



# **Outlook 2008/09 – Life In the Aftermath of the Great Global Credit Crisis**

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# Rare Events Have Become the Norm



- ◆ Worst U.S. housing market recession since the 1930s
- ◆ U.S. dollar at record low
- ◆ Record oil, gold, rice prices
- ◆ Global credit crisis – run on banks in U.S. and U.K.
- ◆ U.S. T-bill yields fell to 1950 levels – unprecedented response by the Fed
- ◆ What's next??



# The Greatest Credit Bubble of All Time



1. Liquidity – too much and too cheap
2. Trend to deregulation
  - ◆ By 2006 an estimated 75% of lending in the U.S. was outside the jurisdiction of regulators\*
3. Boom in securitization
  - ◆ Democratized credit provision but disconnected lender and borrower
4. Overconfidence in financial models
  - ◆ Rating agencies, banks and others put too much faith in financial models that cratered when faced with fat tails

\* Source: The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash – by Charles R. Morris

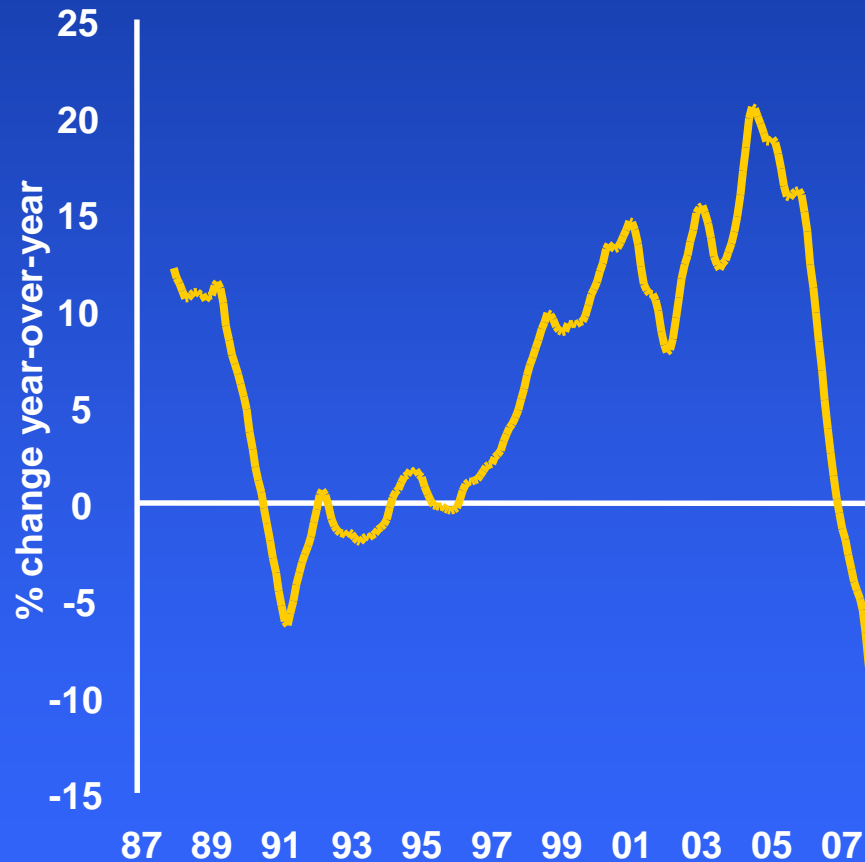


# Double Bubble

## Bubble in Housing and Securitization



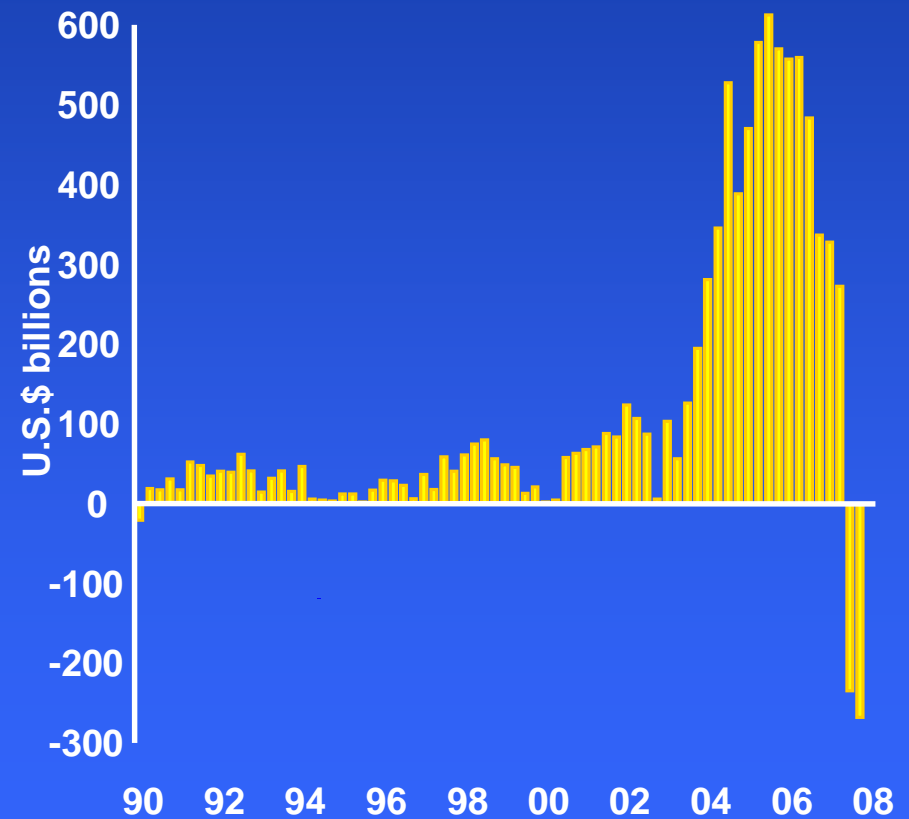
S&P/Case-Shiller U.S. Home Price Index



Source: MacroMarkets LLC

Securitized Residential Mortgages Outstanding

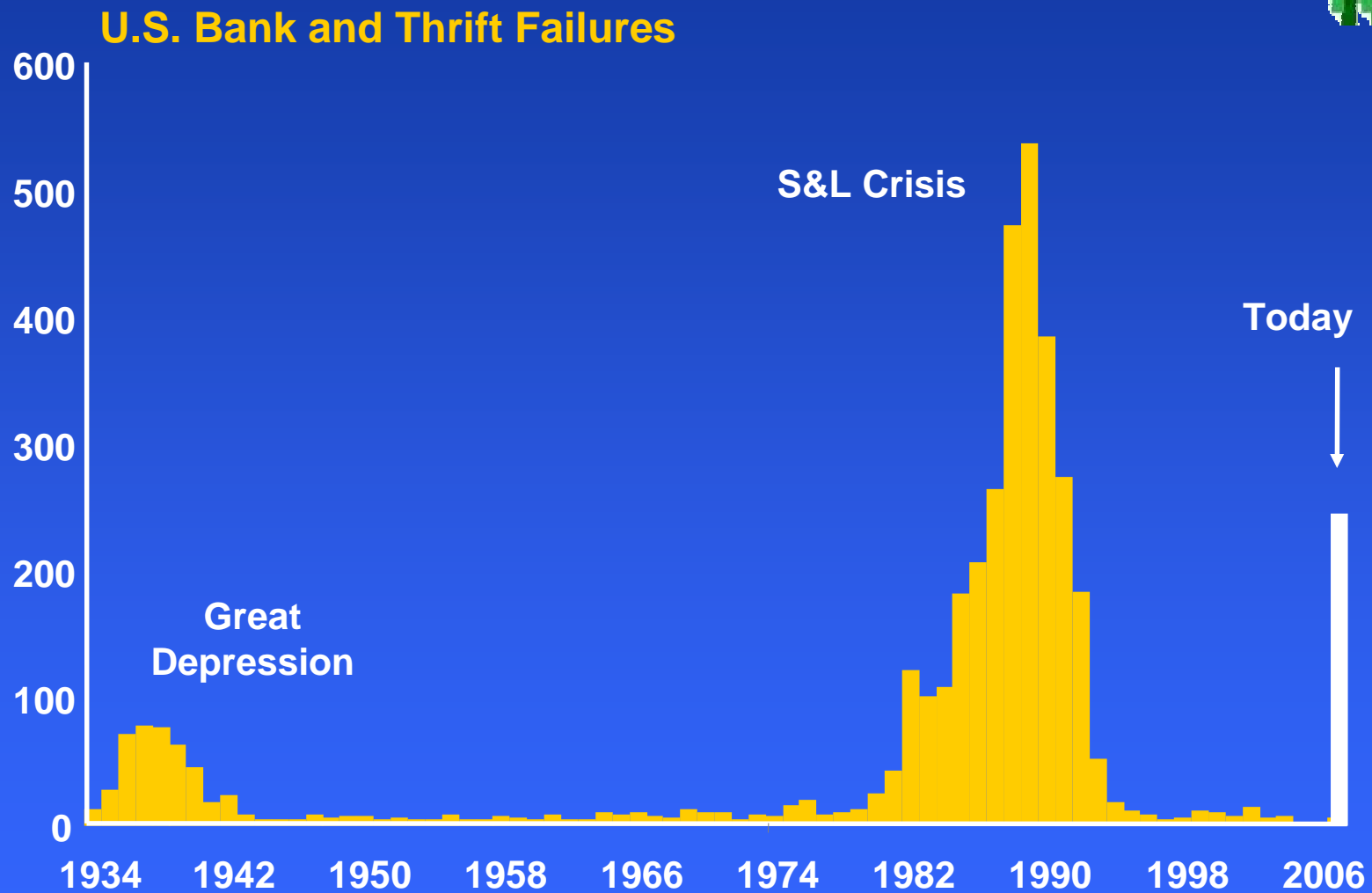
