

ECONOMIC OUTLOOK

the road ahead



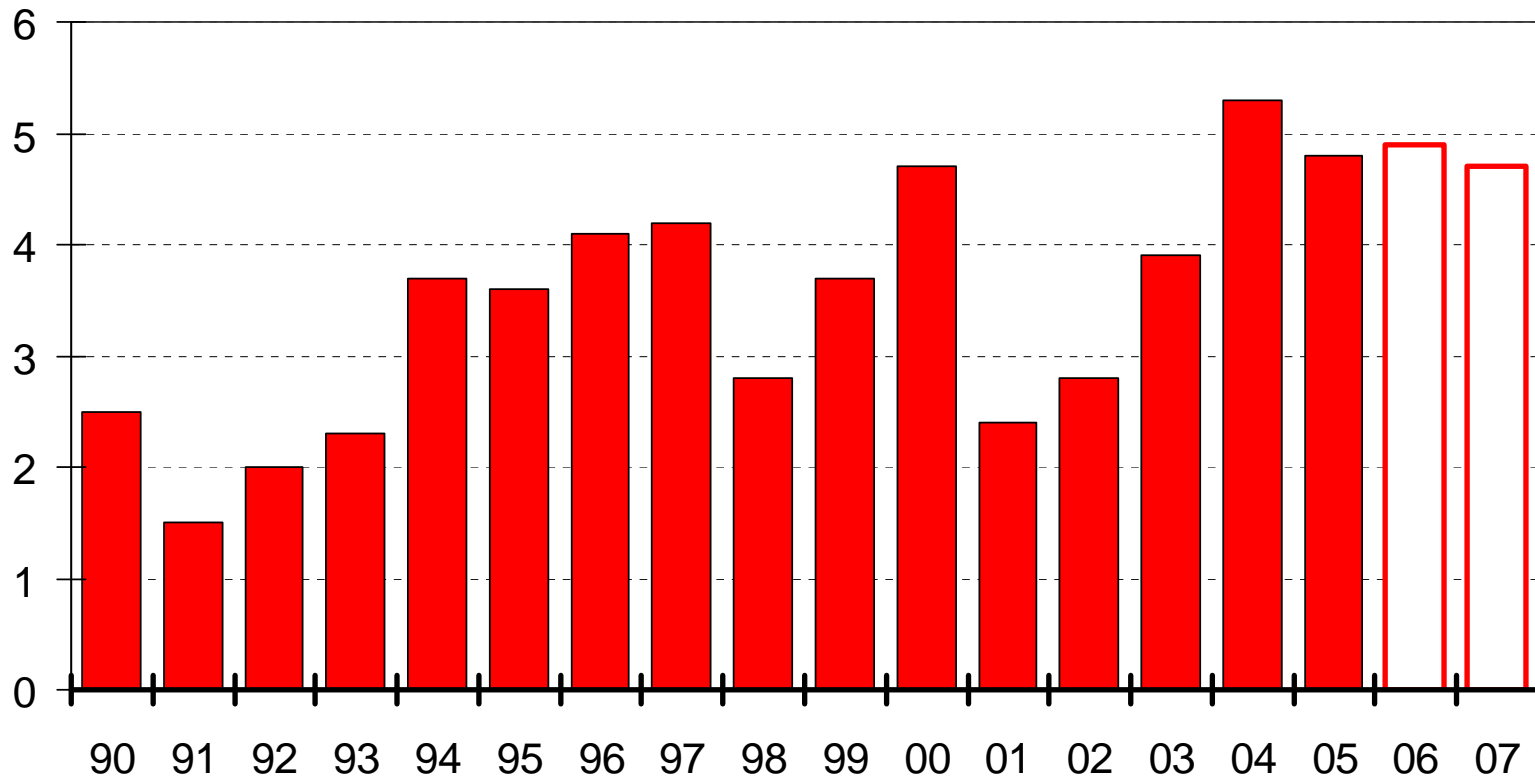
Andersen Economic Research

Peter Andersen, Ph.D.

