

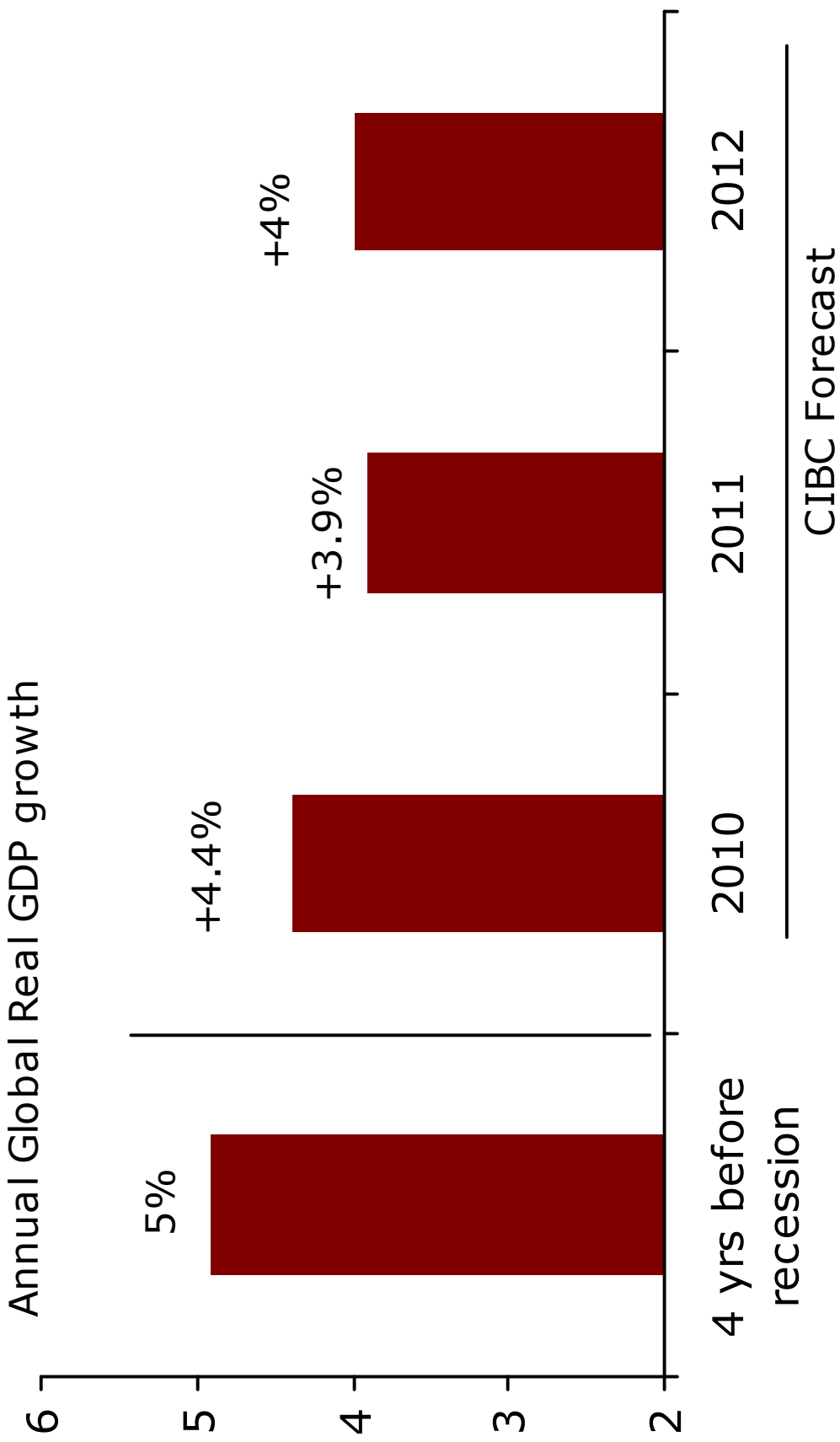
Not Yet Heaven in Twenty-Eleven

By Avery Shenfeld, Chief Economist & Managing Director

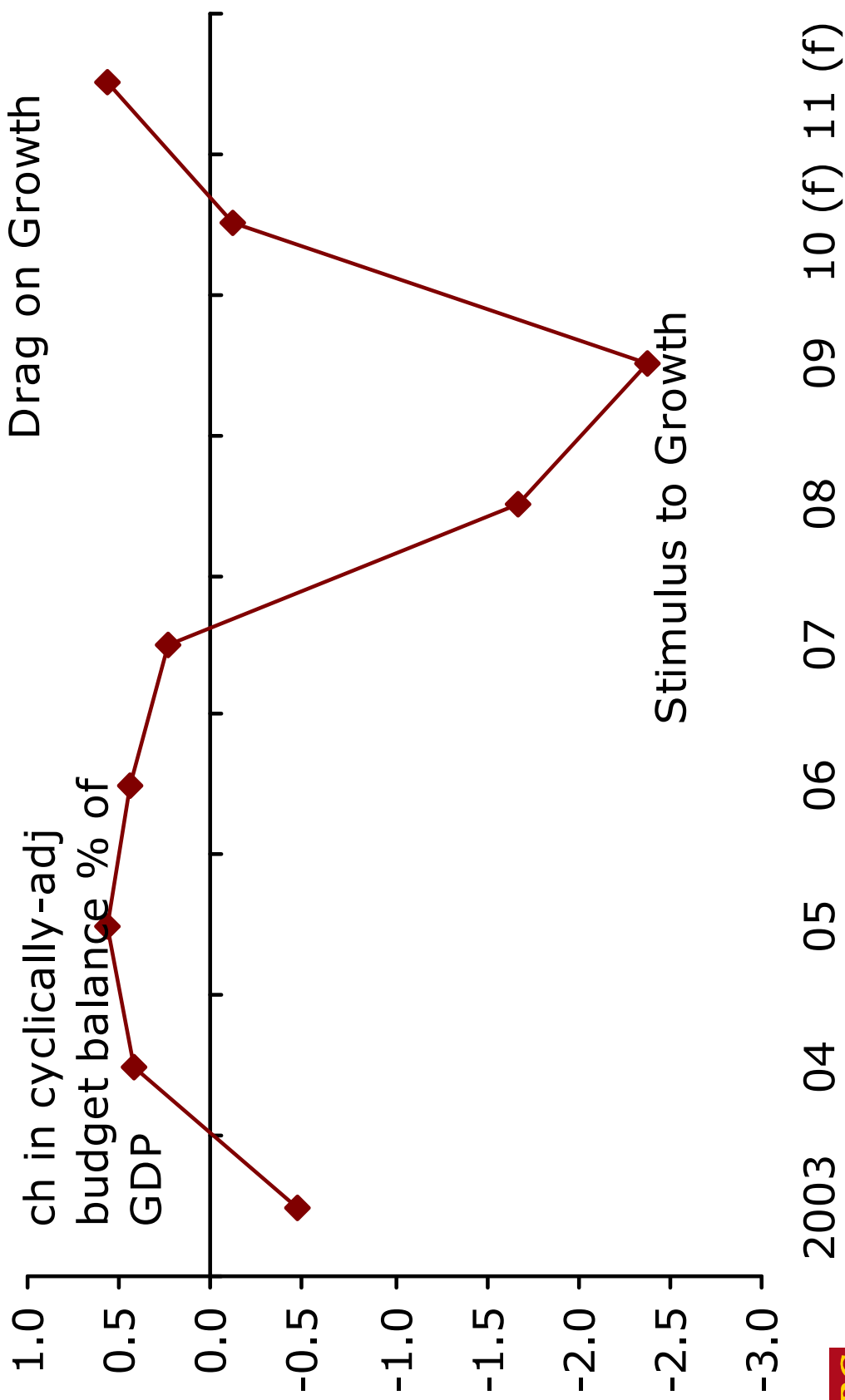
December 2010



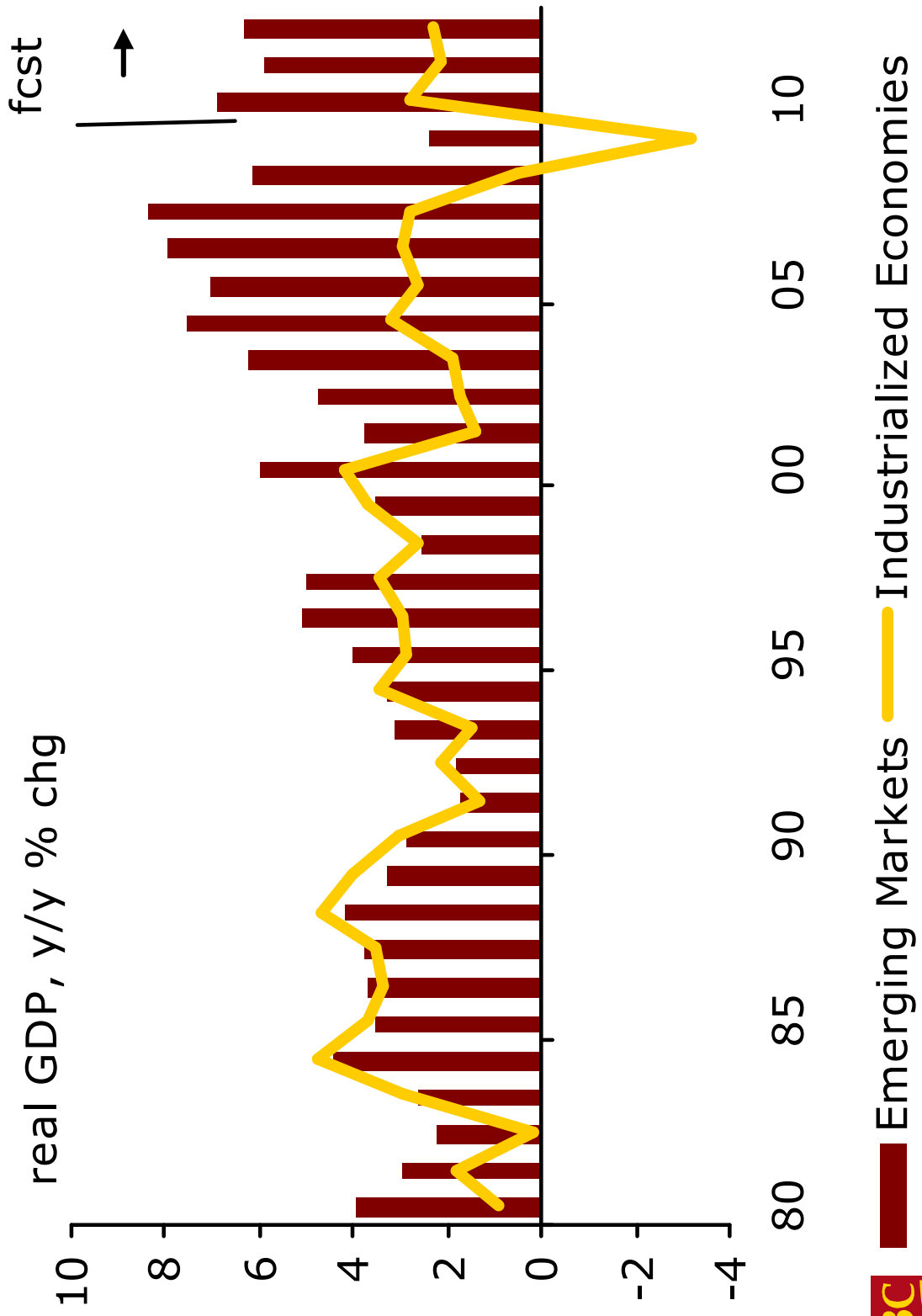