Quarterly change at annual rates



Source: Federal Reserve, NBF Financial



# Third Banking Crisis Since 1930s



Source: Federal Deposit Insurance Corp., The Mortgage Lender Implode-O-Meter.com



# Are We There Yet?

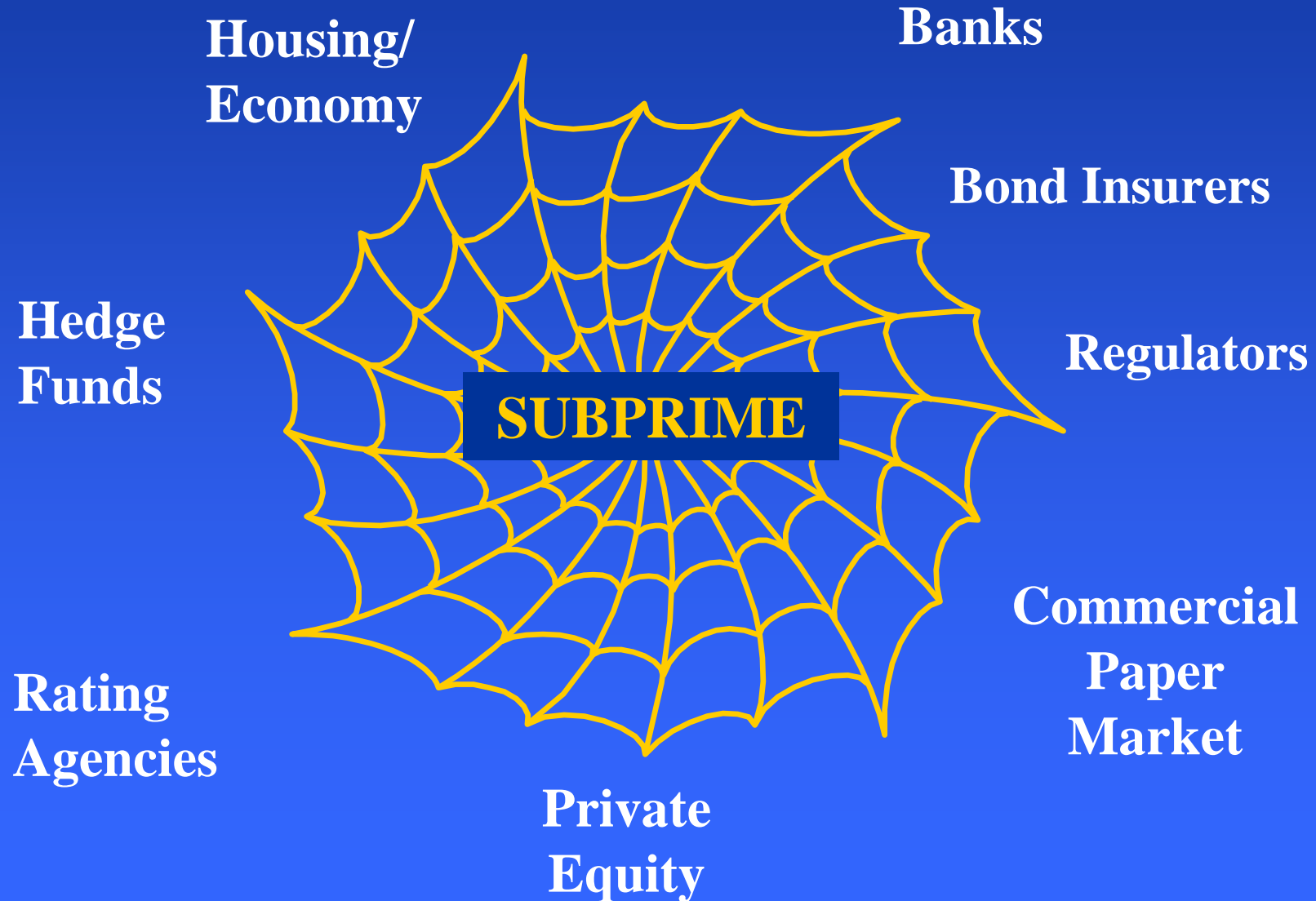


**“More than seven months on, the end is not in sight, although it is safe to say that we have reached the end of the beginning of the turmoil.”**

