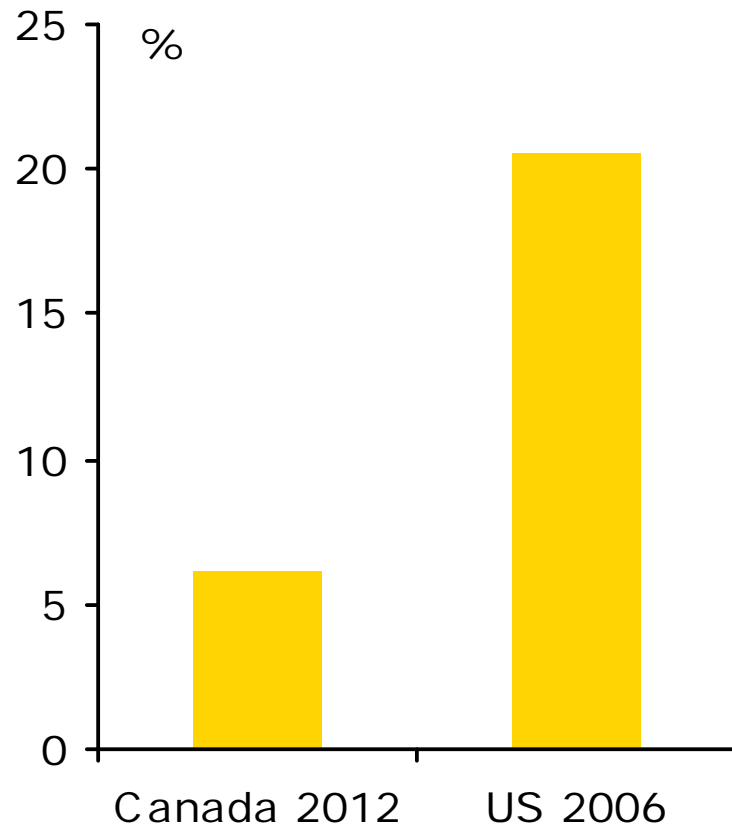
Current



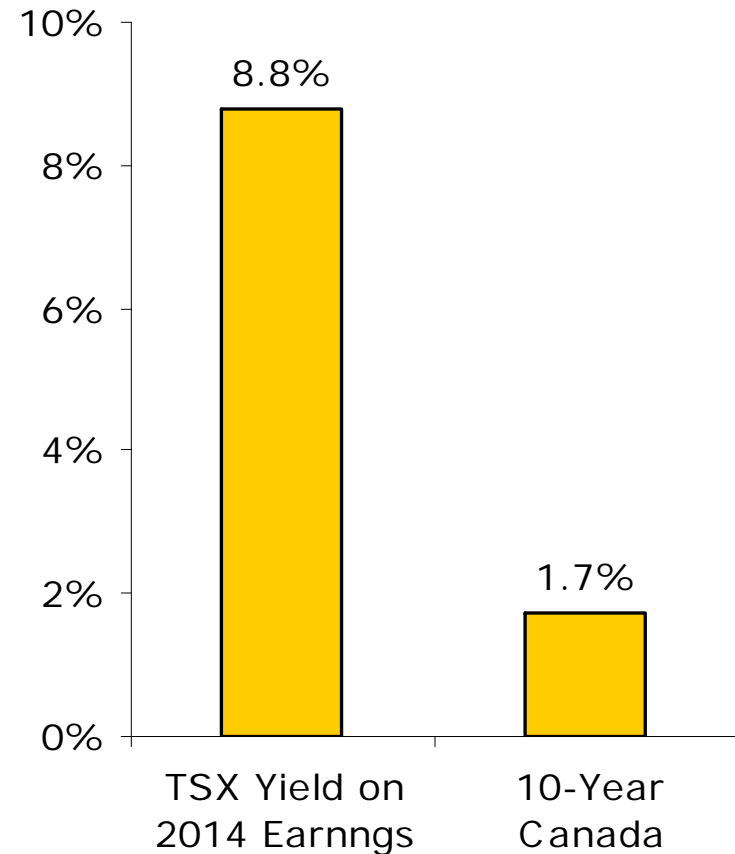
