

# Economic Developments

## Canadian and U.S. Economic and Financial Services Developments in 2006

The Canadian economy grew at a moderate pace in 2006, with strength in domestic demand partially offset by weaker exports. Consumer spending remained healthy, sustaining growth in personal loans. Housing market activity softened somewhat but continued at very high levels, especially in Western Canada, supporting growth in residential mortgages. To expand capacity and remain competitive, firms boosted spending on new equipment, spurring growth in business credit. Robust job growth pushed the unemployment rate down to a 32-year low, although manufacturers continued to struggle with the strong Canadian dollar. Inflation remained low despite rising oil prices, encouraging the Bank of Canada to suspend its tightening cycle in the summer. High commodity prices supported earnings growth in the resource sector, extending the rally in Canadian equity markets and providing support to our mutual fund and brokerage businesses and to underwriting and merger and acquisition activities.

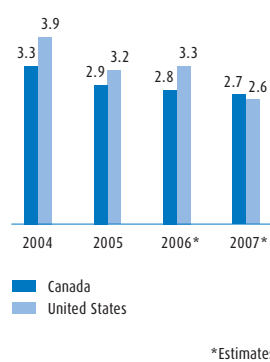
The U.S. economy grew at a respectable rate in 2006, although the pace of activity moderated through the year in response to rising interest rates and high energy costs. Housing markets cooled from the frenetic pace of recent years, resulting in slower growth in residential mortgages. In contrast, corporate spending remained brisk, driving growth in business loans. Continued healthy gains in employment have reduced the unemployment rate to a five-year low. After steadily raising interest rates in the past two years, the Federal Reserve suspended its tightening cycle in mid-2006 due to the slowing economy.

## Economic and Financial Services Outlook for 2007

In 2007, the Canadian economy is again expected to grow moderately, improving through the year as the negative impact of the strong Canadian dollar dissipates. Business investment should remain strong based on healthy corporate balance sheets, promoting growth in business credit. While an expected moderation in housing activity will likely dampen demand for residential mortgages, the projected steady economic expansion should underpin fee-based investment banking activities. Interest rates are expected to remain stable in Canada, while the value of the Canadian dollar should increase modestly against a generally weak U.S. dollar.

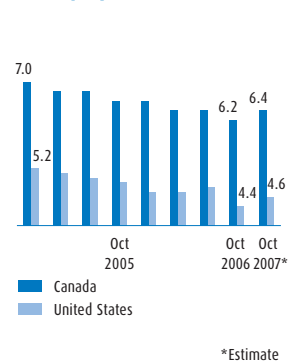
The U.S. economy is expected to grow moderately in 2007, although the rate of growth is forecast to improve late in the year in response to an anticipated easing in monetary policy. Continued strong demand for productivity-enhancing capital equipment is expected to sustain growth in business credit. However, a further moderation in the housing market is anticipated and will likely reduce growth in residential mortgages. The lower interest rates expected in 2007, along with the large U.S. current account deficit, will likely weaken the U.S. dollar relative to most major currencies.

### Real Growth in Gross Domestic Product (%)



The Canadian and U.S. economies are expected to grow moderately in 2007 but at lower rates than in 2006.

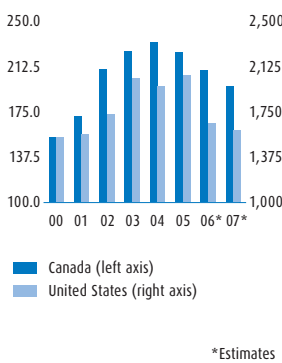
### Canadian and U.S. Unemployment Rates (%)



Canadian and U.S. jobless rates should continue to be low in 2007.

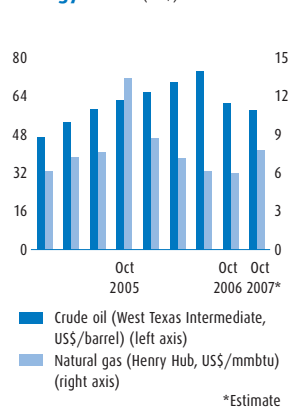
### Housing Starts

(Q4 annualized, in thousands)



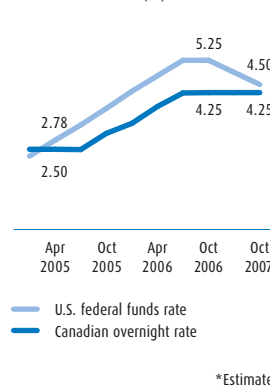
Homebuilding in Canada and the United States should return to more normal levels in 2007.

### Energy Prices (US\$)



Energy prices are expected to remain below recent record highs.

### Canadian and U.S. Interest Rates (%)



The Federal Reserve is expected to ease monetary policy in 2007, although the Bank of Canada is not expected to follow suit.

### Canadian/U.S. Dollar Exchange Rates



The trend of the U.S. dollar weakening relative to the Canadian dollar should moderate in 2007.