

Economic Outlook

Pacific Northwest Economic Development Council Conference

Nanaimo, British Columbia

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Central 1 Credit Union



Outline:

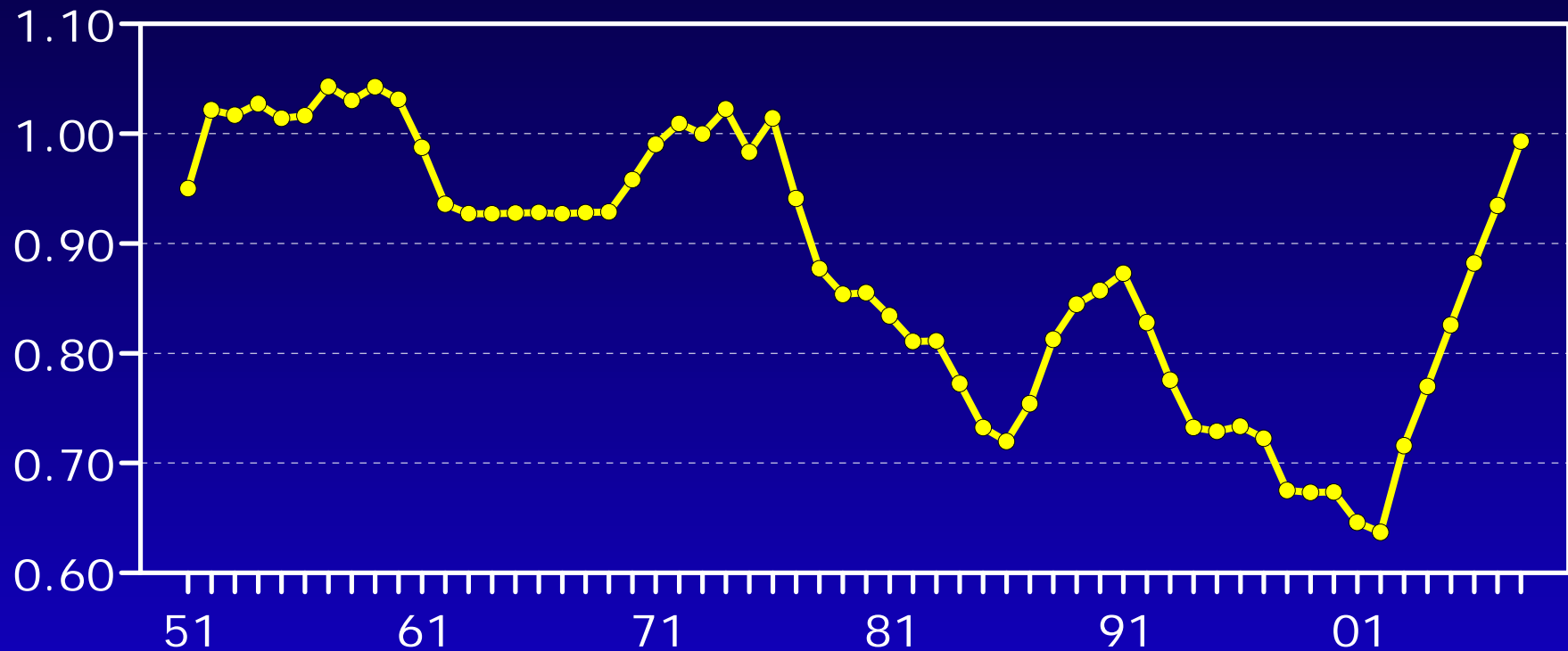
- Canada - U.S. economic relationship
- Global economy and commodities
- U.S. economic trends and outlook
- Canadian economic trends and outlook
- Summary



Steep run-up in exchange rate since 2002

U.S.-Canada Exchange Rate

U.S. dollar per Canadian dollar



Source: Statistics Canada, Bank of Canada.

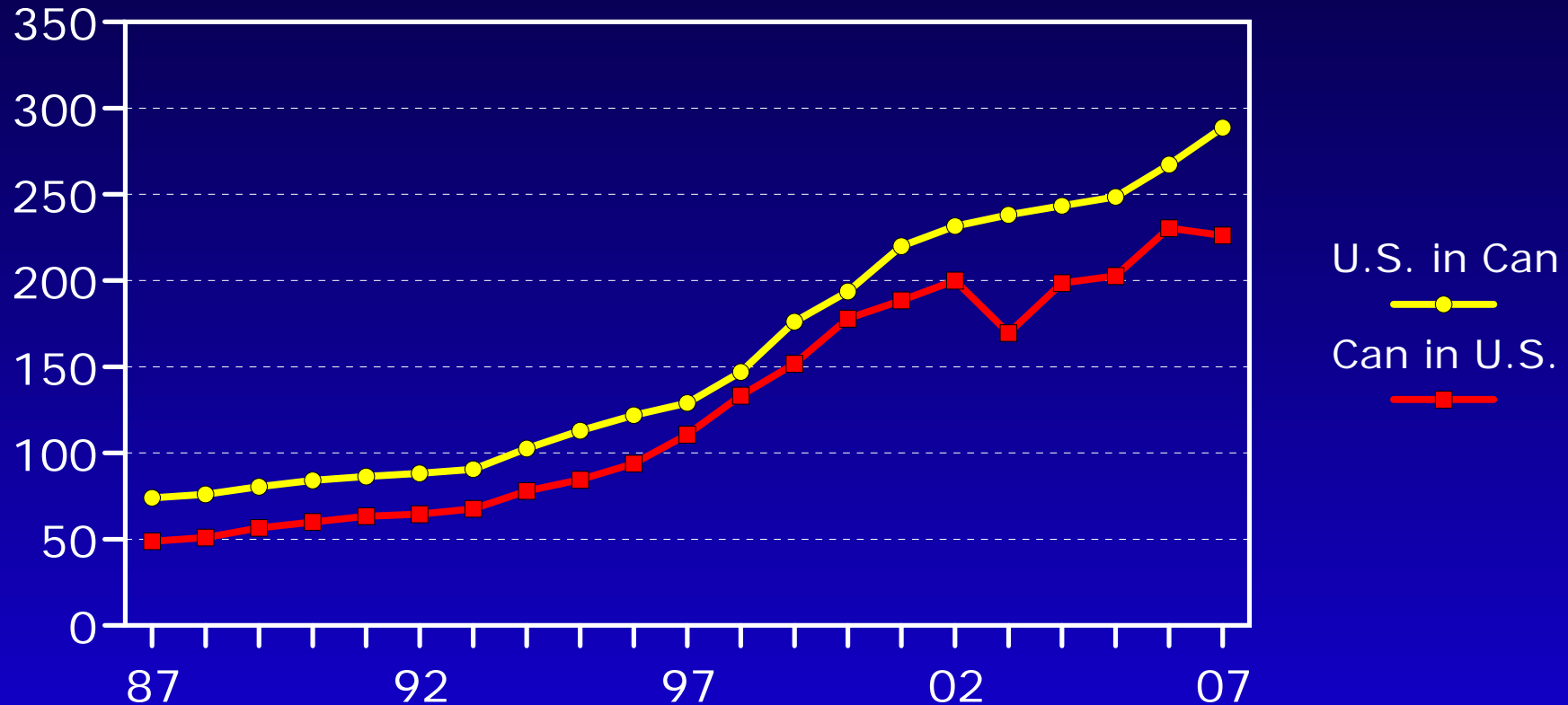
Latest: January to June 2008



Significant direct investment between Canada and U.S.

Foreign Direct Investment Stock between Canada and U.S.

Dollars - billions



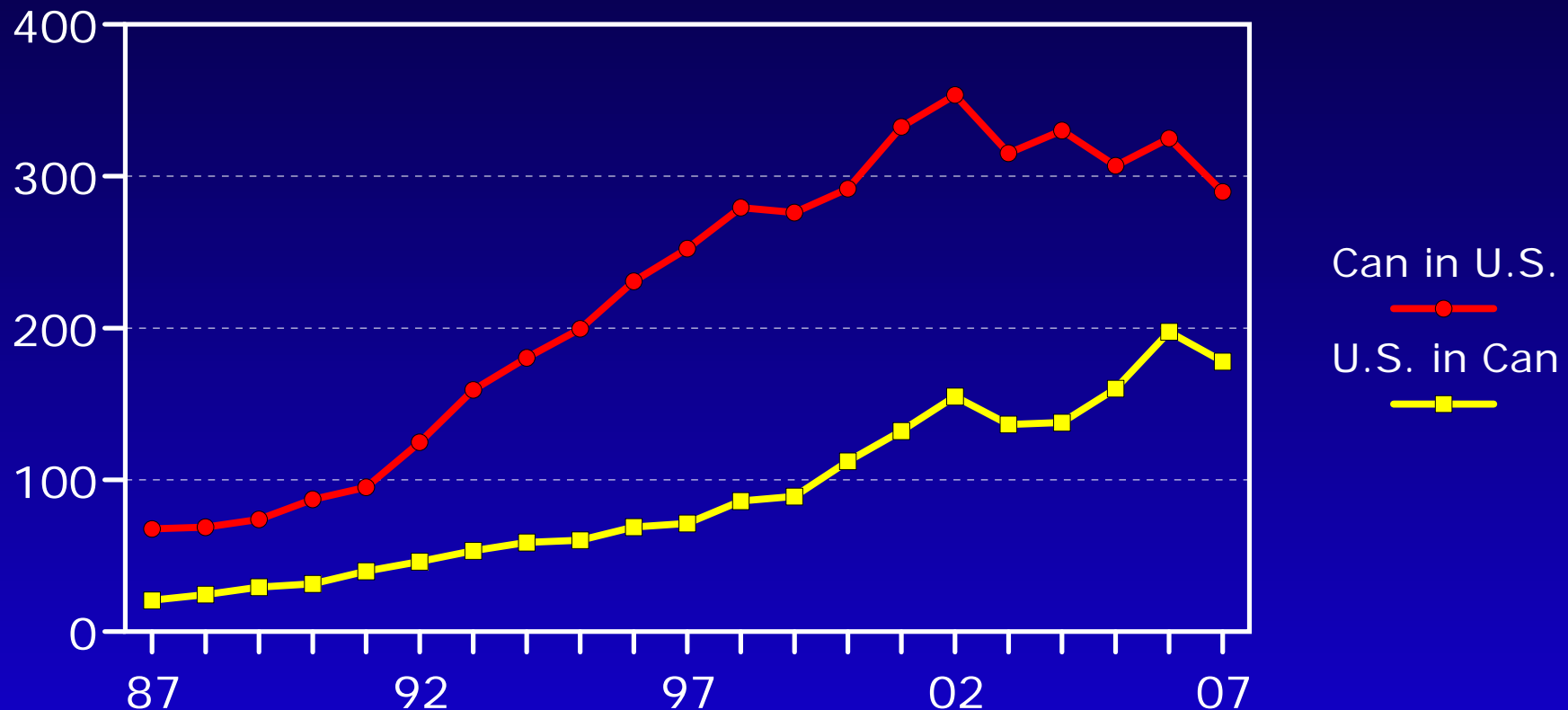
Source: Statistics Canada.



Investment in stocks and bonds at high levels

Portfolio Investment Stock between Canada and U.S.