The Great Disappointment



OECD Budget Tightening to Hit Growth in 2011

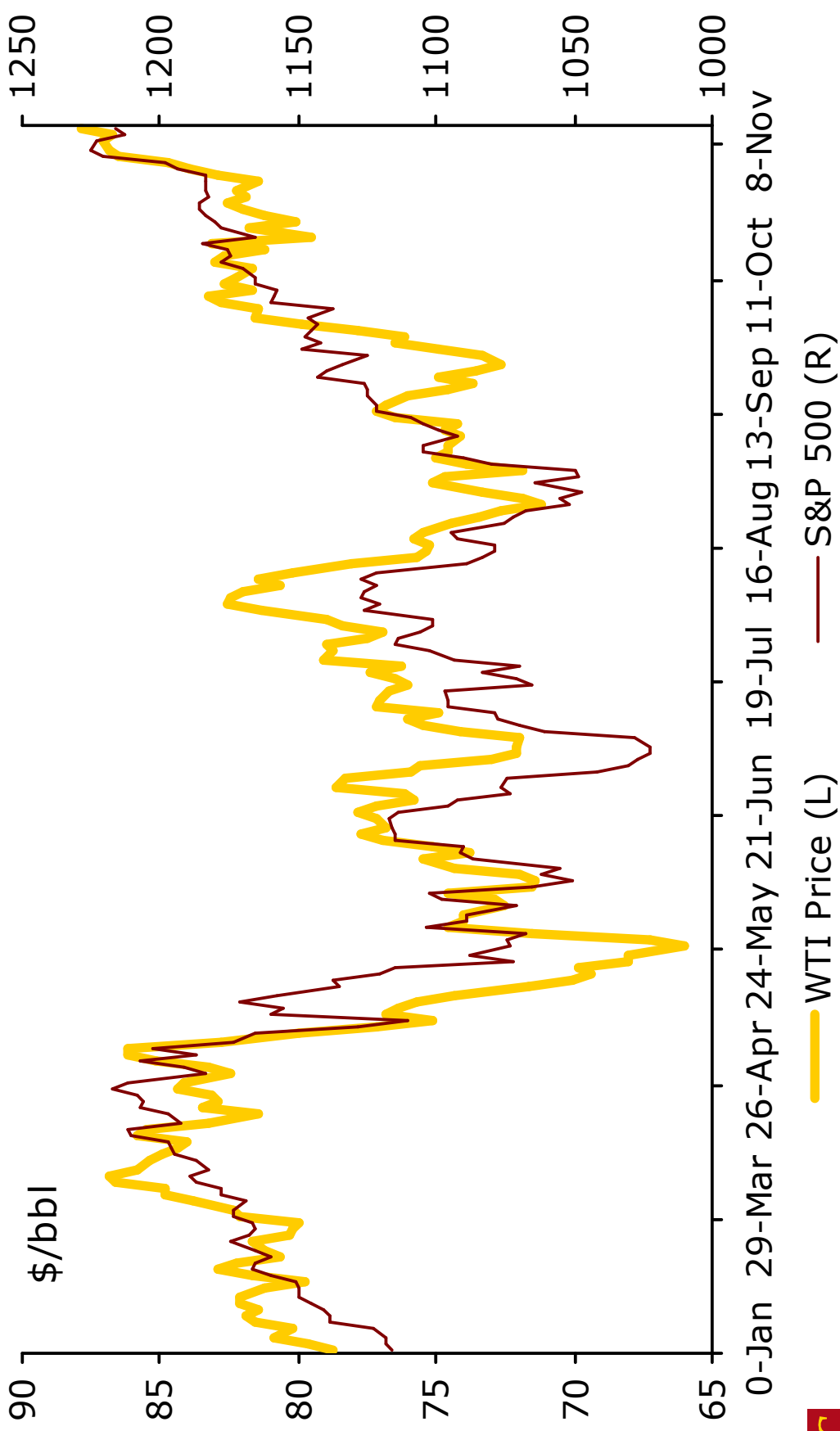


Emerging Markets Not Immune



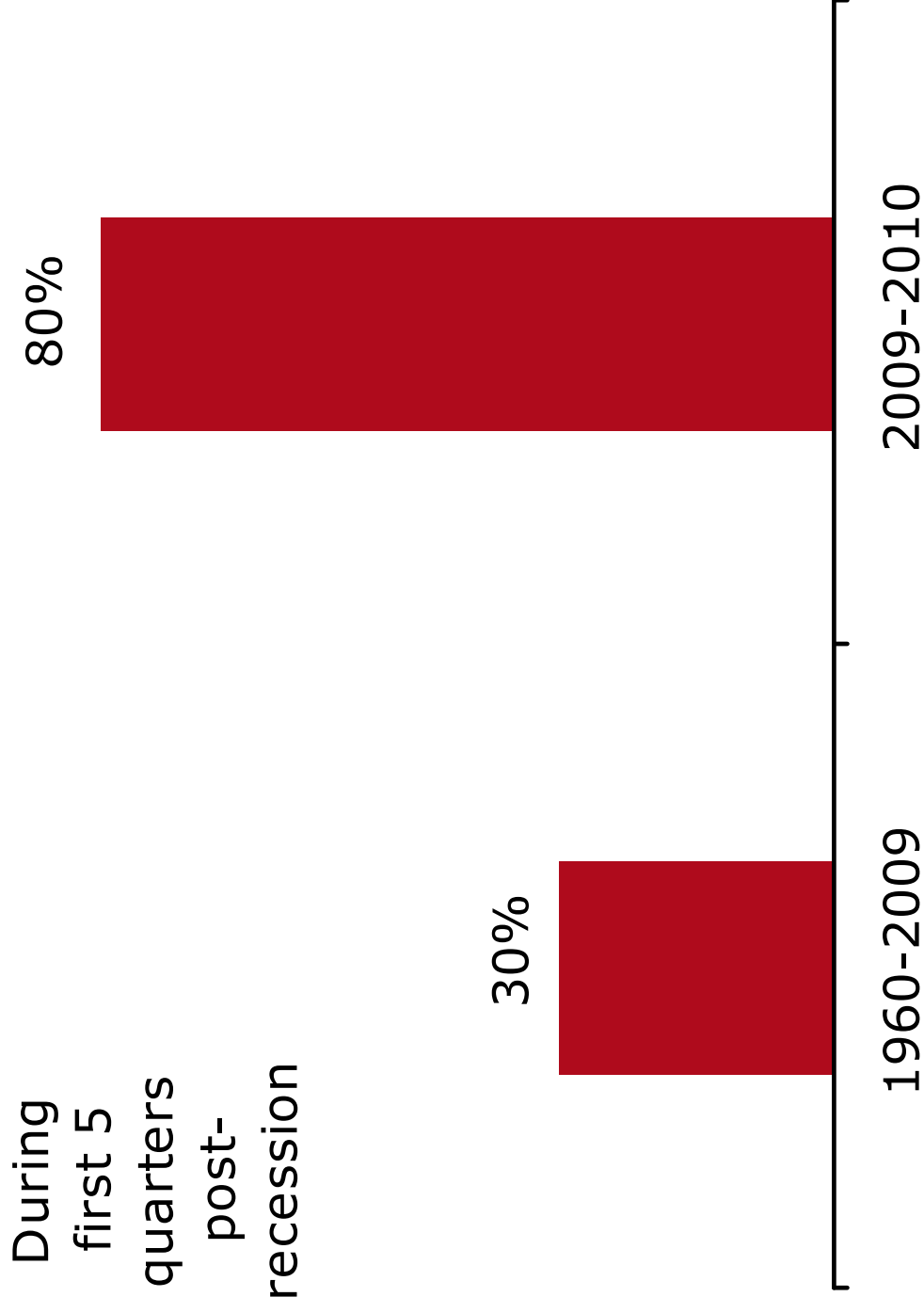
Emerging Markets Industrialized Economies