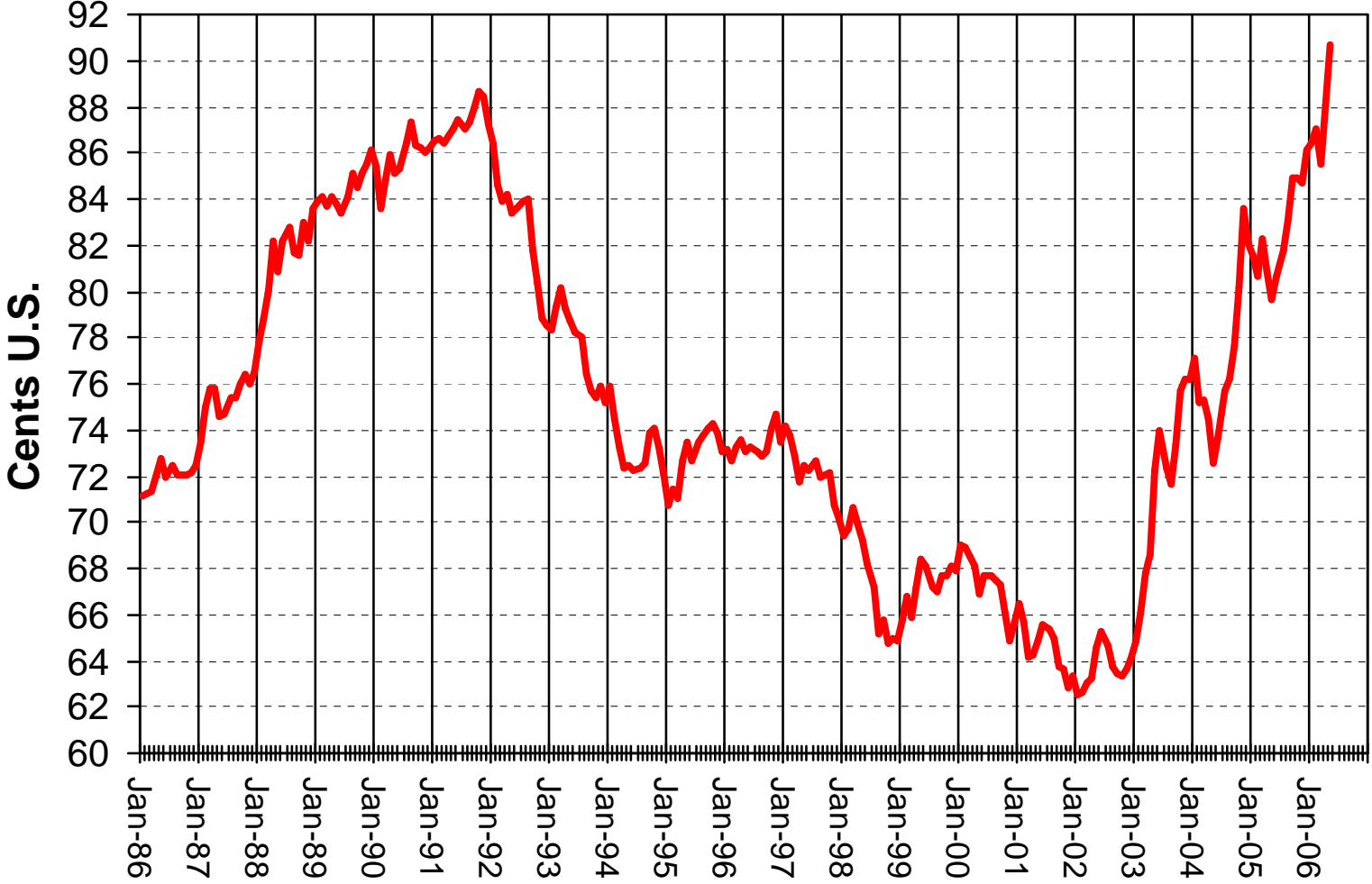
May 8, 2006

WORLD GDP GROWTH

ANNUAL PERCENT CHANGE CONSTANT DOLLAR



CANADIAN DOLLAR



UNPRECEDENTED

Latest

0.9067

1.1029

Annual Average	USD/CAD	CAD/USD
2002	0.6368	1.5704
2003	0.7135	1.4015
2004	0.7438	1.3445
2005	0.8254	1.2116

ISSUES

- **Surprises**
- **Basic health**
- **Timing**

- **Decade of high oil prices?**
- **Why are long rates so low?**

RISK MANAGEMENT

- **Are You Watching?**
- **Can You Adapt? Reinvent?**
- **You Must Have Options**

MANUFACTURING

189,000 Jobs Lost Last 3 Years

- **Negative Impact of C\$**
- **Energy Costs**
- **China Factor**
- **Auto Assembly and Parts**

- **Opportunities Remain**

TEXTILE INDUSTRY

Capital Intensive

2005

Invested \$148 million

Rising export/shipment share

48.3% 2005

42.7% 2000

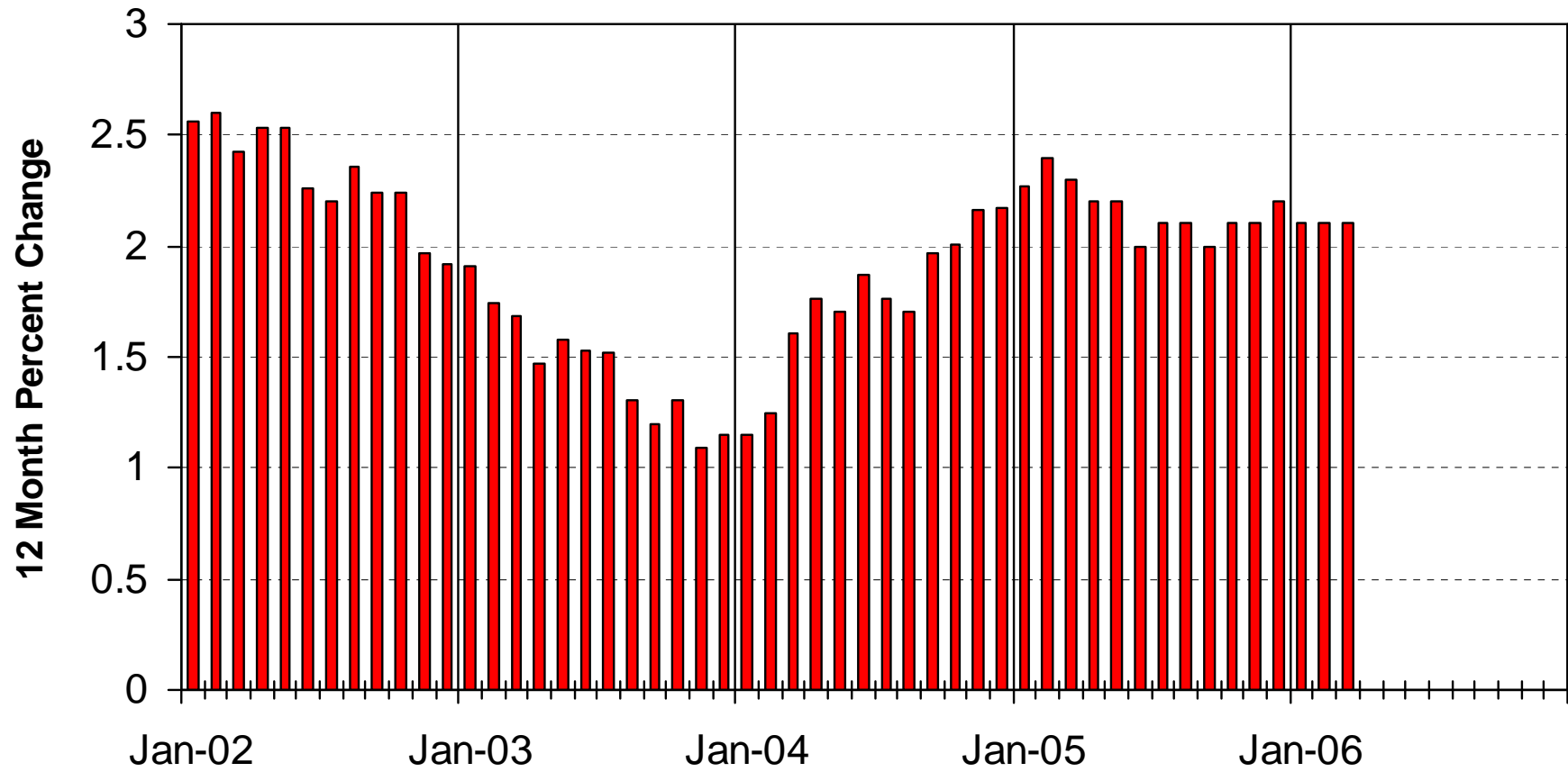
GLOBALIZATION

Positives and Negatives

- **No Borders on Capacity**
- **Inflation Risk Eliminated**
- **Fed's job easier**

