



MORTGAGE INVESTMENT ASSOCIATION OF BC

# **Benjamin Tal, Senior Economist CIBC World Markets**

**June 3, 2010  
Terminal City Club**

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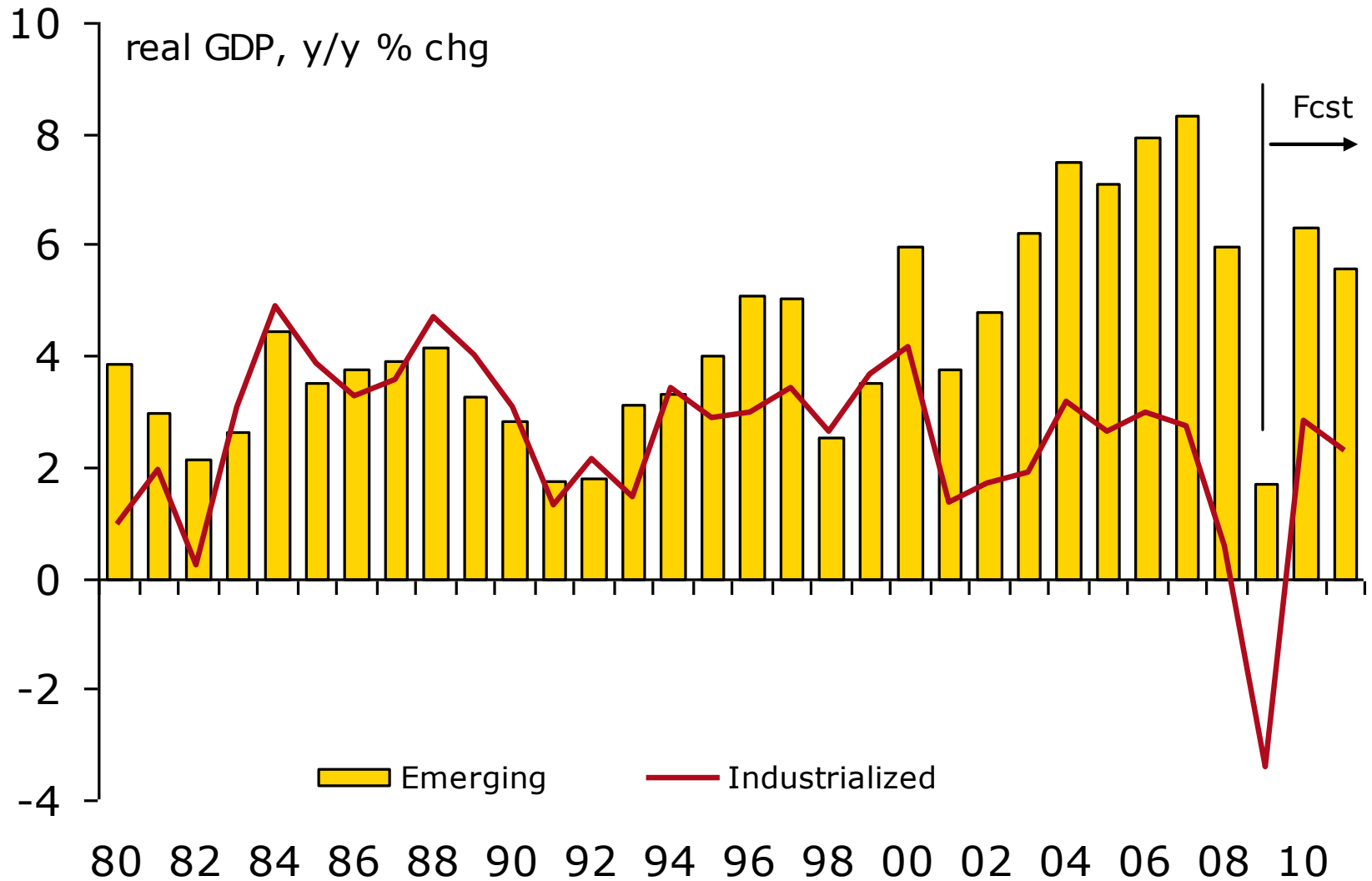
# Not So Fast

*Benjamin Tal, Senior Economist*

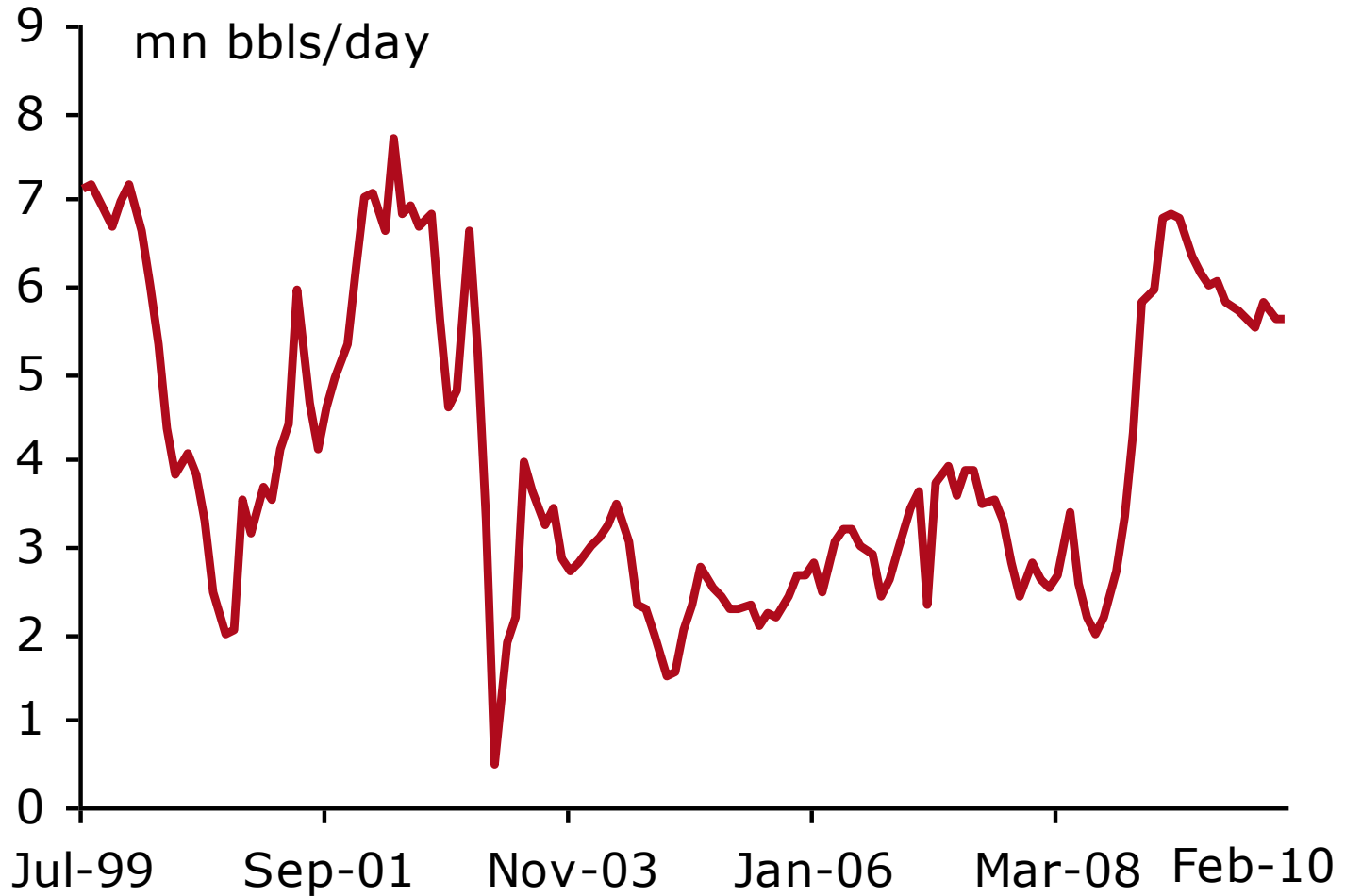
June 2010



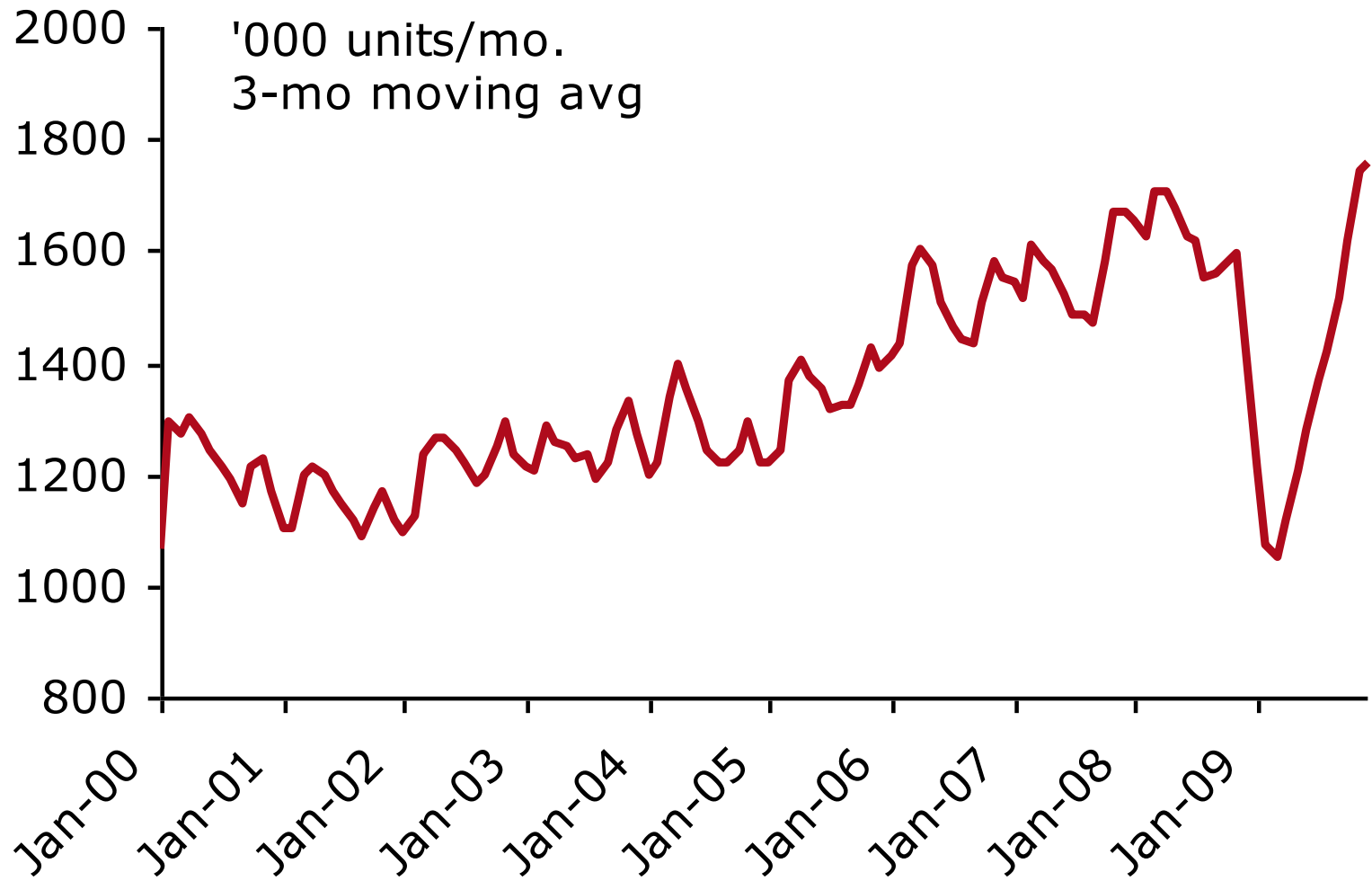
# Forecast Global Growth of 4% Includes Huge Edge for Emerging Markets



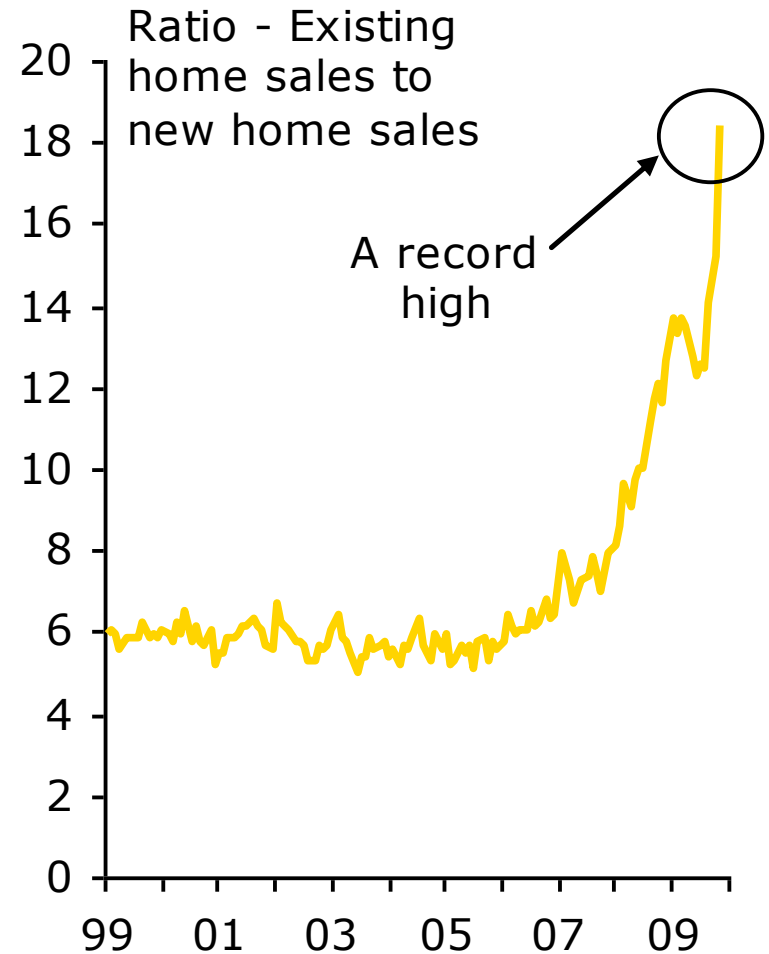
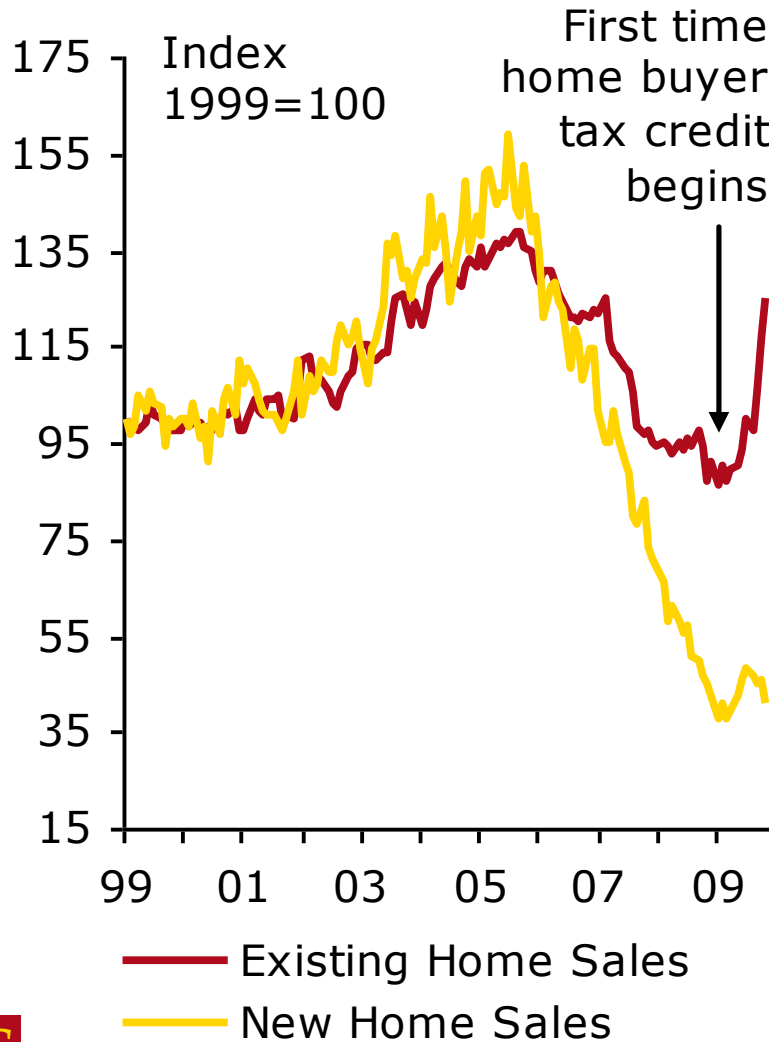
# OPEC Spare Capacity Caps Oil Prices in 2010-11