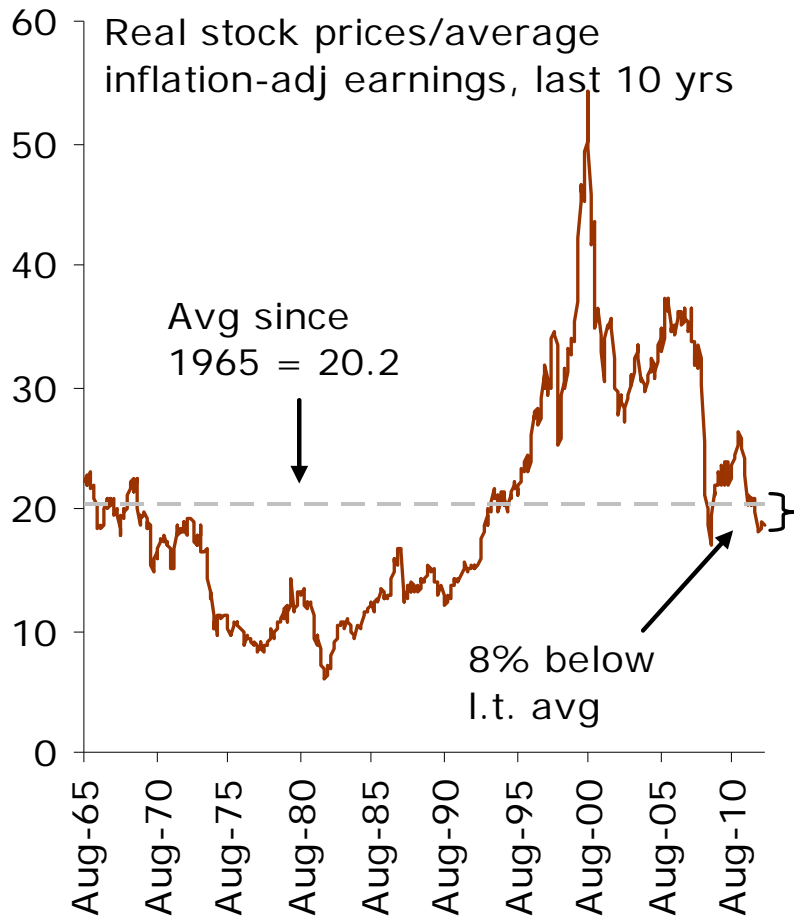
Source: Equifax, CIBC

