Canada’s economy has outperformed since 2007, led by growing consumer spending and vibrant housing markets.

Housing markets appear to have peaked and consumers are becoming more cautious to add to debt-loads.

Over the next few years, growing exports to the U.S. should sustain at least modest economic growth.

Subdued inflation and modest economic growth will keep the Bank of Canada on the sidelines until 2014.
Canada has outperformed -4 to -2 in GDP change since pre-recession peak, %

Source: Haver Analytics. As of December 2012.
GROWTH DRIVERS WILL HAVE TO ROTATE

Index, Q3:08 = 100

Source: Statistics Canada, TD Economics
CANADA-U.S. LINKS RUN DEEP

- The United States accounts for 73% of Canadian Exports
- The two economies have a synchronized business cycle
- U.S. economic activity also impacts the Canadian economy indirectly through commodity prices (terms of trade and wealth effect)
Source: Statistics Canada
Forecast by TD Economics as of December 2012
METRICS POINT TO SOME DEGREE OF OVERVALUATION IN HOUSING MARKET

Mortgage payment as a % of household PDI

30yr Average

Overvaluation approximately 10-15%

Source: Haver Analytics, Canadian Real Estate Association, Statistics Canada.
Note: Assumes 25% down, 5 year fixed posted rate, 25 year amortization.
Floor in mortgage rate such that rate <7% set equal to 7%.
HOUSING MARKET SET TO SLOW GRADUALLY

Source: CREA; Forecast by TD Economics as of December 2012.
GOVERNMENTS HAVE TURNED THEIR ATTENTION TO DEFICITS

Government budget balances as a share of GDP, %

Net debt to GDP, %

*Estimated by TD Economics.
GROWTH TO TRANSITION TO EXPORTS AND BUSINESS INVESTMENT

Average annual contribution to real GDP growth, %

Source: Statistics Canada, Haver Analytics
Forecast by TD Economics as of December 2012
CANADIAN EXPORTS TO PICK UP MODERATELY IN 2013-14

Real exports, Y/Y% change

Source: Statistics Canada/Haver Analytics
Forecast by TD Economics as of December 2012
CANADIAN CORPORATE BALANCE SHEETS ARE HEALTHY...

Debt-to-Equity Ratio

Quick Ratio*

Source: Statistics Canada. Q3 2012. *Quick Ratio = Liquid assets / Current liabilities
WHICH WILL SUPPORT BUSINESS INVESTMENT GROWTH

Business Investment Growth, y/y % chg.

Source: Statistics Canada. Forecast by TD Economics as of December 2012
Canadian interest rates to rise gradually beginning in early-2014.

US Federal Funds Target Rate

BoC Overnight Rate

Source: Bank of Canada/Haver Analytics.
Forecast by TD Economics as of February 2013.
CANADIAN DOLLAR – COMPETITIVE CHALLENGE GOING FORWARD

Source: Bank of Canada; Forecast by TD Economics as of December 2012.
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