# Global Automobile Production

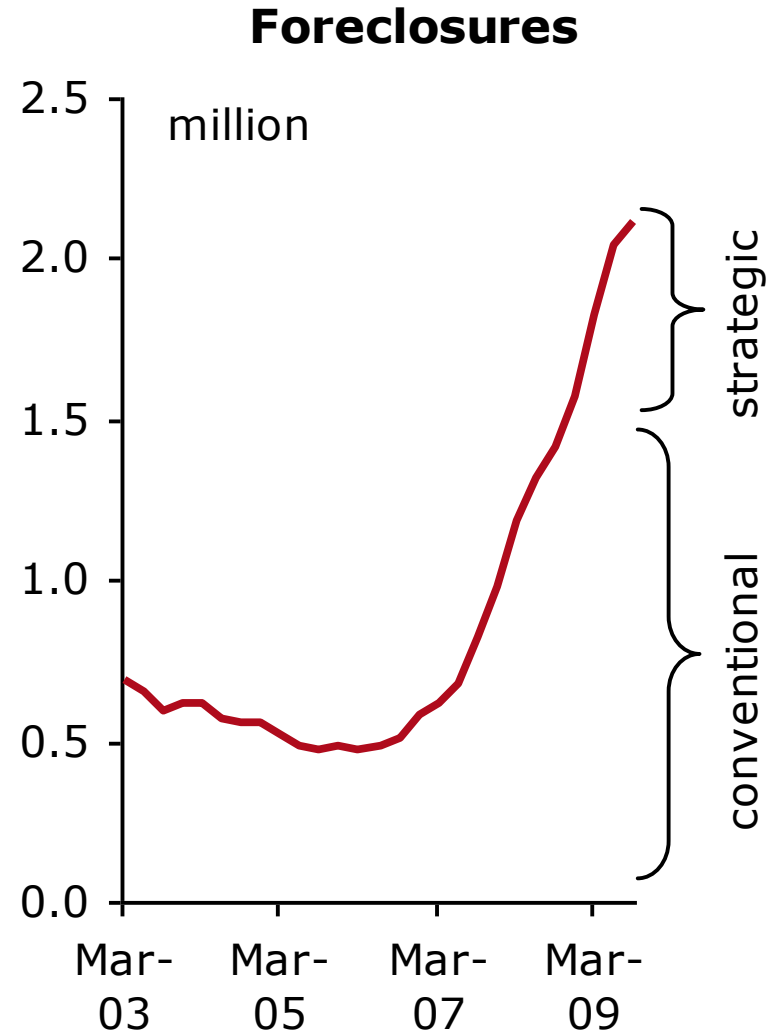
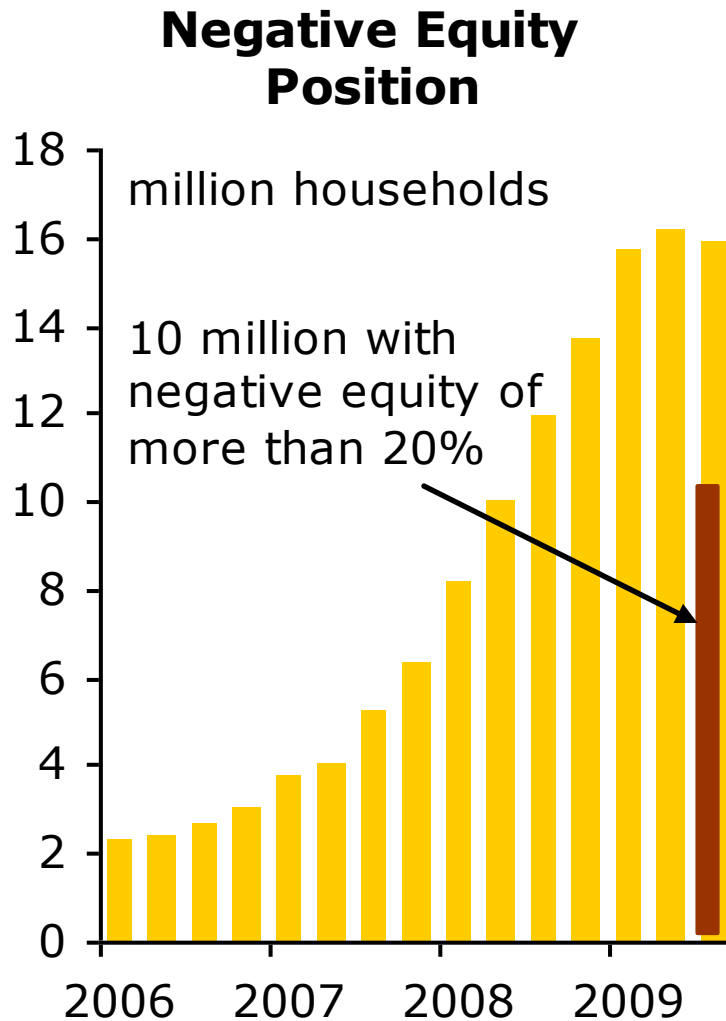


# US Housing – Tax Credit Helped Existing Homes



Source: MBA, CIBC

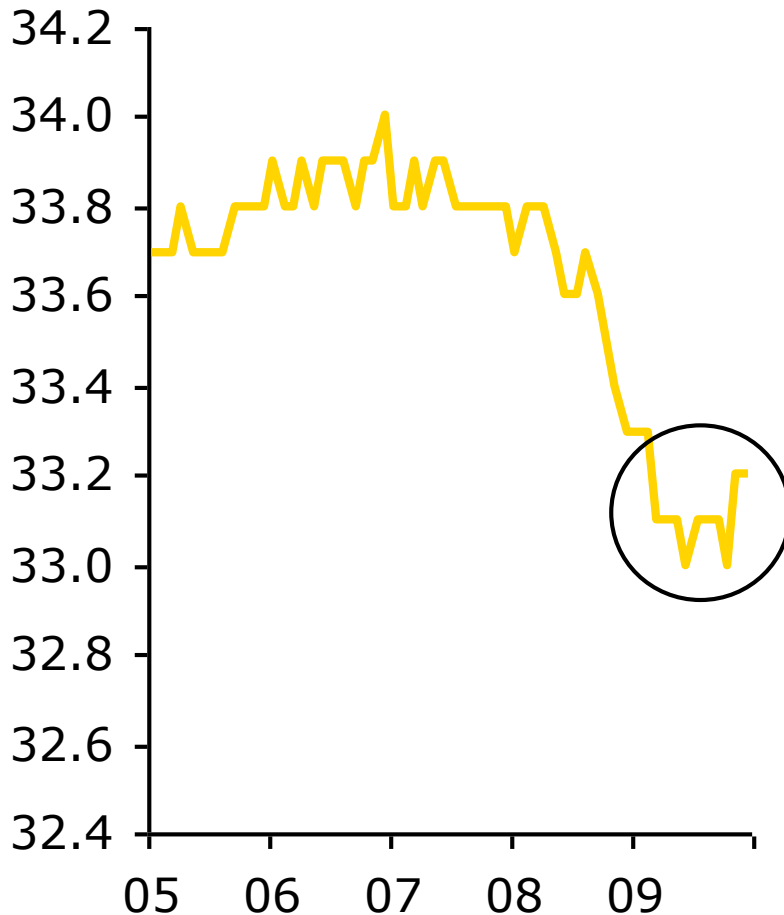
# Strategic Defaults on the Rise



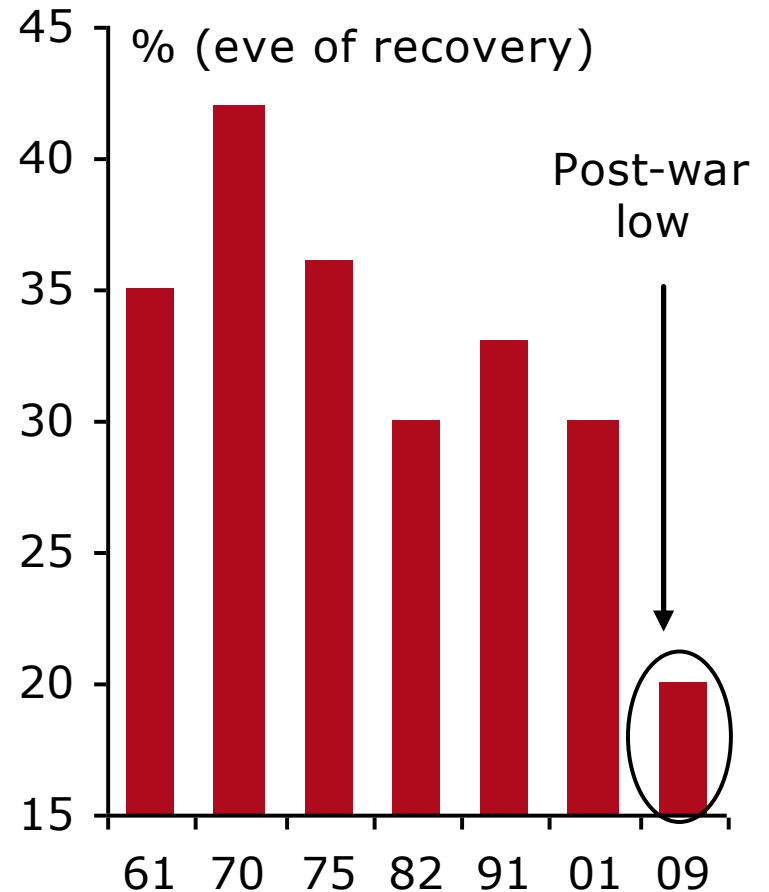
Source: Loan Performance, Equifax, CIBC

# US Labour Market: Still Long Way to Full Employment

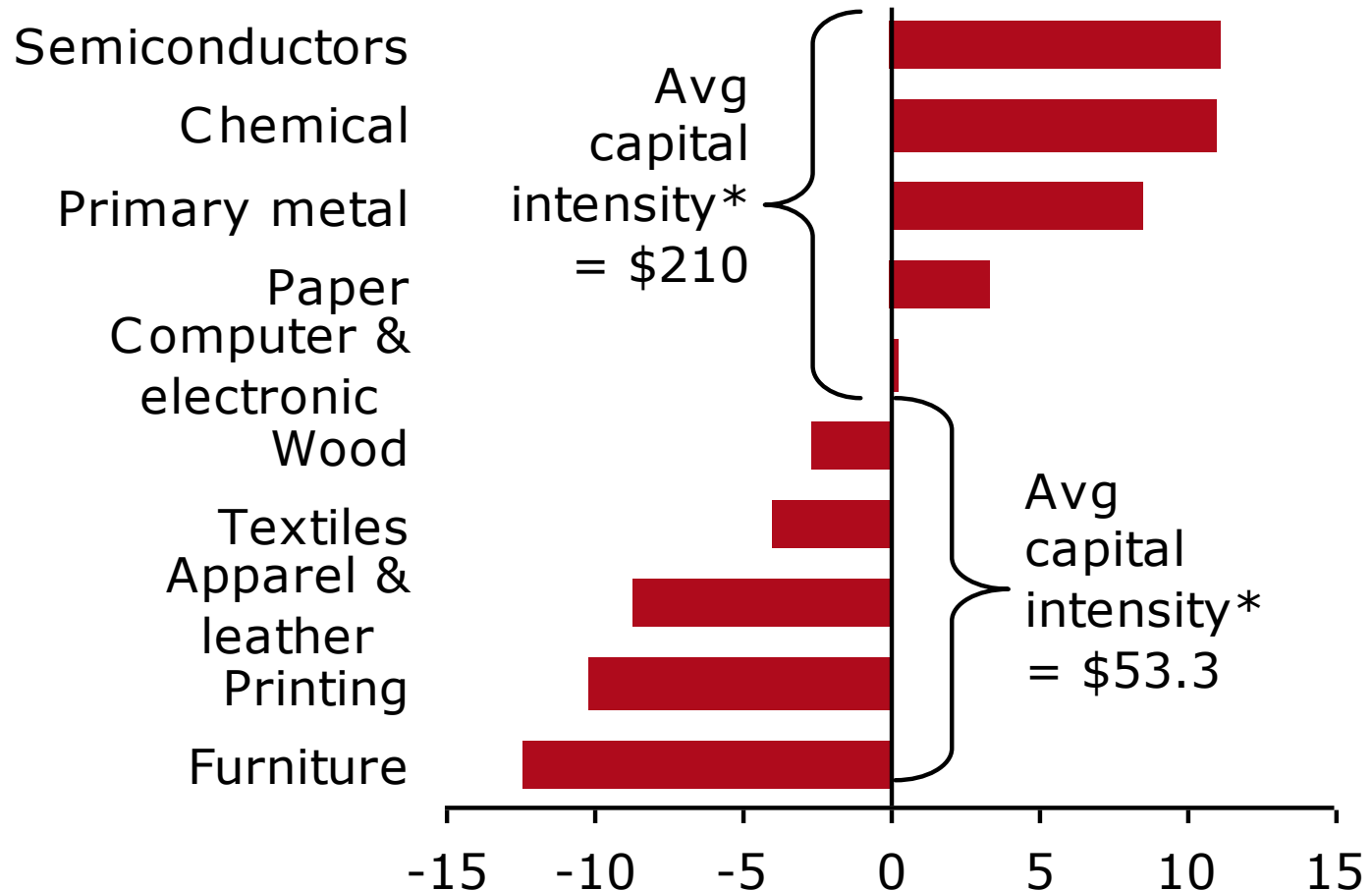
## Average Weekly Hours



## Probability of Exiting Unemployment in Given Month



# Capital Intensive Industries Behind Manufacturing Rebound

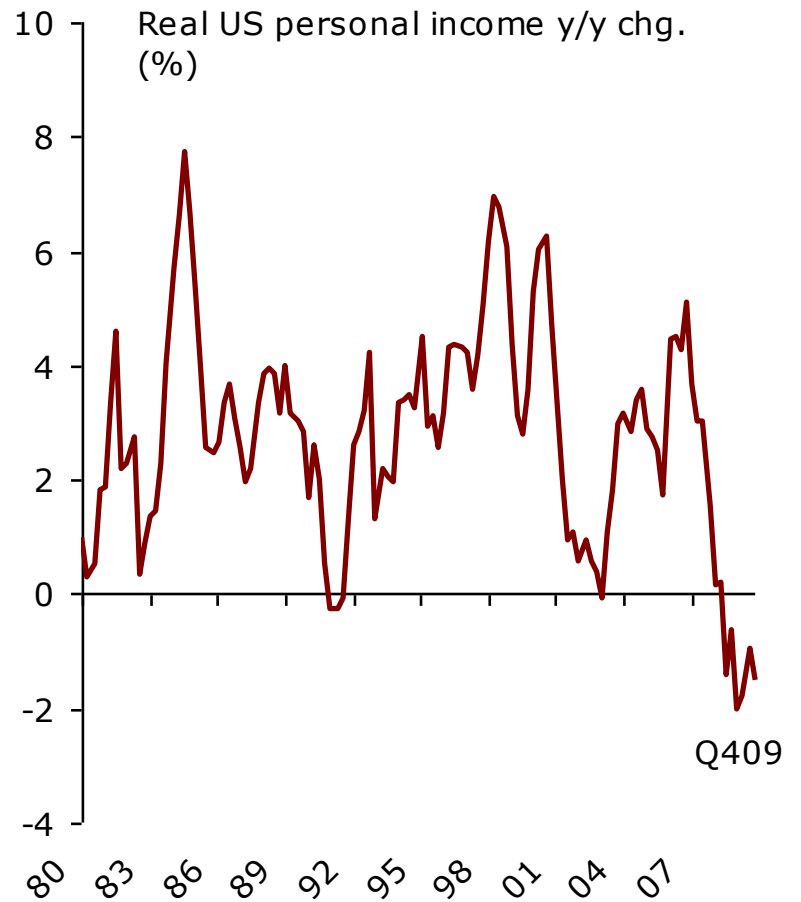
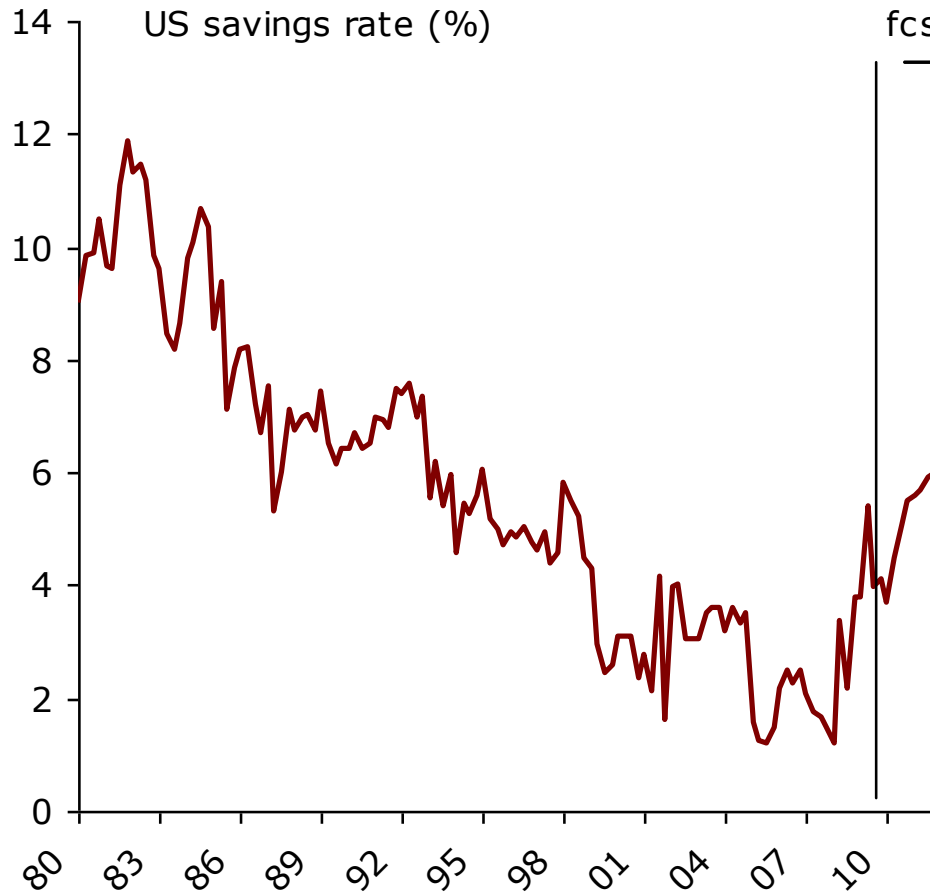