Dollars - billions



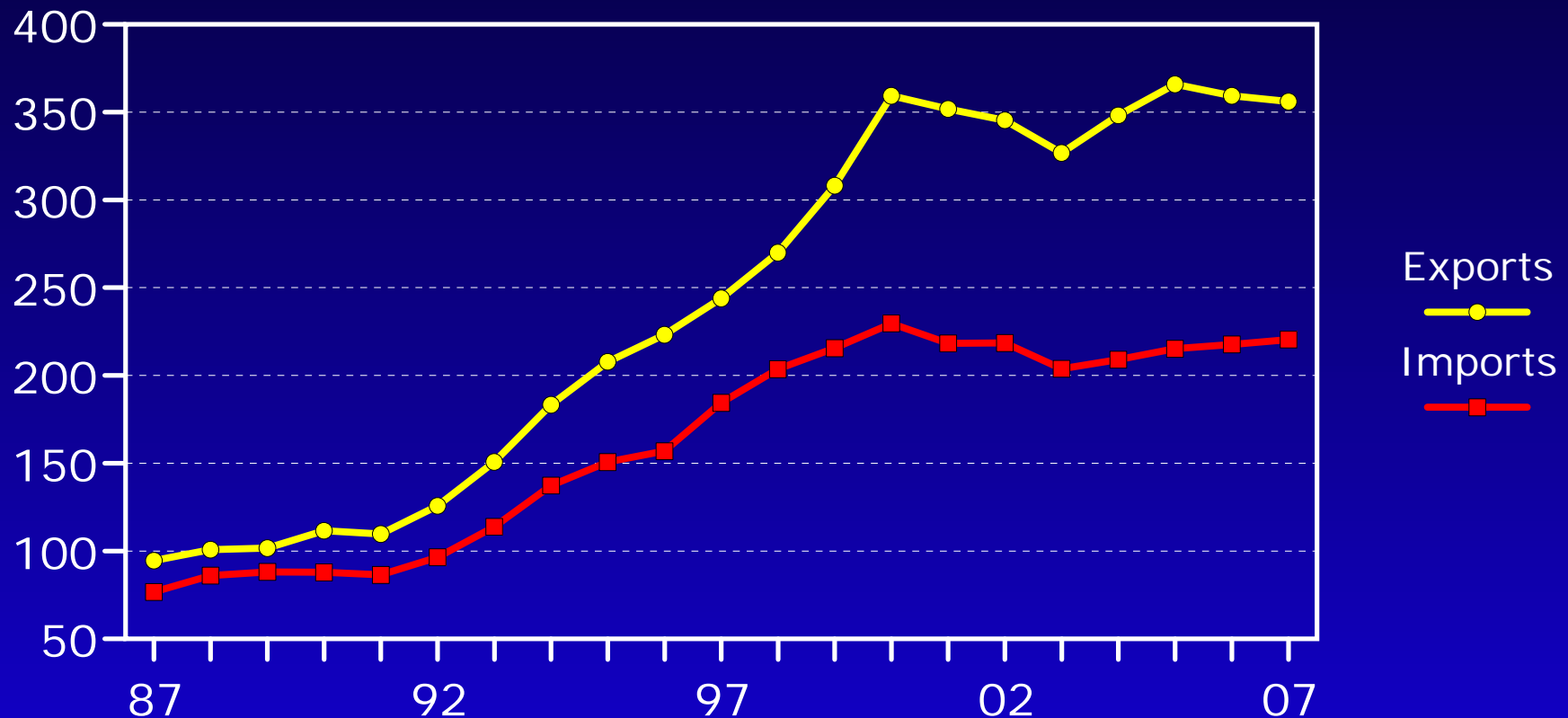
Source: Statistics Canada.



Canada's goods trade surplus with U.S.

Merchandise Trade - Canada to U.S.

Dollars - billions



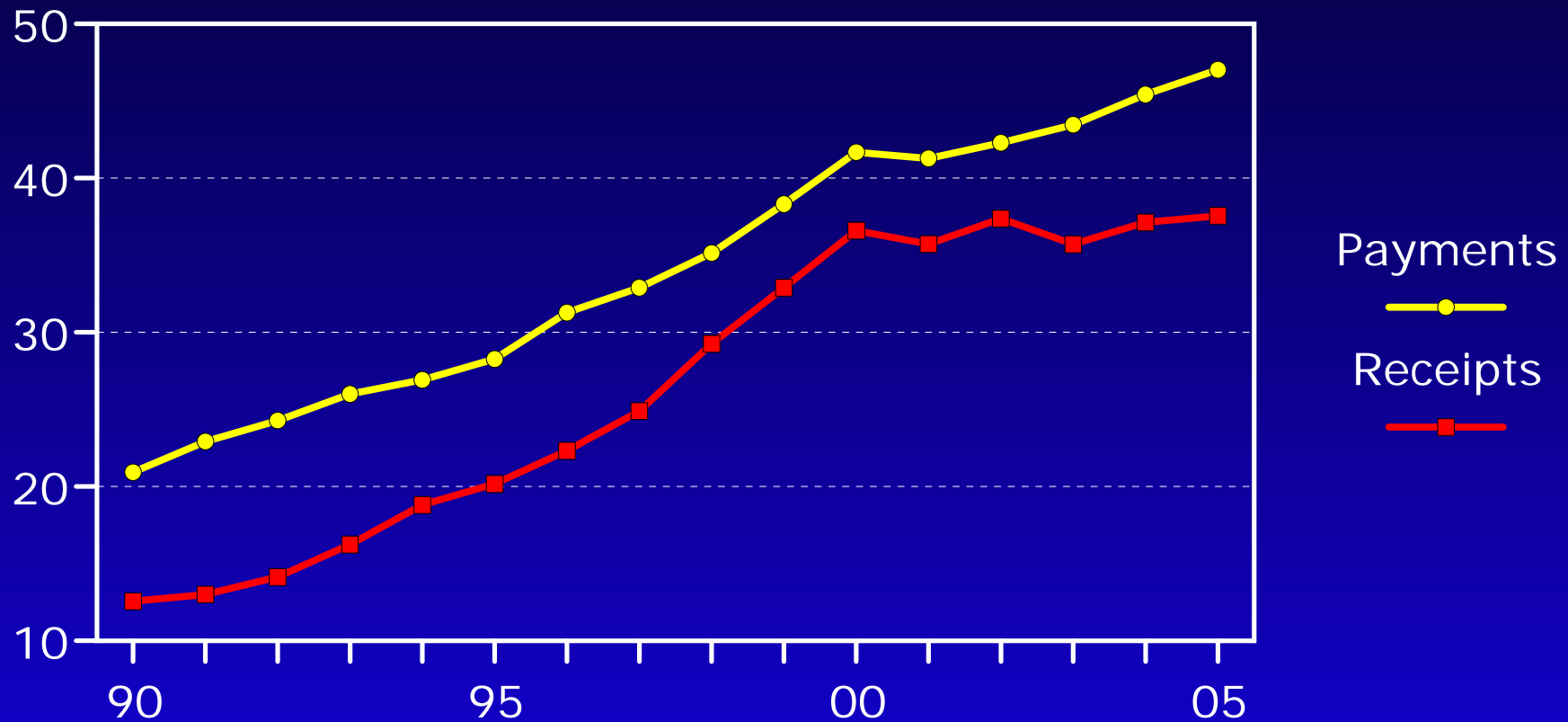
Source: Statistics Canada.



Canada's services trade deficit with U.S.

Services Trade - Canada to U.S.

Dollars - billions



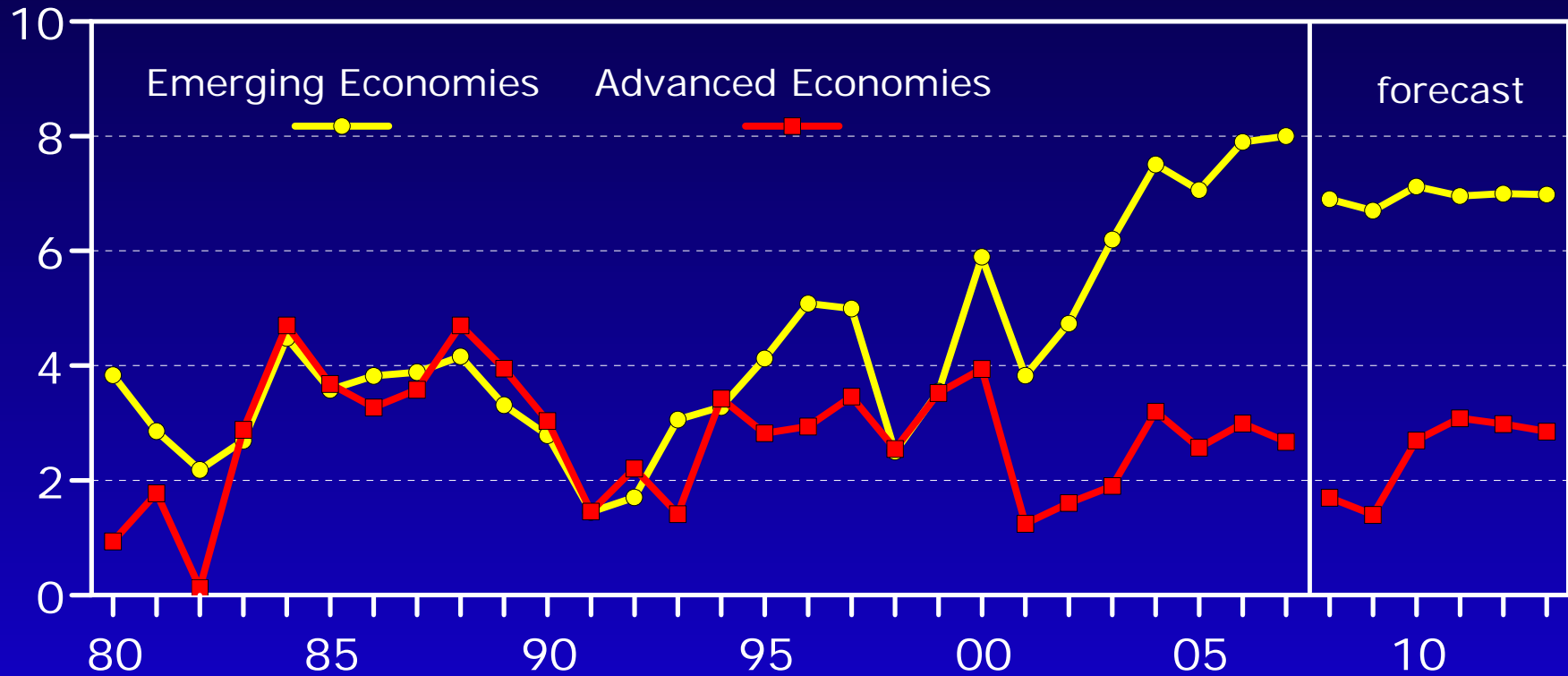
Source: Statistics Canada.



Global economy led by high growth in emerging economies

Economic Growth by Country Grouping

Per cent



Source: International Monetary Fund.