# A Key Ingredient to the US Crash Missing Here

## Non-Conforming Mortgages as a Share of Total Outstanding

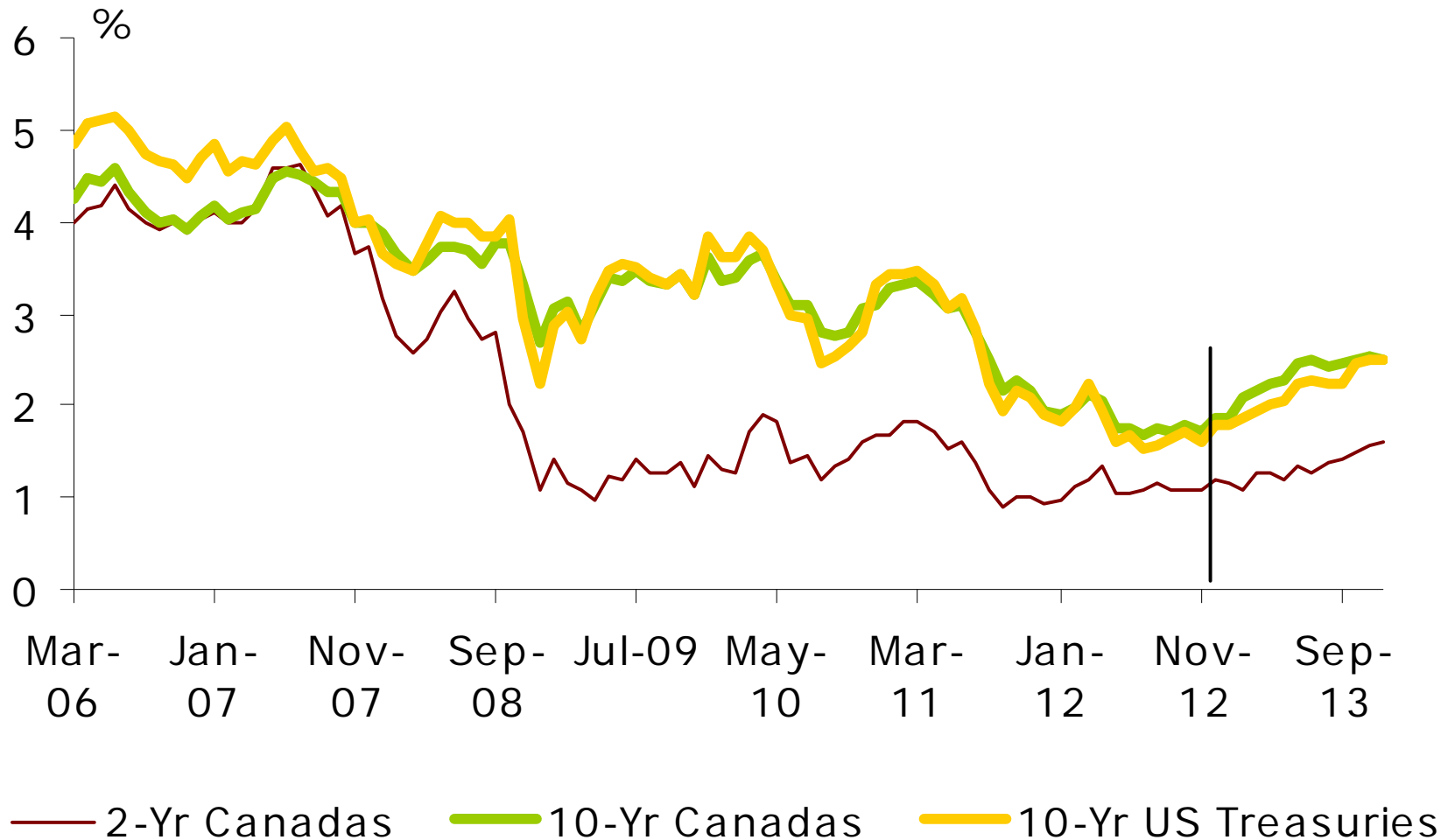


# Stocks Look Cheap vs. Historical or 2014 Earnings

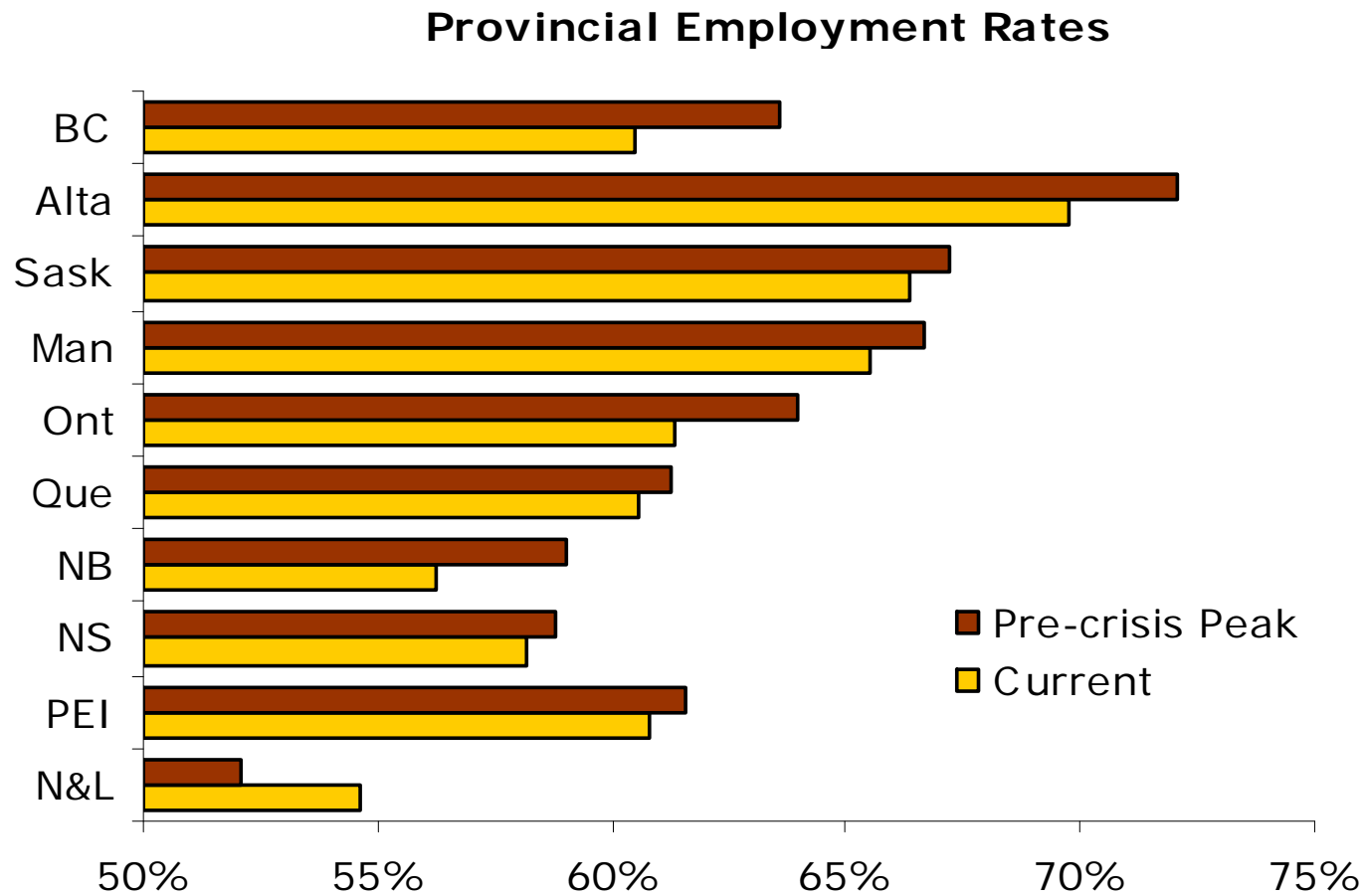


Source: Bloomberg, Statistics Canada

# Bond Yields Drift Higher in 2013 As QE Ends, Risk Assets Gain



# Newfoundland and Labrador is Alone In Regaining Pre-Recession Employment Rate

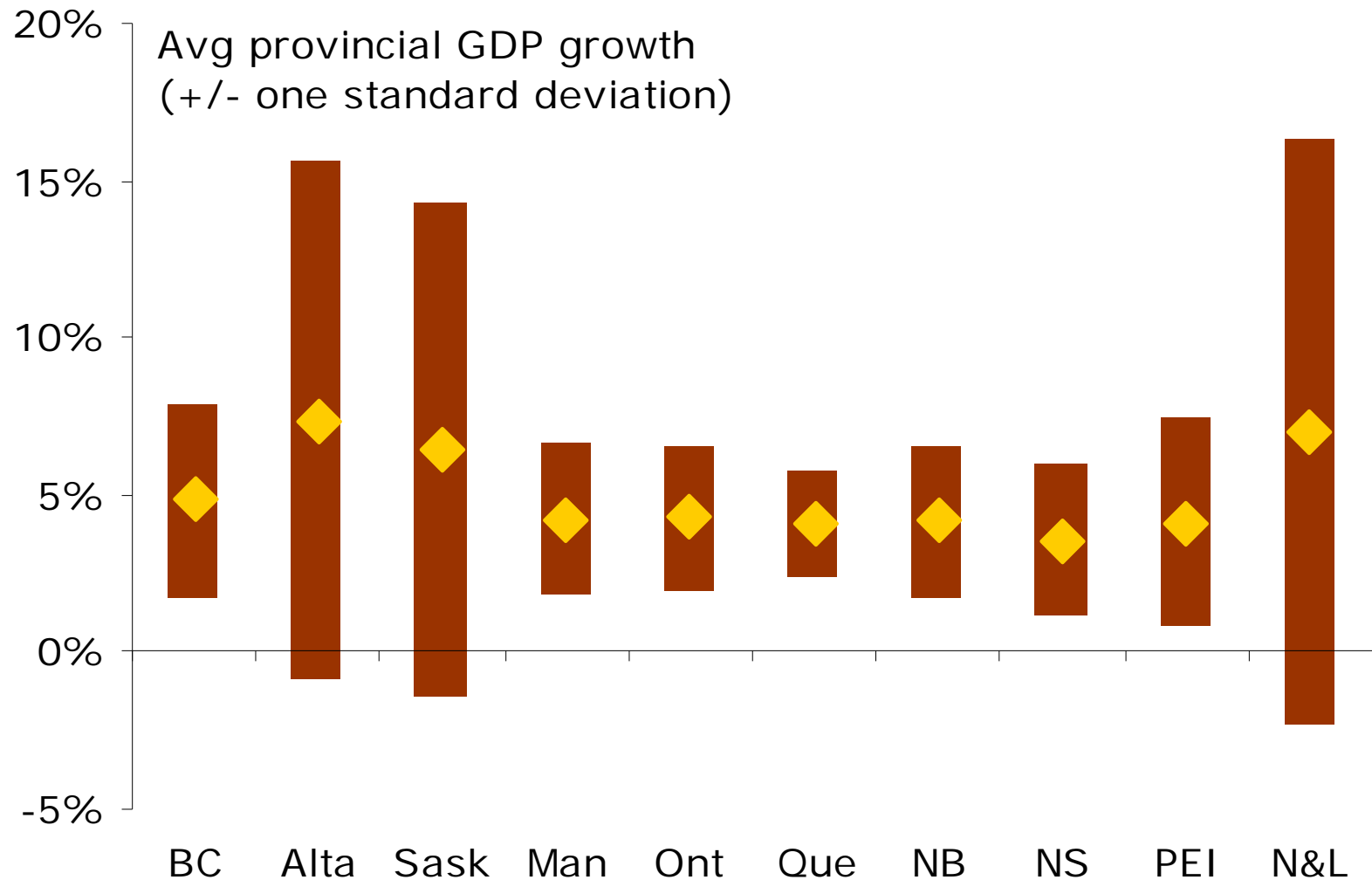




## Newfoundland and Labrador Gets its Mojo Back

Y/Y % Chg	Real GDP Growth Forecasts			Change vs Oct-12	
	2012	2013	2014	2012	2013
BC	2.1	1.6	2.4	-0.3	-0.6
Alta	3.4	2.3	2.8	-0.1	-0.9
Sask	3.0	2.4	2.9	-0.2	-0.6
Man	2.3	1.8	2.3	-0.2	-0.5
Ont	2.0	1.8	2.5	-0.1	0.0
Qué	1.0	1.3	2.0	-0.4	-0.2
NB	0.8	1.3	1.8	-0.6	-0.3
NS	1.4	1.7	2.3	-0.1	-0.5
PEI	1.5	1.6	1.9	-0.1	-0.1
N&L	0.0	4.5	2.0	-1.3	1.5