\* Thousand US\$ per worker (2004)

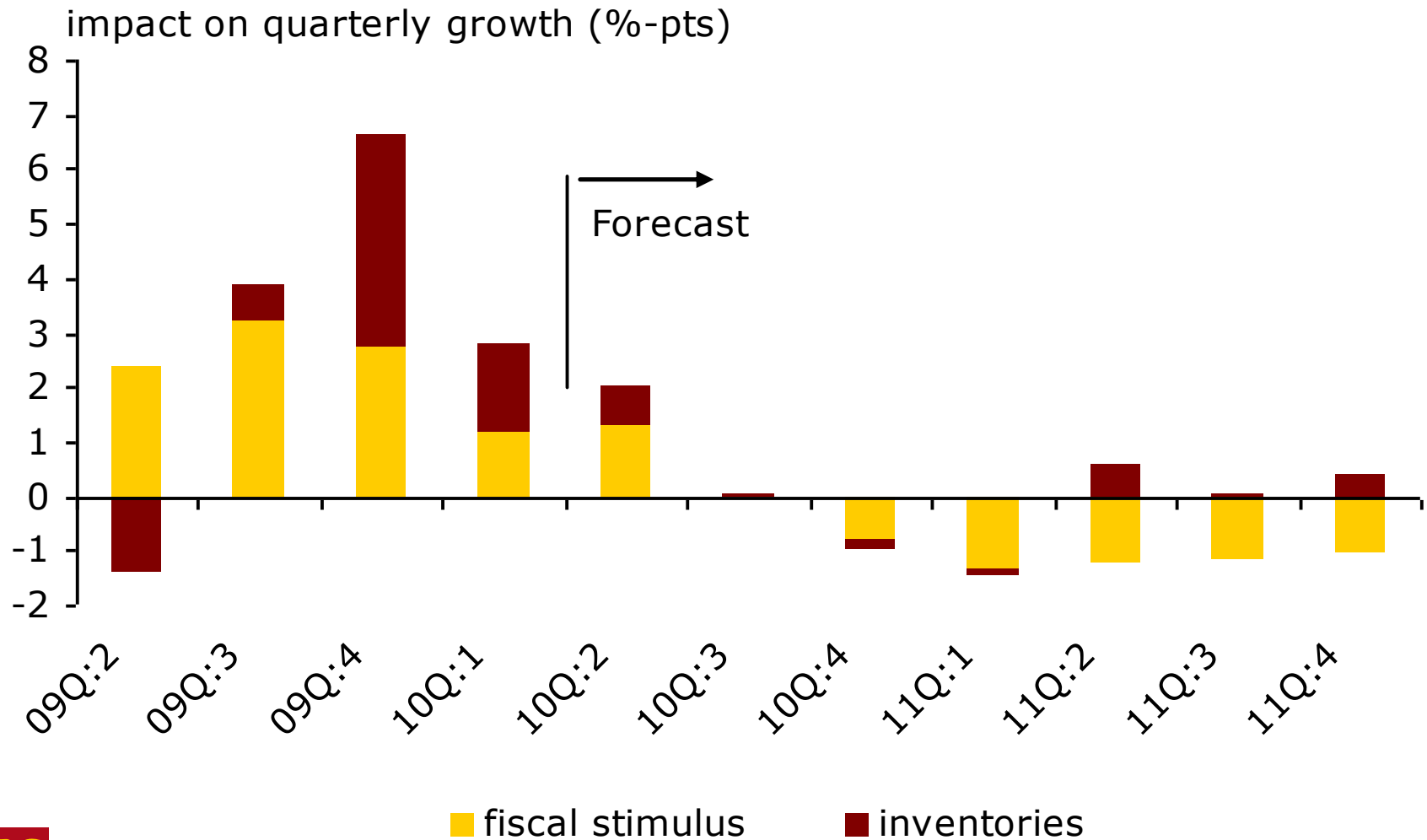


Source: US Bureau of Economic Analysis, CIBC

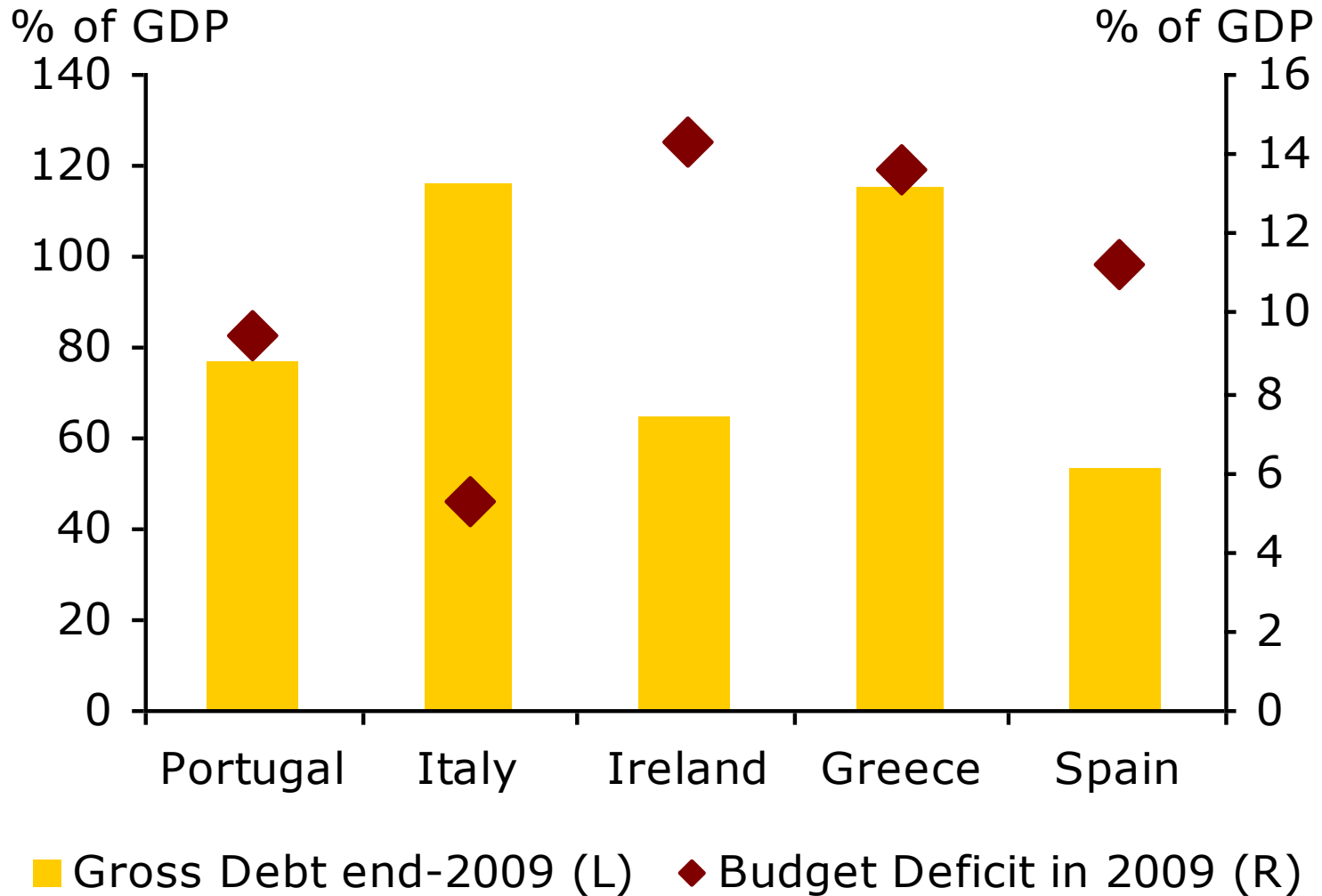
# Can American Shoppers Change Their Spots?