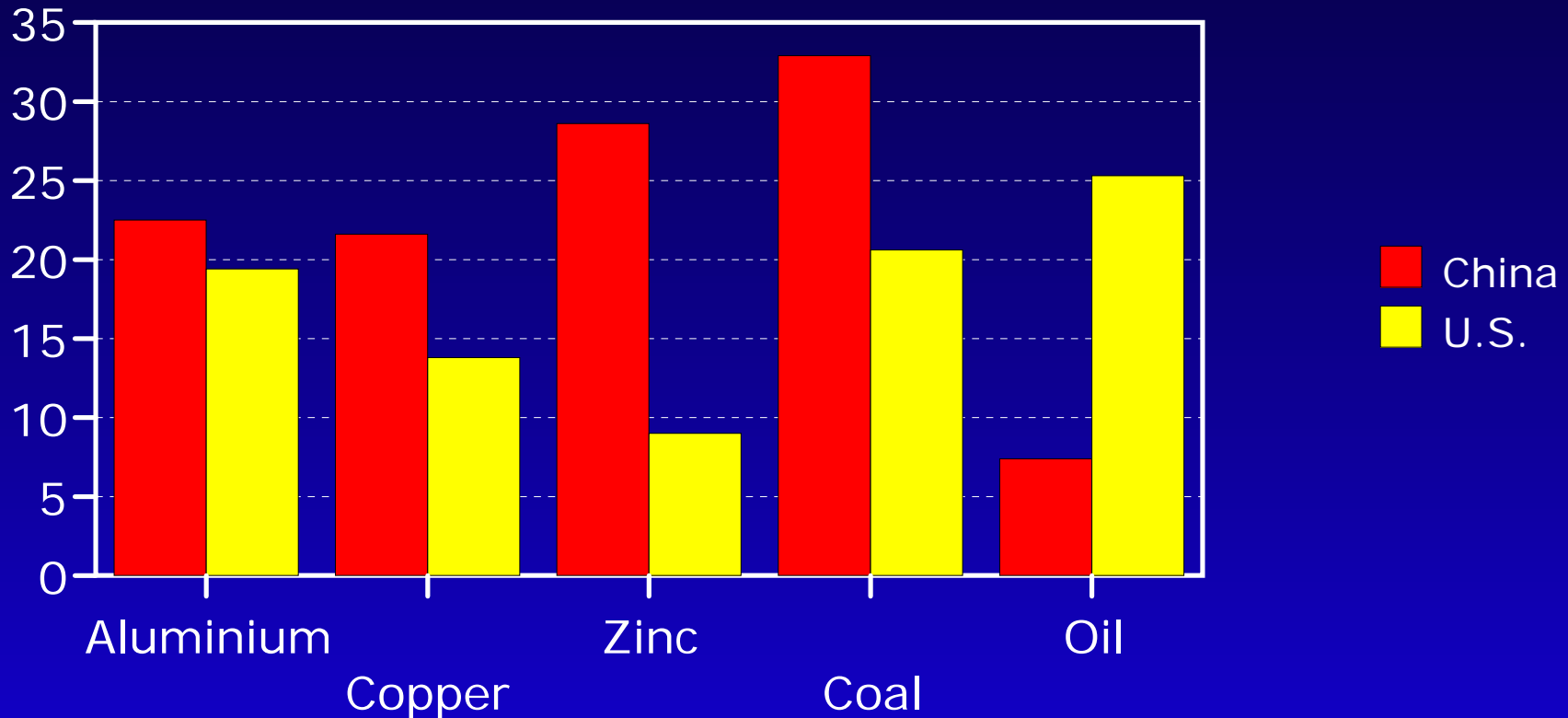
Forecast period: 2008 to 2013.



China's consumption of metals and coal highest in world

China and U.S. Share of World Consumption, Selected Commodities

Per cent



Source: World Bank.

Note: As of 2005



Oil price doubles in last 12 months, at record highs

Crude Oil Spot Price, Actual and Inflation-adjusted

\$U.S. per barrel



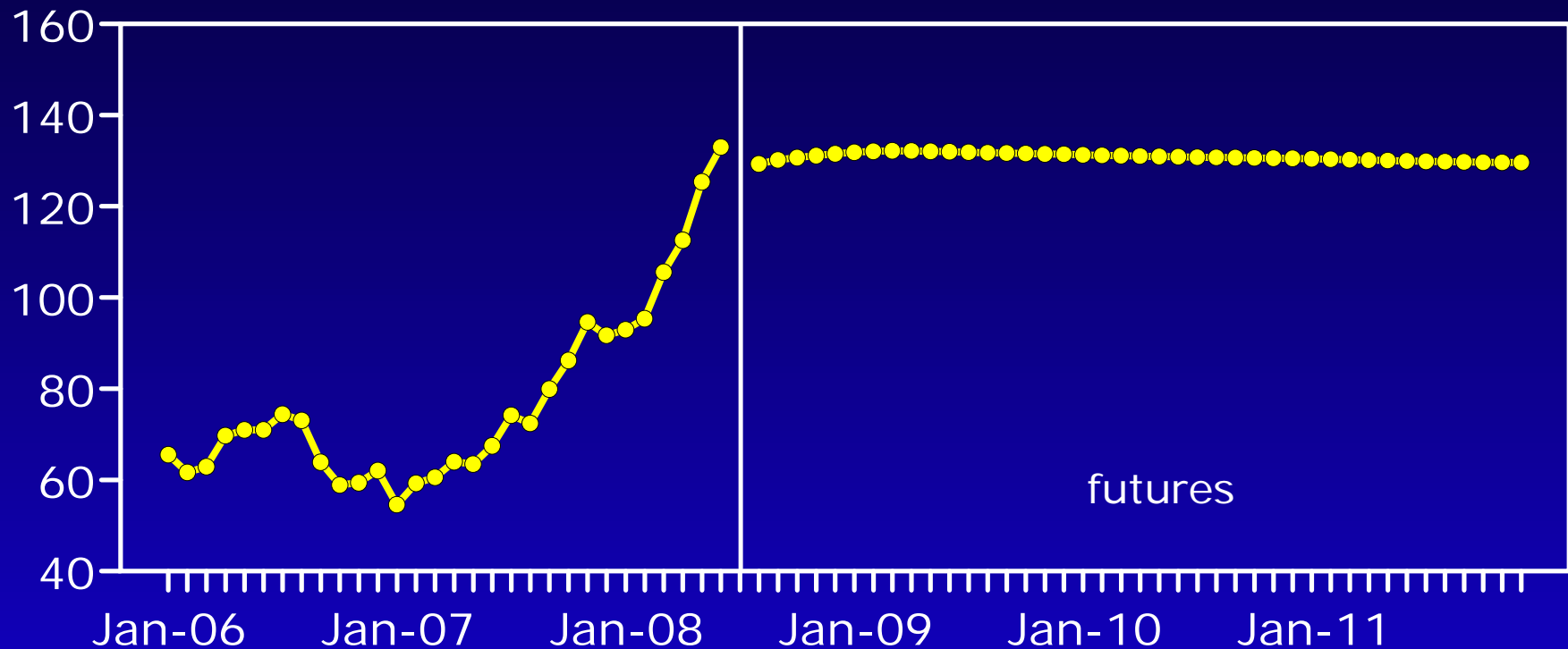
Source: CRB, U.S. BEA. Note: Actual deflated by U.S. CPI. Latest: June 2008



Market expects high oil prices

Spot and Futures Oil Price, Monthly

U.S. dollars per barrel



Source: U.S. Federal Reserve Board, NYMEX.