NO PASS-THROUGH

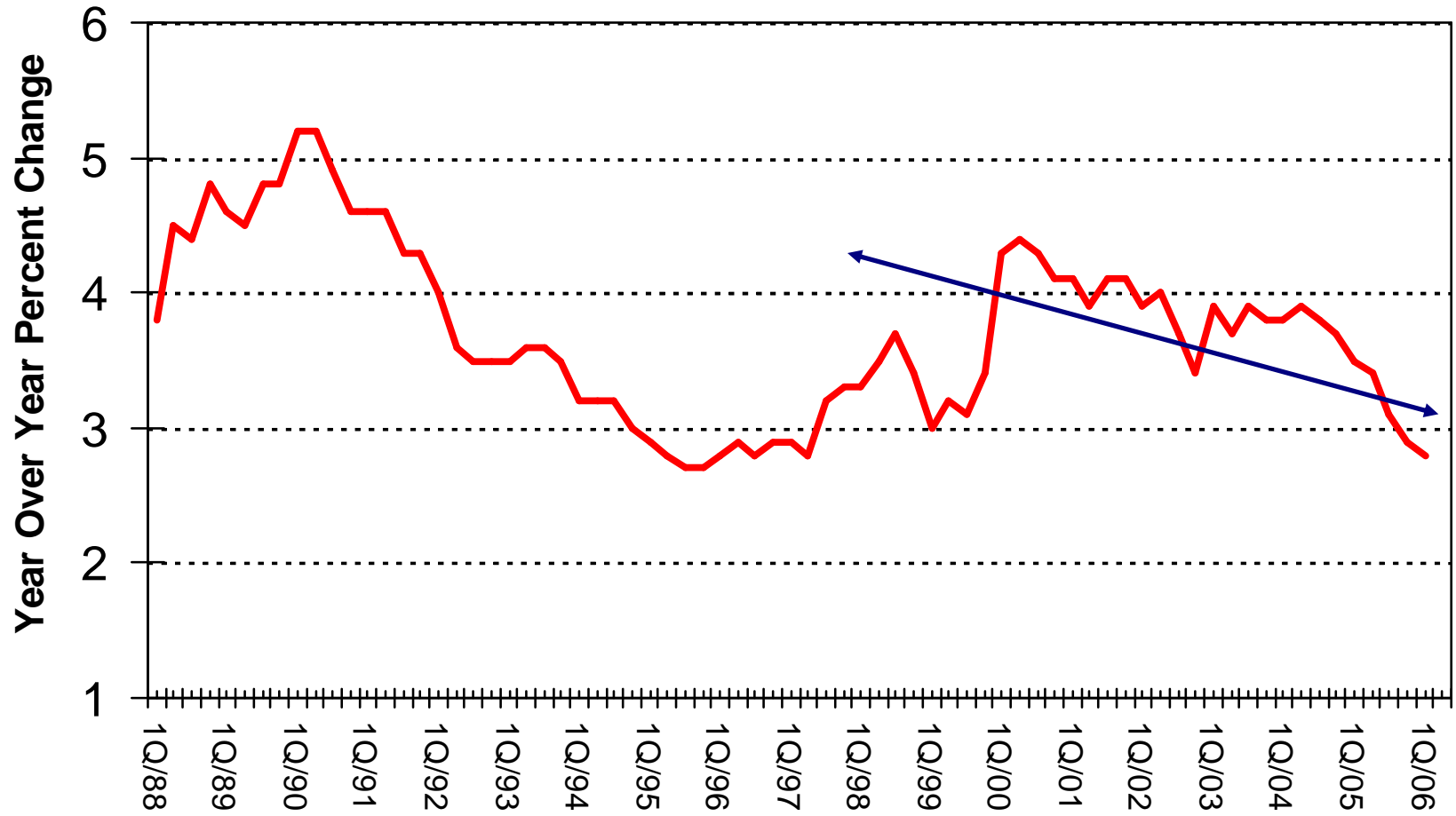
CORE U.S. CONSUMER PRICES



OUTSOURCING

- **Wage Impact**
- **Global Labour Force**
- **Foreign Competition in Services**
- **40% of U.S. Workers At Risk**

U.S. COMPENSATION COSTS



SURPRISES?