# Impact of US Stimulus Package and Inventory Changes on US GDP Growth

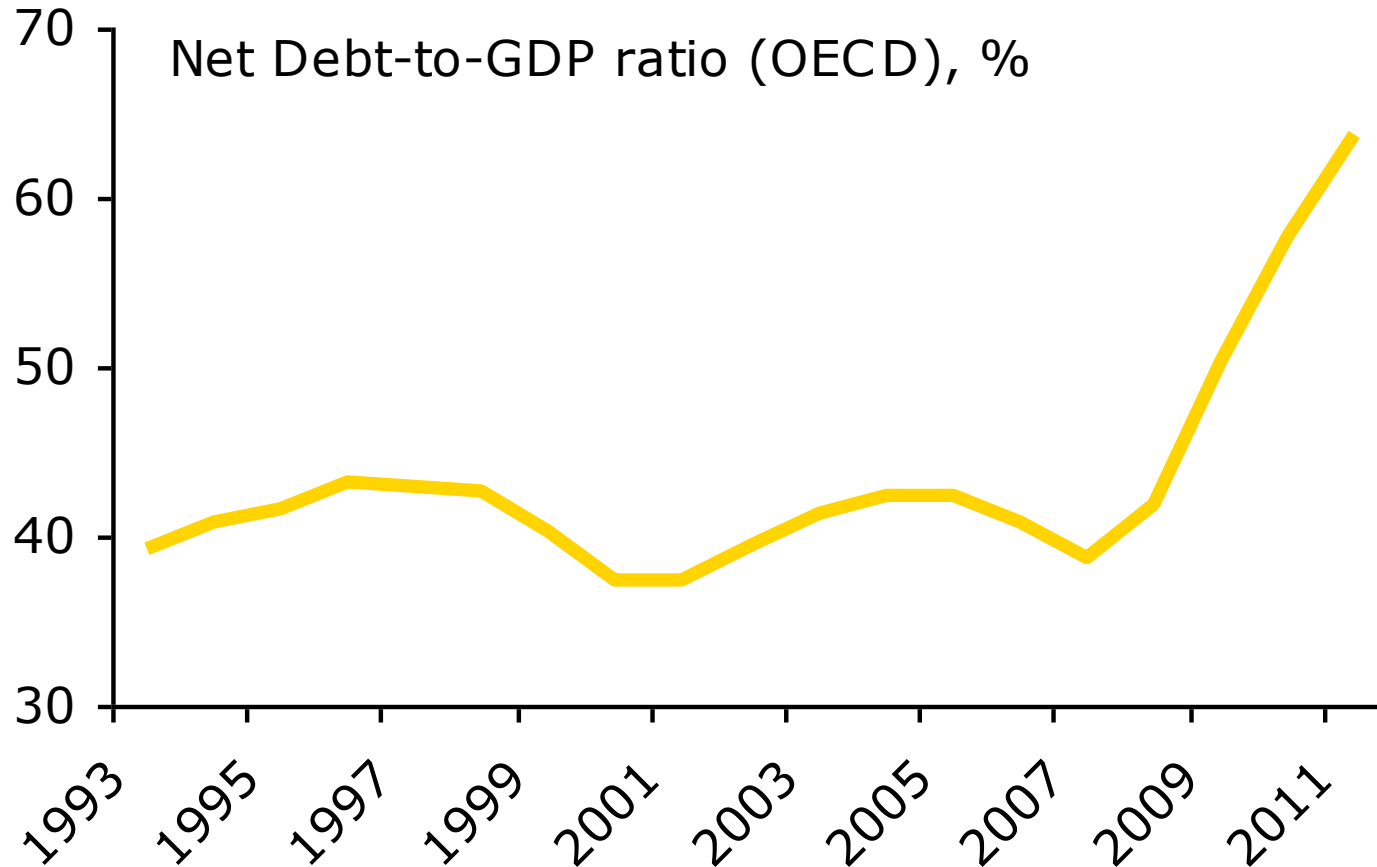


# Eurozone's Weakest Fiscal Links



Source: EuroStat, CIBC

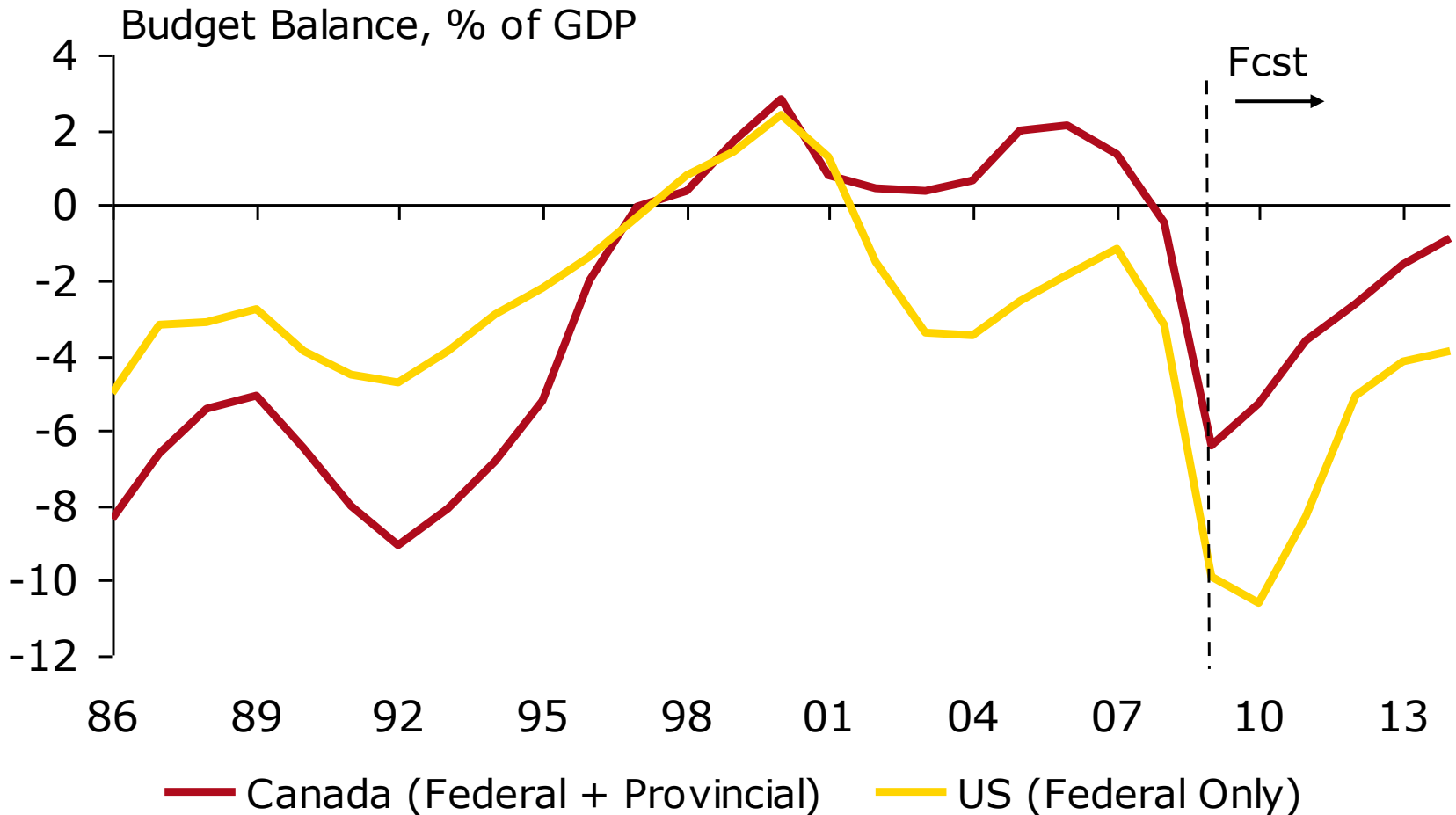
# Europe Is Not Alone



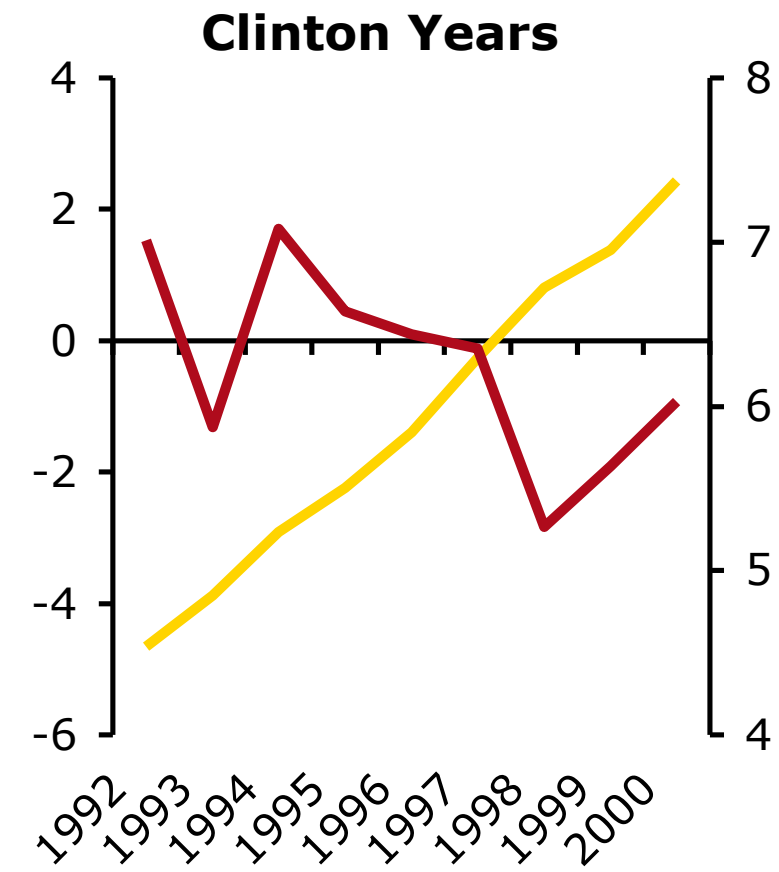
Source: OECD, CIBC



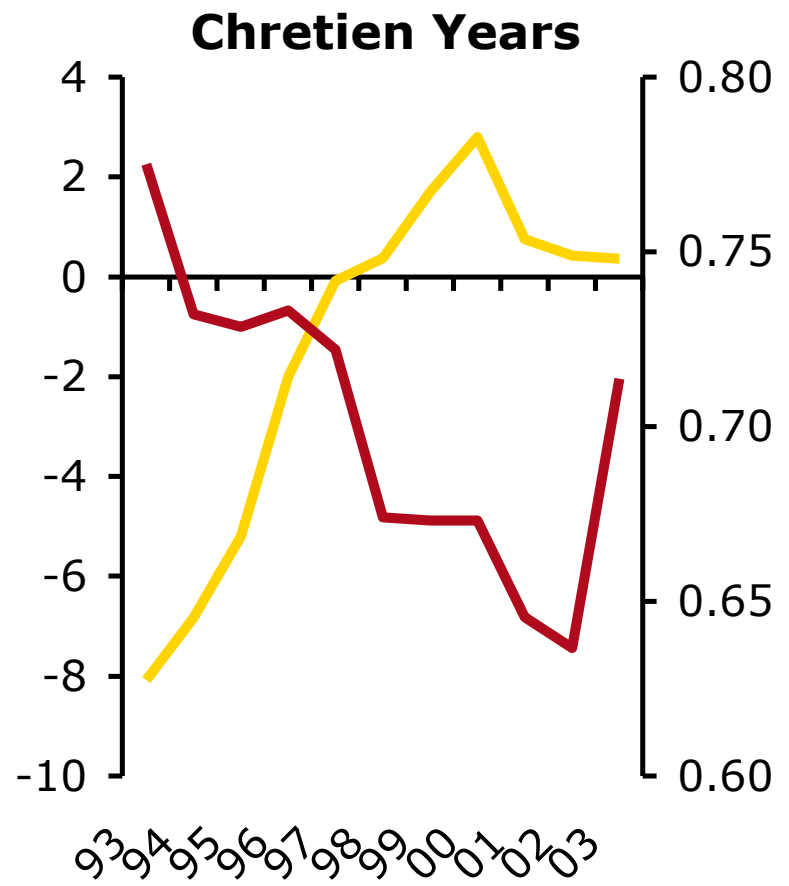
# Canada's Deficits Not as Alarming But Restraint is Coming



# Easy Monetary Conditions Eased Pain From Earlier Fiscal Restraint



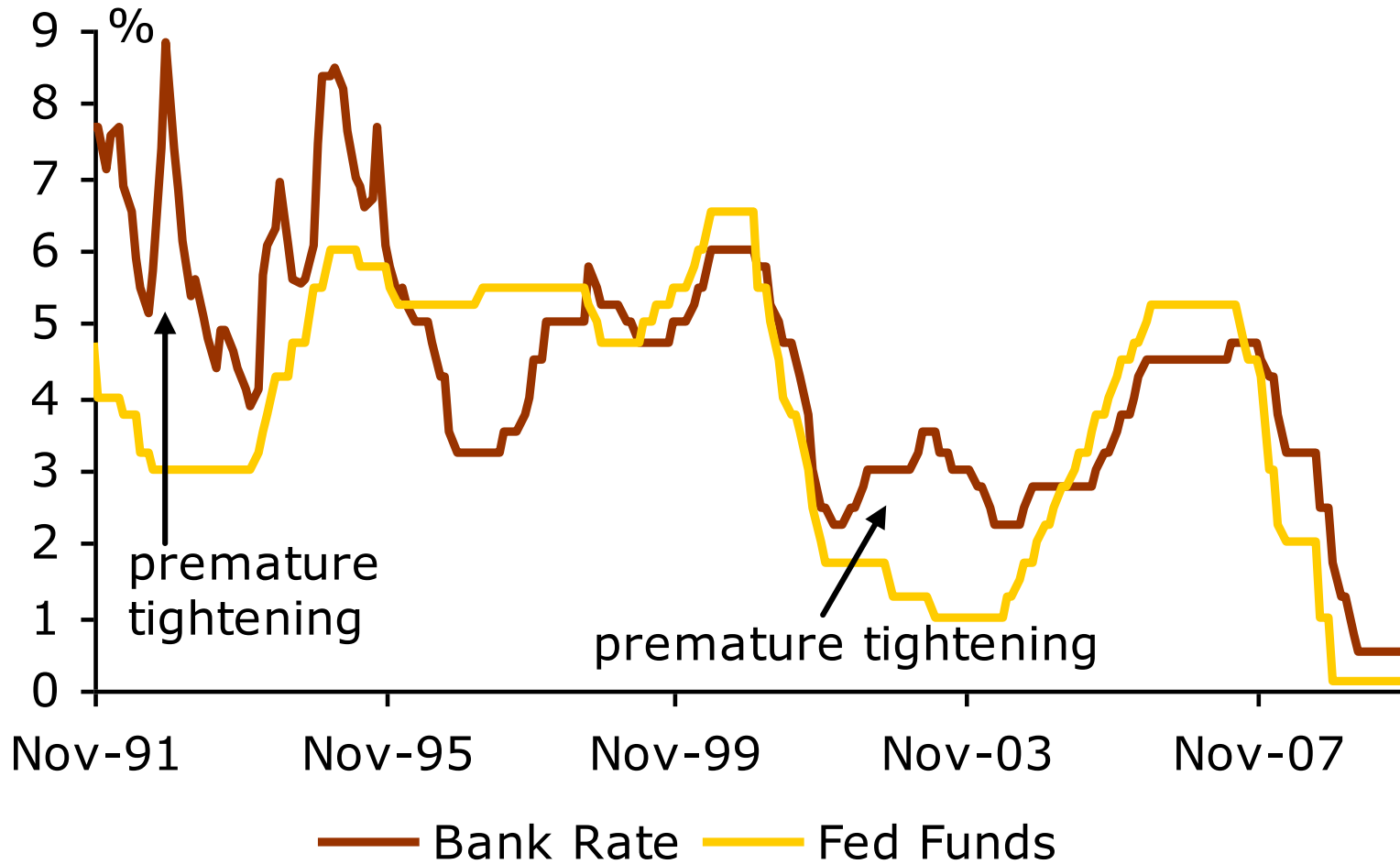
— US federal budget balance, % of GDP (LHS)  
— 10 Yr Treasury yield (RHS)



— Cdn federal budget balance, % GDP (LHS)  
— US\$/C\$ (RHS)

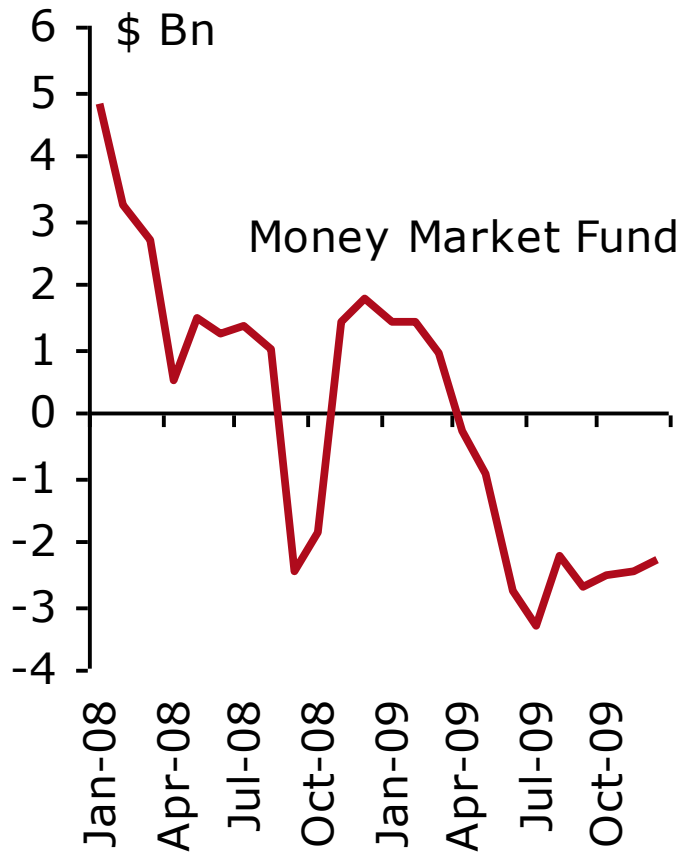


# Bank of Canada Has Hiked Prematurely in Past

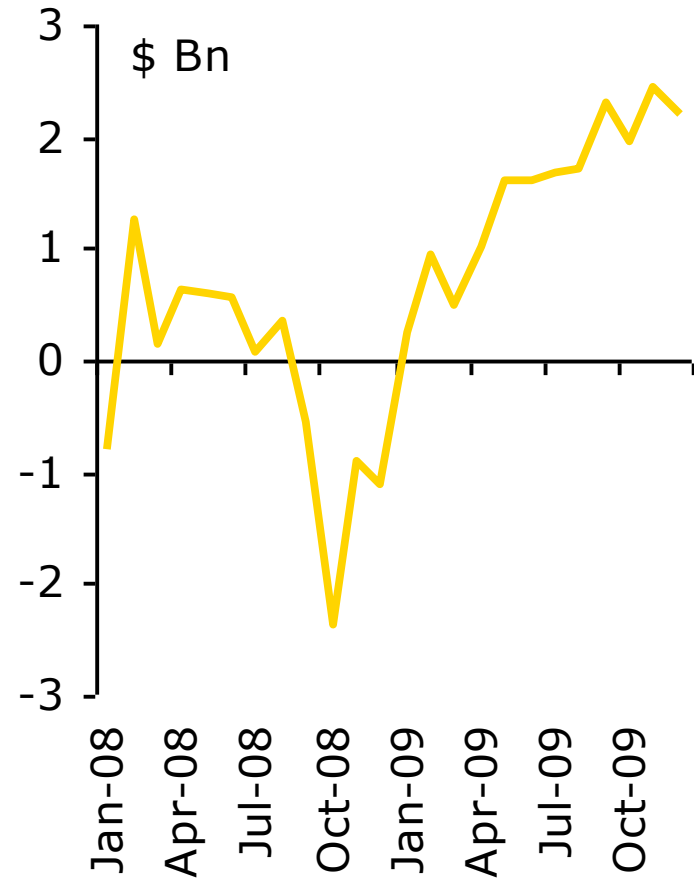


# Redeploying Cash

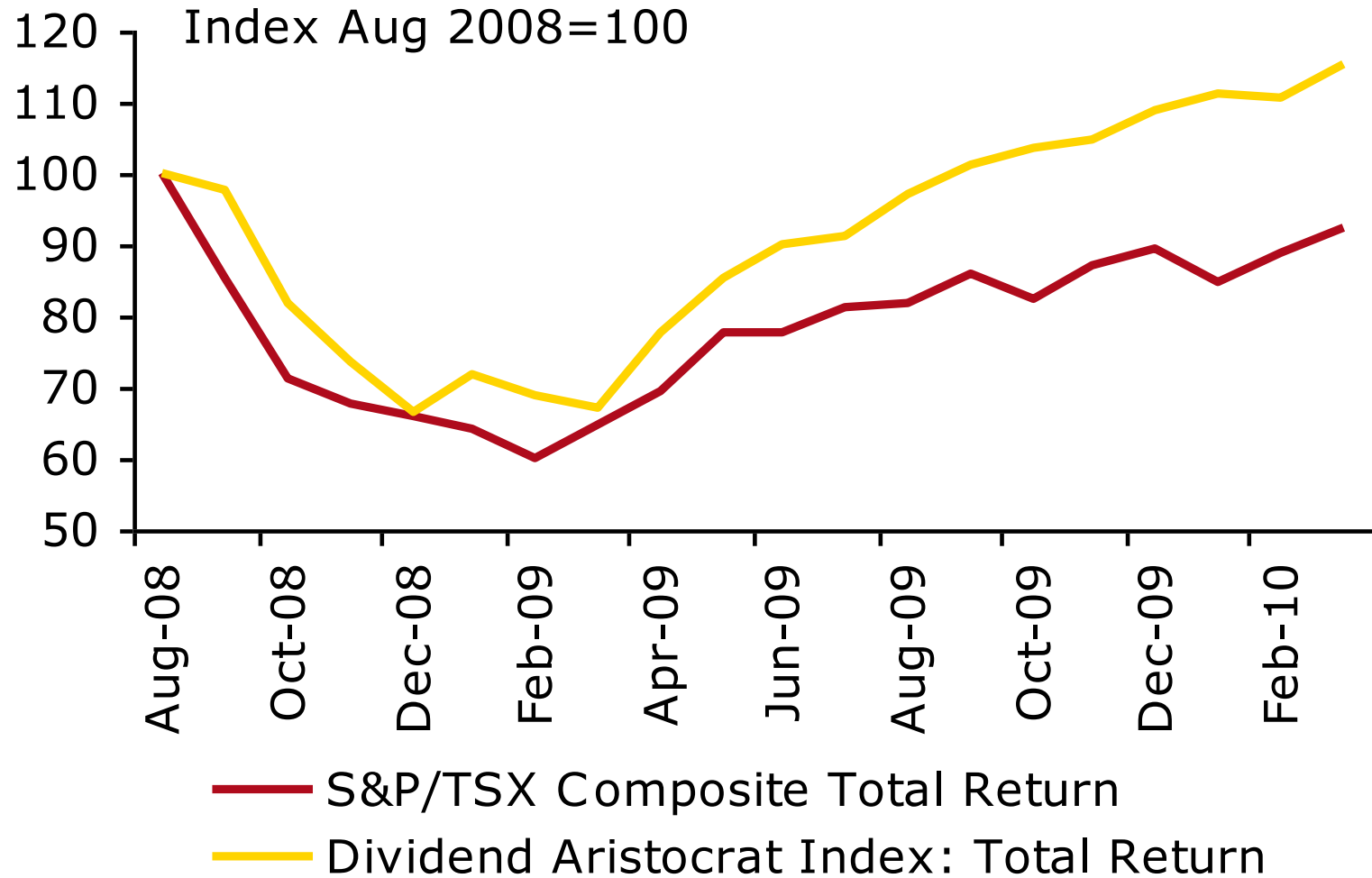
## Out of Cash....