What Happened to Supply and Demand? Oil Price Moving In Line with Equities

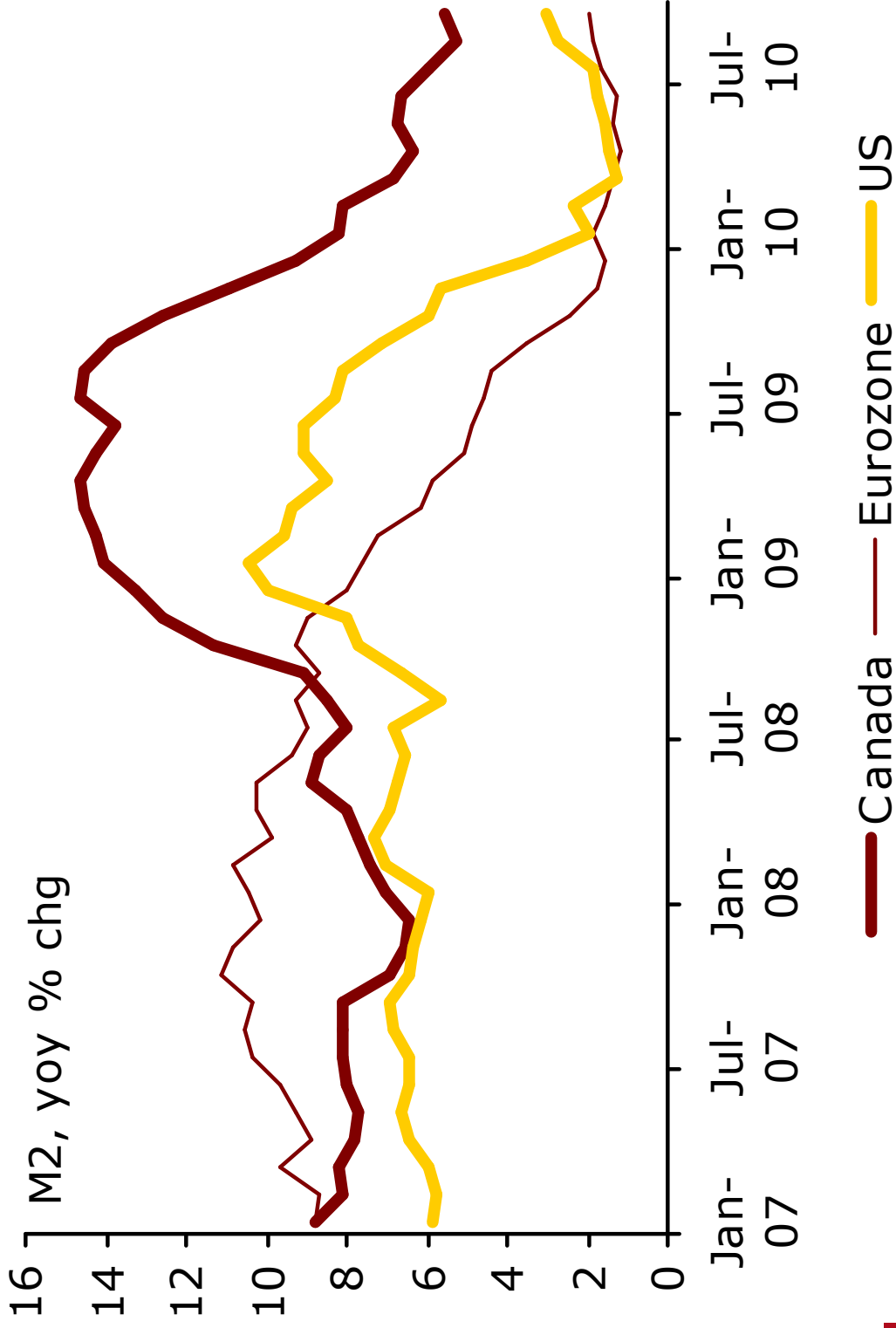


US Exports & Investment

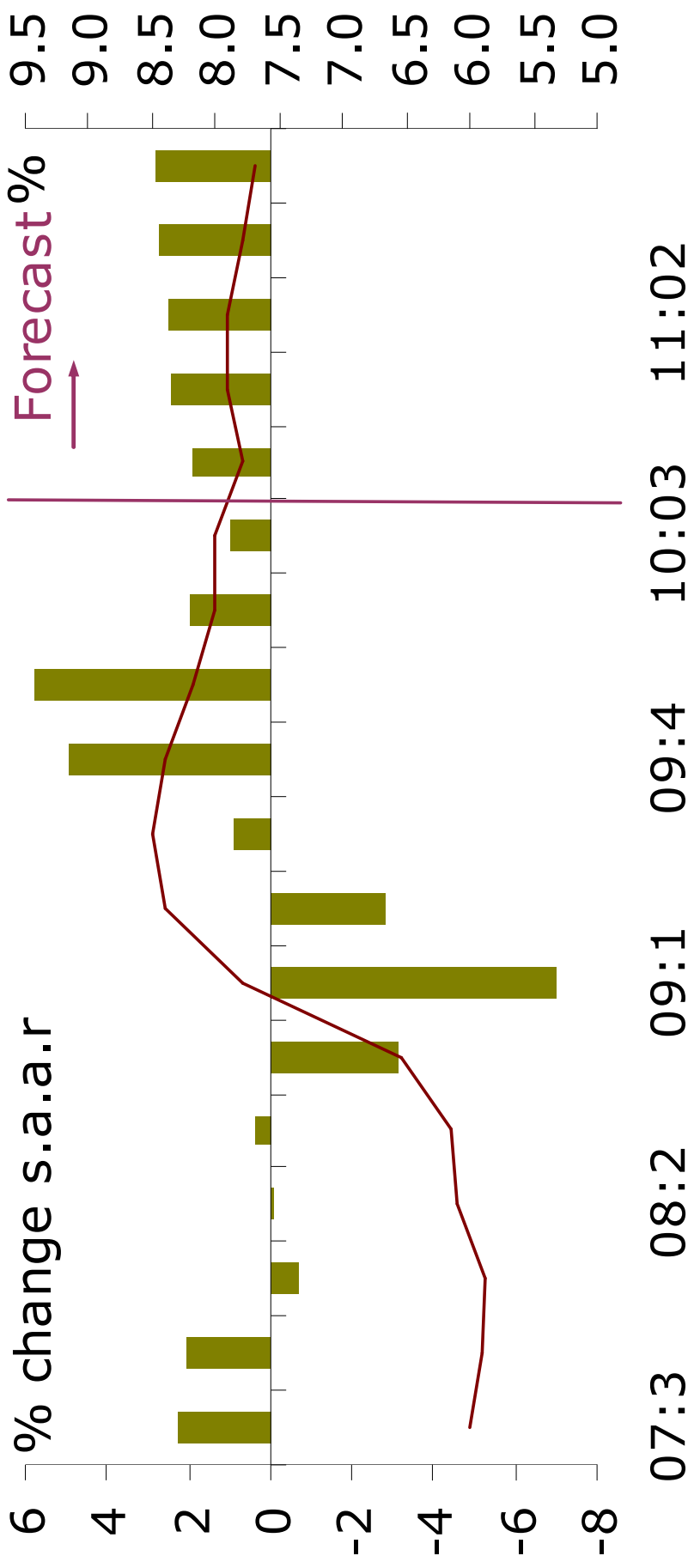
Share of GDP Growth During Recoveries



No Flood of US Dollars: Quantitative Easing No Risk to US\$ or Inflation



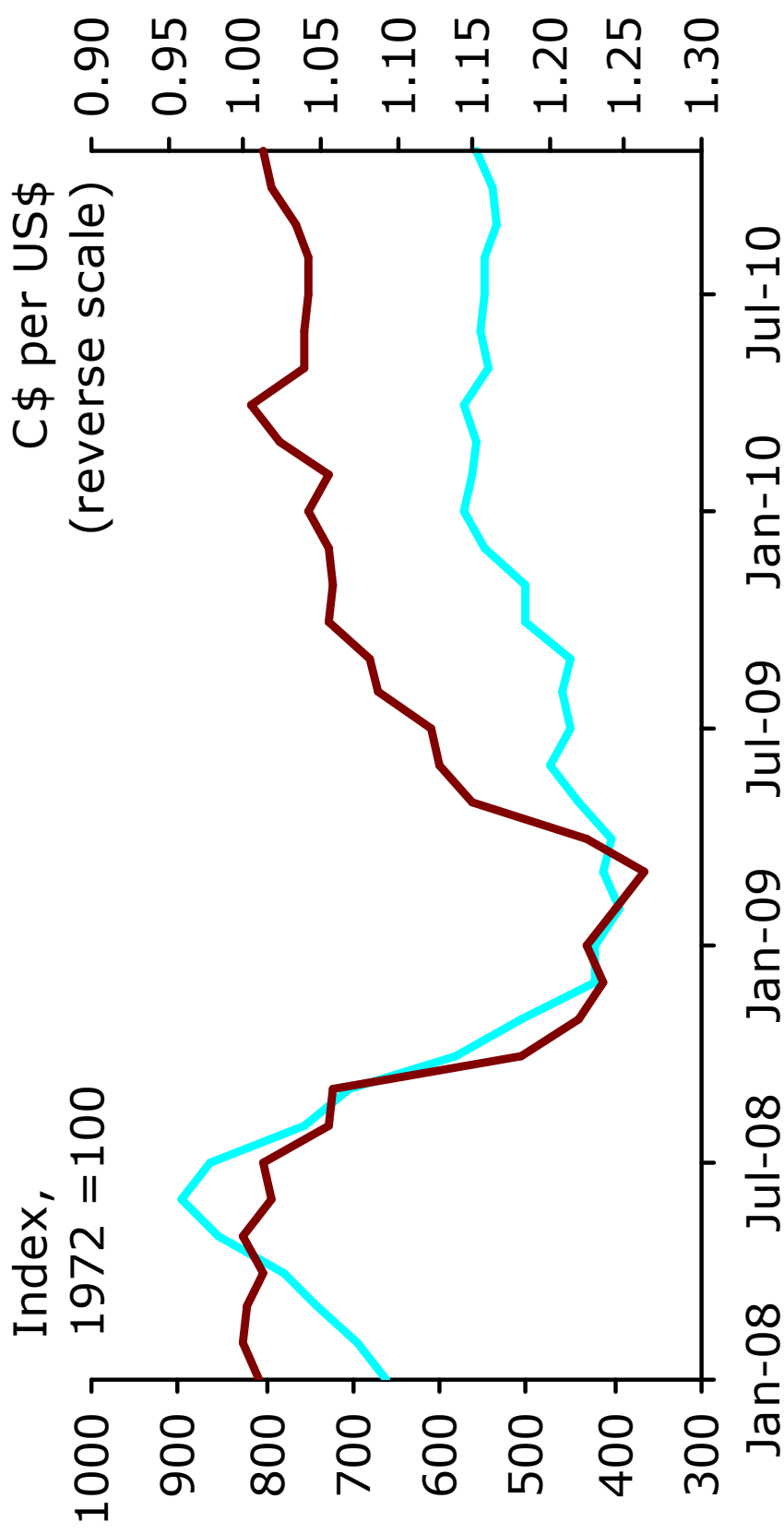
Canada on Slow-Mo Path to Full Employment