***Mark Carney, Governor of the Bank of Canada  
March 13<sup>th</sup> 2008***



# Subprime's Tangled Web



# U.S. in Recession – Now What?

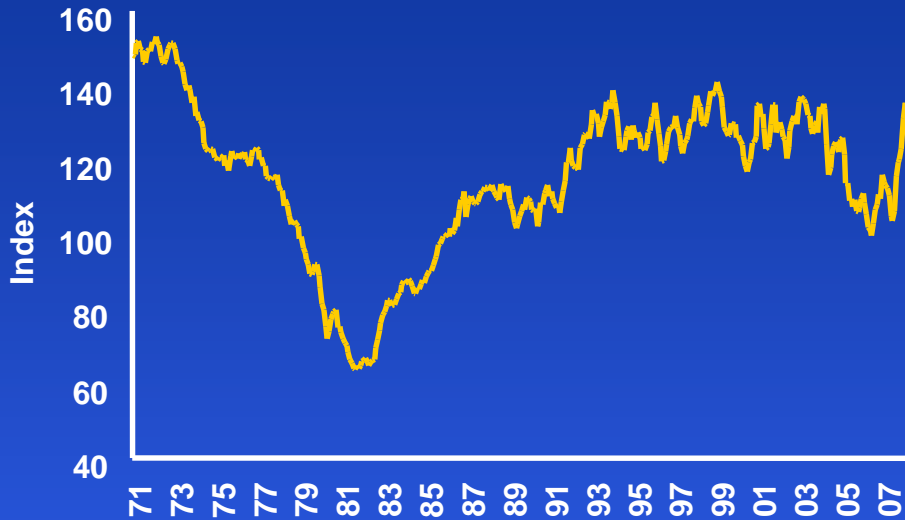


1. How long and how deep?
2. What will the recovery look like?
3. What are the consequences for the rest of the world?



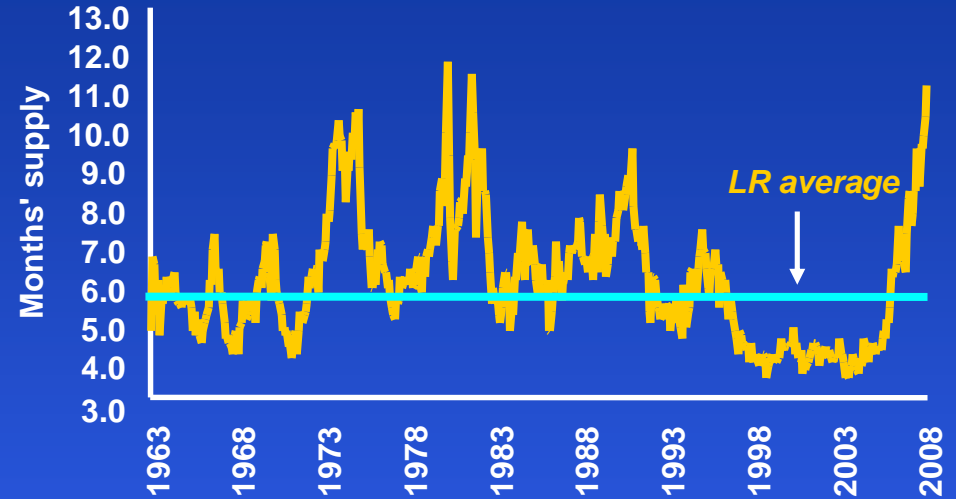
# Single Biggest Risk Still Housing

## US Housing Affordability Index



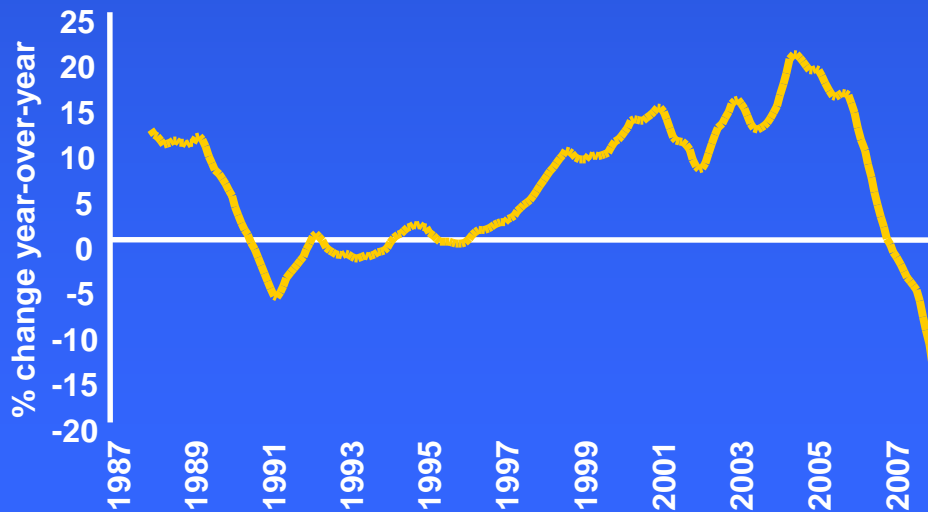
Source: US National Association of Realtors