## ... into Bonds & Income



# Dividend Stocks Outperform TSX



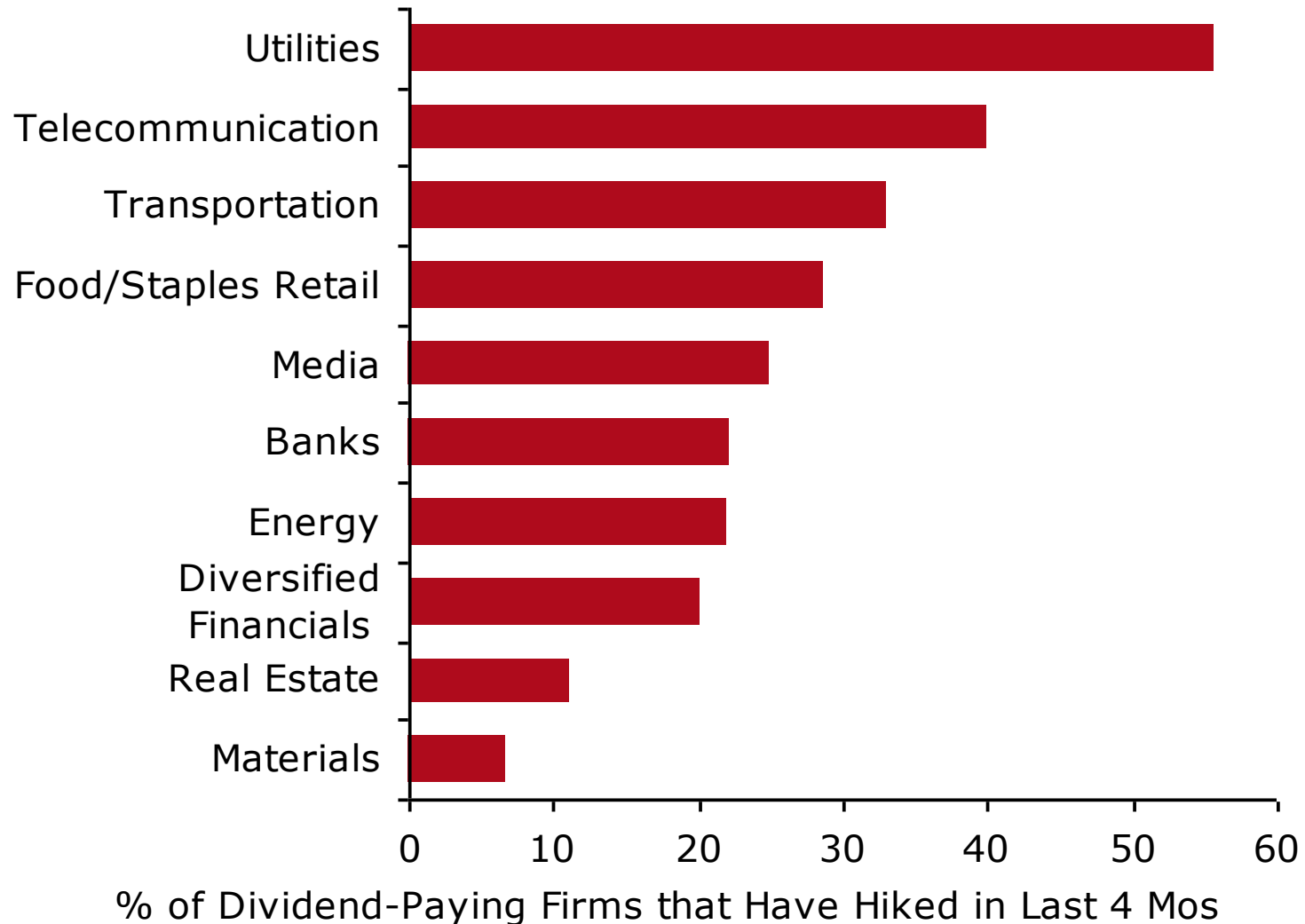
# Eight Highest Yielding TSX Industry Groups

	Indicated Dividend Yield (%)
Telecommunication Services	5.5
Utilities	5.1
Real Estate	5.0
Media	4.7
Diversified Financials	4.2
Health Care Equipment & Services	4.0
Banks	4.0
Insurance	3.8

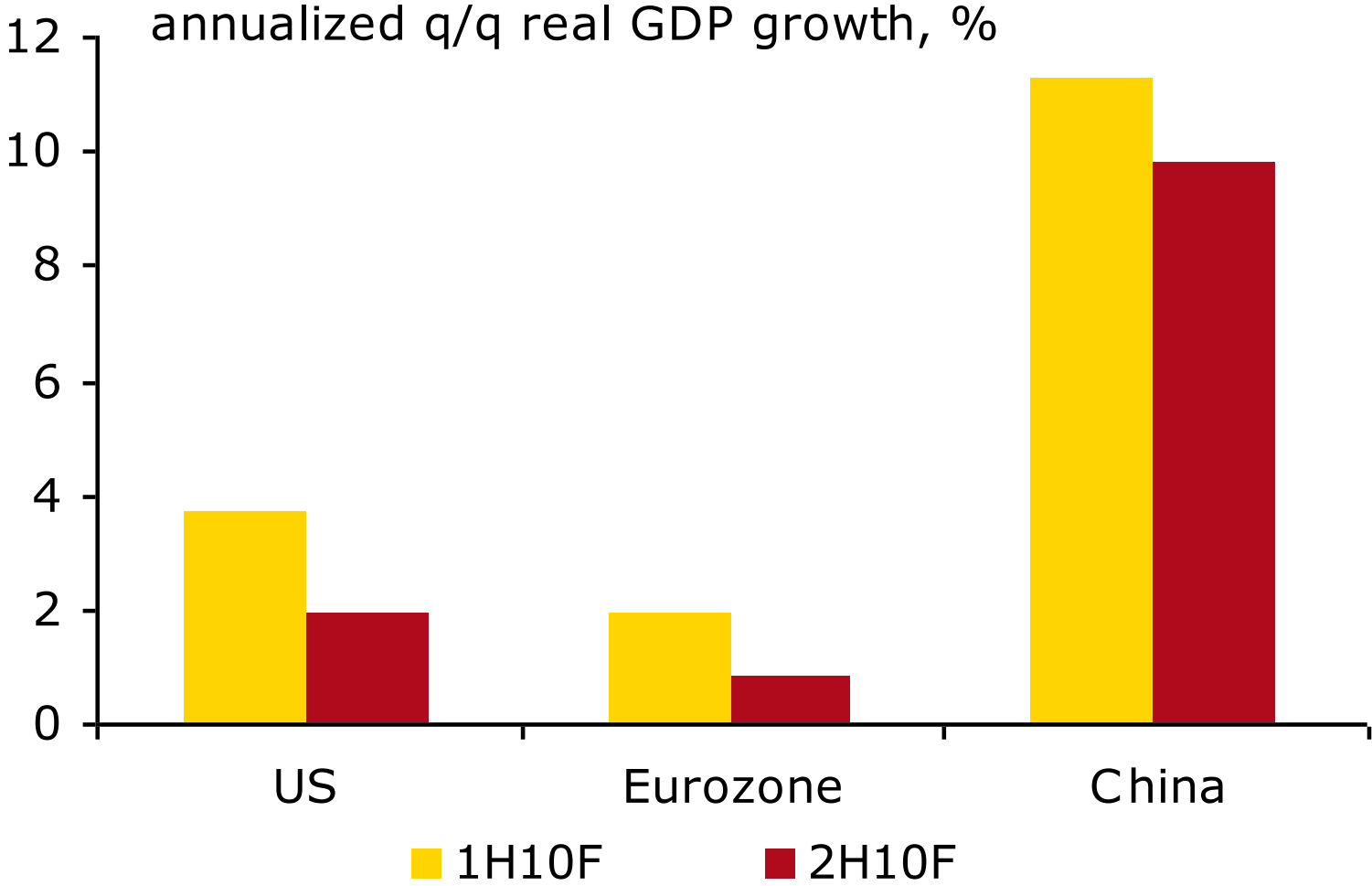


Source: Bloomberg, CIBC

# Business Management Cautiously Optimistic on Outlook

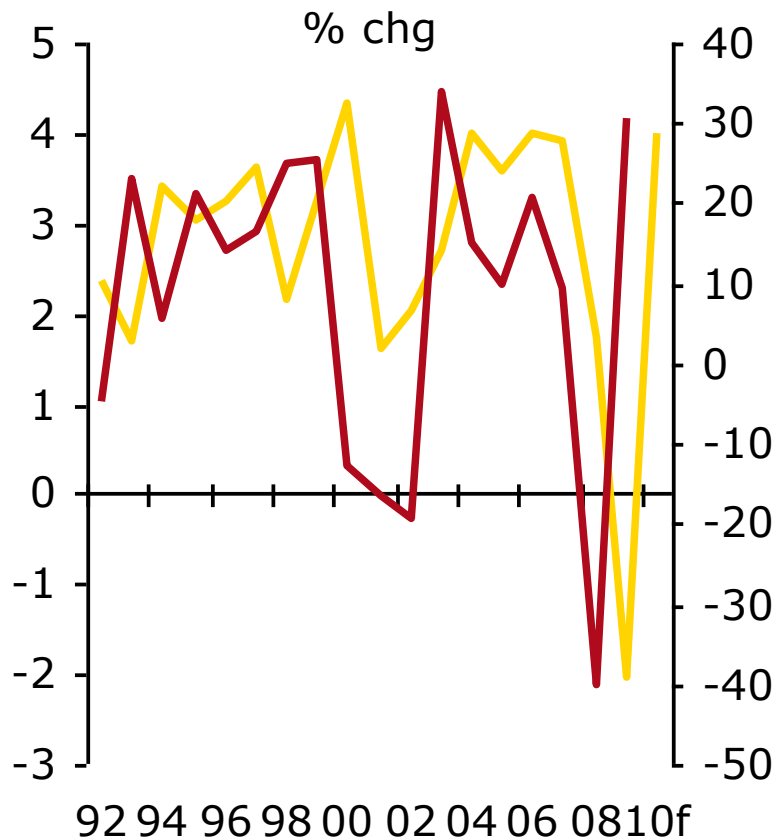


# Global Economy to Slow in the Second Half

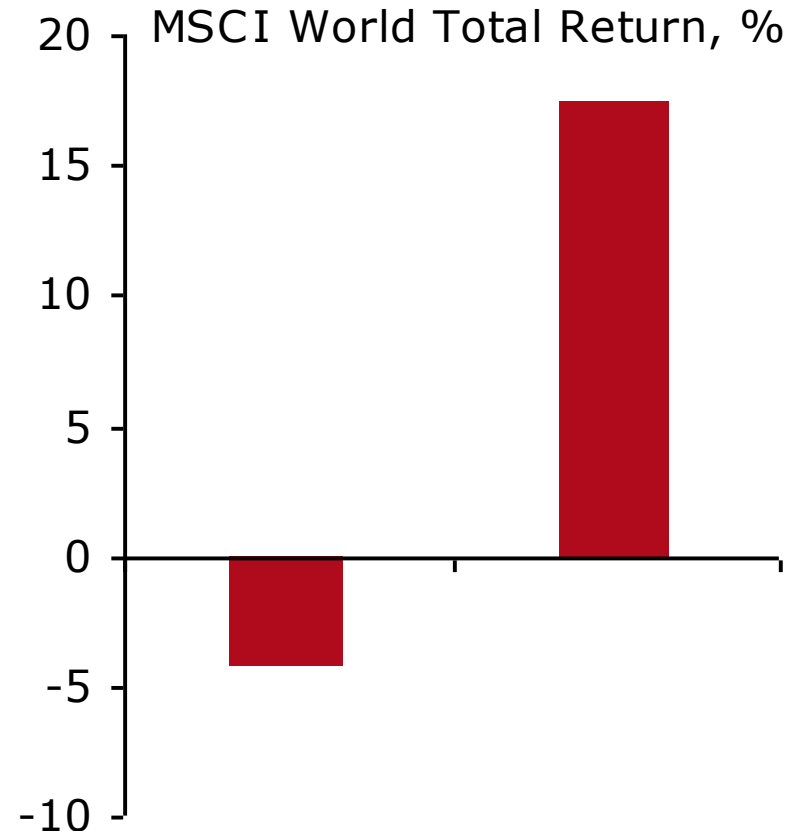


Source: CIBC

# Global Stock Returns in Sync with GDP Growth



— World GDP Growth (L)  
 — MSCI World Total Return (R)

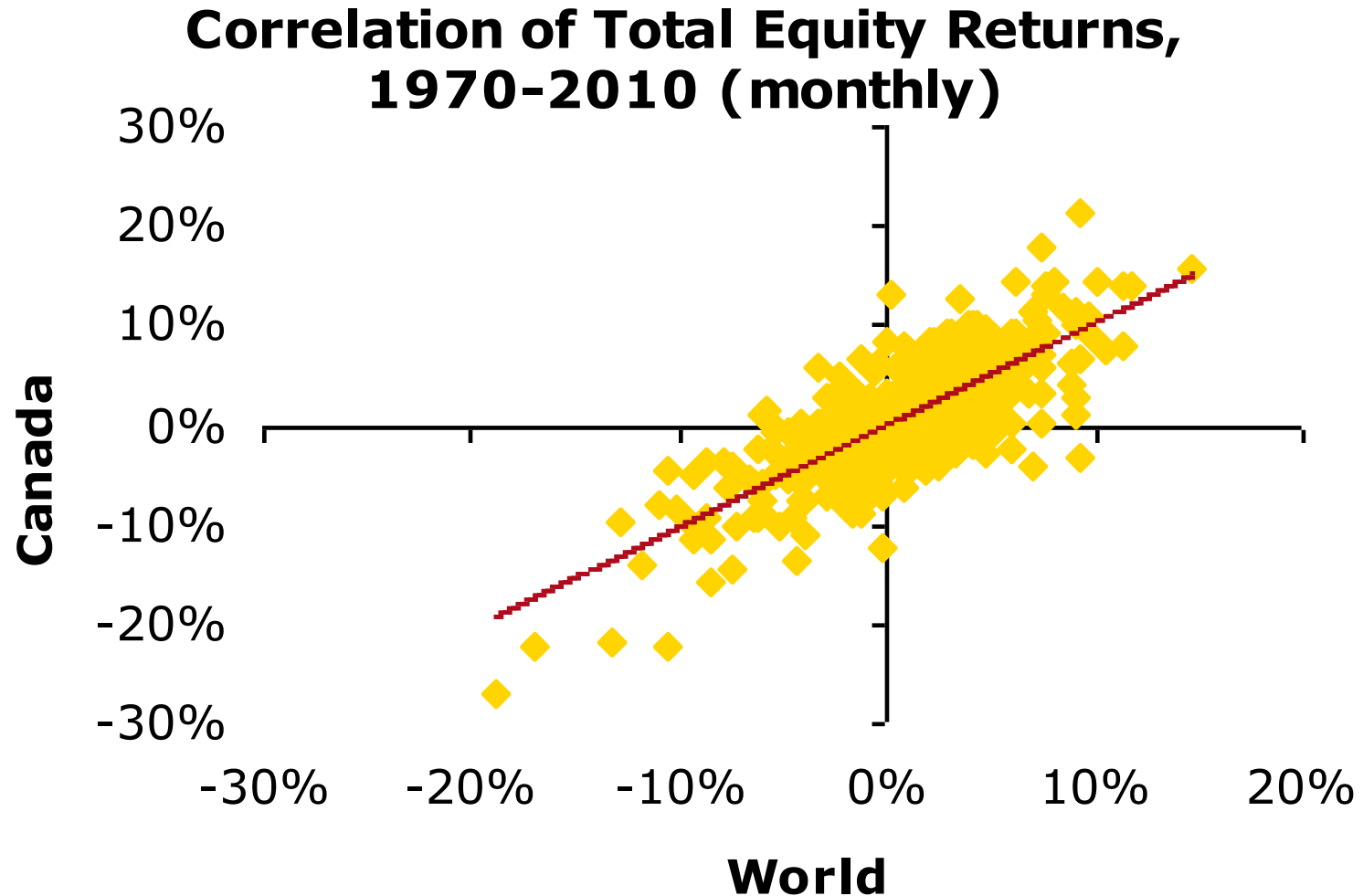


GDP growth below long-term avg      GDP growth above long-term avg



Source: MSCI/Barra Total Return Index, CIBC

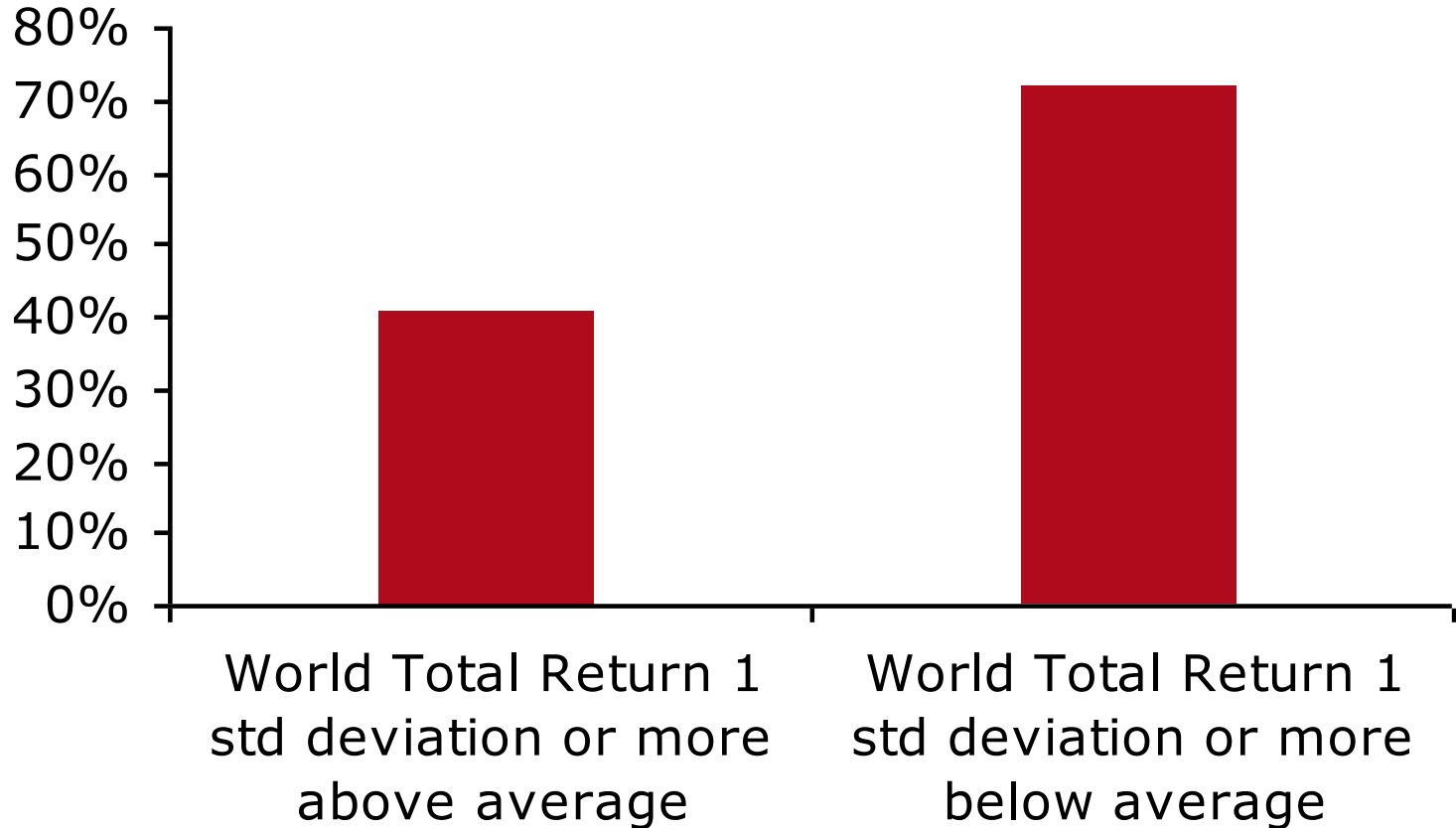
# Canadian and Global Stocks Positively Correlated