■ Real GDP Growth (left) — Unemployment Rate (right)



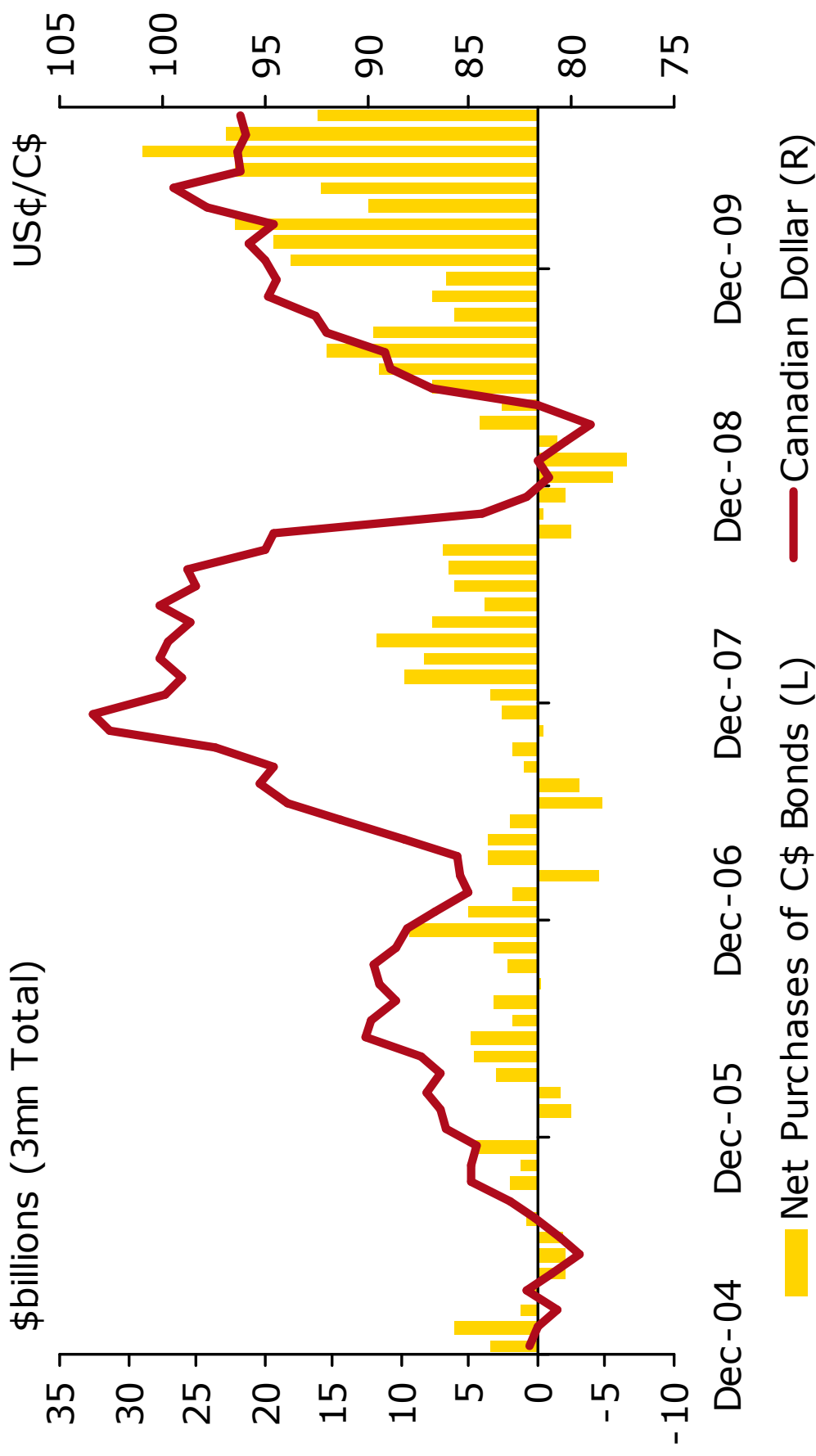
Canadian Dollar Rich Relative to Commodities



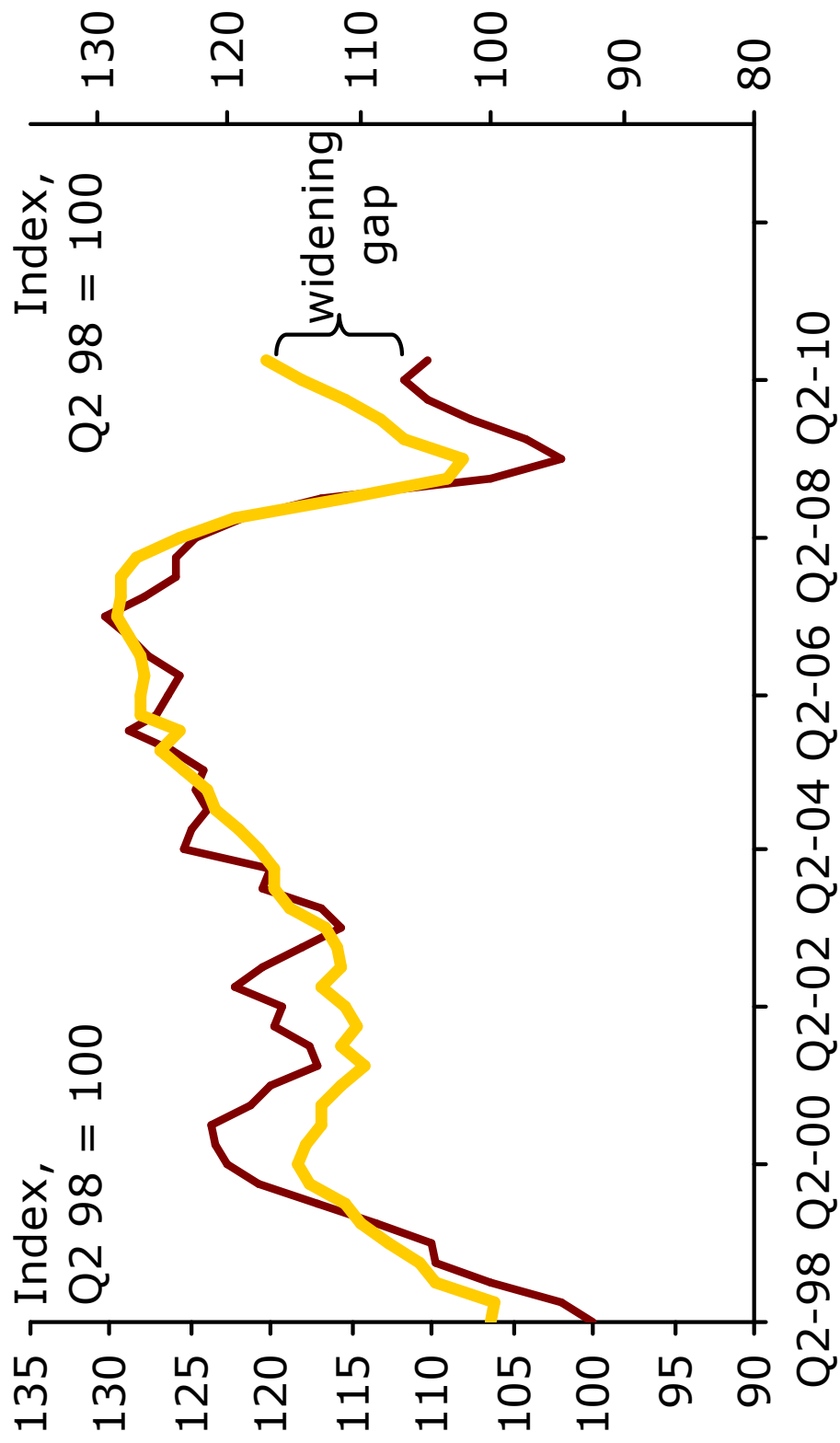
— BoC Commodity Price Index (L) — Canadian Dollar (R)



Fixed Income Inflows Drove C\$ Appreciation: C\$ 1-6 Cents Weaker than Parity in 2011



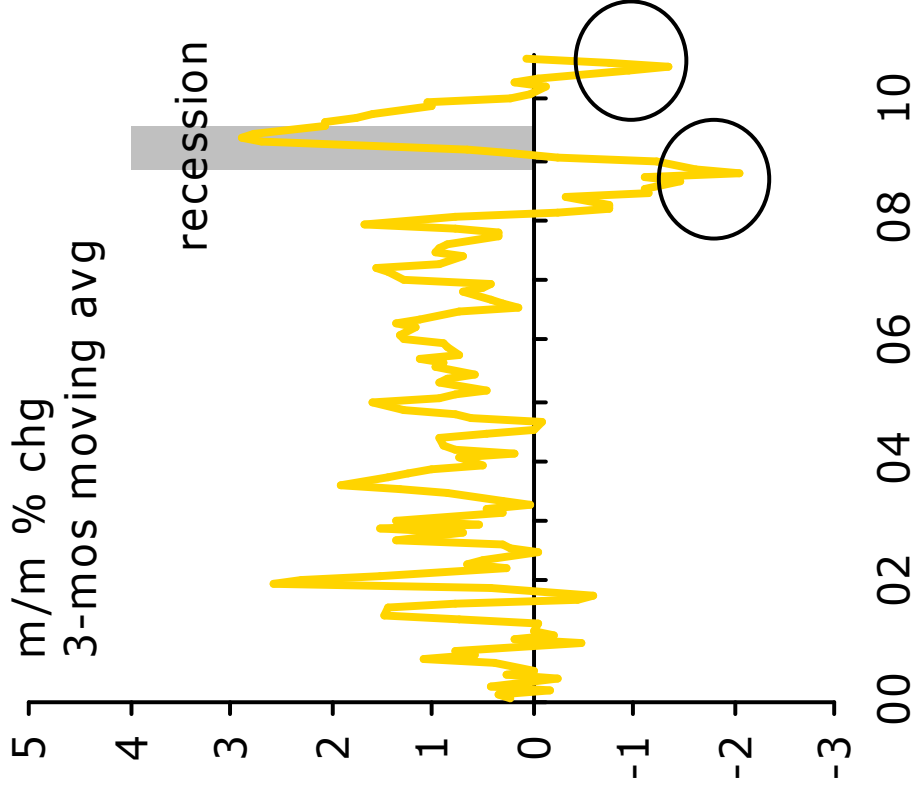
Canadian Exports Lag Behind US Recovery As its Share of US Imports Dives



