Concentra FINANCIAL

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Economic Update

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IT'S ALL ABOUT EUROPE

Highlights

- Canada was the first country to withdraw from the Kyoto Protocol. The reason? There is no binding action for significant emitting countries, which makes the program ineffective. China and India, two of the largest green house gas emitting countries, have expressed regret that Canada has withdrawn. The argument lies that poorer countries, such as China and India, make voluntary cuts to emissions, while richer countries, such as Canada, must sign up to quantitative cuts. Since 1997, the U.S. has refused to join the Protocol.
- Economic data from China has been weakening. Inflation is dropping and there has been a slowdown in industrial production and fixed asset investment.
- China imposed a tariff tax on U.S. vehicles imported into the country in order to protect their auto manufacturers.
- The TSX dipped below the Dow for the first time since 2008.
- Merry Christmas and all the best in 2012!

Bank of Canada

- Overnight rate 1.00%
- Last: Dec. 6, hold
- Next: Jan. 17, hold *Forecast*

U.S. Federal Reserve

- Federal funds rate 0%-0.25%
- Last: Dec. 13, hold
- Next: Jan. 26, hold *Forecast*

The market had mixed emotions about the recent European summit. The release concentrated on a fiscal union among the participants, along with stricter budget deficit limits. Tighter budgets does little to resolve the current problems, but there are plans to deploy the EFSF immediately and the ESM will take effect July 2012, adding much needed funding to the markets.

The European Central Bank cut interest rates 0.25% in early December, the second reduction in five weeks. The new ECB President, Mario Draghi, feels that a stalling economy and sovereign debt crisis take precedence over high inflation. In November, the annual inflation rate held steady at 3.0%, compared to 2.5% in August. Meanwhile, the unemployment rate increased to a thirteen-year high of 10.3% in October, up from 10.2% in September and 10.1% in October 2010.

The U.S. Federal Reserve indicated they will take action if the European slowdown hinders the moderately expanding U.S. economy. The Fed indicated in mid-December that they are committed to low interest rates until mid-2013 and will continue to purchase $400 billion of long term bonds, referred to as Operation Twist. Although the unemployment rate unexpectedly fell 4 ticks to 8.6% in November, the Fed acknowledged it is still elevated. In addition, business investment appears to be slowing and housing remains depressed. The downside risks are apparent and Fed Reserve Chairman, Bernanke is ready to add stimulus if needed.

It was no surprise that the Bank of Canada held the overnight interest rate unchanged at 1.0% in early December. Historically low interest rates and a strong financial system are considered as positive stimulus for the Canadian economy.

The Central Bank acknowledged that the recent deterioration in financial markets has increased global uncertainties and additional measures will need to be taken to resolve the European debt crisis. The Canadian economy continues to function well, and growth for the second half of this year could be slightly stronger than projected in the Monetary Policy Report (MPR). As a result, no new or additional stimulus measures are likely to be introduced at this time. In October, the MPR included GDP growth of 2.1% in 2011, 1.9% in 2012, and 2.9% in 2013. The economy is expected to reach full capacity near the end of 2013.

Two factors likely need to be present for a rate *reduction* to occur, namely, a notable pullback in inflation and lack of market liquidity. But the Canadian banking system remains among the strongest internationally, and a liquidity threat appears nominal. Things in Canada must be good, because BMO reported that four of the top five billboard artists are Canadians (thank you Buble, Bieber, Drake and Nickelback).

CANADIAN ECONOMIC RELEASES

Trends

Employment; Unemployment rate	Nov. –19.0k; 7.4%	Oct. –54.0k; 7.3%	Sept. 60.9k; 7.1%
Headline; Core CPI (annualized)	Nov. 2.9%; 2.1%	Oct. 2.9%; 2.1%	Sept. 3.2%; 2.2%
Housing starts (annual units; monthly change)	Nov. 181.1k; -13.3%	Oct. 208.8k; 0.1%	Sept. 208.5k; 8.9%
Real GDP (quarter to quarter change)	Q3-2011 +3.5%	Q2-2011 –0.4%	Q1-2011 +3.6%