Source: MSCI/Barra Total Return Index, CIBC

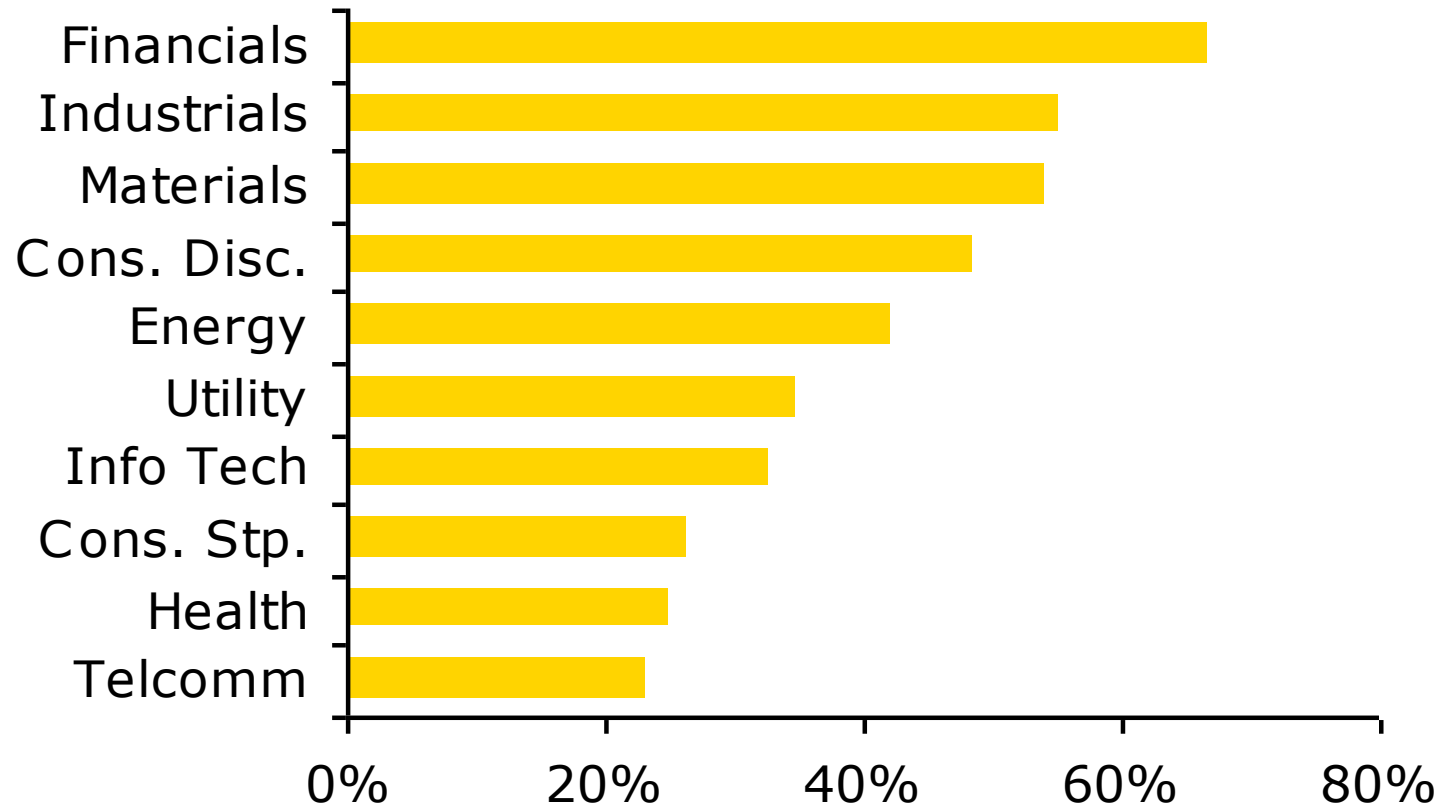
# Canadian Equities More Correlated with Global Stocks in Bad Times

## Correlation - World vs. Canada



Source: MSCI/Barra Total Return Index, CIBC

# Correlation of TSX Sector Returns to World Equities During Periods of Global Underperformance\*

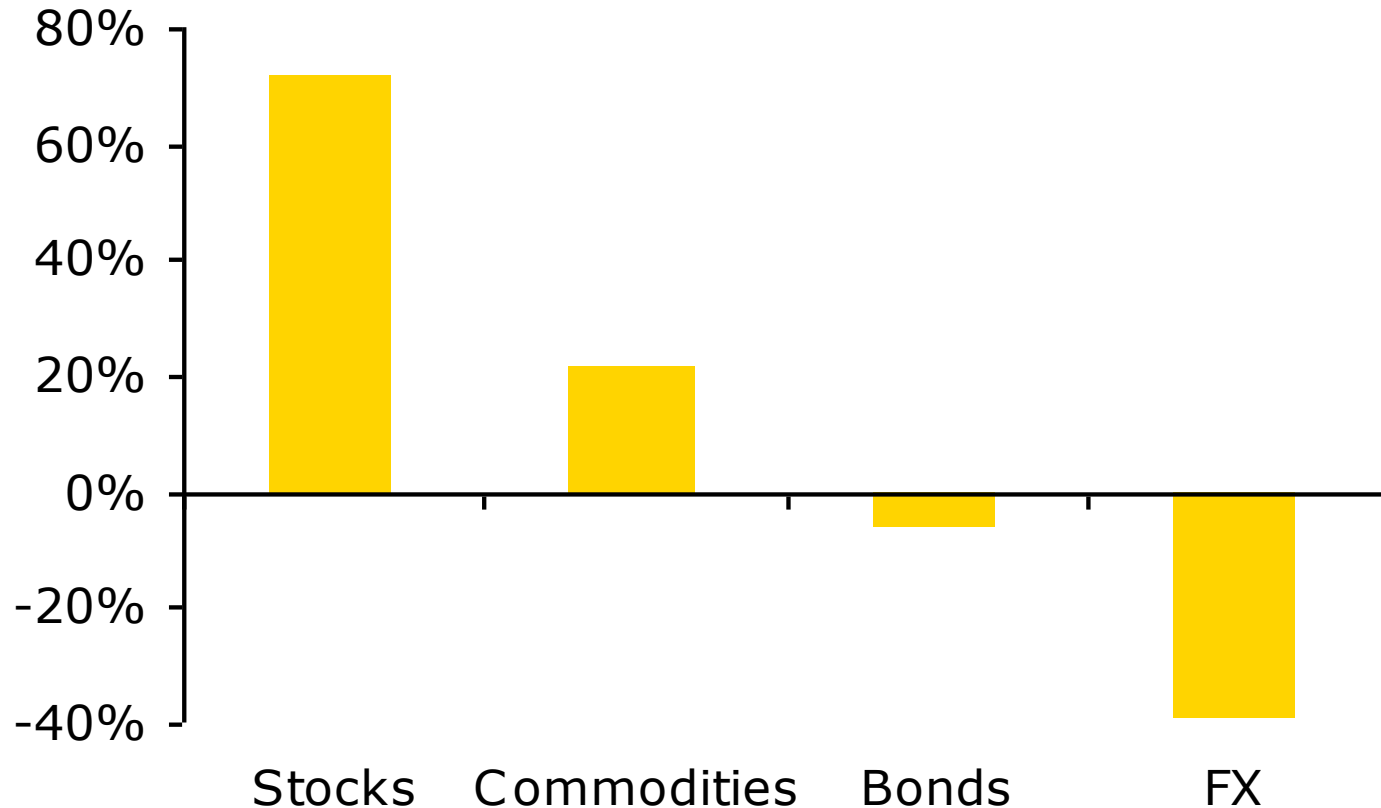


\*MSCI World Total Return 1 std deviation or more



Source: MSCI/Barra Total Return Index, CIBC

# Correlation of Various Asset Classes with World Equities During Periods of Underperformance\*



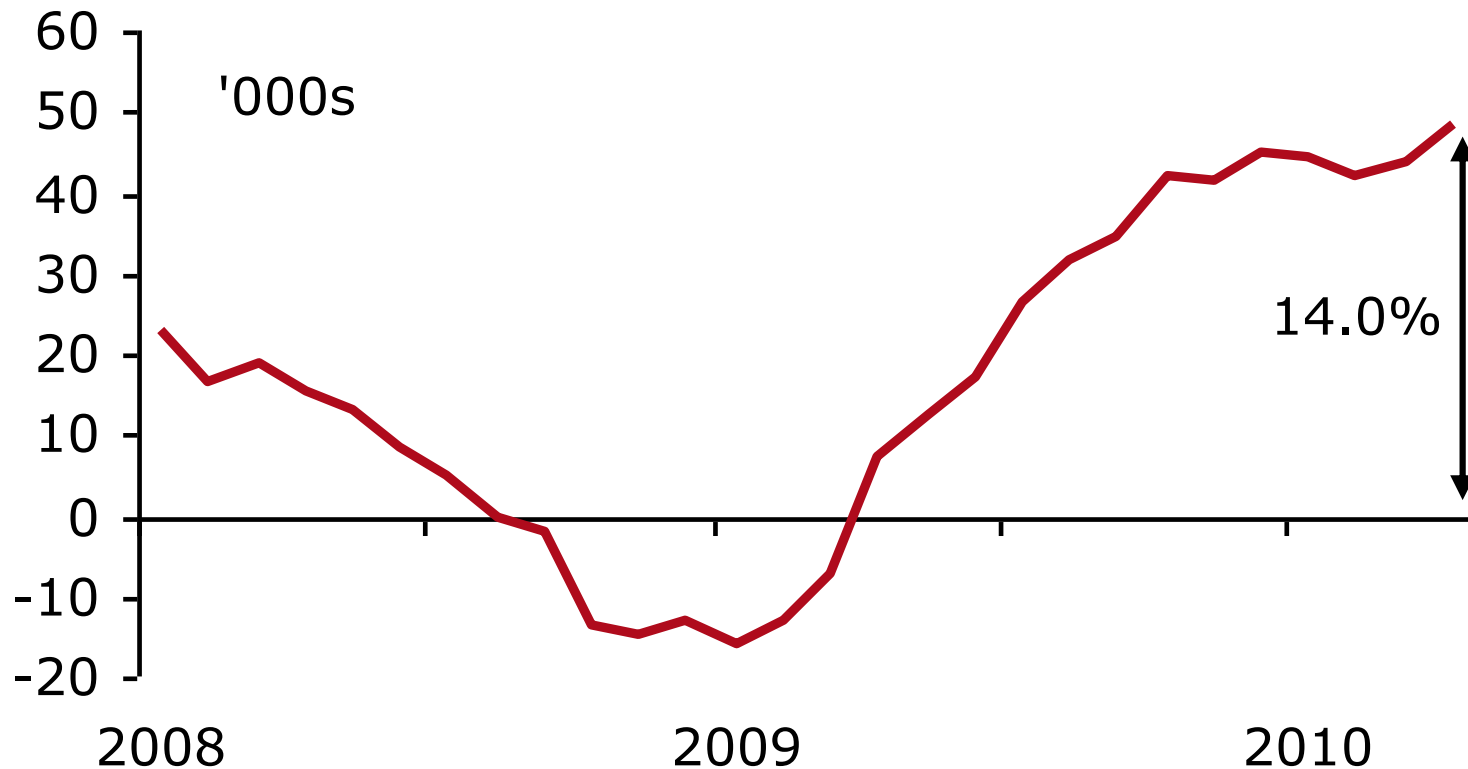
\* MSCI World Total Return 1 std deviation or more below



Source: MSCI/Barra Total Return Index, CIBC

# House Prices Overshooting

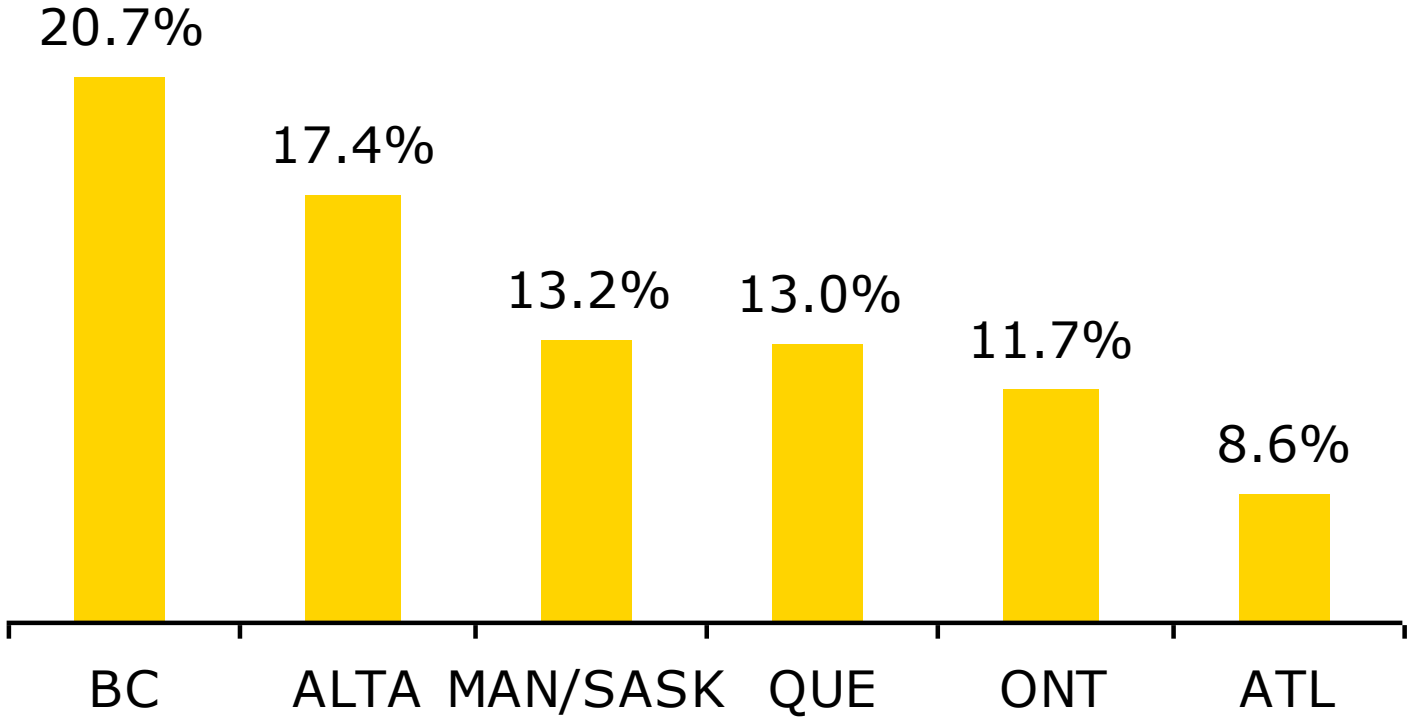
## Estimated deviation of Average House Prices from Fair Value