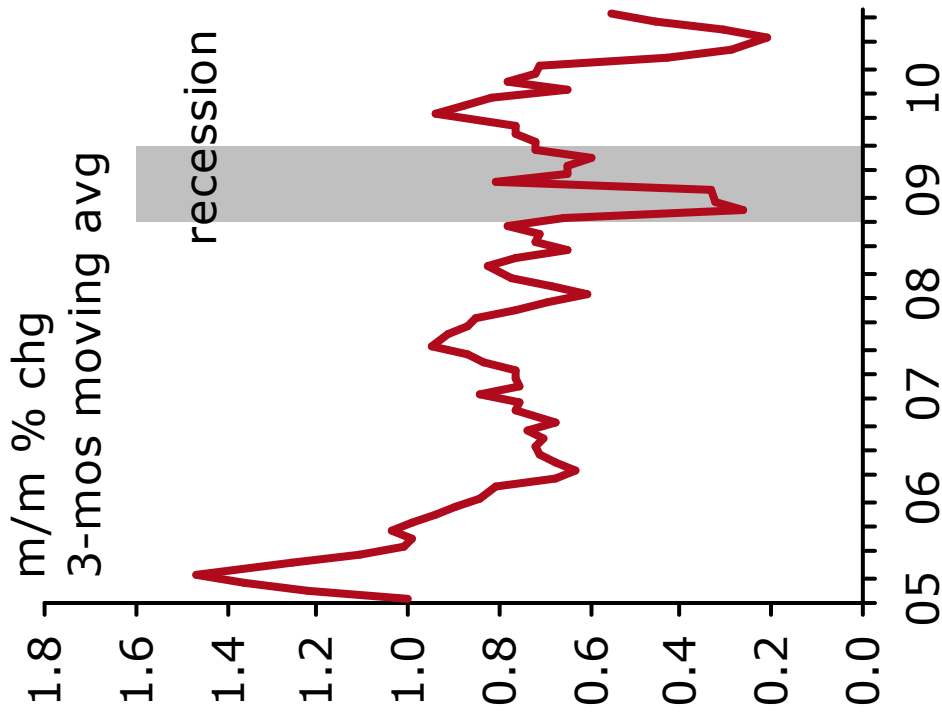
— Real Cdn Exports (L) — US Activity Index (BoC) (R)

End of Housing Wealth Gains, Constrained Credit: A Drag on 2011 Consumer Spending

House Prices

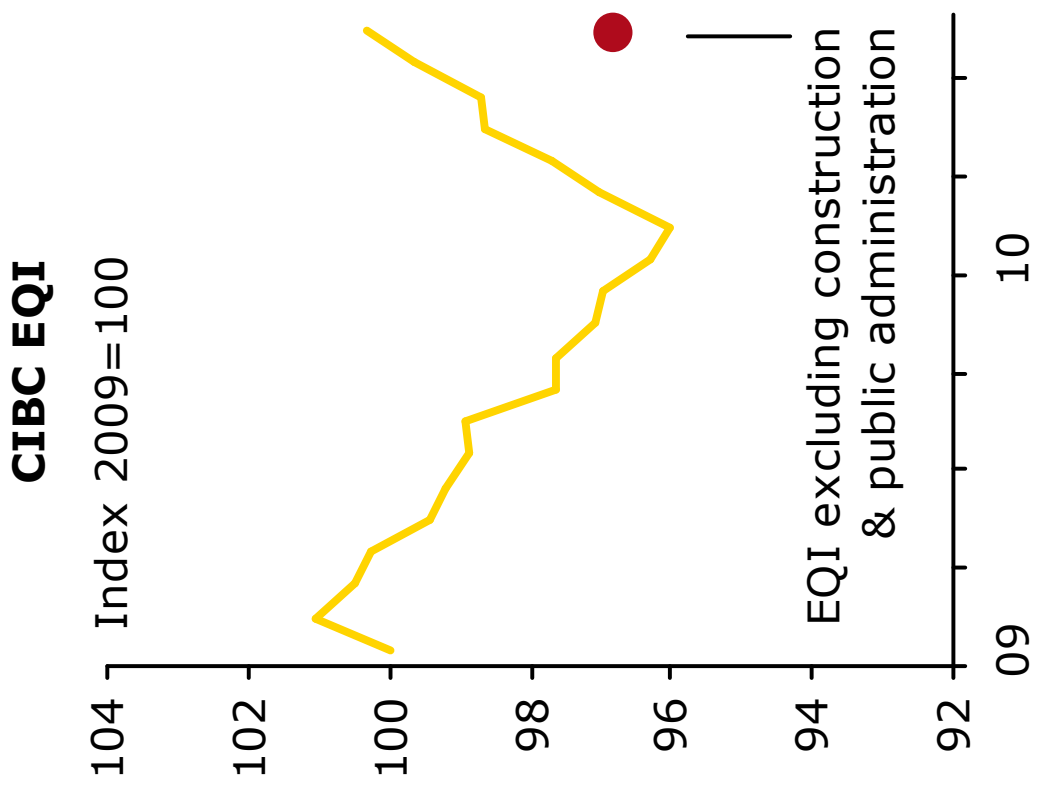
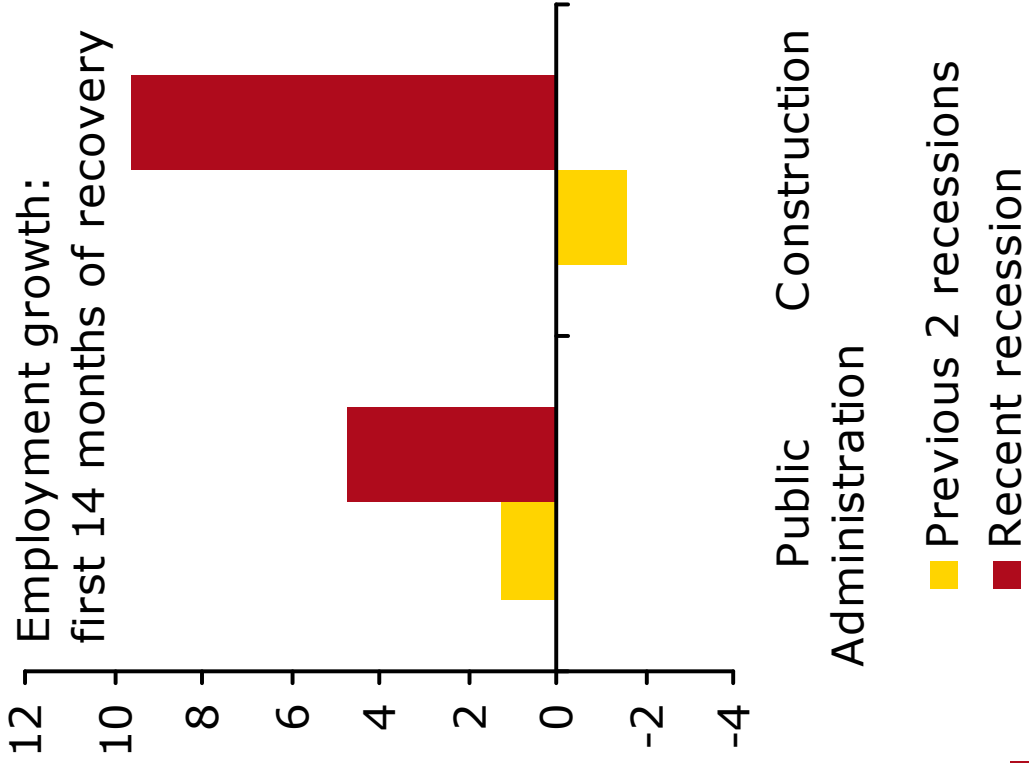