Employment fell 19,000 positions in November, as the second half of the year proves to be much more difficult than the first half. Part-time jobs dropped a hefty 53,300 positions, while full-time positions rose 35,000. Despite the recent declines, employment is still up more than 210,000 positions compared to a year ago. In November, the unemployment rate increased a tick to 7.4%. Most of the losses were in trade and administration. Manufacturing was also down while construction was one of the few bright spots in the report. Average hours worked increased 0.4% and average hourly earnings bounced up 2.4% year-over-year. *(December release—January 6)*

Consumer prices edged up 0.1% in November, which kept the headline rate at 2.9%, in line with expectations. Core inflation also increased 0.1%, with the core rate remaining unchanged at 2.1% annualized. The core rate remains stubbornly above the Bank of Canada's 2% target for quarter four. Gas prices declined 2.3%, while clothing prices shed 3.1%. November data typically increases due to new model year car prices, which were up 3.3% verses 4% in 2010 and 5% in 2009. Food prices continue to put upward pressure on prices, rising 1.3% in the month, which was the fastest pace in more than two years. *(December release—January 20)*

Housing starts disappointed in November, falling 13.3% to 181,100 annualized units, a hefty drop from the upwardly revised 208,800 units in October. It was the largest monthly decline since April 2009. The drop was concentrated in condos, with multiple units shedding 23.3%. Although starts were the lowest they have been since February, the report is viewed as a correction from October's strength. Note that the October/November average is 195,000 units, above the 12-month trend of 190,000. Ontario reported a 30% decrease in the month, a correction from the burst in October activity. On a positive note, single family units increased 3.5%. *(December release-January 10)*

Manufacturing shipments fell more than expected in October, shedding 0.8% to $48.7 billion after increasing in the prior three months. Despite the monthly decrease, sales were the second highest level in 2011, with September coming in the highest. Petroleum and coal sales slowed, along with aerospace products and parts. Lower sales were reported in about two-thirds of the industries. The inventory-to-shipments ratio increased to 1.33 from 1.30, the first increase since June. *(November release—January 19)*

Retail sales increased more than expected in September, rising 1.0% following an upwardly revised 0.6% gain in August. Sales were led by the auto sector, which increased 3.7%. Excluding autos, sales were up 0.5%. There was strength in clothing and sporting goods, which was offset by weakness in health care items and furniture. Retail sales increased 1.9% annualized in quarter three, above the 1.2% pace in quarter two. *(October release-December 21)*

Real GDP increased 0.9% in quarter three, after decreasing 0.1% in quarter two. The economy expanded to an annual pace of 3.5%. Increased demand for exports boosted the report, along with consumer spending, government spending and housing investments. Housing strengthened to 2.6%, above the quarter two pace of 0.4% and the strongest level of growth since the first quarter in 2010. The energy sector led the way, with notable increases in manufacturing, construction, wholesale trade and transportation. On a negative note, business investment in plant and equipment dropped 0.9%, the first quarterly decrease since 2009. On a monthly basis, real GDP increased 0.2% in September. *(October release—December 23)*

U.S. ECONOMIC RELEASES

Trends

Employment; Unemployment Rate	Nov. 120k; 8.6%	Oct. 210k; 9.0%	Sept. 100k; 9.1%
Headline; Core CPI (annualized)	Nov. 3.4%; 2.2%	Oct. 3.5%; 2.1%	Sept. 3.9%; 2.0%
Housing starts (annual units; monthly change)	Nov. 685k; 9.3%	Oct. 627k; -0.3%	Sept. 630k; 15.0%
Real GDP (quarter to quarter change)	Q3-2011 2.0%	Q2-2011 1.3%	Q1-2011 0.4%

Non-farm payrolls increased 120,000 positions in November and the unemployment rate pulled back to 8.6% from 9.0% in October. Gains were realized in retail trade, leisure and hospitality, professional and business services, and health care. The report was mixed; there were upward revisions to the prior two months, but the size of the labour force decreased, making the hefty drop in unemployment a bit overstated. As job prospects improve, there should be an increase in the number of people returning to the labour force, which could send the unemployment rate higher in coming months. (December *release—January 6)*

Consumer prices were flat in November and the annual rate decreased to 3.4% from 3.5%. There was once again a decline in the energy index, which offset the increase in the food index. Gas prices were down 2.4% during the month and vehicle prices were down 0.3%. Core inflation continues to trend upward with a rise of 0.2%. This lifted the annual pace to 2.2% from 2.1%, which is the largest price increase since 2008. On the rise were shelter, medical care, personal care and apparel. *(December release—January 19)*