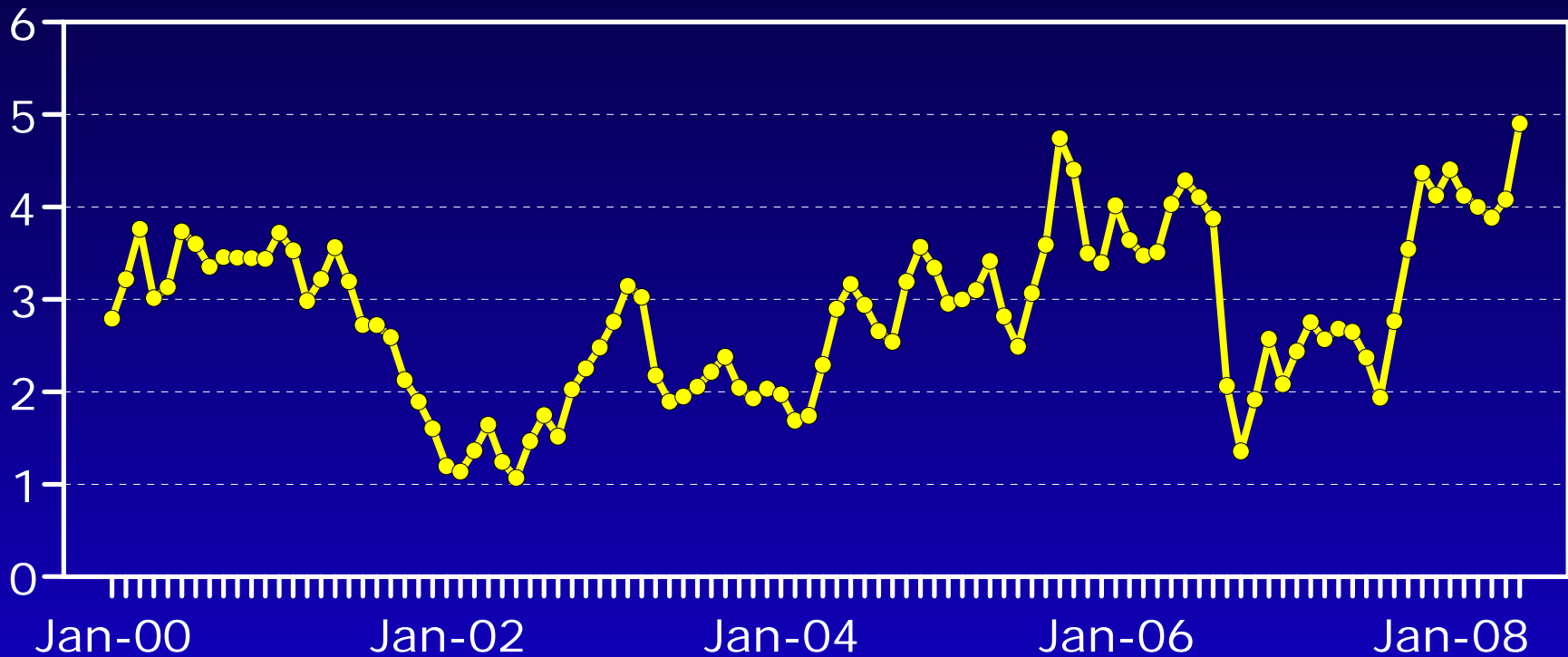
Futures as of July 18, 2008



U.S. inflation rate at multi-year high

U.S. Consumer Price Inflation Rate

Percentage change year-over-year



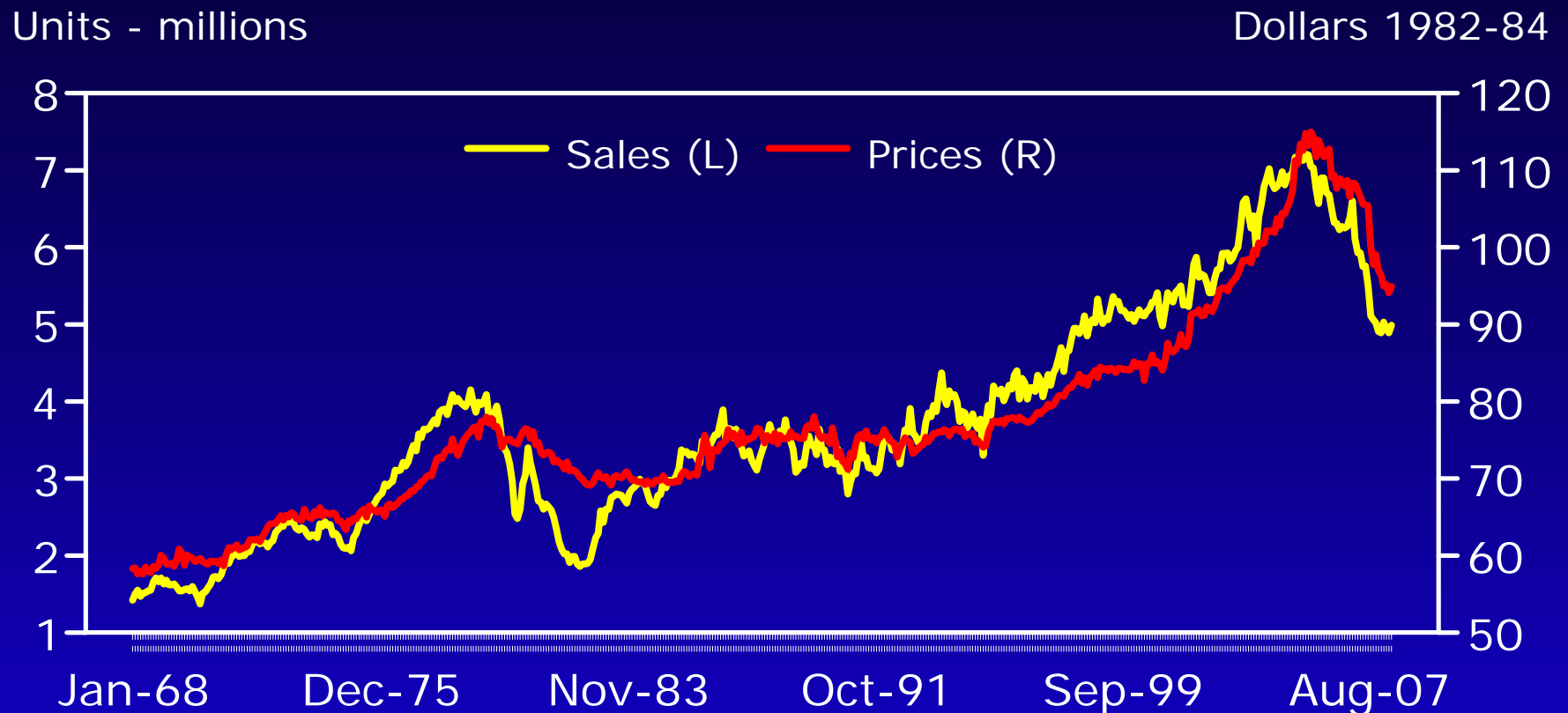
Source: U.S. Bureau of Labor Statistics.

Latest: June 2008



U.S. housing recession deepens

U.S. Existing Home Sales SAAR and Real Median Sales Price



Source: NAR, BLS, CUCBC. Note: Median price deflated by CPI. Latest: May 2008



Rising subprime mortgage delinquencies, adjustable rate mortgages up most

U.S. Mortgage Delinquencies

	06 Q2	06 Q3	06 Q4	07 Q1	07 Q2	07 Q3	07 Q4	08 Q1
Prime								
Fixed Rate Mortgage	2.0	2.1	2.3	2.2	2.3	2.5	2.6	2.8
Adjustable Rate Mortgage	2.7	3.1	3.4	3.7	4.2	5.1	5.5	6.8
Subprime								
Fixed Rate Mortgage	9.2	9.6	10.1	10.3	11.0	12.4	14.0	15.4
Adjustable Rate Mortgage	12.2	13.2	14.4	15.8	17.0	18.8	20.0	22.1

Source: Mortgage Bankers Association of America



Rising adjustable rate mortgage defaults

U.S. Mortgage Foreclosures

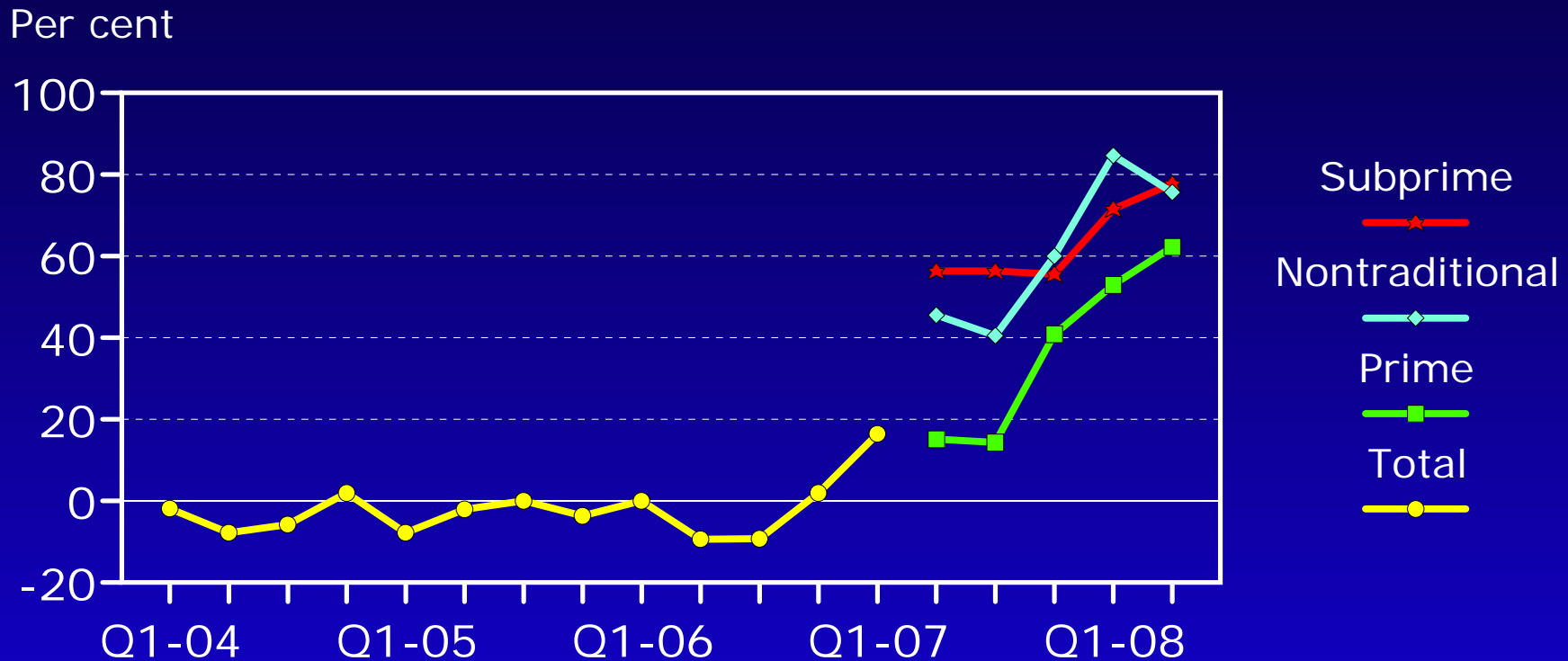
	06 Q2	06 Q3	06 Q4	07 Q1	07 Q2	07 Q3	07 Q4	08 Q1
Prime								
Fixed Rate Mortgage	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3
Adjustable Rate Mortgage	0.3	0.3	0.4	0.5	0.6	1.0	1.1	1.5
Subprime								
Fixed Rate Mortgage	1.02	1.0	1.1	1.3	1.4	1.4	1.5	1.8
Adjustable Rate Mortgage	2.0	2.2	2.7	3.2	3.8	4.7	5.3	6.3

Source: Mortgage Bankers Association of America



U.S. lenders tightening credit to prime borrowers

Net Percentage of U.S. Banks Tightening Standards for Residential Mortgages to Individuals



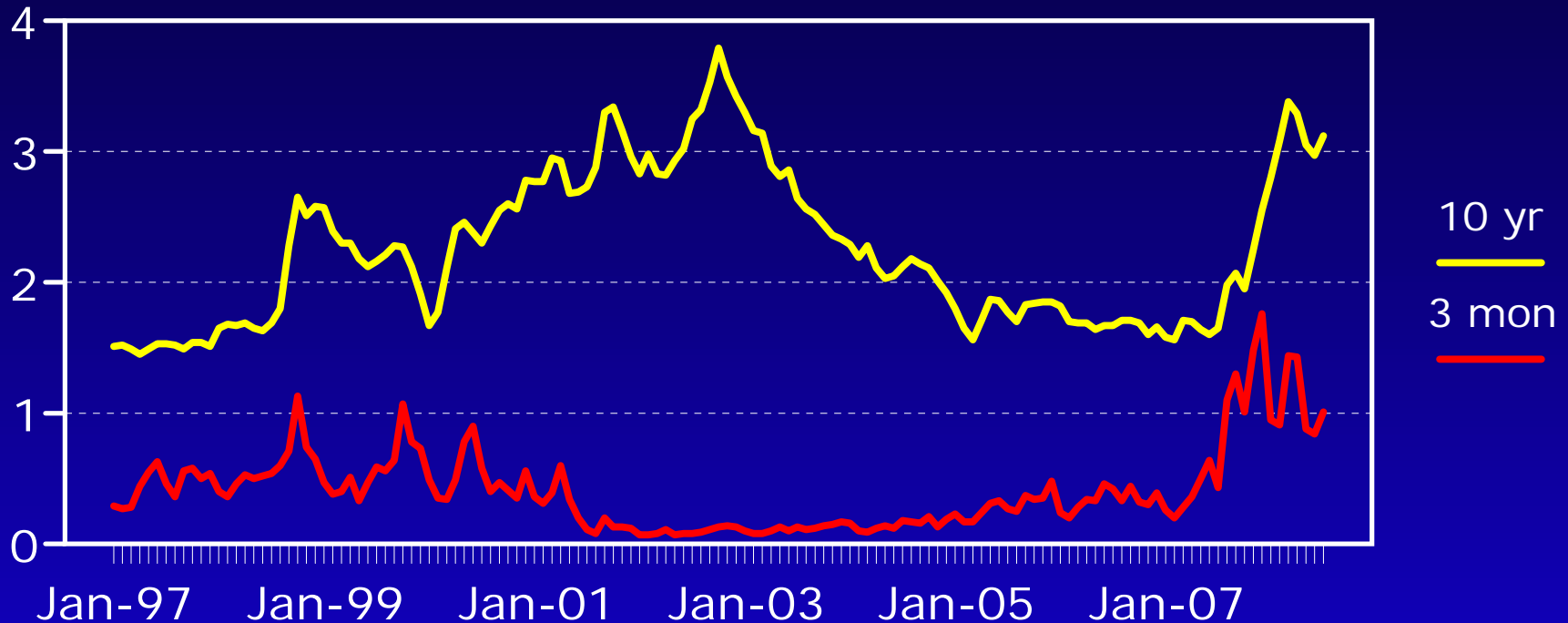
Source: Federal Reserve Board Senior Loan Officer Survey. Latest: Q2-08



Re-pricing of credit risk due to uncertainty and less liquidity

U.S. Credit Spreads, Long and Short

Per cent



Source: U.S. Federal Reserve.