Cda	2.0	1.7	2.4	-0.2	-0.3

## Resource Provinces Have the Largest Nominal GDP Growth Swings



## Newfoundland is Not Alone: Most Governments Missing the Mark in 2012/13

C\$mIn	2011/12 Budget Balance			2012/13 Budget Balance		
	Budget 2012	Public Accounts Level	Change	Budget 2012	Latest Update Level	Change
BC	-2,497	-1,840	657	-968	-1,469	-501
Alta <sup>(1)</sup>	-1,318	-23	1,295	-886	-3,000	-2,114
Sask <sup>(2)</sup>	56	55	-1	95	56	-39
Man	-1,120	-999	121	-460	-567	-107
Ont	-14,978	-12,969	2,009	-14,820	-11,859	2,961
Qué <sup>(3)</sup>	-3,300	-2,628	672	-1,500	-3,305	-1,805
NB	-471	-261	210	-183	-357	-174
NS	-261	-248	13	-211	-249	-38
PEI	-79	-78	1	-75	-80	-5
N&L	776	883	107	-258	-726	-468
All Provinces	-23,192	-18,109	5,083	-19,266	-21,555	-2,289
Federal	-24,900	-26,220	-1,320	-21,100	-26,000	-4,900

Notes:

Re. Shading: Improvement vs 2012 Budget Deterioration vs 2012 Budget

(1) 2012/13 deficit based on high side of \$2.3bln to \$3.0bln deficit range provided by province

(2) Figures relate to General Revenue Fund Pre-Transfer balance

(3) For our purposes, updated figure for 2012/13 includes \$1.8bln extraordinary loss from closure of Gentilly-2 power station officially excluded from provincial budget balance



- ❑ **Canadian and US Growth: stuck near 2% for now; global growth picks up in 2014**
- ❑ **Housing corrects, but Canada is not the US**
- ❑ **Bank of Canada on hold until early 2014**
- ❑ **Canadian dollar softer in first half, but averages near parity**
- ❑ **Anticipation of better 2014 drives “risk on” trade, lifting yields and equities**
- ❑ **N&L growth bounces back, but deficits need to be addressed with spending restraint**
- ❑ **N&L: focus on renewable resources in longer term**