Housing starts surged 9.3% in November to 685,000 annualized units, the highest level since April 2010. The results exceeded all expectations, as multiple units tore up the ground with a 25% increase. Single family starts increased 2.3%. On another positive note, building permits increased the most since March 2010, gaining 1.6% for single units and 14% for multiple units. *(December release—January 19)*

The ISM (Institute of Supply Management) Index increased 1.9% in November to 52.7%, suggesting that the manufacturing sector has been expanding for twenty eight consecutive months. New orders increased 4.3% to 56.7%, the second positive result after three months of contraction. Respondents remain concerned about the general economic conditions, government regulations and European financial crisis. They are cautiously optimistic about the future due to lower raw material costs and favorable new orders. *(November release—January 3)*

Retail sales increased less than expected in November. The 0.2% gain was the slowest in five months, following a 0.6% rise in October. Compared to a year ago, sales are up 6.7%. Excluding autos and service stations, retail spending was up 0.2%, less than the projected gain of 0.4%. Large retailers are hoping that discounts will strum up sales during the holiday season. Weak employment and low income growth are holding consumers at bay. *(December release—January 12)*

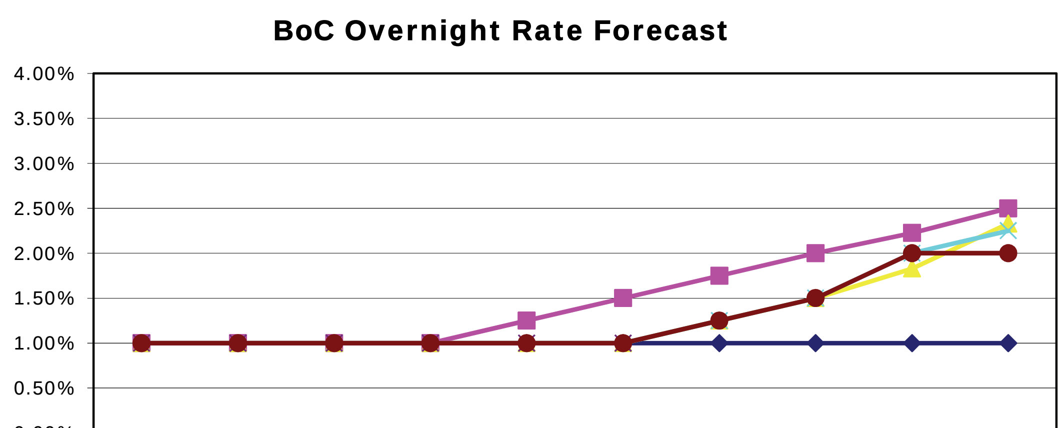
Real GDP rose 2.0% in quarter three following a 1.3% advance in quarter two. There were positive contributions from personal consumption expenditures, nonresidential fixed investment, exports and federal government spending. State and local government spending, imports and private inventory investment had a negative impact on the report. *(Quarter 3-2011 third estimate—December 22)*

OVERSEAS

European leaders met once again to try and resolve the sovereign debt crisis. Structural budget deficits will be limited to 0.5% of GDP, which is much tougher than the prior 3% limit. Countries that are not able to abide by the limit will have automatic sanctions imposed against them, unless they receive permission from a majority of the Eurozone participants to surpass the target. The European Stability Mechanism of €500 billion will begin in July 2012, and will operate alongside the European Financial Stability Fund until mid-2013. France and Germany are leading the process to amend European Union rules, with the aim to have a closer aligned fiscal position among the members. The ECB lowered interest rates a quarter point in early December, taking the key lending rate to 1.0%. It was the second rate reduction in five weeks. The crisis continues to weaken the seventeen-nation euro, which slipped to the January 2011 low of US$1.29 as German Chancellor Merkel stated there is no easy solution to the debt problems.

Japanese officials revealed that the economy grew by a slower pace than anticipated in quarter three. The recovery was plagued by a strong yen and the European debt crisis. Third quarter growth was reported at 5.6% annualized. The Yen continues to remain strong, trading at ¥77/US$. Consumer confidence levels in the country continue to be pessimistic. A recent survey indicated that there is a great deal of concern over the export-dependent economy, particularly if the situation in Europe becomes worse.