Latest: July 17, 2008

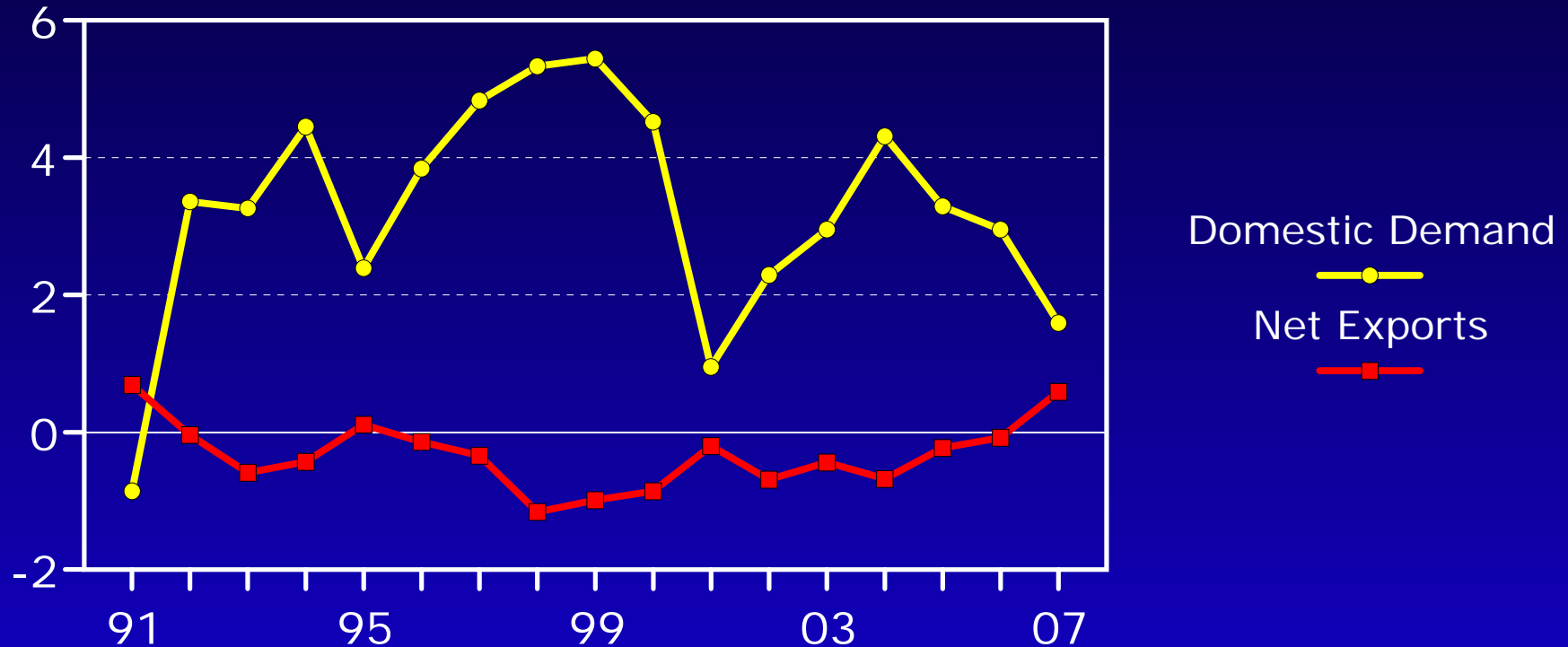
Note: Long=10y T-bond-10y Corp Baa, short=3m T-bill-3m AA financial commercial paper.



Trade sector contributing to U.S. growth

Contribution to Percentage Change in U.S. Real GDP

Percentage points

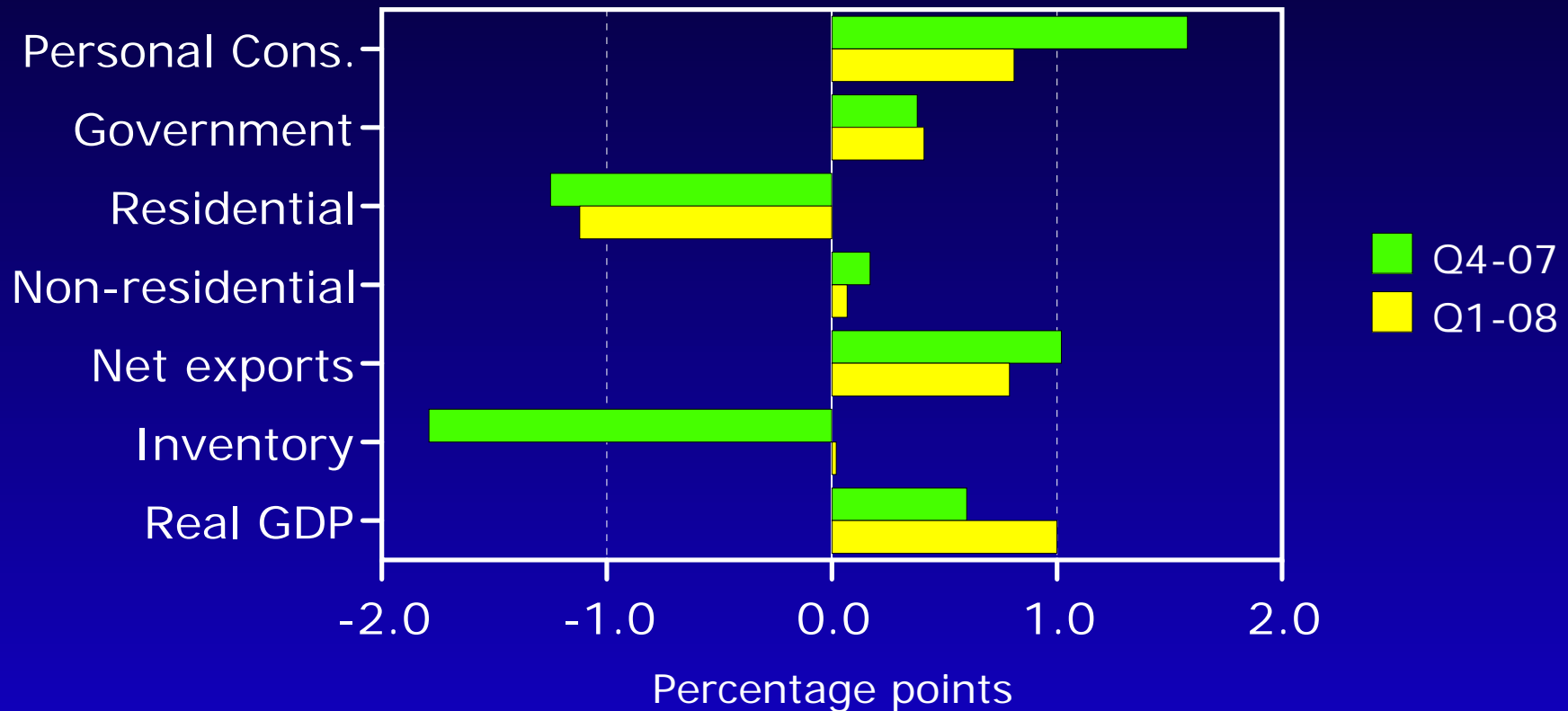


Source: U.S. Bureau of Economic Analysis.



Residential sector main drag on Q1-08 growth

Contributions to U.S. Real GDP Growth



Source: U.S. Bureau of Economic Analysis.

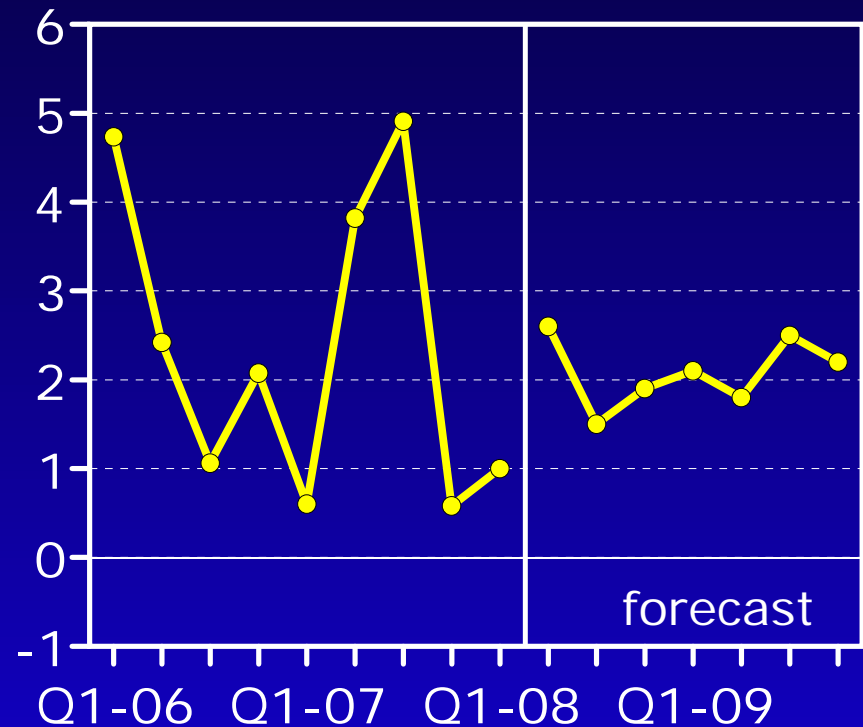


U.S. economy in growth slowdown

- Weak growth last two quarters
- Exports new growth driver
- Inventories lean
- Overall recession not likely
- Rebound in Q2-08 due to tax rebate cheques
- Growth in 2008 at 1.6% and 2.1% in 2009 vs 2.2% in 2007