Consumer Credit

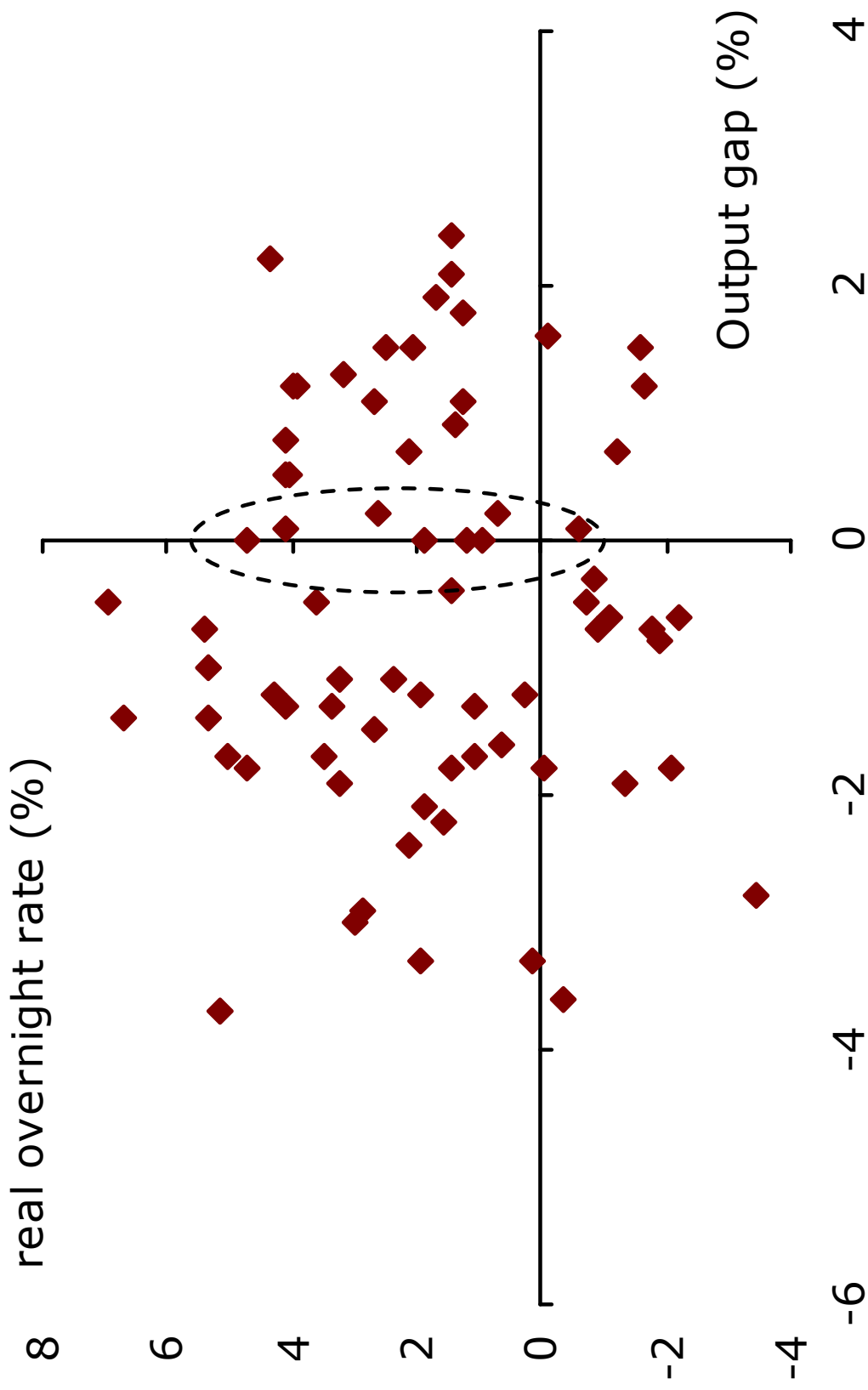


Source: BoC, CREA, CIBC

Jobs Have Leaned on Gov't and Construction

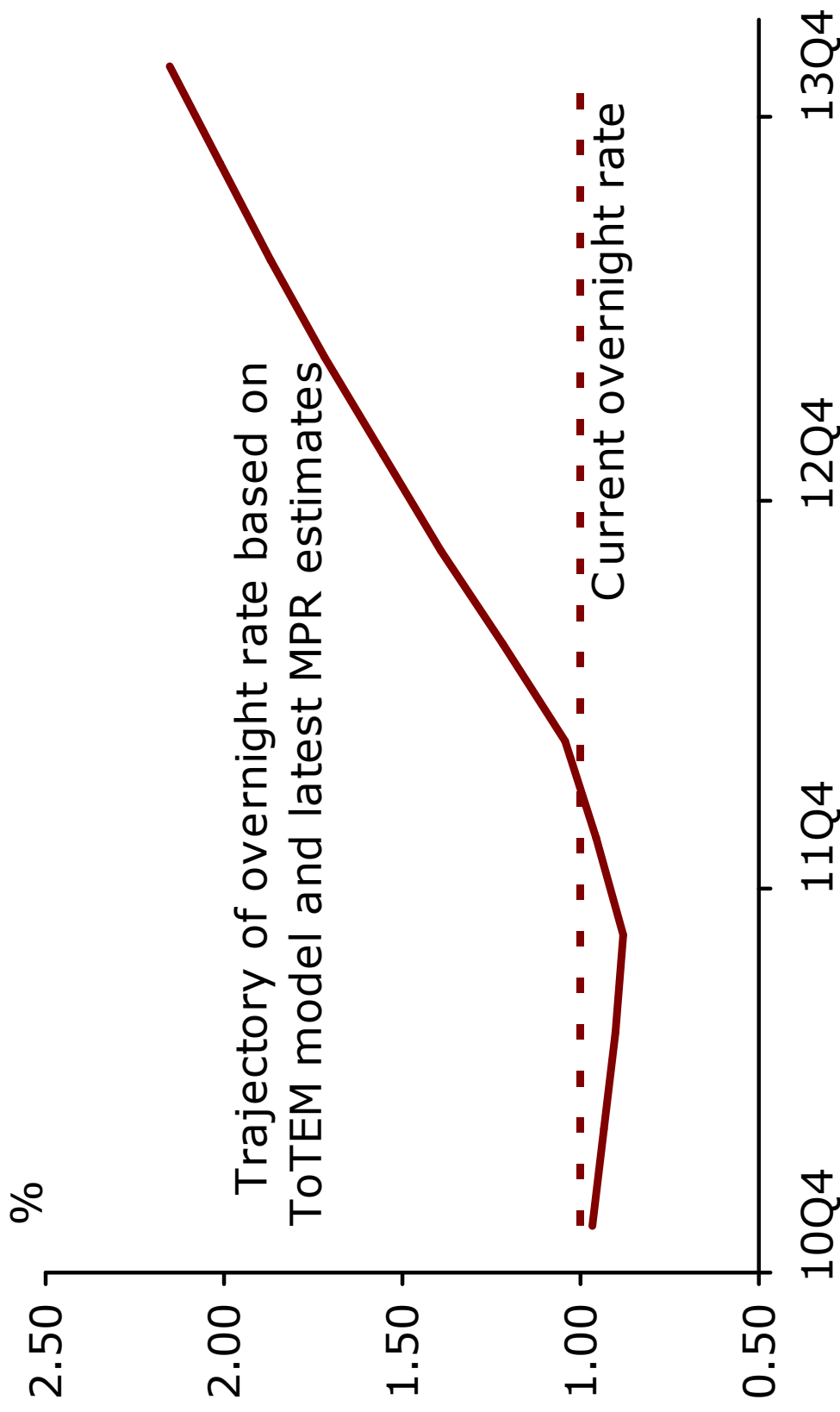


Wide Range of Real Rates Have Coincided with Zero Output Gap



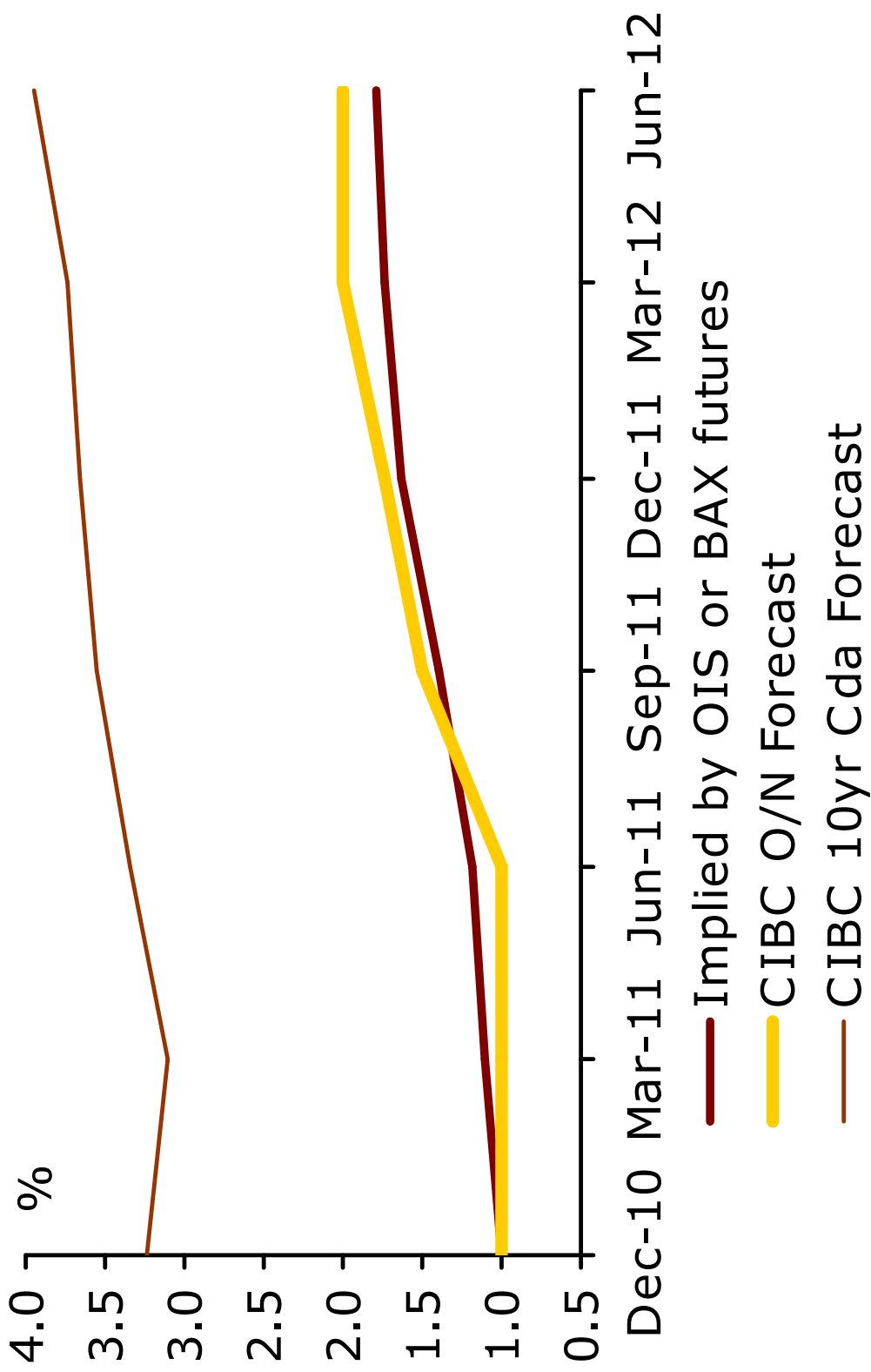
Source: Bank of Canada, CIBC