Source: IMF, CREA, CIBC Calculations

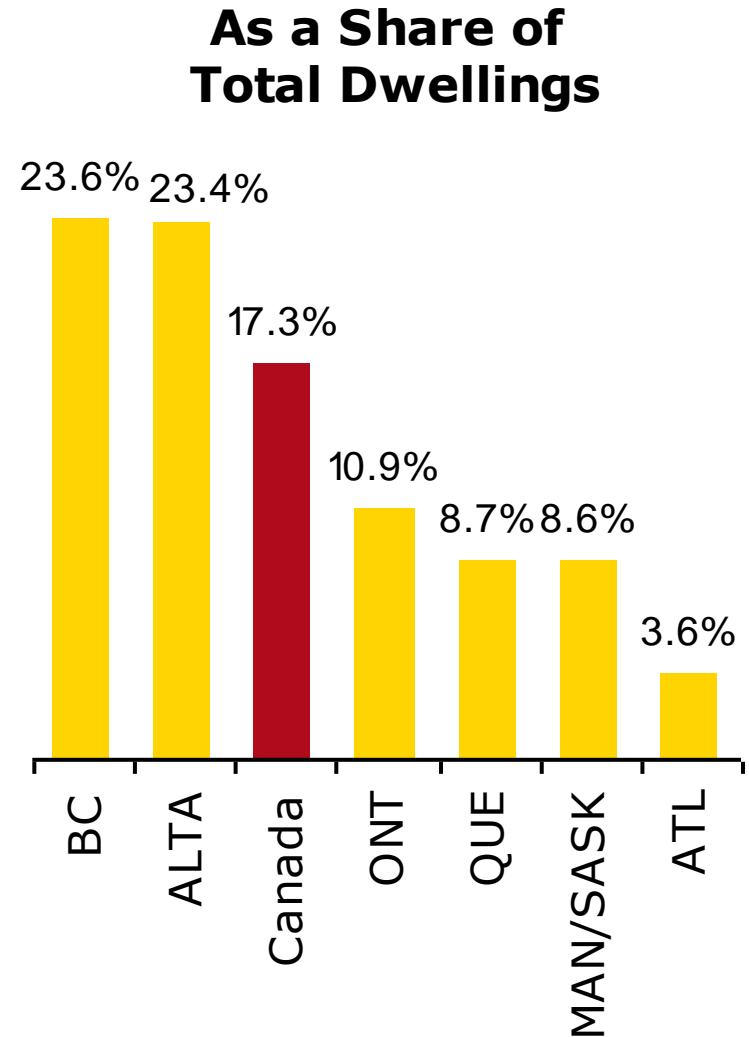
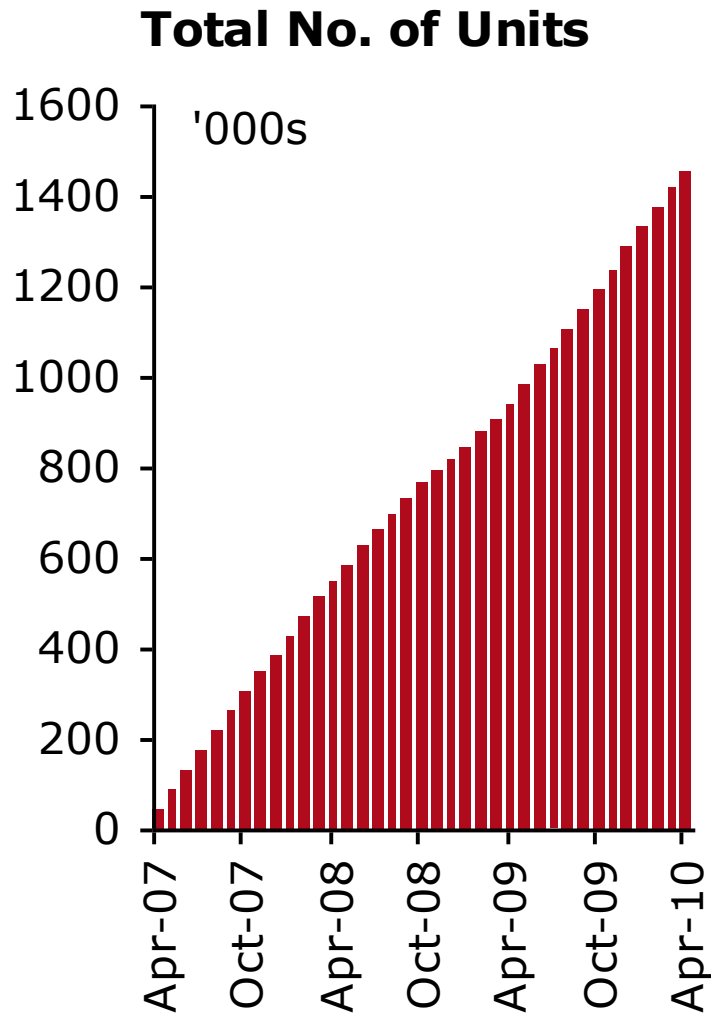
# House Prices Overshooting by Province

As of April 2010



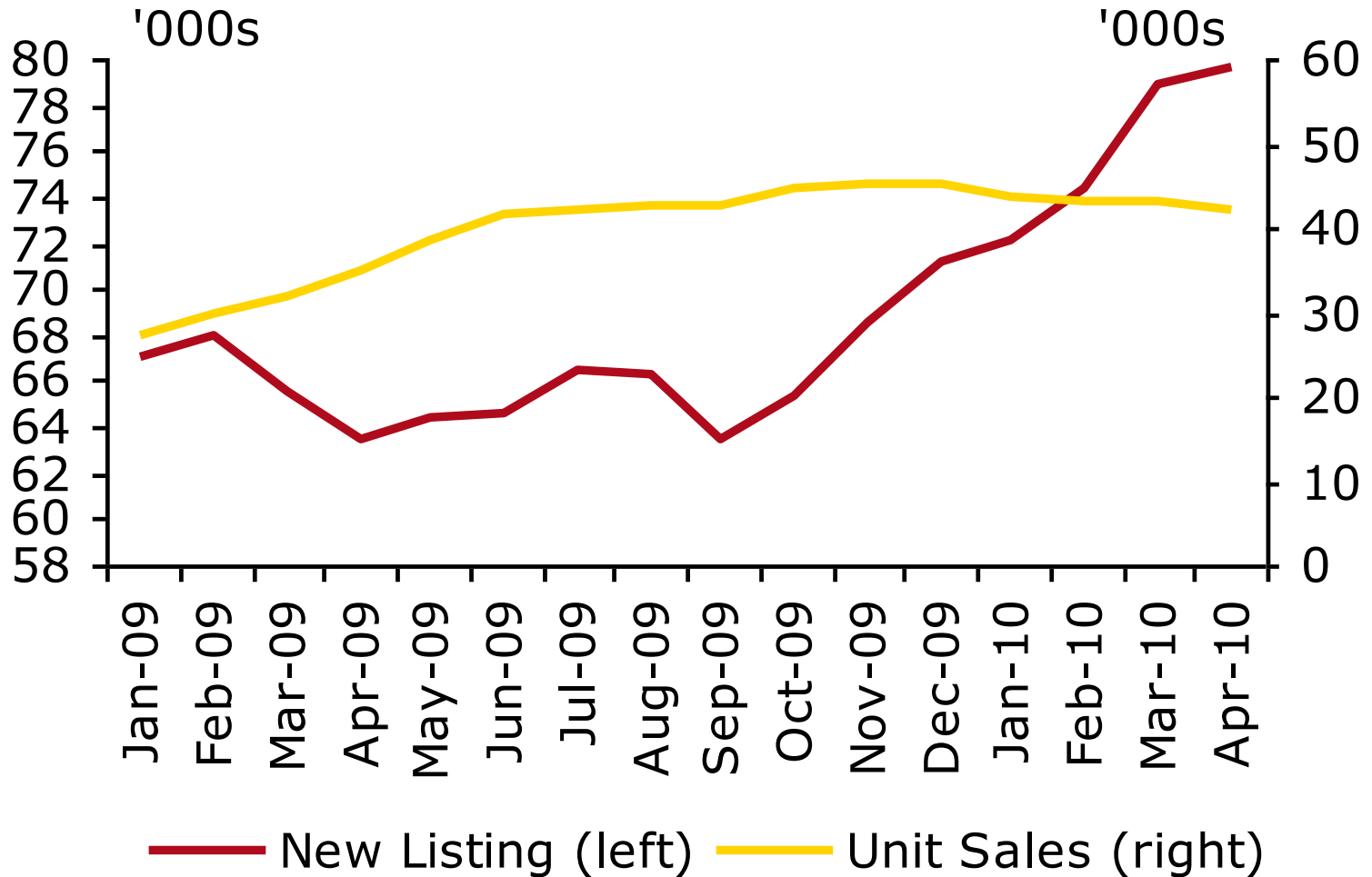
Source: CREA, CIBC Calculations

# Cumulative Number of Houses with a Price Over Average Fair Value



Source: CREA, Statistics Canada, CIBC Calculations

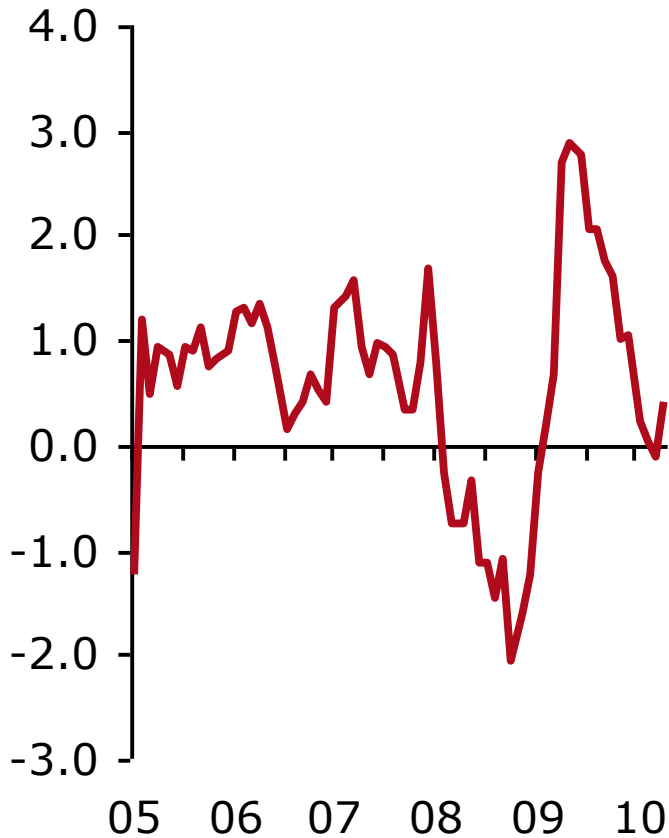
# Housing Supply on the Rise



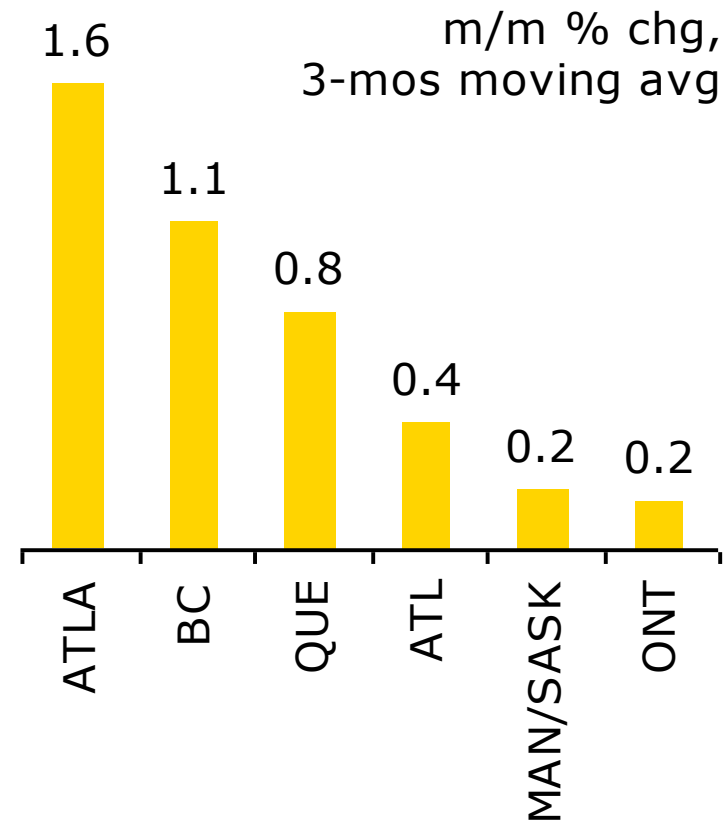
Source: CREA, CIBC

# House Prices Are Softening

**M/M % chg, 3-mos  
moving average**



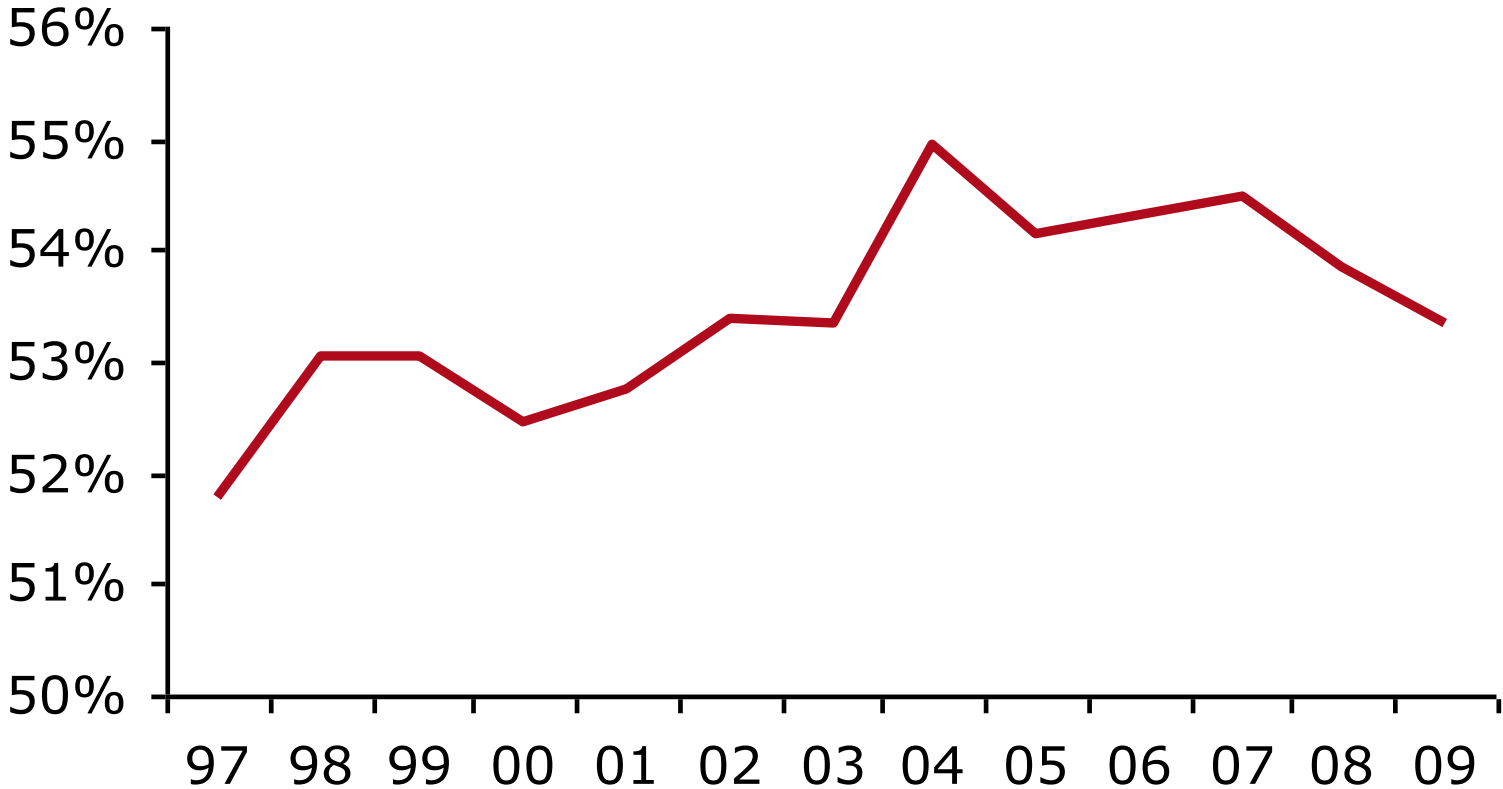
**By Province  
As of April 2010**



Source: CREA, CIBC

# Share of Household with Mortgages Has Fallen in Recent Years

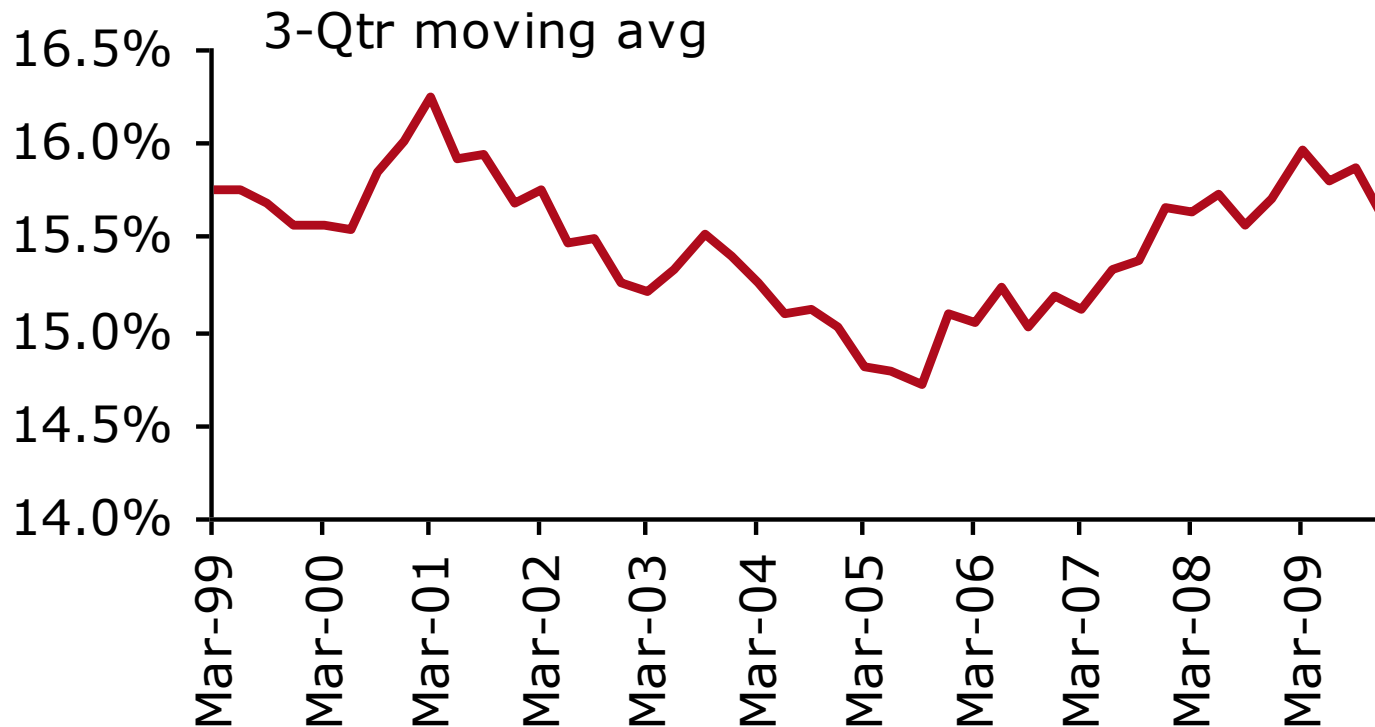
## Share of Owned Dwelling with Mortgages