Volatility in 2nd Half of Cycle

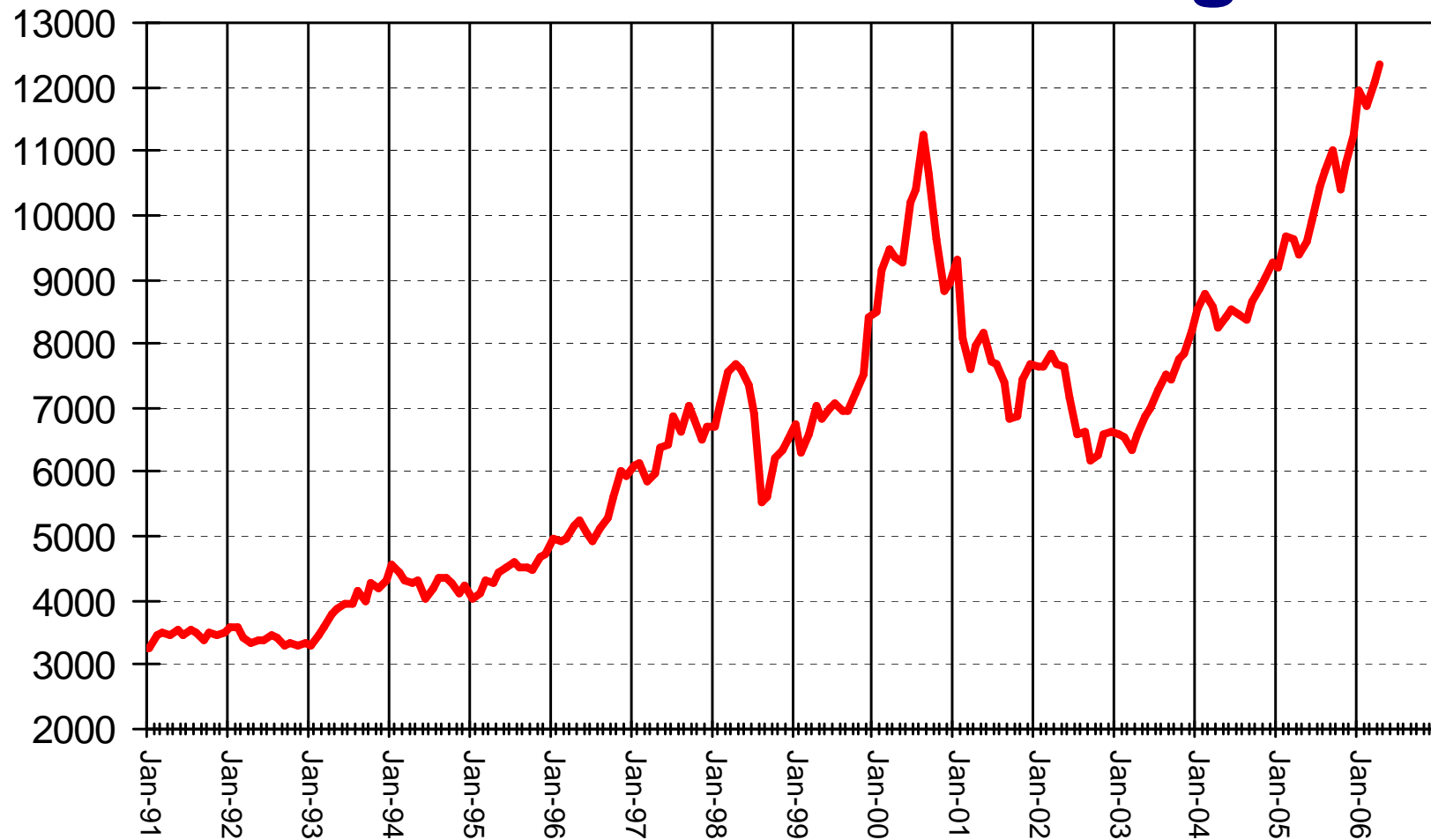
Stock Market

Exchange Rates

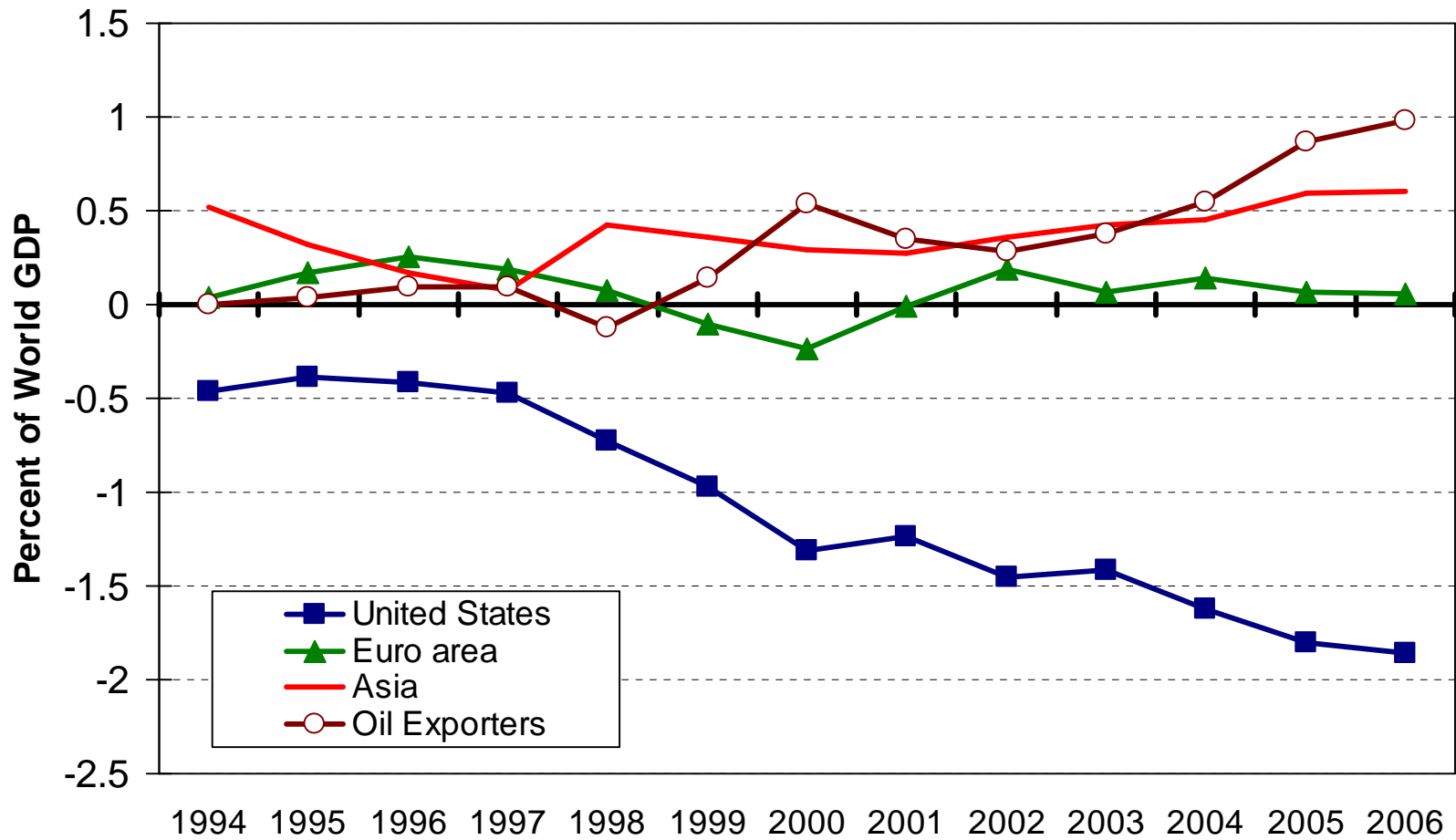
China Factor

Geopolitics

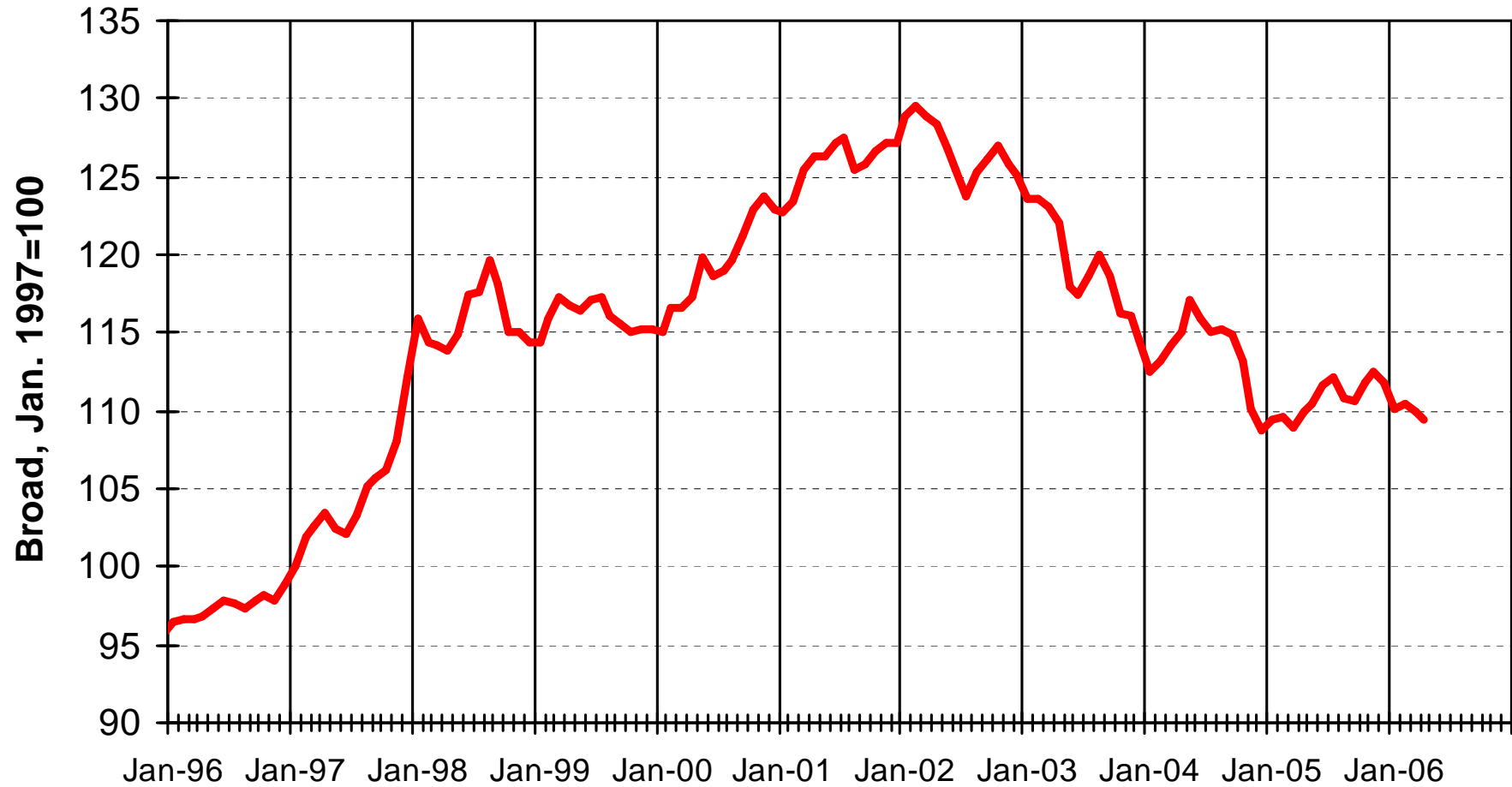