## US Unsold New Housing Inventory (months' supply at current selling rates)



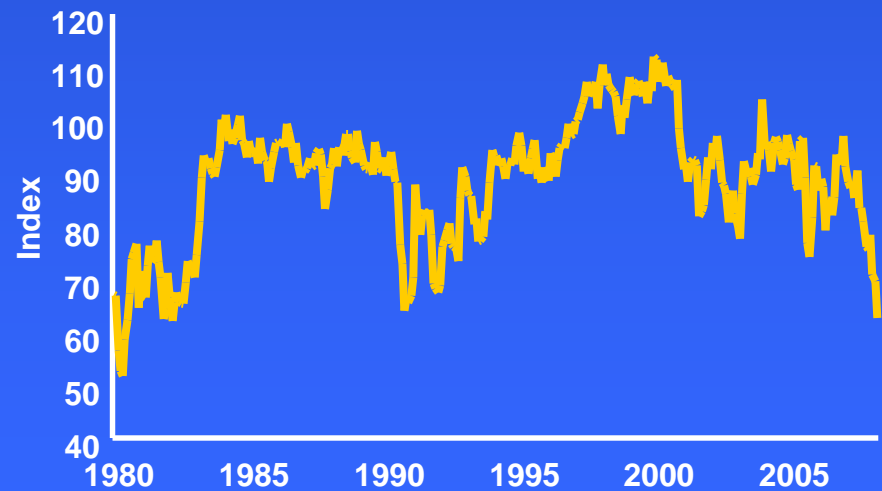
Source: US Census Bureau

## S&P/Case-Shiller US Home Price Index



Source: MacroMarkets LLC

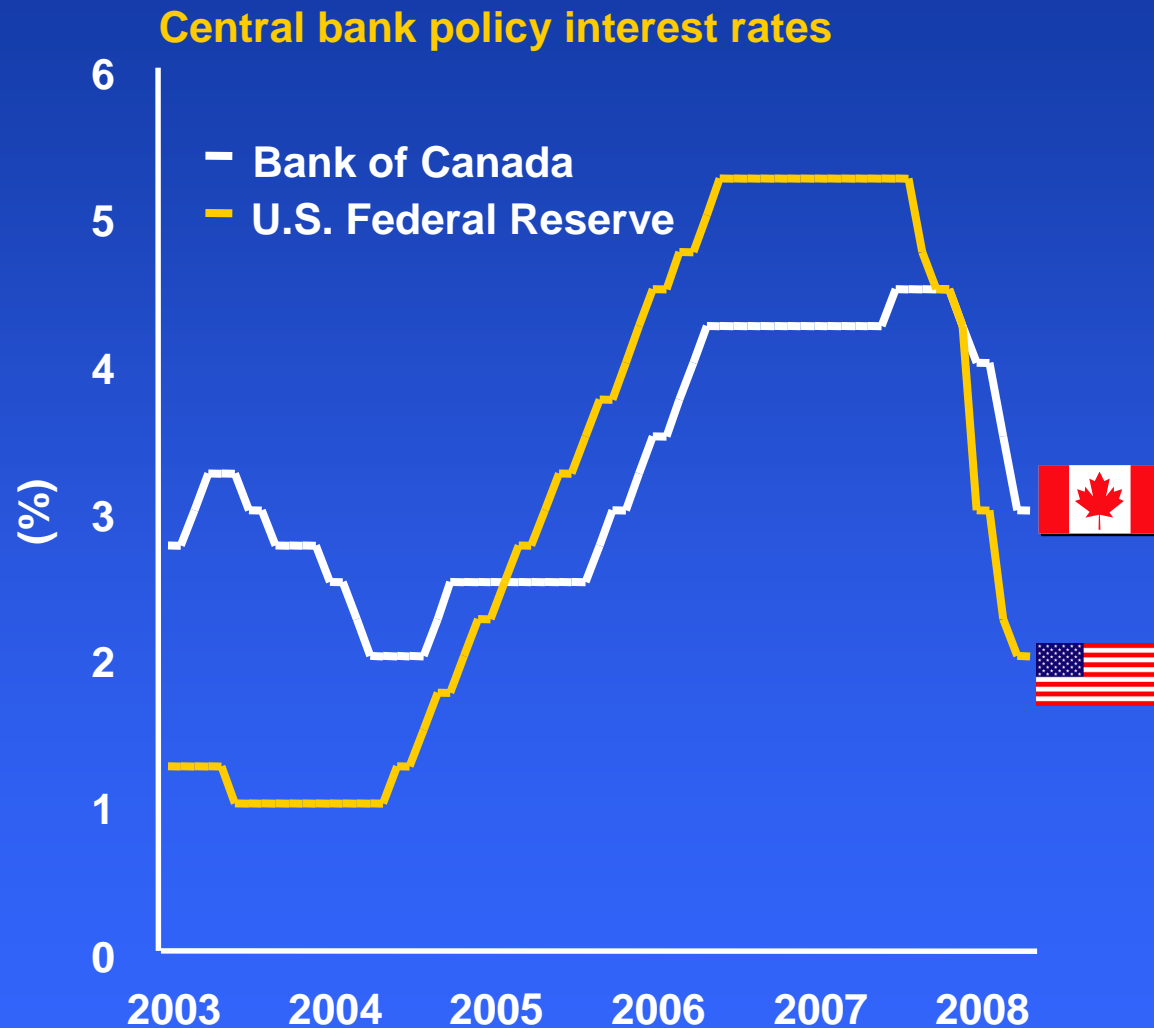
## US Consumer Confidence



Source: University of Michigan