U.S. Real GDP Growth

Percentage change at annual rate



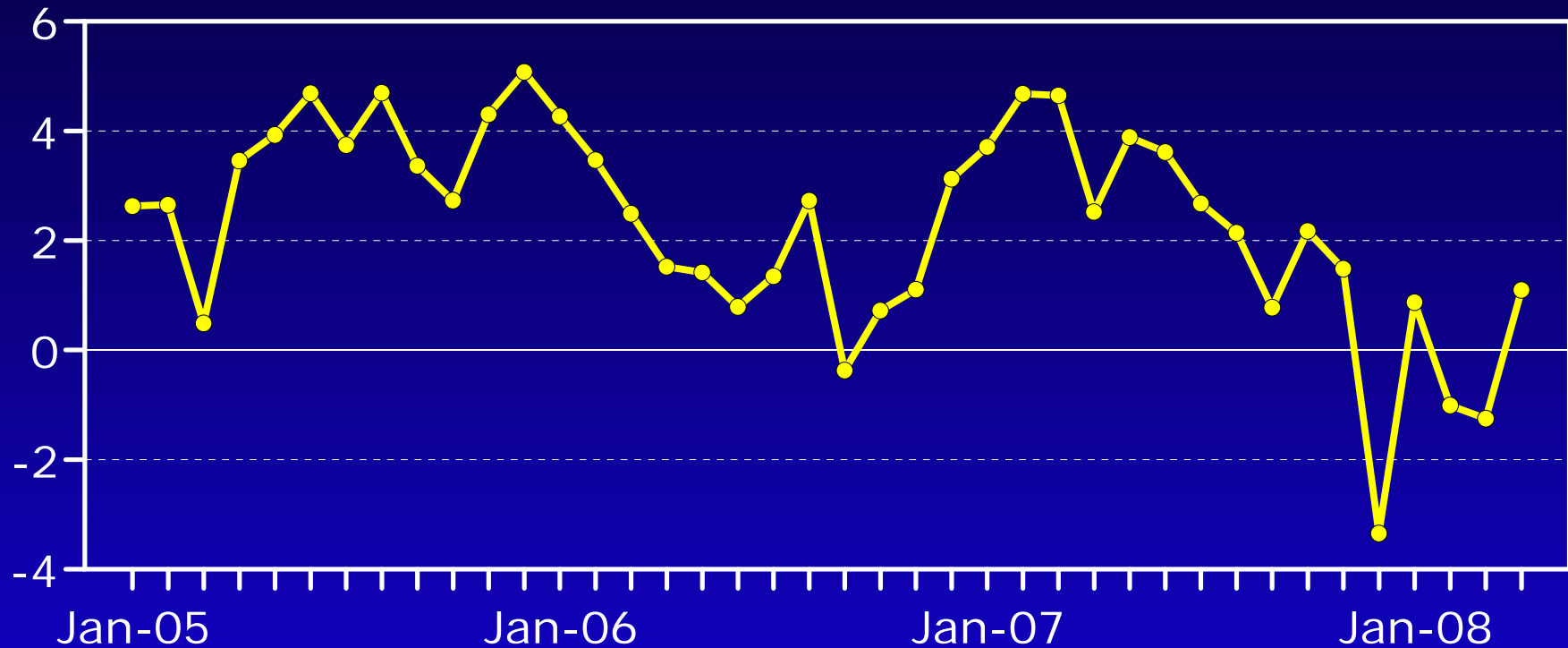
Source: U.S. BEA, C1CU.



Economic growth slowing in Canada

Growth in Canada GDP at Basic Prices, Monthly

Percentage change at annual rate



Source: Statistics Canada, C1CU.

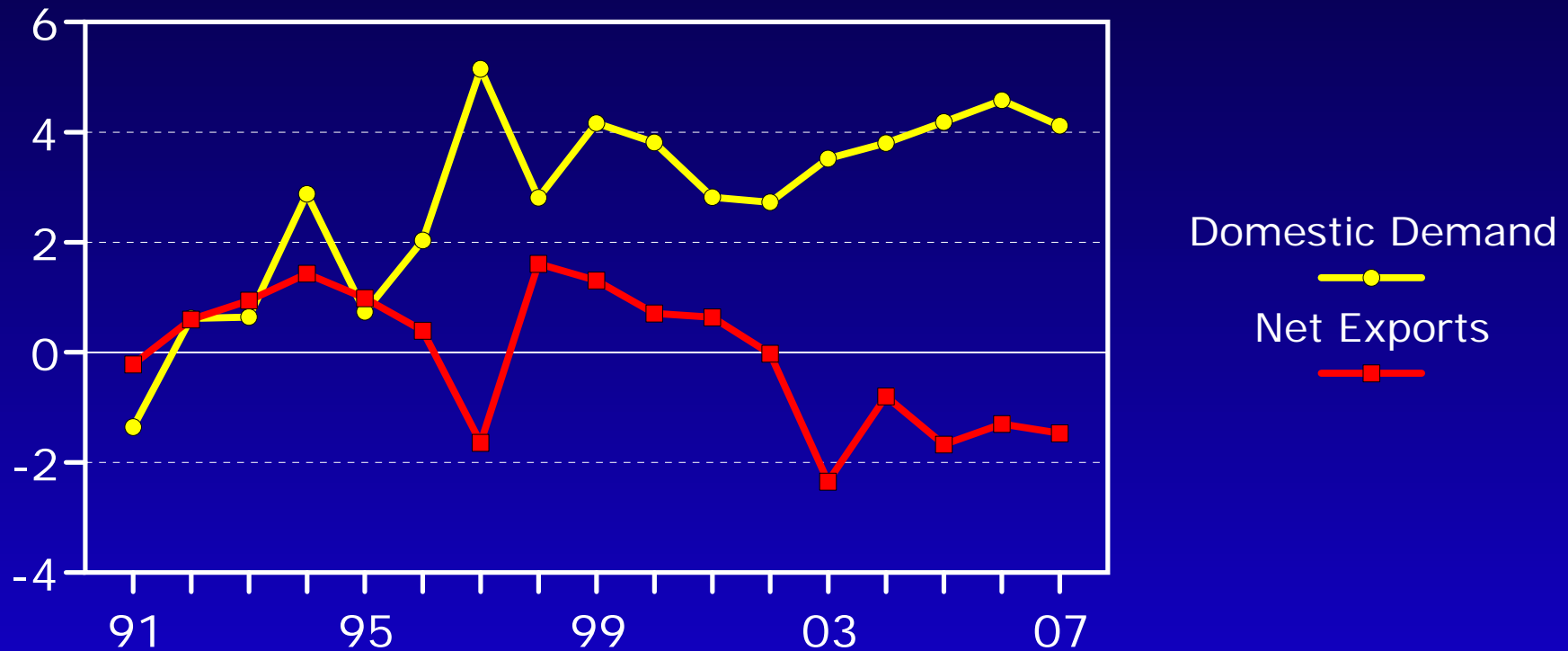
Latest: April 2008



Large performance gap between domestic economy and trade sector

Contribution to Percentage Change in Canada Real GDP

Percentage points

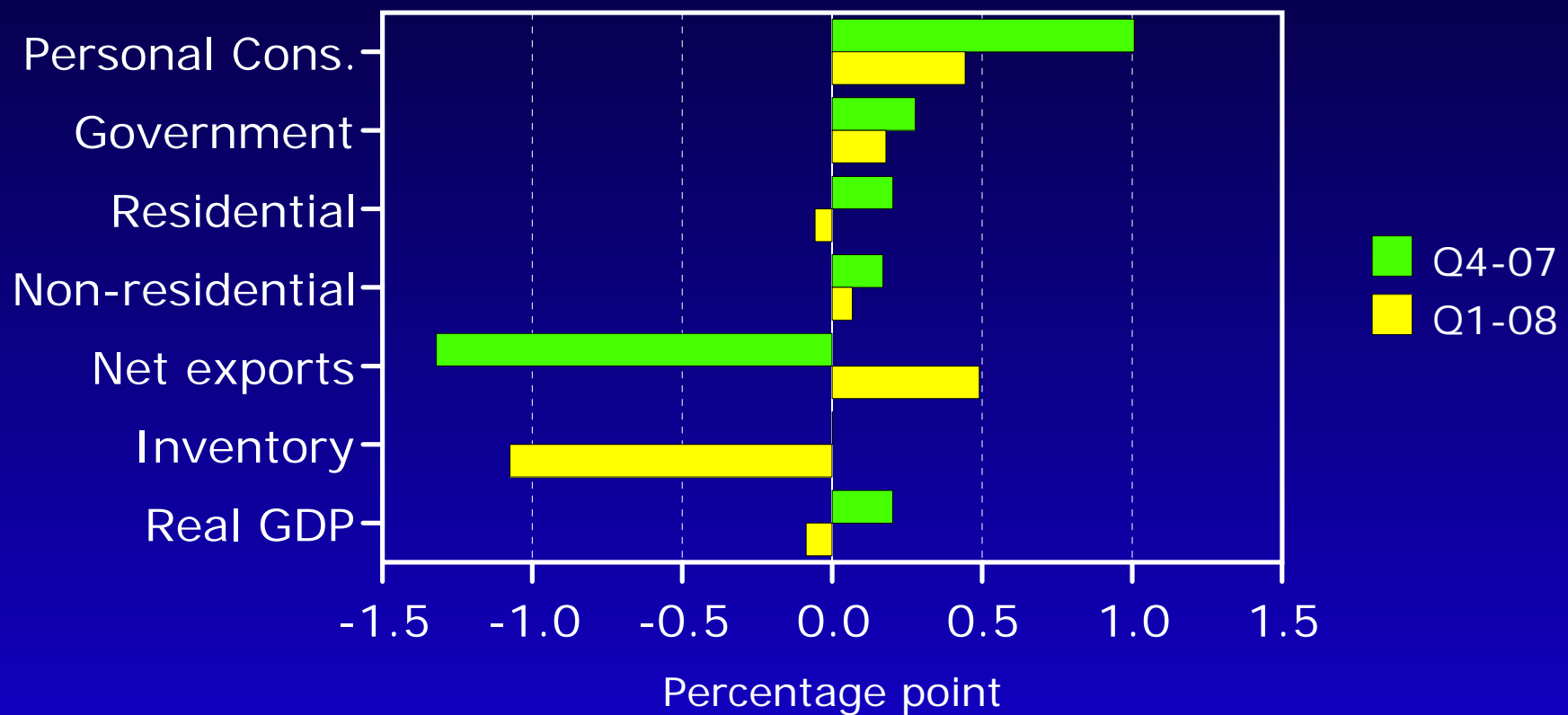


Source: Statistics Canada.



Inventory main drag on Q1-08 growth

Contributions to Real GDP Growth, Canada



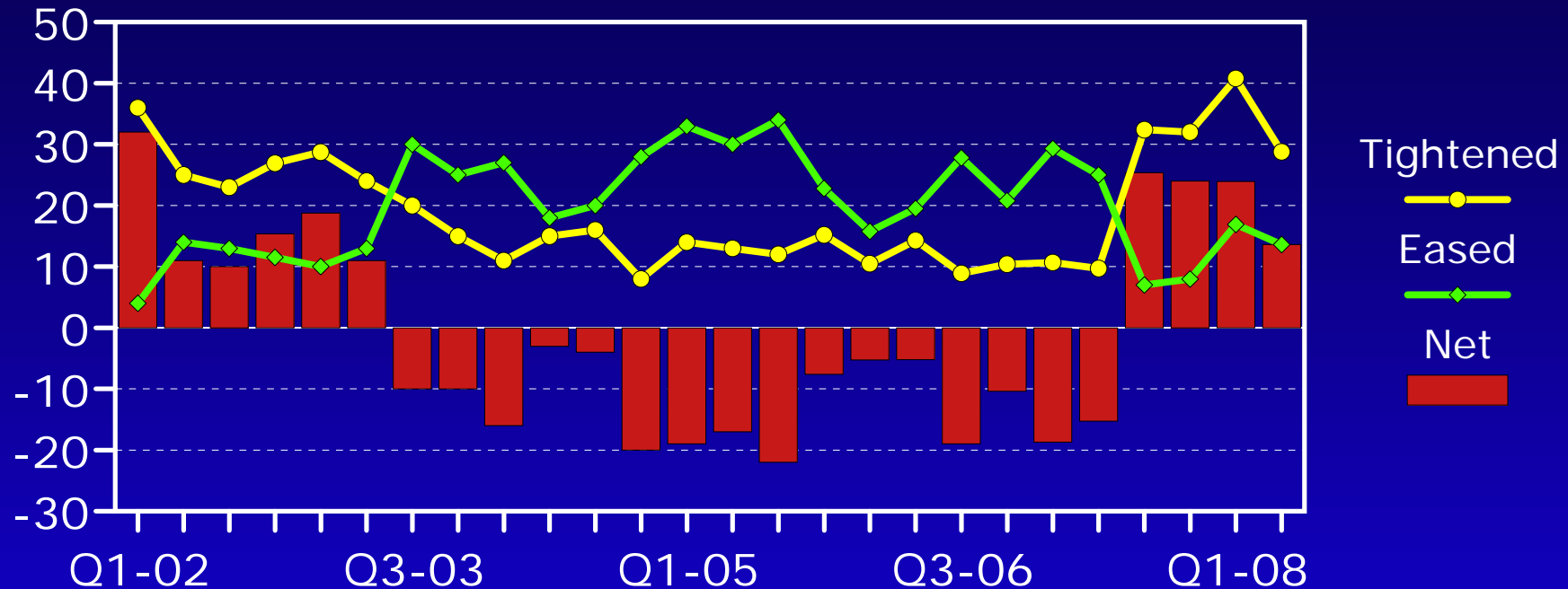
Source: Statistics Canada.