Toronto Stock Exchange



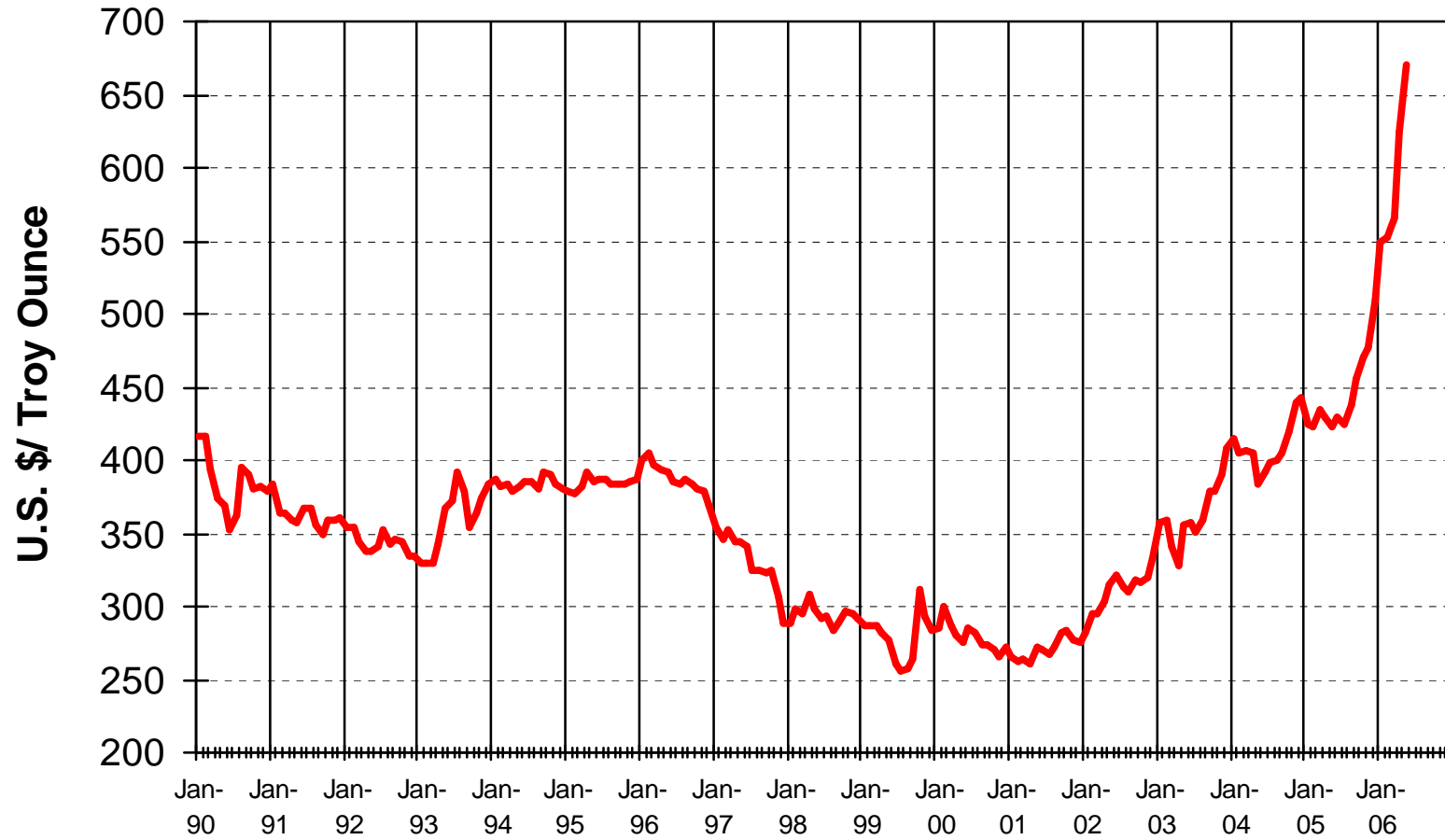
WORLD CURRENT ACCOUNT BALANCES



U. S. TRADE-WEIGHTED DOLLAR



GOLD



Long Rates Close to May 2004

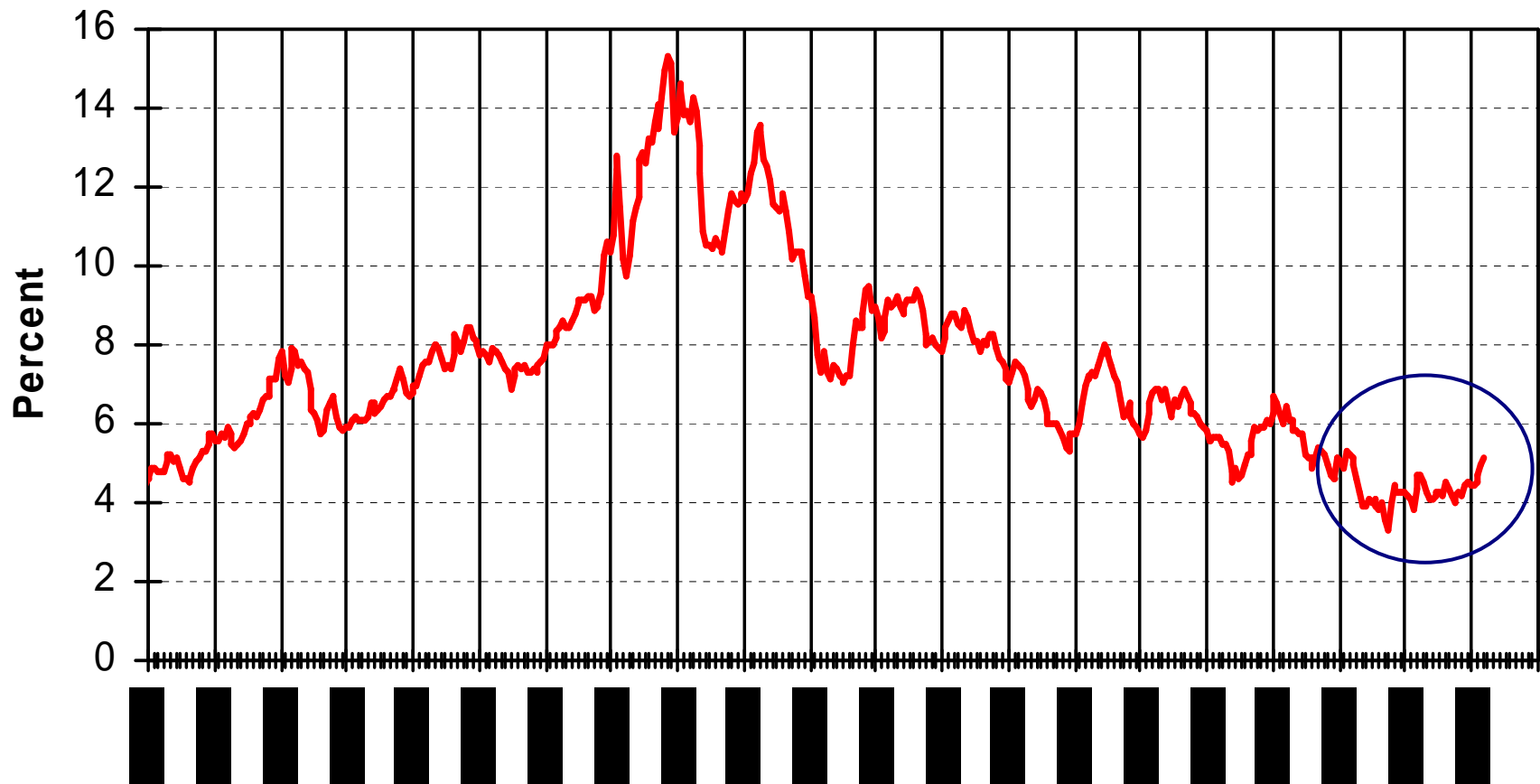
Global Savings Glut

Asia

Oil producers

Weak global capital spending

U.S. 10 YEAR BOND YIELD



U.S. ECONOMIC HEALTH

- **Confidence at 4-yr high**
- **Solid job growth**
- **Real income accelerating**

