



# Weekly Market Insight

January 21, 2011

## NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

### Canada: The New Mix

By Benjamin Tal and Emanuella Enenajor

The seemingly benign 2.4% GDP growth projected for 2011 masks the dynamics of powerful economic forces pulling in different directions. The end result will be another year of only middling growth, but a new mix of economic activity as a vibrant business sector will gradually take over an exhausted consumer and restrained government.

### No Stellar Trade Performance

Higher commodity prices have lifted the outlook for trade revenues in Canada, but what does this mean for real trade activity? Not much, if history is any guide. Since the commodity price boom in 2001, commodity export volumes have actually dropped, and their share of total Canadian exports has remained relatively flat. The weakness in this export sector's activity in spite of price incentives is partly due to declines in Canada's conventional resource base, and our limited links to resource-hungry emerging markets, which account for a paltry sub-10% of exports. Starting 2011 off on this foot means that Canadian real exports on an aggregate level will likely not benefit much from stronger commodity prices, and trade activity will once again depend on developed markets, whose growth is expected to slow relative to 2010.

Ongoing sales in vehicles south of the border should see increased exports of autos, while American incentives for business investment will encourage higher machinery and equipment exports to the US. But even with stronger US demand, a loss of US import share due to the near-parity loonie means export growth will decelerate in 2011 relative to last year. A giveback in commodity prices and a healthy pace of import gains fuelled by business capital purchases from abroad should see a continuing deficit balance in Canada's merchandise trade account, and a lackluster contribution of trade to overall growth in 2011, if not as bad a drag from net trade as in 2010.

### Fiscal Tightening Weighs on Jobs

Government spending was a buffer for economic activity during the downturn, but with ongoing gains in business activity, 2011 should be the year when the government hands the reins of growth back to the private sector. Significant reductions in spending will come by late 2011 when infrastructure stimulus projects wrap up. Additional cuts to program spending should see compensation expenses drop on wage restraint, employment attrition and select job cuts. As was seen during the 1990's period of budget tightening, a one-percentage-point drop in the deficit-to-GDP ratio meant an approximate 1% reduction in the public sector headcount, suggesting the labour market could lose around 35K government positions this year.

This would mark a sharp turnaround from 2010, where absent the addition of 140K public sector jobs, the unemployment rate would have stayed flat at 8.4%. Even with businesses expanding payrolls on the improved outlook, the combined drag of government headcount reduction, an estimated 50K drop in construction jobs

from the housing pullback, and stimulus project completions should see the unemployment rate stall in mid-2011 after some further limited improvements.

### **The Business Boom Revs Up**

Although the benefit of a more enthusiastic business sector might not be fully reflected in the job numbers, it will certainly be evident in the trajectory of business investment. By any measure, the current recovery in capital spending is impressive. While the decline in business investment was roughly in line with the decline during other recessions, the recovery has been much stronger.

A significant portion of this surge in investment represents replacement rather than expansion. Although Q3-2010's breathtaking pace is unlikely to repeat, the factors that encouraged business investment are still there. The rate of return on capital employed is back to its mid-2008 level, and despite the surge in investment, corporate Canada's cash position is at a record high (vs. both equity and sales). Large corporations can still raise money relatively cheaply, and cash-starved small-and mid-sized firms can now borrow more easily, with overall credit outstanding to this sector starting to show signs of life after being in negative territory for the past two years. The accumulation of pent-up demand in this sector during two years of restrained credit access will be an important driver of the second wave of replacement investment in 2011.

But it's not just a replacement story this time around. Granted, the capacity utilization rate at 78% is still 4%-points below the level that in the past indicated a surge in expansion investment. But a closer look suggests that the manufacturing sector is already at a position to start expanding, with its current capacity utilization reading of 81% already standing above its long term average and a record six points above that of the rest of the economy. The last time the utilization gap approached this level, in 1995, manufacturing investment advanced by an average annual rate of more than 10% for the following three years. With relatively elevated capacity use and rates of return on capital employed in the manufacturing sector approaching a 10-year high look for business investment in manufacturing to rise strongly in 2011, joining to the upswing in western oil sands projects.

### **Consumers Max Out**

After rushing back to shop in 2010, consumers will take a well-deserved break in 2011. The softening in the monthly pace of job creation from an average of 31K in 2010 to 22K in 2011 will single-handedly slow growth in personal spending by more than 0.4%-pts. But as important will be the change in the propensity to spend. With the US-Canada saving rate gap at a 40-year high, and ongoing indications that monetary authorities wish to curtail the risky level of household debt, 2011 should see the beginning of an adjustment in the household balance-sheet. Our expectations that the housing market will stagnate in 2011 and might even see some softening in the second half, suggests that the estimated 8% rise in net worth in 2010 will not be matched in 2011. And with consumer spending dancing to the tune of changes in net worth this represents another source of slowing to the consumer.

