

Economic Developments

Canadian and U.S. Economic and Financial Services Developments in 2008

The Canadian economy grew at a modest pace in 2008, as exports continued to decline in response to weak U.S. demand. Growth in consumer spending moderated from last year's rapid pace, as employment growth and confidence weakened. Business investment also slowed in response to persistent uncertainty about the impact of the global credit crisis on the economy. Housing sales declined from last year's record levels, reflecting reduced affordability. The softer economy led to some slowing in residential mortgages and business and personal credit in the second half of the year, although growth remained relatively brisk. Rising commodity prices in the first half of the year lifted inflation to the highest level in five years; however, most prices continue to rise modestly and in some cases, such as motor vehicles, are falling. The Bank of Canada reduced overnight lending rates 225 basis points in the fiscal year to address the economic slowdown, the recent downturn in commodity prices and credit concerns in the market.

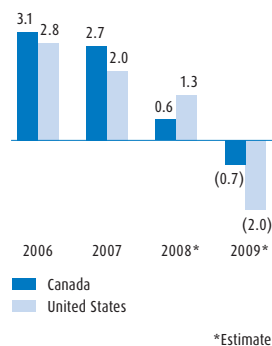
The U.S. economy grew modestly in the first half of 2008 and likely contracted in the second half, despite aggressive monetary and fiscal stimulus and strong export gains. The worsening credit market environment and housing slump, coupled with record-high energy costs, significantly affected consumers and businesses. Interbank lending spreads widened to all-time highs in early October amid the government-assisted recapitalization and consolidation of a number of banks and Wall Street brokers, severely curtailing the availability of credit and raising borrowing costs for businesses and consumers. While the downward trend in housing sales appears to have stabilized, the large number of unsold homes continues to weigh on prices. Growth in residential mortgages and personal and business loans slowed in 2008. The Federal Reserve aggressively reduced interest rates and expanded its liquidity provisions to support bank lending and the economy.

Economic and Financial Services Outlook for 2009

The Canadian economy is expected to contract moderately in the first half of 2009 as exports decline further, before recovering modestly in the second half of the year in response to low interest rates and recent weakness in the currency. The unemployment rate is expected to climb more than one percentage point by late 2009 to above 7%, still a historically low level. Consumer and business spending will likely remain soft, further moderating credit growth. Housing activity is expected to continue to decline, dampening demand for residential mortgages. The Bank of Canada is expected to reduce interest rates further as inflation falls. The Canadian dollar is expected to strengthen modestly relative to the U.S. dollar in the second half of the year, supported by steadier commodity prices.

The U.S. economy is expected to continue contracting in the first half of 2009, before improving slightly as the housing market stabilizes and credit conditions ease. Personal and business credit and residential mortgage demand will likely remain weak, at least in the first half of the year. U.S. unemployment has climbed steadily in the past year and is expected to rise about two percentage points to 9% in 2009, well above Canada's rate. The Federal Reserve may continue to reduce interest rates to support the economy. Weakness in capital markets is expected to extend into early 2009, with some improvement expected in the second half of the year as the economy recovers and housing prices stabilize.

Real Growth in Gross Domestic Product (%)



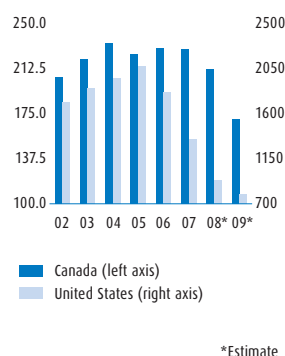
The Canadian and U.S. economies are expected to remain weak in 2009.

Canadian and U.S. Unemployment Rates (%)



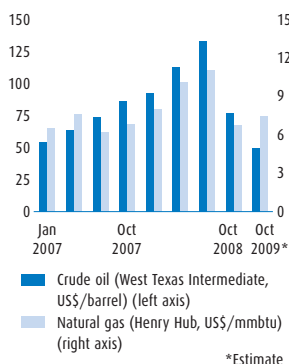
Canadian and U.S. jobless rates are expected to climb further.

Housing Starts (in thousands)



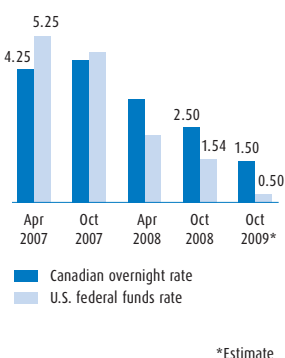
Homebuilding in Canada should continue to slow in 2009, while construction in the United States is expected to remain very weak.

Energy Prices (US\$)



Energy prices are expected to remain elevated in 2009, though well off their highs of 2008.

Canadian and U.S. Interest Rates (%)



The Bank of Canada and U.S. Federal Reserve will likely keep rates low well into 2009.

Canadian/U.S. Dollar Exchange Rates



The Canadian dollar is expected to strengthen modestly in 2009 relative to the last quarter of 2008.