BANK OF CANADA EXPECTATIONS

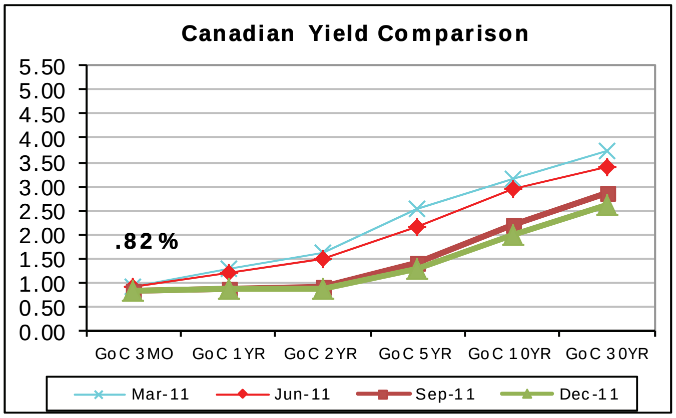


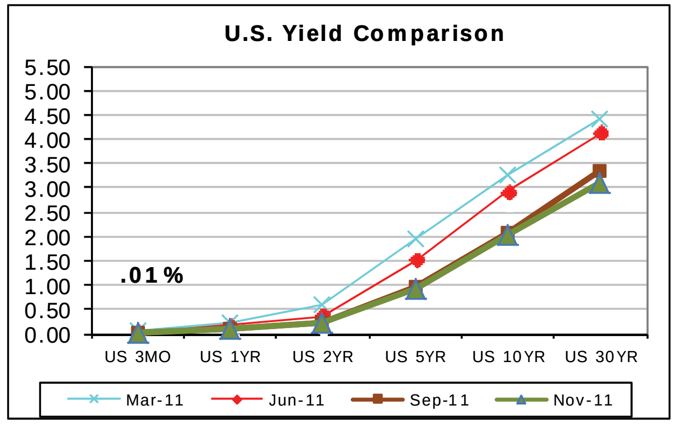
	Q3 11A	Q4 11F	Q1 12F	Q2 12F	Q3 12F	Q4 12F	Q1 13F	Q2 13F	Q3 13F	Q4 13F
CIBC (Dec 8)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
RBC (Dec 2011)	1.00%	1.00%	1.00%	1.00%	1.25%	1.50%	1.75%	2.00%	2.23%	2.50%
BMO (Dec 9)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.50%	1.83%	2.33%
BNS (Dec 1)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.50%	2.00%	2.25%
TD (Dec 8)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%				
Concentra (Dec 6)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.50%	2.00%	2.00%

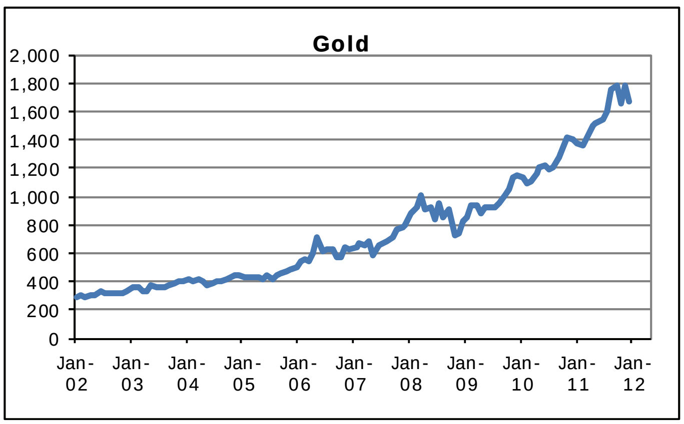
Note: BMO averages the quarterly rate changes, versus stating it at a particular point in time.