Tame Interest Rate Trajectory Based on Bank of Canada Model

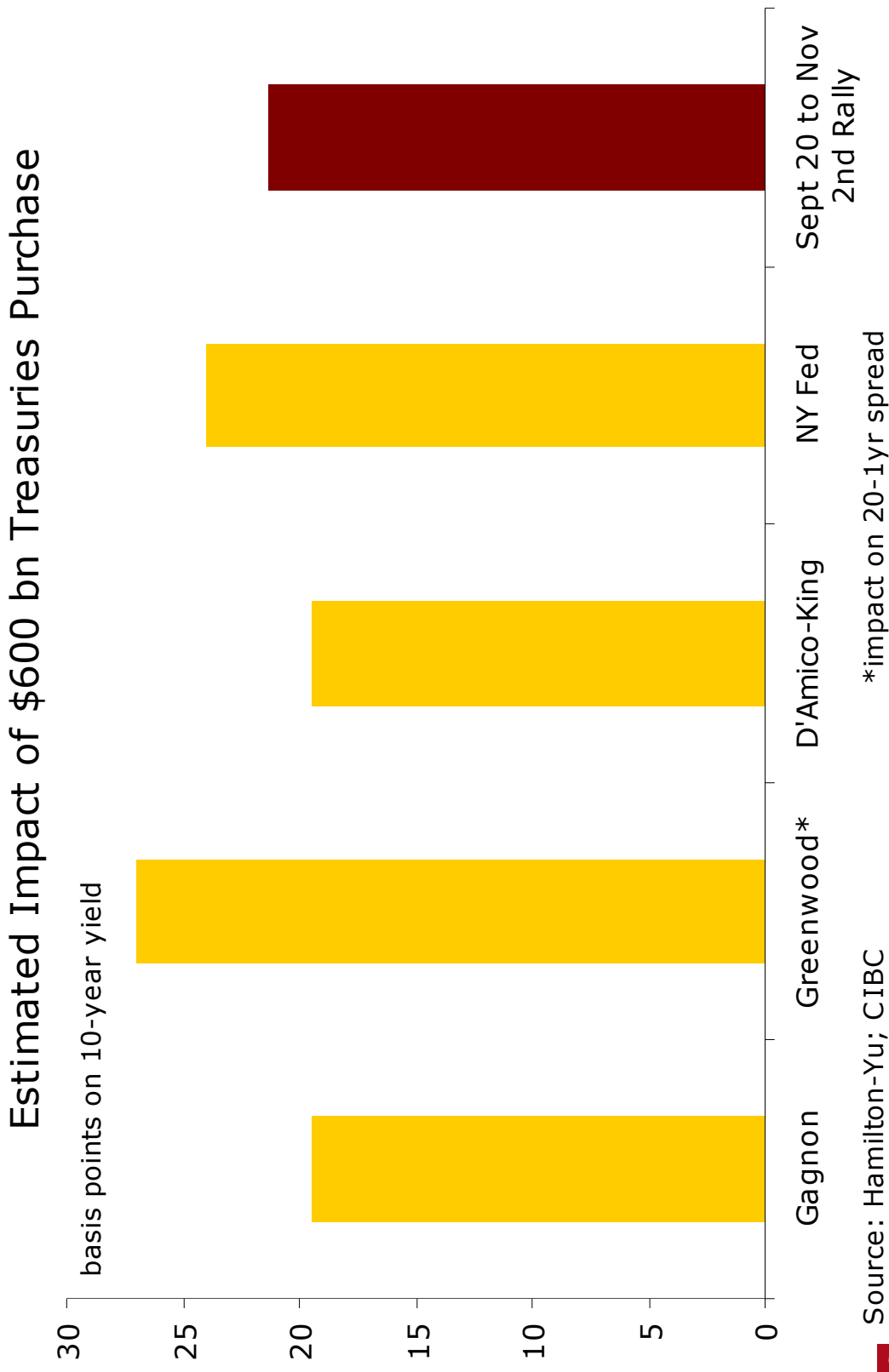


Source: Haver Analytics, CIBC

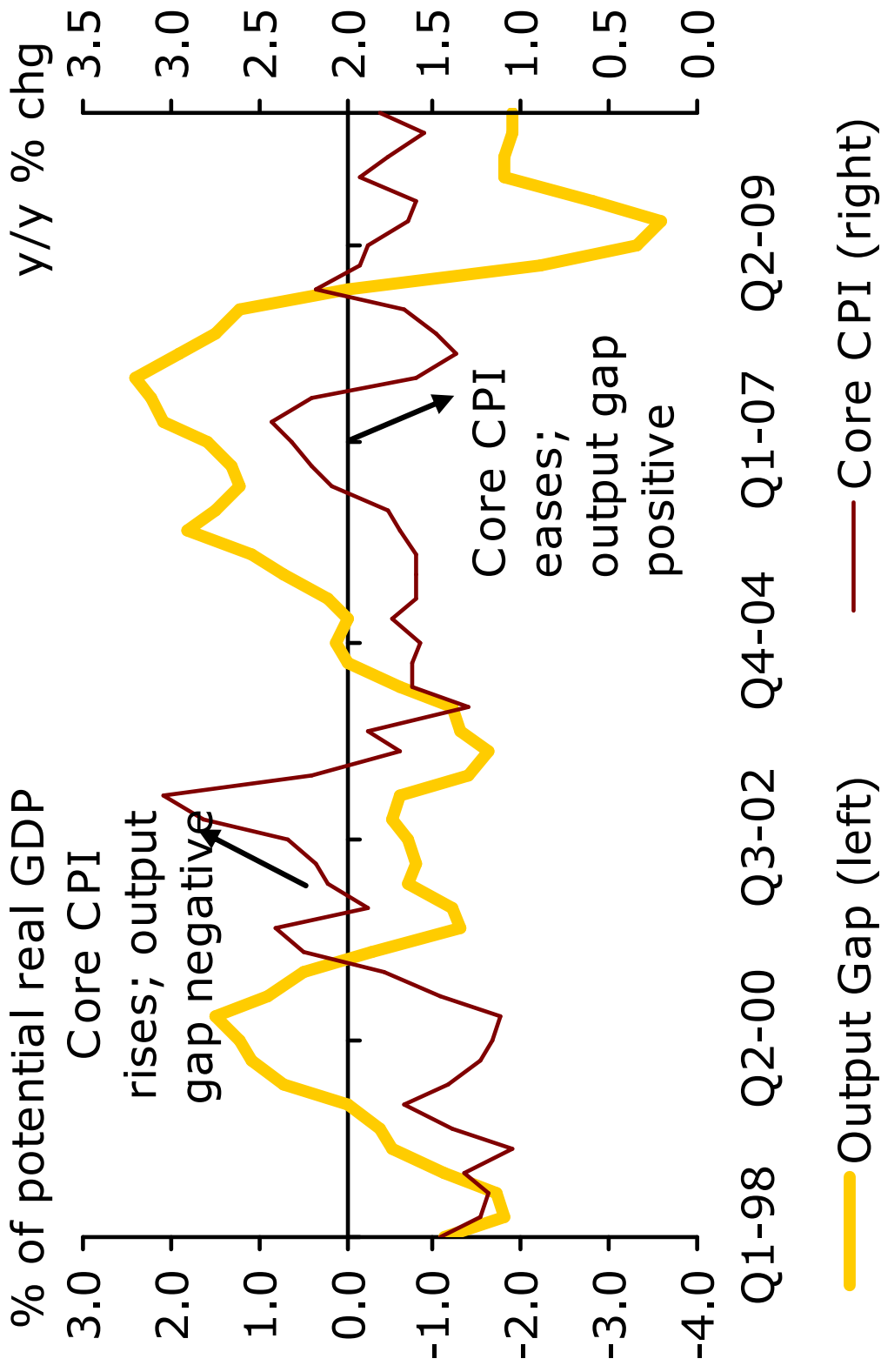
Canadian Overnight Rate Path Not Far From Market Expectations



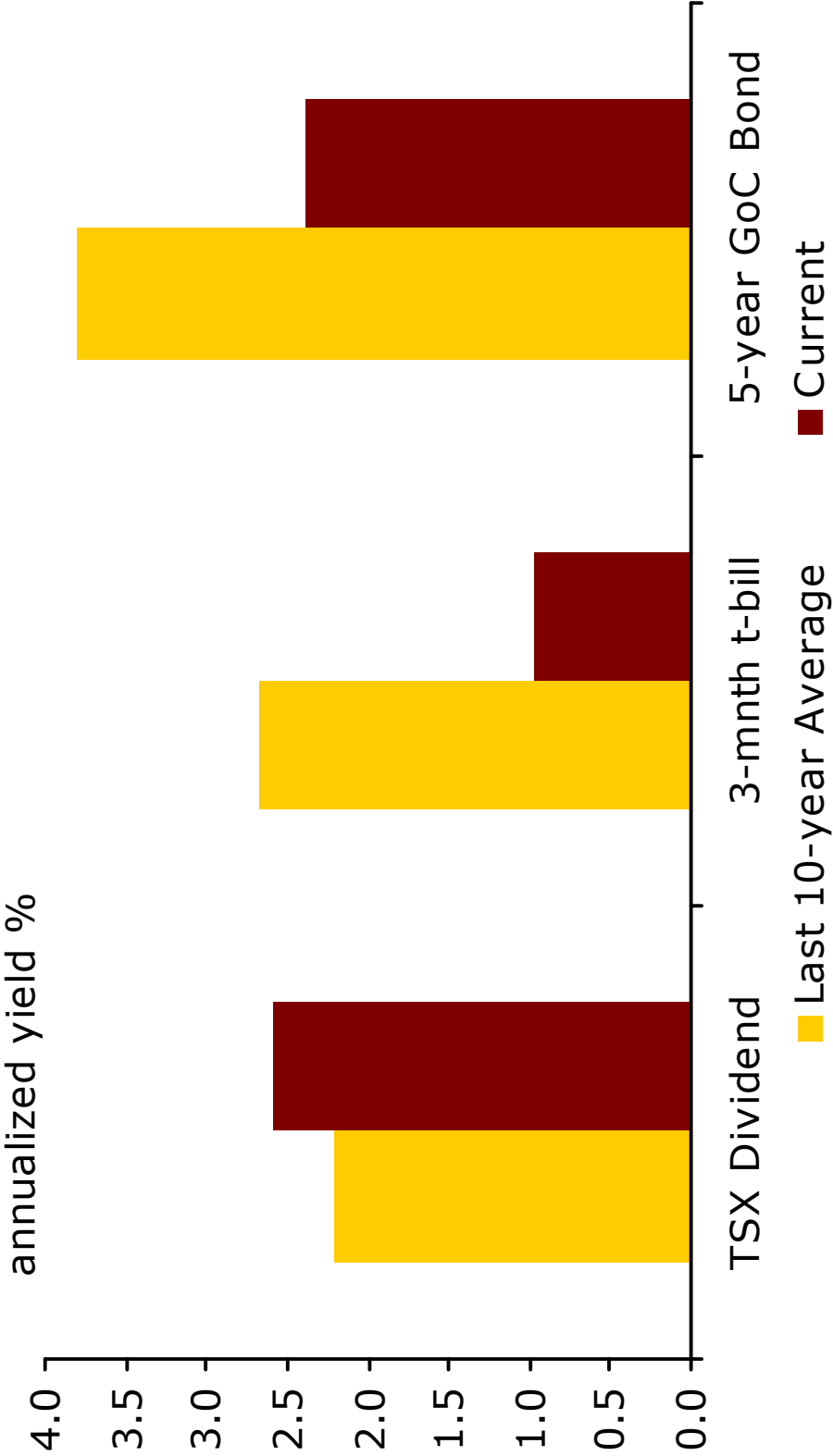
Quantitative Easing Only Keeps US 10-yr Rates a Quarter Point Lower than Otherwise