Consumer spending in the past two years was by far the most leveraged in recent history, but this trend is starting to normalize. Growth in consumer credit is already decelerating (mainly in sources that are used largely for consumption such as credit cards and lines of credit). And as the ratio of growth in borrowing to spending returns to normal in 2011 (with or without the help of the government) look for growth in consumer expenditures to take an additional haircut.

So, while there will be some key pockets of activity in 2011, overall GDP will remain below potential, leaving inflationary pressures tame. That should give the Bank of Canada room to wait until May to hike rates, and even then, proceeding slowly due to uncertainties surrounding external risks to domestic growth.

## Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago*
TED SPREAD (bps)	15	15	16	19	21
10Y / 2Y SPREAD (bps)	284	281	270	277	279
2Y SWAP SPREAD (bps)	23	23	22	24	30
3M T-Bill (%)	0.15	0.15	0.14	0.11	0.04
LIBOR 1 MONTH (%)	0.26	0.26	0.26	0.26	0.23
LIBOR 3 MONTH (%)	0.30	0.30	0.30	0.30	0.25
2-YR BOND (%)	0.62	0.59	0.56	0.63	0.83
5-YR BOND (%)	2.06	2.01	1.87	2.01	2.36
10-YR BOND (%)	3.46	3.41	3.26	3.40	3.62
A Rated / 10Y TREASURY (bps)	153	145	158	162	152
B Rated / 10Y TREASURY (bps)	484	481	494	508	477
BB Rated / 10Y TREASURY (bps)	344	336	350	366	388
<b>CANADA</b>					
PRIME / BA SPREAD (bps)	180	180	180	180	185
CDOR 3 MONTH (%)	1.24	1.24	1.25	1.23	0.45
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	27	27	29	25	29
10Y / 2Y SPREAD (bps)	161	156	146	156	221
2-YR BOND (%)	1.75	1.72	1.76	1.65	1.19
5-YR BOND (%)	2.62	2.56	2.52	2.43	2.50
10-YR BOND (%)	3.36	3.28	3.22	3.20	3.40
A Rated / 10Y TREASURY (bps)	111	112	119	124	103
BBB Rated / 10Y TREASURY (bps)	181	181	188	195	166
CAN Sovereign Agency / 10Y TREASURY (bps)	34	35	42	47	35
<b>COMMODITIES</b>					
WTI CRUDE FUTURE (US\$ / bbl.)	89.5	88.4	90.9	88.0	75.5
NATURAL GAS (US\$ / MMBtu)	4.8	4.6	4.4	4.1	5.8
SILVER (US\$ / t oz.)	27.2	27.8	28.7	28.8	17.1
GOLD (US\$ / t oz.)	1339.4	1346.5	1364.3	1367.5	1087.8
WHEAT (US¢ / bu.)	805.8	790.8	770.5	751.3	495.3
SOYBEANS (US¢ / bu.)	1410.8	1403.5	1408.8	1295.8	952.5
SUGAR (US¢ / lb.)	31.9	30.3	31.0	32.1	28.7
CORN (US¢ / bu.)	654.8	635.0	637.8	593.0	367.8
<b>FX</b>					
C\$ / US\$	0.992	1.001	0.994	1.012	1.055
US\$ / EURO	1.355	1.347	1.337	1.315	1.413
C\$ / EURO	1.345	1.348	1.330	1.330	1.491
YEN / US\$	82.700	82.940	82.630	84.150	90.200
US\$ / BRITISH POUND	1.598	1.590	1.587	1.547	1.611
SWISS FRANCS / US\$	0.960	0.965	0.964	0.971	1.041

\* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, January 20, 2011

Index (Regiona/Country)	DAILY					% Chg -   +	YTD % chg	52 WEEK			3-yr % chg
	High	Low	Close	Chg	% Chg			High	Low	% Chg	
<b>Global</b>											
The Global Dow (World)	2152.84	2125.04	2134.09	-18.7	-0.87		2.2	2161.03	1699.63	8.6	-4.9
The Global Dow (Euro) (World)	1503.55	1489.59	1498.25	-4.06	-0.27		2.3	1534.27	1257.42	13.8	-2.2
DJ Global Index (World)	258.94	255.1	255.96	-2.99	-1.15		0.8	260.18	203.56	12.8	-2
DJ Global ex U.S. (World)	225.92	221.56	221.87	-4.07	-1.8		0.2	225.94	170.93	10.6	-3.5
MSCI EAFE* (World)	n.a.	n.a.	1672.17	-33.21	-1.95		0.8	1705.37	1305.13	6.1	-6.6
<b>Asia Pacific</b>											
DJ Asia-Pacific (Asia-Pacific)	145.11	142.3	142.5	-2.65	-1.83		-0.02	145.15	111.94	12.6	-1.1
All Ordinaries (Australia)	4933.6	4889.4	4892	-52.22	-1.06		0.9	5024.1	4250.6	0.9	-5.5
S & P/ASX 200 (Australia)	4822.6	4780	4783.68	-50.88	-1.05		0.8	5001.9	4222.1	-0.9	-5.9
DJ CBN China 600 (China)	25749.34	24889.1	24893.6	-855.84	-3.32		-6.8	29974.75	20950.68	-11.6	-16.3
Dow Jones China 88 (China)	239.84	232.01	232.08	-7.76	-3.24		-4.7	281.88	208.48	-17.7	-21
Shanghai Composite (China)	2752.8	2676.13	2677.65	-80.44	-2.92		-4.6	3166.18	2363.95	-15.2	-19.8
Hang Seng (Hong Kong)	24248.32	23963.86	24003.7	-415.92	-1.7		4.2	24964.37	18985.5	15.1	-1.6
Bombay Sensex (India)	19100.26	18794.73	19046.54	68.22		0.36	-7.1	21004.96	15790.93	11.7	0.1
Jakarta Composite (Indonesia)	3534	3441.63	3454.12	-63.16	-1.8		-6.7	3786.1	2475.57	30.9	9.8
Nikkei 300 (Japan)	189.1	187.63	187.84	-1.93	-1.02		3	202.75	163.58	-3.6	-11.9
Nikkei Stock Avg (Japan)	10505.63	10421.83	10437.31	-119.79	-1.13		2	11339.3	8824.06	-4	-9
Topix Index (Japan)	933.47	926.32	927.19	-9.68	-1.03		3.2	998.9	803.12	-3	-11.6
Kuala Lumpur Composite (Malaysia)	1568.88	1561.87	1566.51	...		Closed	3.1	1574.49	1233.86	19.7	2.9
NZSX-50 (New Zealand)	3346.27	3336.13	3339.29	-6.73	-0.2		0.9	3373.71	2933.82	3.5	-3.1
KSE 100 (Pakistan)	12615.49	12388.08	12411.87	-165.74	-1.32		3.2	12681.94	9229.6	27.3	-3.7
Manila Composite (Philippines)	4044.12	4005.84	4006.24	-33.32	-0.82		-4.6	4397.3	2797.61	29.8	8.1
Straits Times (Singapore)	3238.38	3199.61	3205.48	-36.48	-1.13		0.5	3313.61	2650.61	12.4	1.1
Kospi (South Korea)	2114.2	2102.61	2106.66	-9.03	-0.43		2.7	2115.69	1552.79	22.3	6.7
Colombo Stock Exchange (Sri Lanka)	7204.23	7058.26	7193.1	134.77		1.91	8.4	7193.1	3519.71	104.4	44.5
Weighted (Taiwan)	9063.52	9017.8	9022.17	-63.85	-0.7		0.6	9086.02	7071.67	11	3.3
SET (Thailand)	1031.99	1017.94	1022.16	-12.64	-1.22		-1	1050.98	685.89	42.2	9
<b>Europe</b>											
Stoxx Europe 600 (Europe)	283.17	279.39	279.39	-3.33	-1.18		1.3	286.7	232.11	10.5	-5.2
Stoxx Europe 50 (Europe)	2679.06	2650.19	2651.03	-25.62	-0.96		2.5	2711.84	2285.13	3.8	-7.5
Euro Stoxx 50 (Euro zone)	2943.42	2911.5	2927.42	3.66		0.13	4.8	3012.65	2488.5	2.2	-9.9
Euro Stoxx (Euro zone)	285.35	282.81	283.72	-1.09	-0.38		3.4	287.03	237.29	5.5	-8.7
ATX (Austria)	2911.88	2845.95	2848.88	-63	-2.16		-1.9	2951.88	2216.84	9.3	-9.9
Bel-20 (Belgium)	2644.63	2618.66	2626.24	-14.54	-0.55		1.8	2716.7	2296.81	5.7	-10.8
PX 50 (Czech Republic)	1266.3	1252.8	1254.7	-17	-1.34		2.4	1314.6	1092.8	3.2	-7
OMX Copenhagen (Denmark)	438.24	431.59	431.59	-6.08	-1.39		1.1	441.74	324.49	31.6	3.5
OMX Helsinki (Finland)	7693.04	7608.01	7644.56	-54.37	-0.71		-0.2	7897.95	6134.78	15.8	-8.7
CAC 40 (France)	3989.03	3950.3	3964.84	-11.87	-0.3		4.2	4065.65	3331.29	2.7	-8
DAX (Germany)	7084.24	7008.62	7024.27	-58.49	-0.83		1.6	7143.45	5434.34	22.2	-1.3
BUX (Hungary)	23040.61	22733.67	22733.67	-162.13	-0.71		6.6	25322.96	20221.37	2.7	-1.9