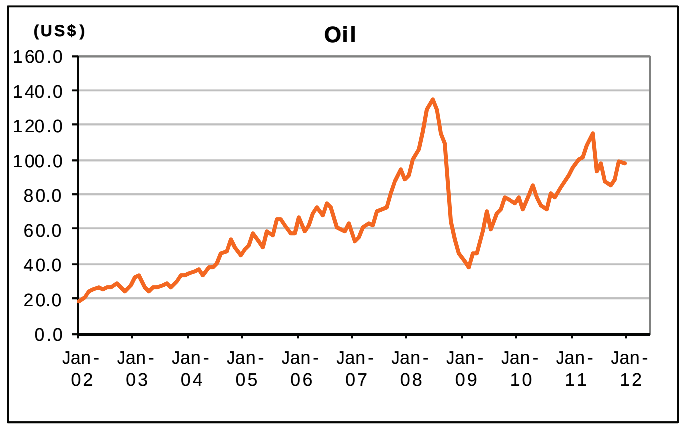
The forecast period has been extended to 2013. Most of the major banks are calling for a gradual increase in rates in 2013 following a flat 2012. CIBC remains quite pessimistic on the outlook, calling for a 1% average overnight rate in 2013. Political sparring and a weak U.S. budget along with the European debt crisis are likely to support the Canadian dollar, holding it near or above parity. The strong loonie will put pressure on the Central Bank to leave interest rates unchanged for an extended period of time. The Bank of Canada noted that inflation is higher than desired, which would require higher interest rates, but they expect prices to retreat as global demands cool.