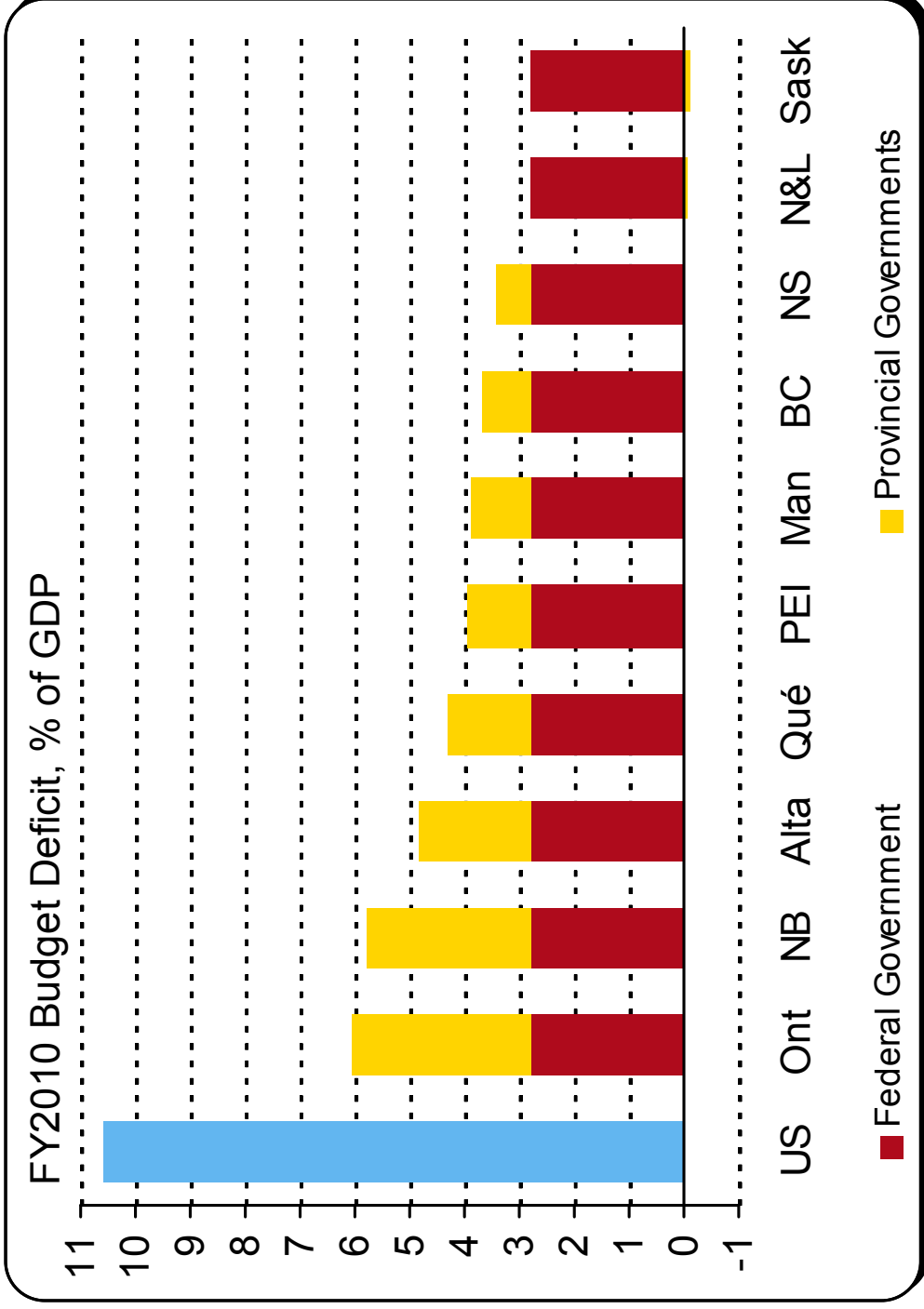
Canadian Output Gap Doesn't Guarantee Lower Inflation



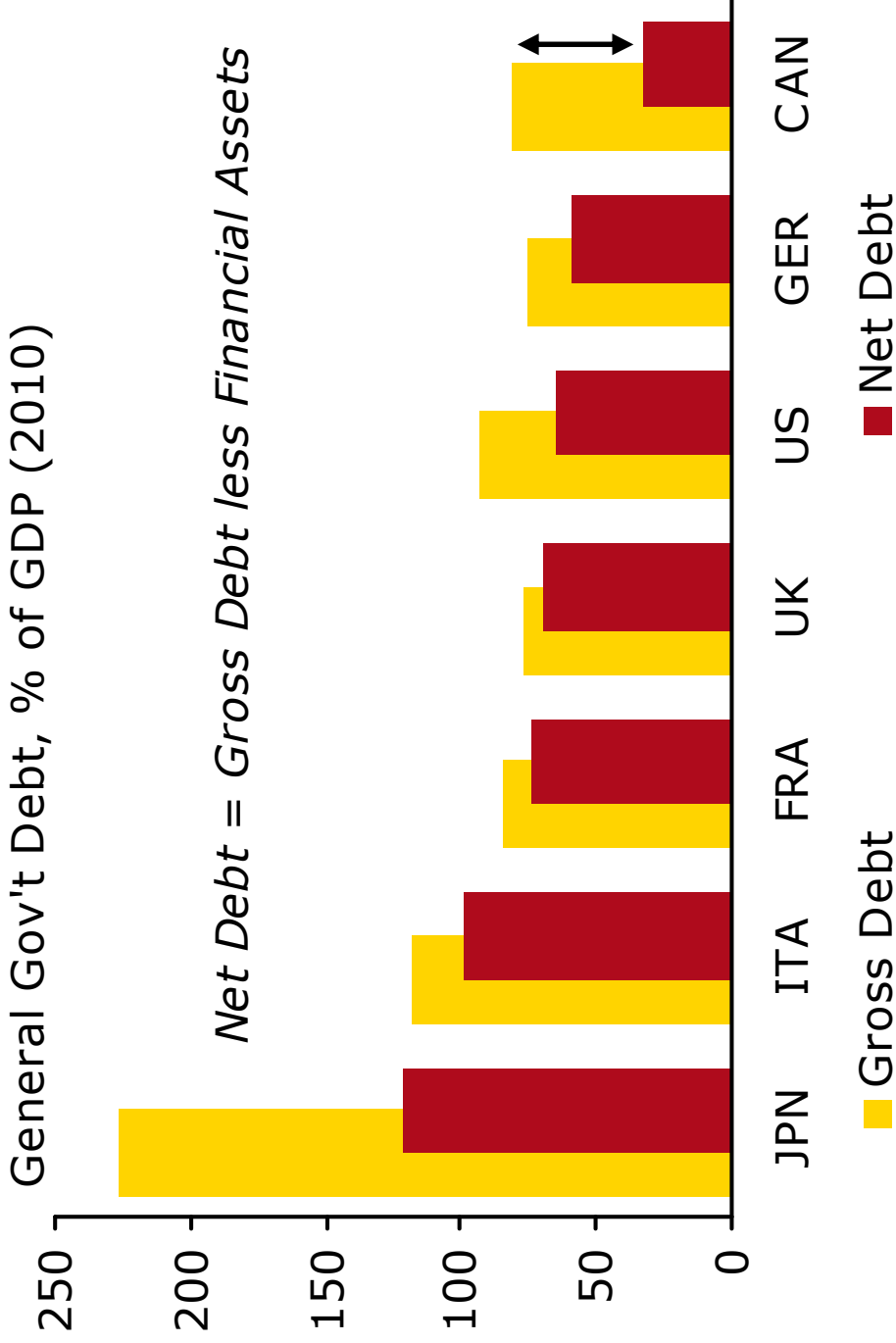
Dividend Yields are Tough Competition for Bonds



Combined Federal-Provincial Budget Balance Compares Favourably to US



Canada's Edge in Net Debt Means Lighter Long Term Fiscal Drag



Slow Motion: Growth and Rates

- Canadian growth at 2.2% in 2011, 2.8% in 2012.
- Long term outlook supported by commodity abundance; lighter net-debt reduction needs than US.
- Commodity prices have captured (or even overshoot) global rebound; next leg higher not until 2012.
- Bond inflows keep dollar-Canada in \$1.01-1.06 C\$/US\$ range in 2010/11 despite trade gap
- US funds rate on hold through 2012; Bank of Canada hikes short rates gently in second-half 2011. Longer rates drift higher. Cdn 10-year reaches 3.65% next year.
- Equity markets will be choppy, but total return beats bonds.