Canadian business faces tighter credit conditions

Credit Conditions Past Three Months,
Percentage of Firms Reporting Tightened or Eased

Per cent



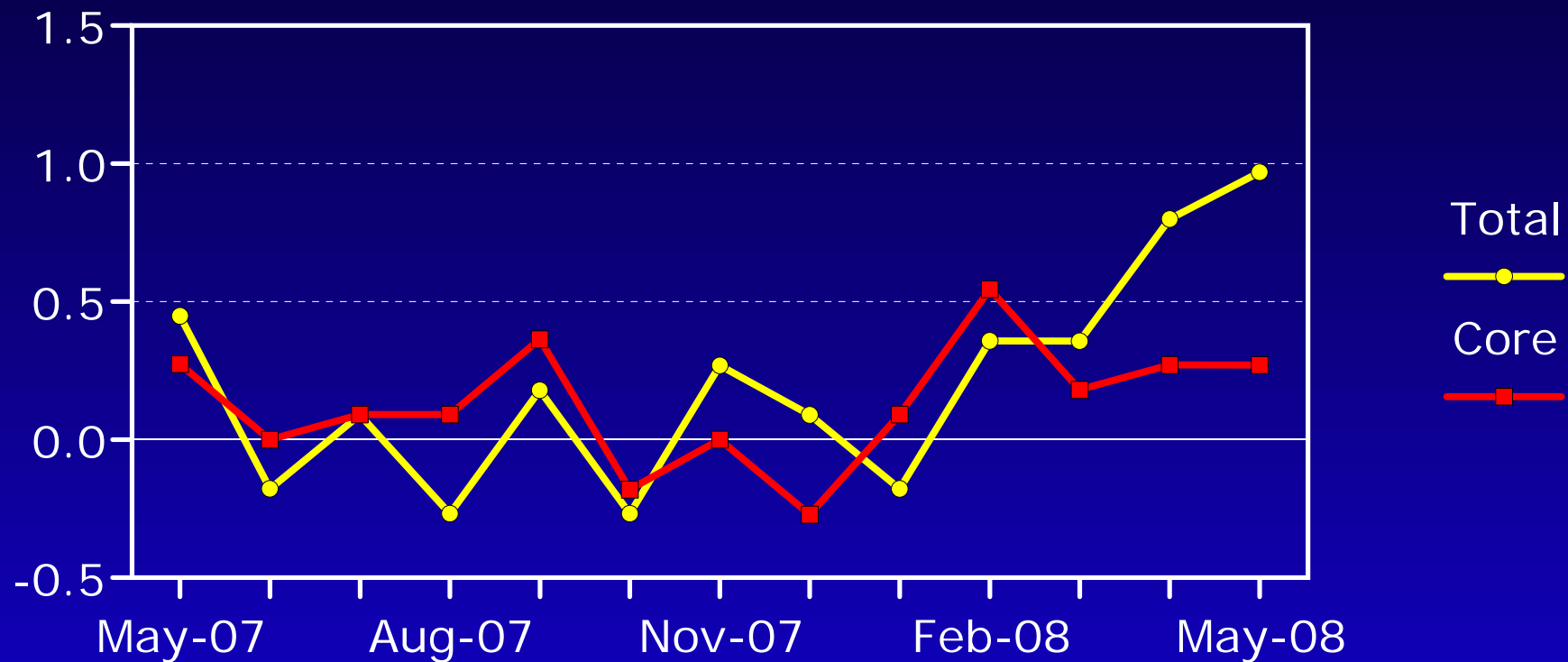
Source: Bank of Canada Business Outlook Survey. Latest Q2-08



Recent acceleration in total inflation rate

Total and Core Consumer Price Index, Canada

Percentage change month-over-month

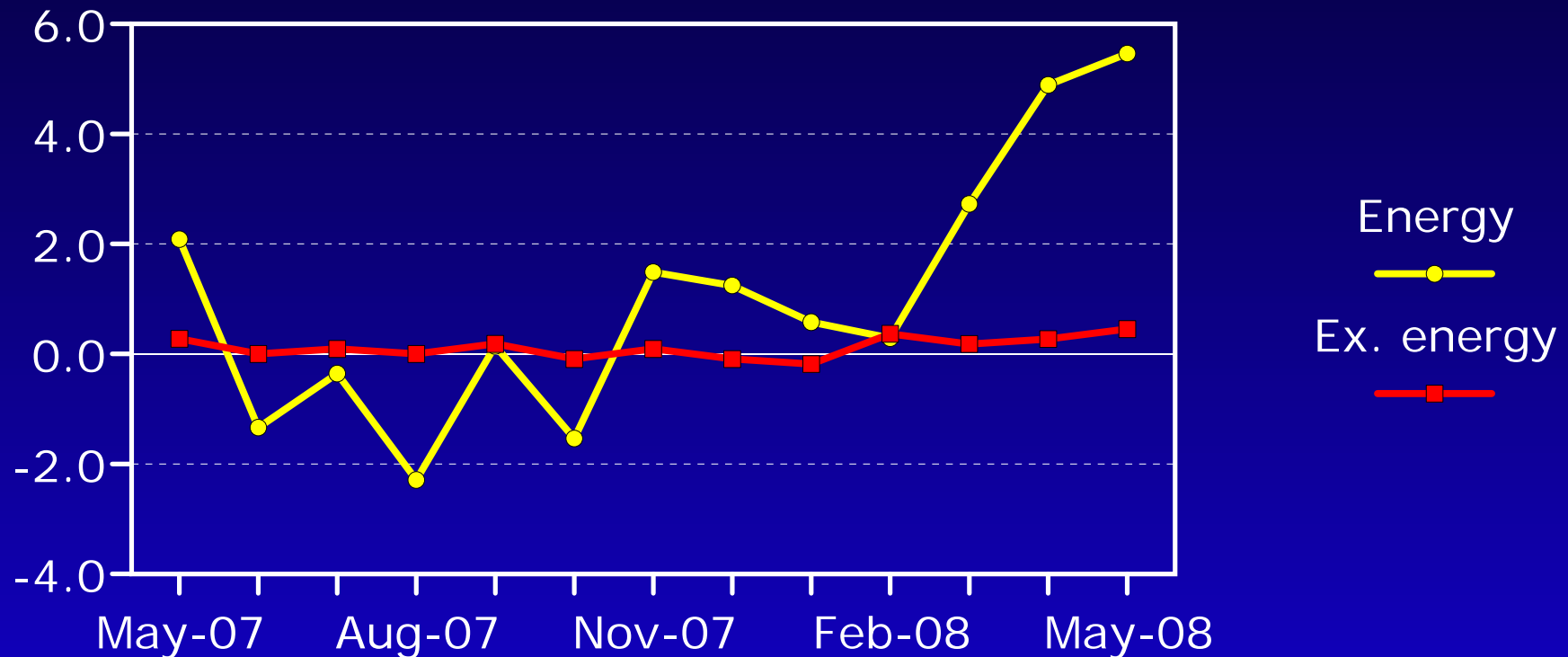


Source: Statistics Canada.



Higher energy prices pushing up inflation rate

Consumer Price Index, Energy and Excluding Energy, Canada
Percentage change month-over-month

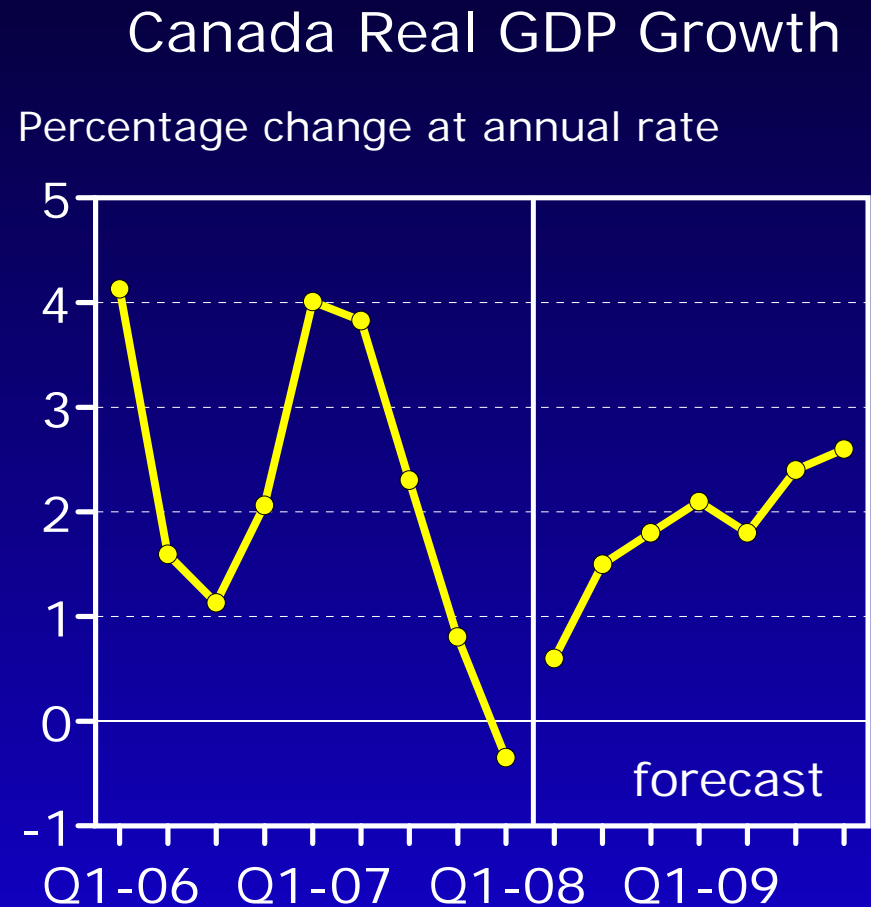


Source: Statistics Canada.



Canada's economic growth profile similar to U.S.