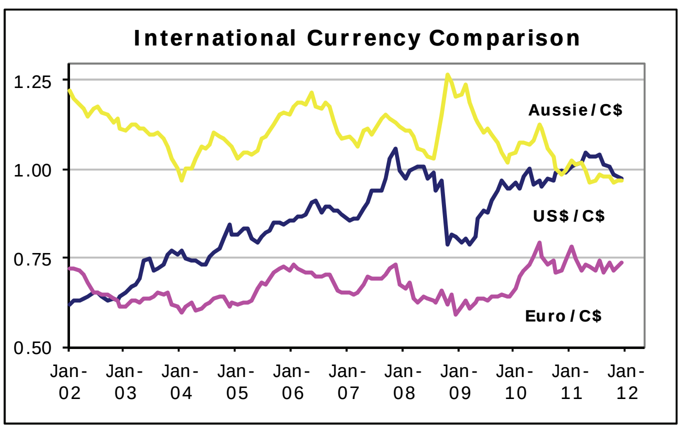
MARKET TRENDS

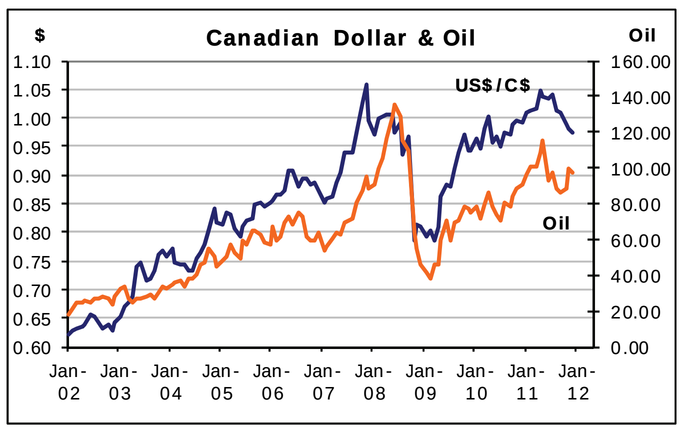


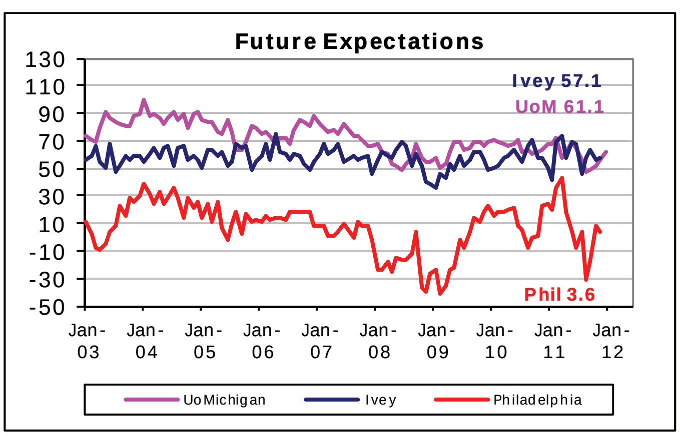


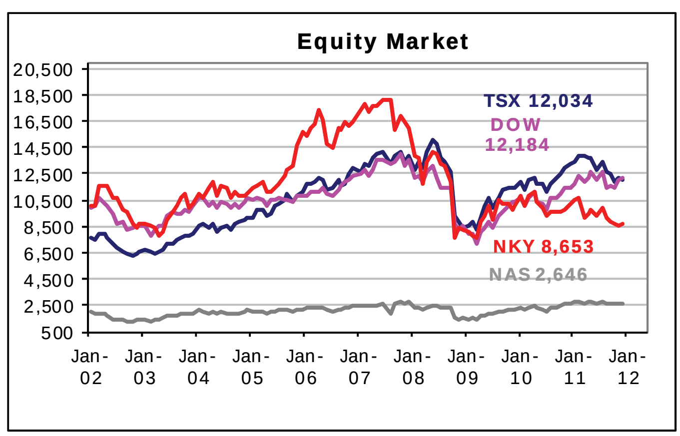












PROVINCIAL HIGHLIGHTS

	Employment *November*			Unemployment *November*			CPI (2002=100) *November*		
	Value (Thousands)	% Change (Period)	% Change (Year)	Value	% Change (Period)	% Change (Year)	Value	% Change (Period)	% Change (Year)
Canada	17,300.0	-0.1	1.2	7.4	0.1	-0.2	120.9	0.1	2.9
British Columbia	2,282.3	-0.3	0.4	7.0	0.4	0.0	117.5	0.1	2.3
Alberta	2,130.2	0.2	4.8	5.0	-0.1	-0.6	126.6	-0.5	3.2
Saskatchewan	524.7	-0.8	0.2	5.1	1.0	-0.4	123.4	0.3	2.9
Manitoba	624.5	-0.3	0.4	5.5	0.3	0.5	119.6	0.3	3.1
Ontario	6,735.2	0.2	1.5	7.9	-0.2	-0.3	121.0	0.0	2.5
Quebec	3,928.4	-0.8	-0.1	8.0	0.3	0.2	119.3	0.3	3.2
New Brunswick	351.2	-0.5	-0.5	9.8	0.4	-0.4	121.3	0.4	3.9
Nova Scotia	453.8	1.0	1.1	8.6	0.0	-0.9	124.0	0.1	3.7
Newfoundland	224.0	-0.1	1.6	13.2	0.3	-0.8	122.9	0.7	4.1
P.E.I	72.6	0.8	3.1	11.1	-0.1	-1.1	124.0	0.1	2.9

	Retail Trade *September* (SA, $ millions)			Manufacturing Shipments *October* (SA, $ millions)			Housing Starts *November* (SAAR, thousands of units)		
	Value	% Change (Period)	% Change (Year)	Value	% Change (Period)	% Change (Year)	Value	% Change (Period)	% Change (Year)
Canada	38,212.0	1.0	4.2	48,660.0	-0.8	7.3	181.1	-13.3	-7.0
British Columbia	4,959.0	0.2	2.6	3,172.0	-1.2	6.7	28.7	-5.6	40.0
Alberta	5,396.0	1.6	7.5	6,024.0	-4.2	15.0	28.7	-10.3	32.3
Saskatchewan	1,378.0	1.7	8.1	1,126.0	1.2	19.1	7.4	-11.9	-21.3
Manitoba	1,383.0	0.6	4.5	1,254.0	-0.9	9.1	7.1	-6.6	26.8
Ontario	13,584.0	1.0	3.8	22,037.0	-0.1	5.2	52.7	-29.5	-36.0
Quebec	8,494.0	0.7	2.7	11,754.0	-0.1	5.4	45.5	2.9	4.1
New Brunswick	939.0	1.8	5.8	1,776.0	-5.4	18.4	3.4	-12.8	-8.1
Nova Scotia	1,110.0	2.4	4.9	891.0	4.0	8.2	2.6	-21.2	-27.8
Newfoundland	666.0	2.1	7.8	529.0	0.8	3.4	3.7	12.1	19.4
P.E.I.	159.0	1.6	7.9	93.0	-9.2	-2.5	1.3	44.4	30.0