- **Above-average growth**
- **No immediate fiscal overstretch**

OUR FINANCIAL HEALTH

Debt to asset ratio

relatively constant

Debt service ratio

lowest in almost 25 years

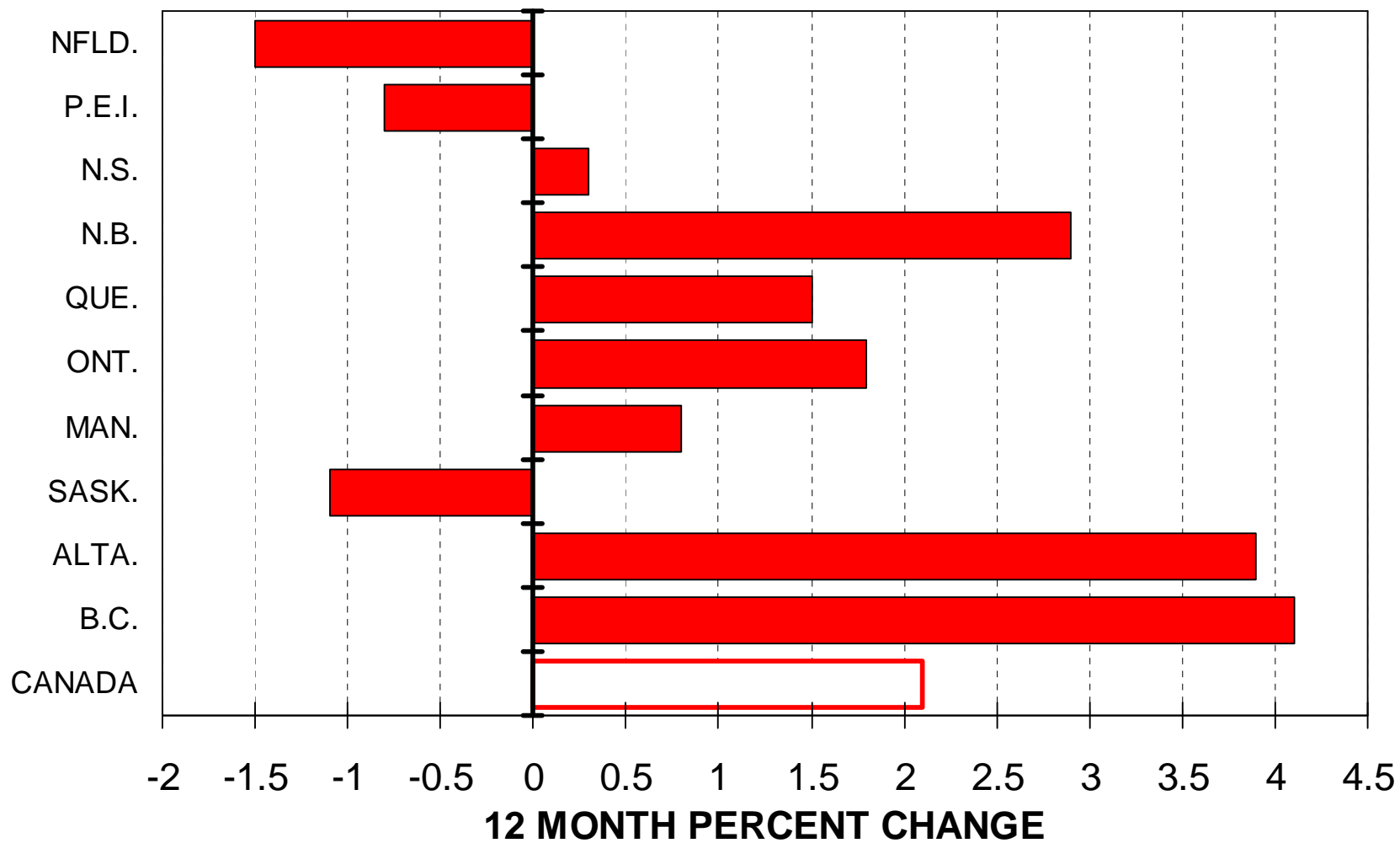
No financial stress

Able to withstand higher rates

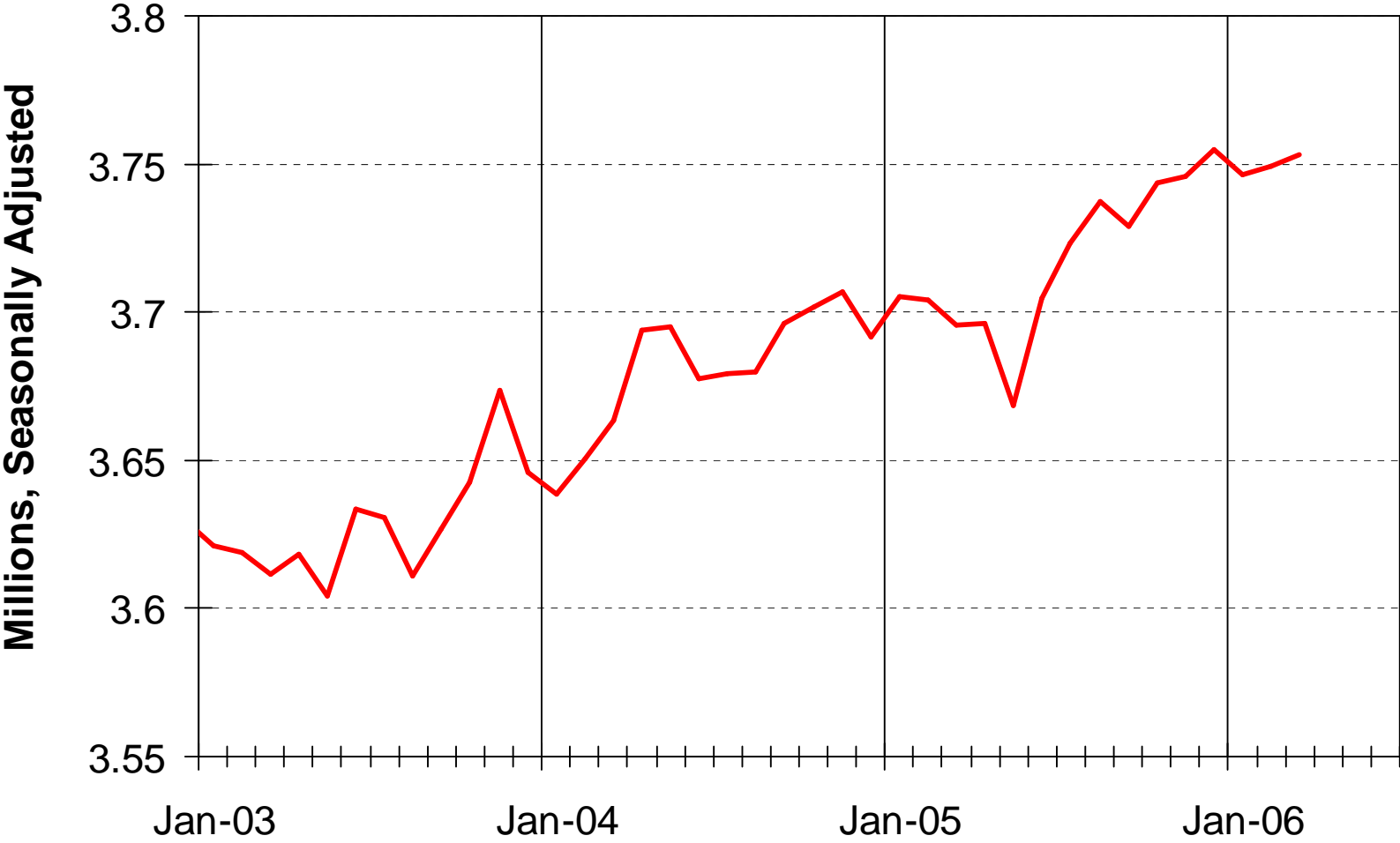
CANADA 2006

• Alberta	growth leader	5.0%
• B.C.	2 nd place	4.3%
• Saskatchewan	3 rd place	3.2%
• Quebec		2.5%
• Canada		3.3%

EMPLOYMENT GROWTH MARCH 2006



QUEBEC JOB GROWTH



TIMING

- **10-year Cycle?**
- **Europe, Japan just getting started**

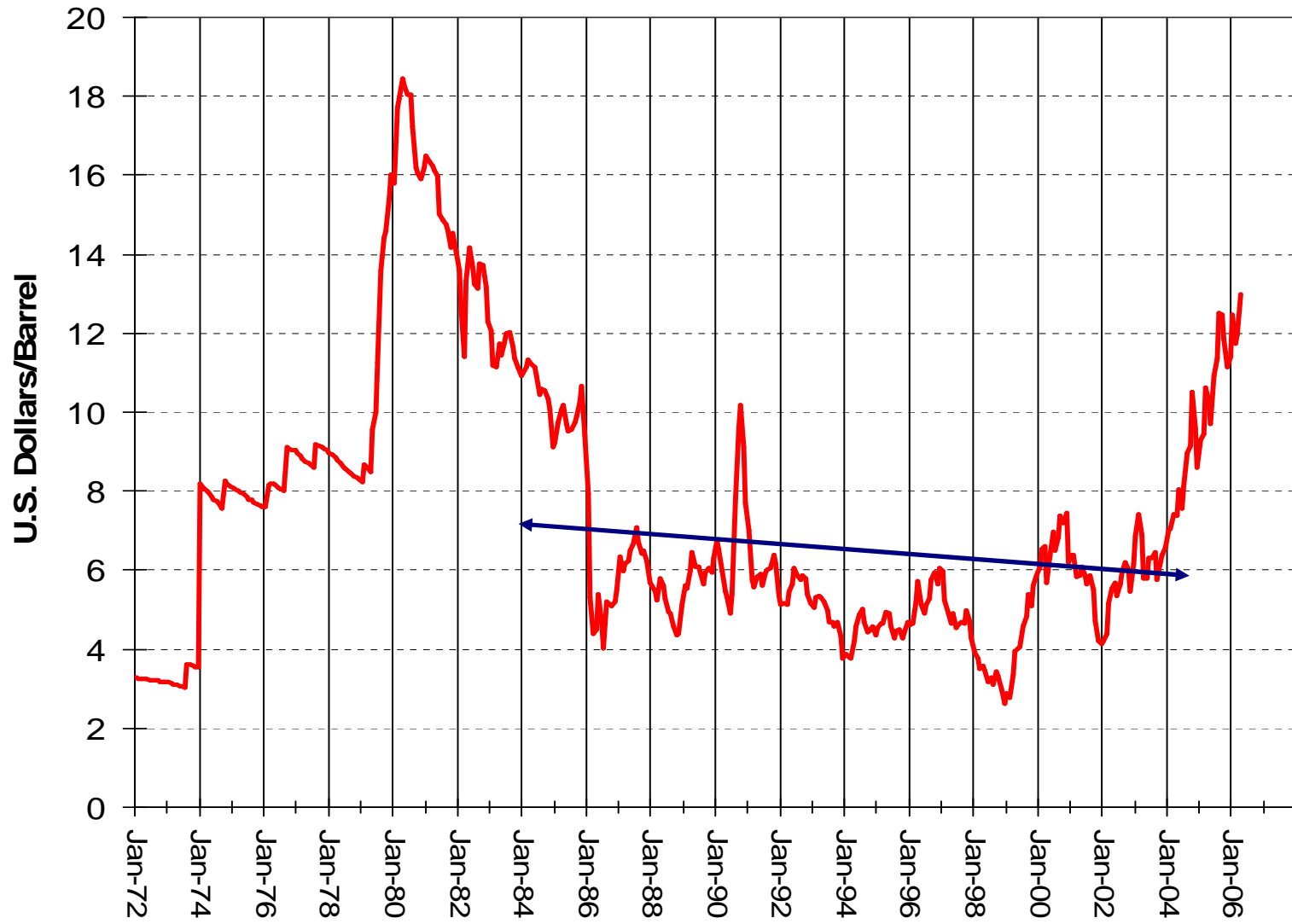
- **Risky Years 2009-2010**
- **Fiscal Overstretch 2010-2020**
- **There will be another recession**
- **China will play a role**

ENERGY

- **Oil still cheap**
- **Low conservation priority**
- **Strong global demand**

- **Slow supply response**
- **Production peak?**
- **How much spare capacity?**

OIL (CPI adjusted)



CHINA

10.1% 2004
9.9% 2005
9.5% 2006

- **2nd largest oil consumer**
- **Oil import volumes +34%**
- **Foreign direct investment**
- **Market share**
- **Consumer demand**

HOUSING BUBBLE?

- **Long rates not high enough**
- **No recession in sight**
- **Need both for a bubble**

WRAP-UP

- **Lasting Global Strength**
- **Above-Potential U.S. Growth**

- **Stable Long Rates**

- **Commodity & Energy Boom Continues**
- **Strong Cdn Investment Intentions**
- **Manufacturing Export Opportunities**