- Sharp growth rate drop in Q4-07 extends into Q1-08
- No recession likely
- Growth picks up in H2-08
- Below-average growth until Q3-09
- Growth in 2008 at 1.3% and 2.1% in 2009 vs 2.7% in 2007



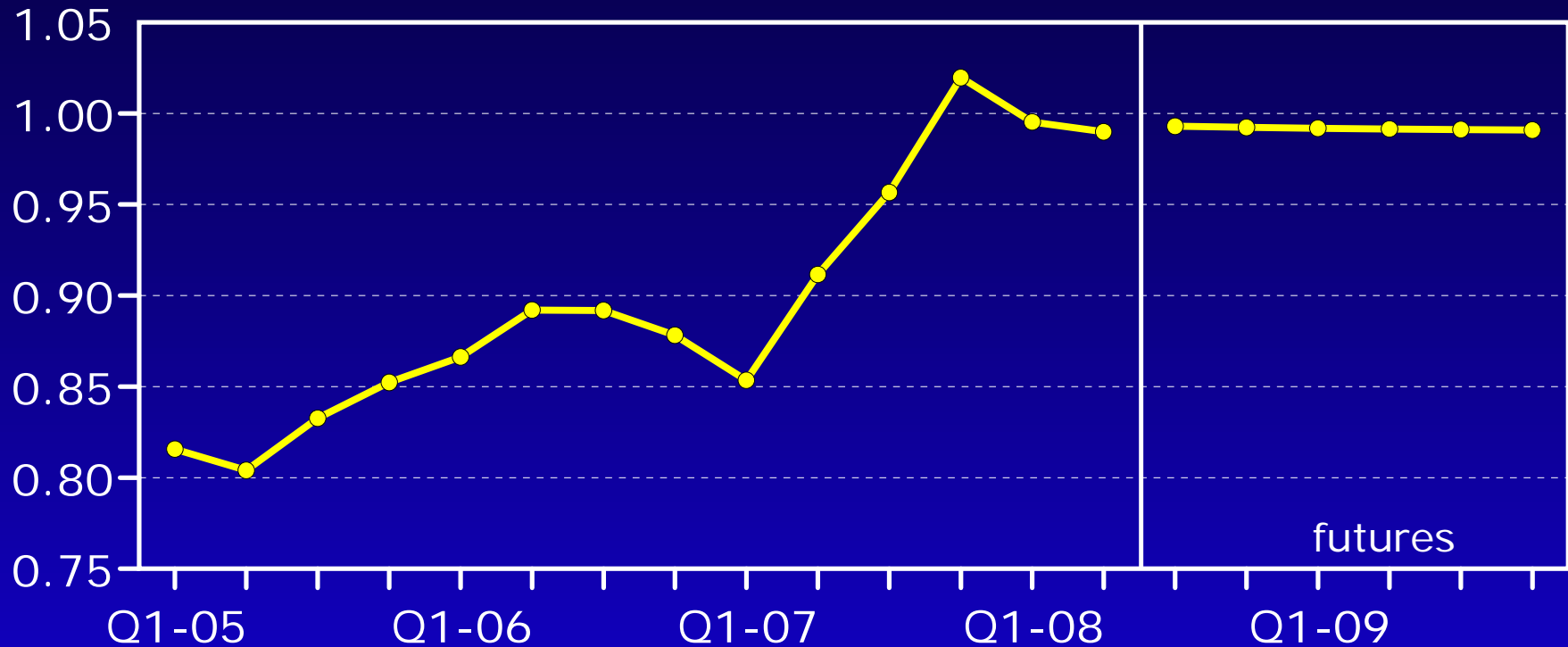
Source: Statistics Canada, C1CU.



Currency forecast at near parity

U.S.-Canada Exchange Rate, Quarterly

U.S. dollar per Canadian dollar



Source: Bank of Canada, CME.

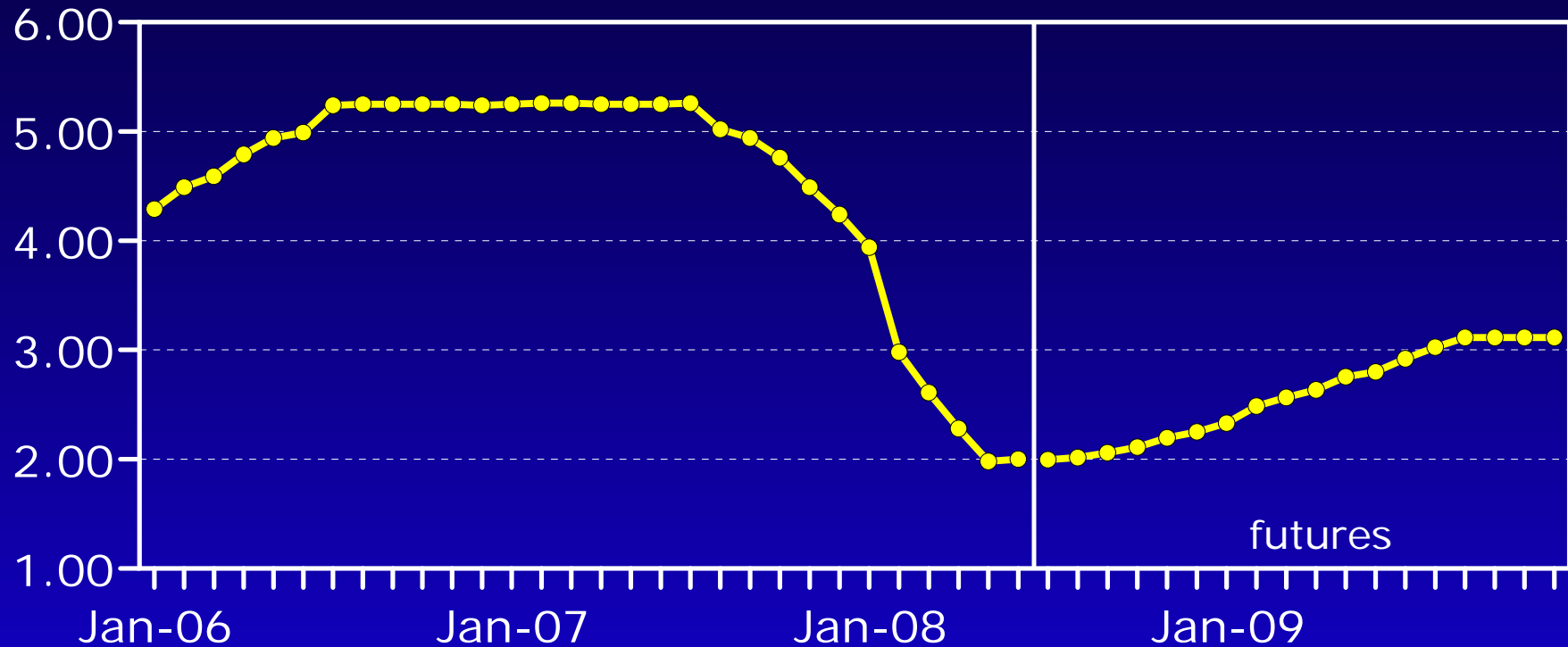
Futures as of July 18, 2008



Higher interest rates in 2009

U.S. Federal Funds Rate, Monthly

Per cent



Source: U.S. Federal Reserve, CBOT.

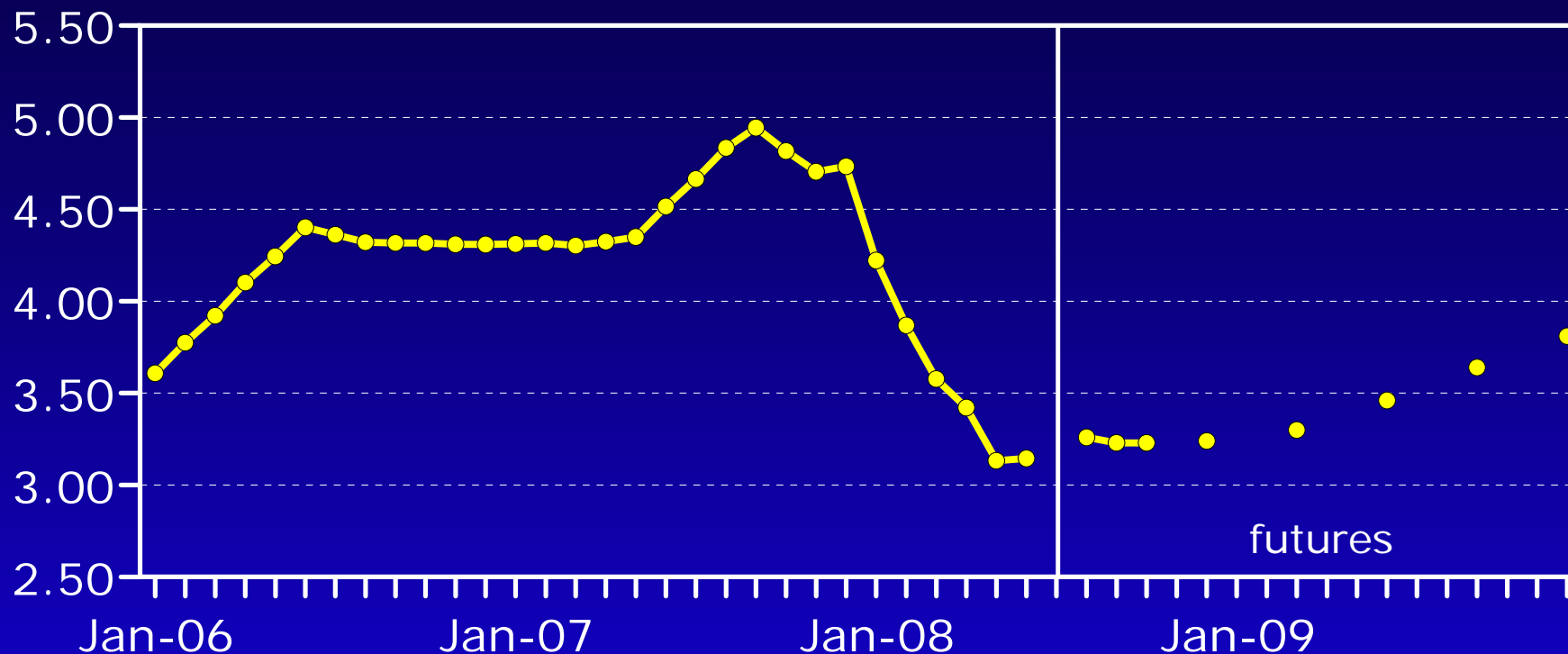
Futures as of July 18, 2008



Bank of Canada expected to tighten in 2009

Three-month Canadian Bankers' Acceptance Rate

Per cent



Source: Bank of Canada, Montreal Exchange.

Futures as of July 18, 2008



Summary:

- Oil prices the main economic risk factor
- Temporarily higher inflation rate
- U.S. housing in recession into 2009
- Credit squeeze eases
- Sub-par U.S. economic growth through 2009
- Canada's economy in growth slowdown, trend improvement in 2009



Summary: *(continued)*

- U.S.-Canada exchange rate around parity
- Central banks raise rates in 2009
- U.S.-Canada economic relationship currently large and to continue growing