Source: Statistics Canada, CFM, CIBC

# Home Ownership Affordability

## Average Monthly Mortgage Payment as a % of Gross Income

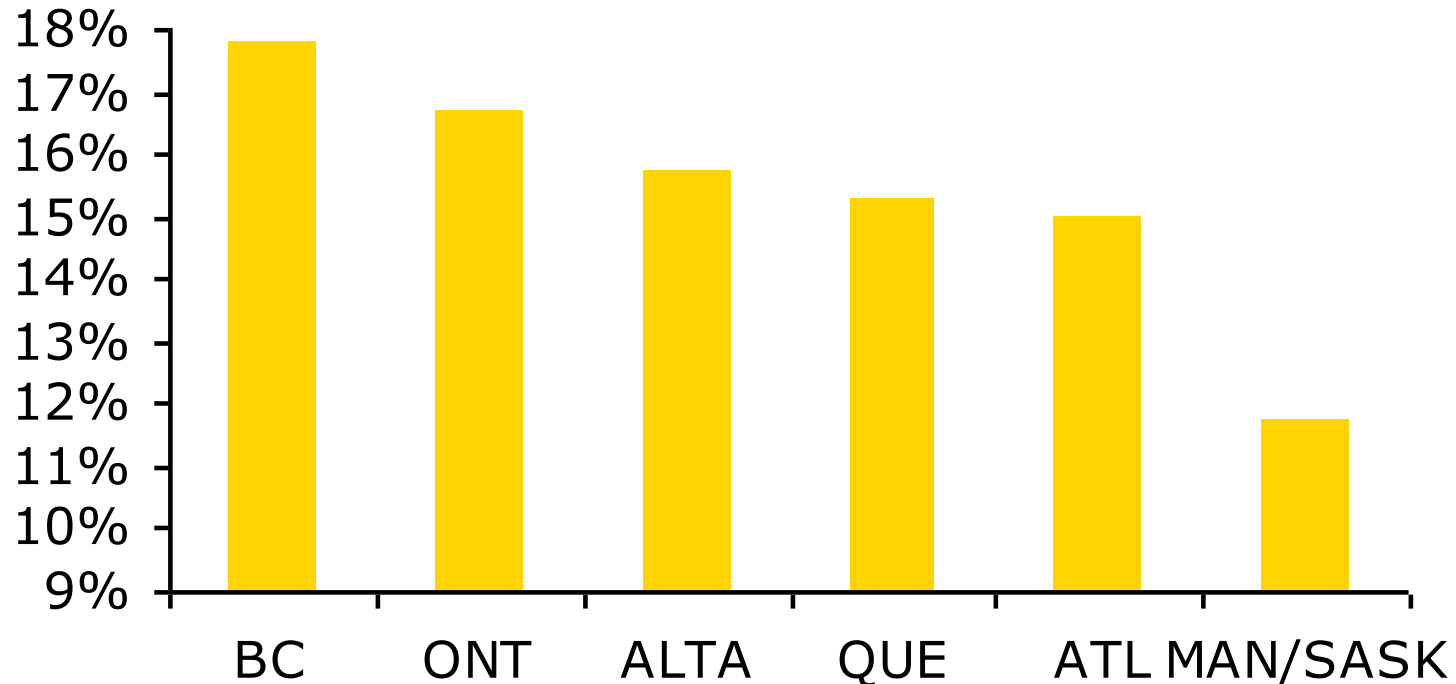


Note: higher number means lower affordability

Source: CREA, CFM, CIBC

# Home Ownership Affordability by Province (Dec 2009)

## Monthly Mortgage Payments Only as a % of Gross Income

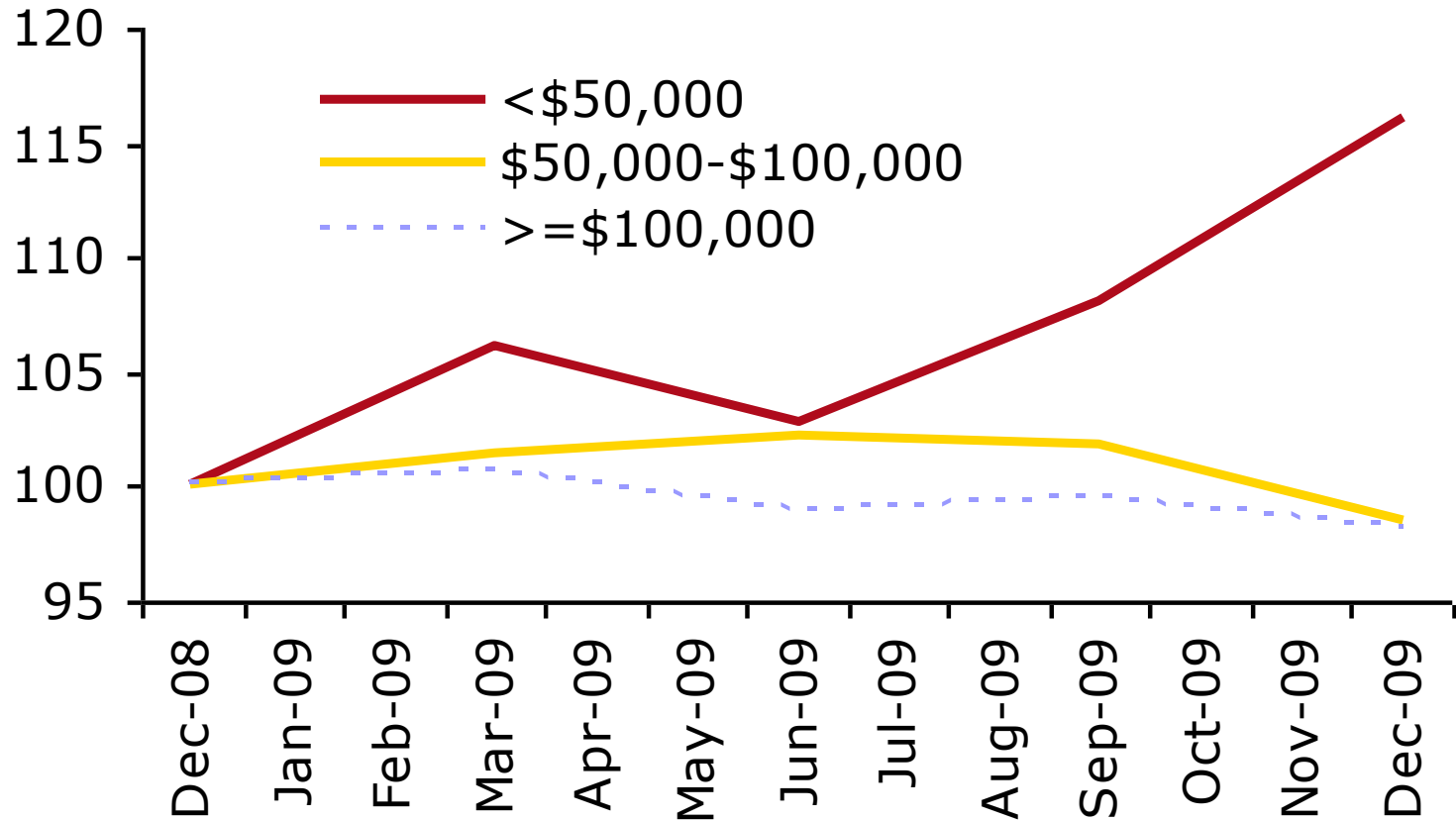


*Note: higher number means lower affordability*

*Source: CFM, CIBC*

# Relative Stability in Affordability Masks Diverging Trends by Income Group

**Affordability Index Dec 2008=100**

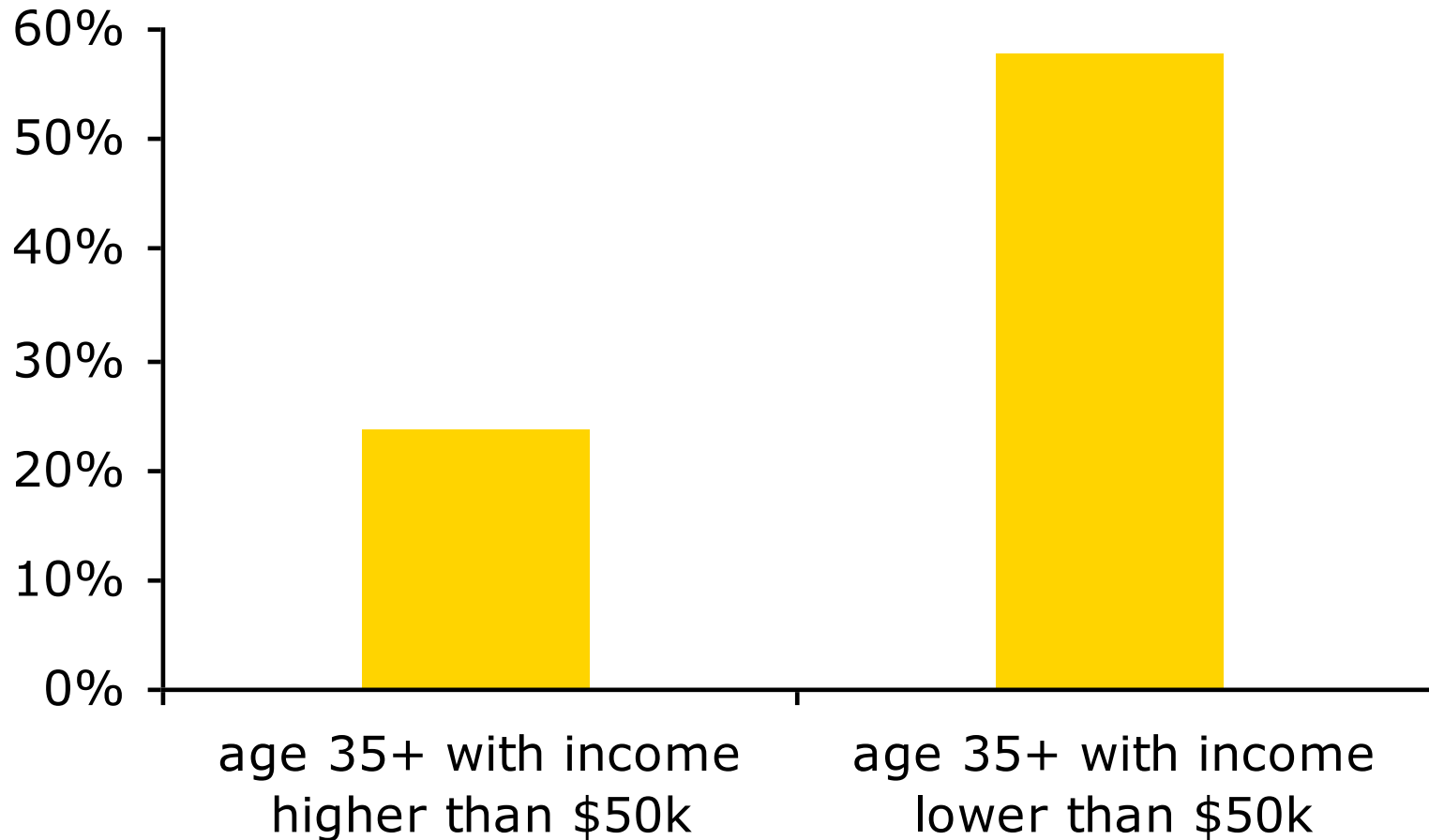


*Note: higher number means lower affordability*

*Source: CFM, CIBC*

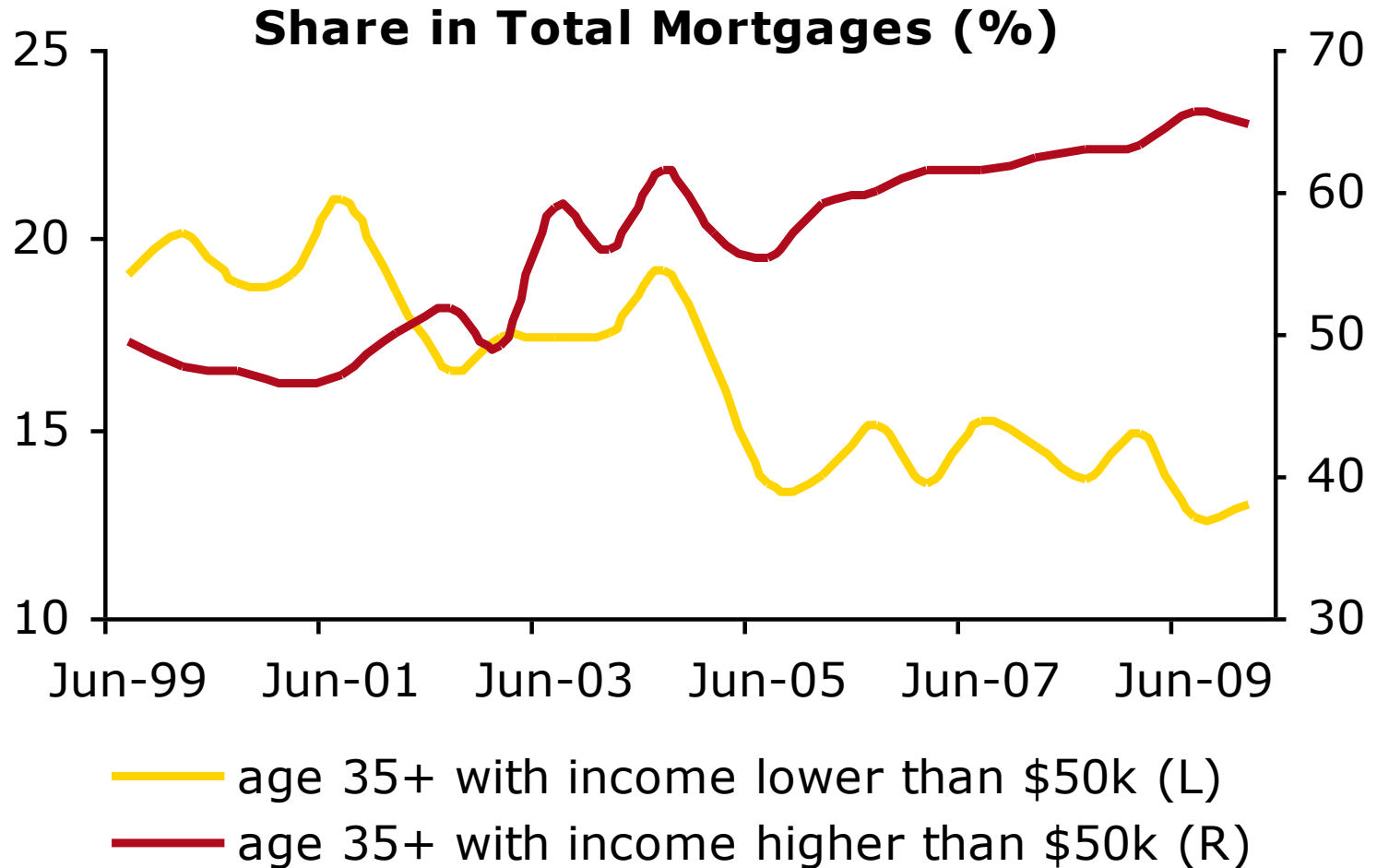
# Costs of Carrying a House as a Share of Gross Income

Dec 2009



Source: CFM, CIBC

# Composition of Mortgage Market Is Improving



Source: CFM, CIBC