FTSE MIB (Italy)	21979.65	21648.56	21792.28	80.14		0.37	8	23539.24	18382.71	-4.7	-15.2
AEX (Netherlands)	357.66	354.68	356.14	-1.82	-0.51		0.4	363.73	305.03	7.2	-7.5
All-Shares (Norway)	483.94	473.82	473.82	-10.07	-2.08		-2.6	493.35	367.63	15.2	unch.
WIG (Poland)	47909.46	47408.18	47515.37	-384.18	-0.8		0.1	48371.02	37322.52	14.9	0.3
PSI 20 (Portugal)	7780.38	7649.07	7765.42	80.04		1.04	2.3	8344.29	6624.20	-5.8	-12.3
DJ Russia Titans 10 (Russia)	7219.98	7043.39	7087.36	-114.99	-1.6		5	7220.85	4801.88	24.2	-0.2
RTS Index (Russia)	1894.99	1866.44	1868.46	-34.29	-1.8		5.5	1902.75	1226.57	22.1	-4.7
IBEX 35 (Spain)	10683	10515.5	10636.9	80.4		0.76	7.9	11523.5	8669.8	-7.1	-8
SX All Share (Sweden)	367.9	362.11	362.11	-5.98	-1.62		-1.7	375.82	291.74	19.6	5.3
Swiss Market (Switzerland)	6543.81	6471.87	6513.5	-46.16	-0.7		1.2	6967.56	5942.25	-1	-5.4
Istanbul National 100 (Turkey)	66730.56	65059.28	65288.03	-1174.86	-1.77		-1.1	71543.26	48739.43	18.1	10.3
FTSE 100 (U.K.)	5977.5	5867.3	5867.91	-108.79	-1.82		-0.5	6056.4	4805.8	10	-0.2
FTSE 250 (U.K.)	11728.23	11502.04	11505.03	-223.13	-1.9		-0.5	11830.32	9010.37	22.2	5.9
<b>Americas</b>											
DJ Americas (Americas)	346.13	342.36	344.68	-1.51	-0.44		1.1	350.15	272.7	16.5	0.6
Merval (Argentina)	3698.69	3633.54	3664.82	27.92		0.77	4	3664.82	2061.07	56.6	22.3
Sao Paulo Bovespa (Brazil)	70083.35	69176.61	69561.53	-496.55	-0.71		0.4	72995.69	58192.08	5	6.6
S & P/TSX Comp (Canada)	13429.5	13238.89	13331.32	-107.72	-0.8		-0.8	13559.2	11092.5	16.2	1.5
Santiago IPSA (Chile)	4903.43	4837.28	4870.84	-31.02	-0.63		-1.2	5040.97	3696.24	28.8	24
IPC All-Share (Mexico)	37815.14	37361.32	37584.68	-225.48	-0.6		-2.5	38696.24	30368.08	20.4	12.1
Caracas General (Venezuela)	66752.73	65739.41	65851.08	111.67		0.17	0.8	67729.95	56052.65	9.3	21.7
<b>Other Countries</b>											
CASE 30 (Egypt)	6720.45	6649.39	6698.39	53.2		0.8	-6.2	7603.04	5850.38	-2.4	-14.5
Tel Aviv (Israel)	1337.56	1331.97	1337.56	-2.75	-0.21		0.8	1340.31	1045.7	15.7	5.2
Johannesburg All Share (South Africa)	32363.75	31834.69	31837.14	-526.61	-1.63		-0.9	32661.06	25793.06	15.8	6.1

\*Europe, Australia, Far East; U.S.-dollar terms.

Three year percent change is annualized.

Sources: Reuters; WSJ.com

---

**Conflicts of Interest:** CIBC World Markets' analysts and economists are compensated from revenues generated by various CIBC World Markets businesses, including CIBC World Markets' Investment Banking Department. CIBC World Markets may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should not rely solely on this report in evaluating whether or not to buy or sell the securities of the subject company.

**Legal Matters:** This report is issued and approved for distribution by (i) in Canada by CIBC World Markets Inc., a member of the IIROC and CIPF, (ii) in the UK, CIBC World Markets plc, which is regulated by the FSA, and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is distributed in the United States by CIBC World Markets Inc. and has not been reviewed or approved by CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Exchange Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through CIBC World Markets Corp. This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets Inc. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets Inc. suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgements as of the date of this report and are subject to change without notice.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2011 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.