# Aggressive Federal Reserve Action



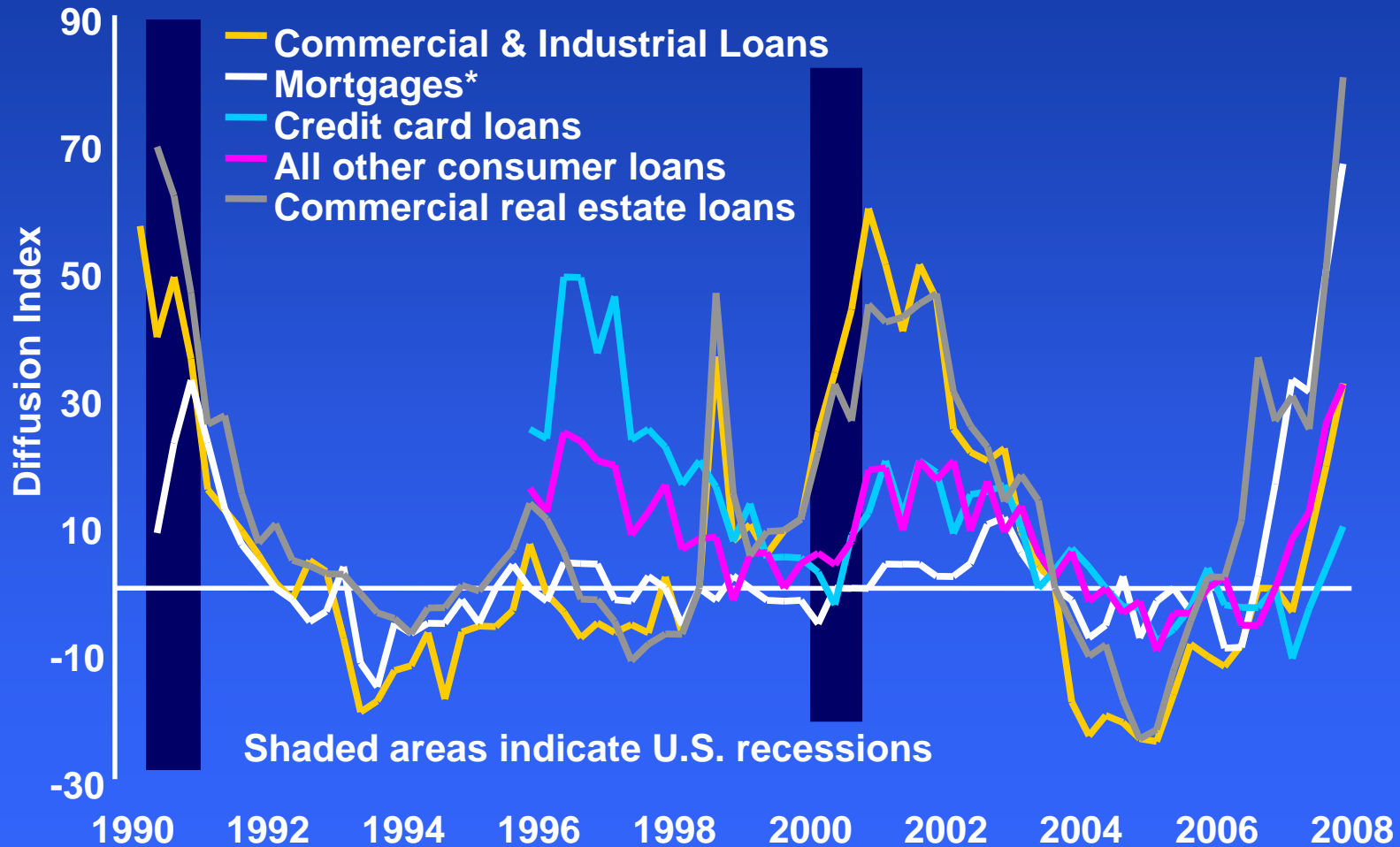
## Monetary Policy:

- ◆ Federal Reserve has responded to economic risks
- ◆ Market pricing in Fed tightening later this year
- ◆ Inflation figures vastly different



# Not Your Average Credit Cycle

## Banks Tightening Lending Standards

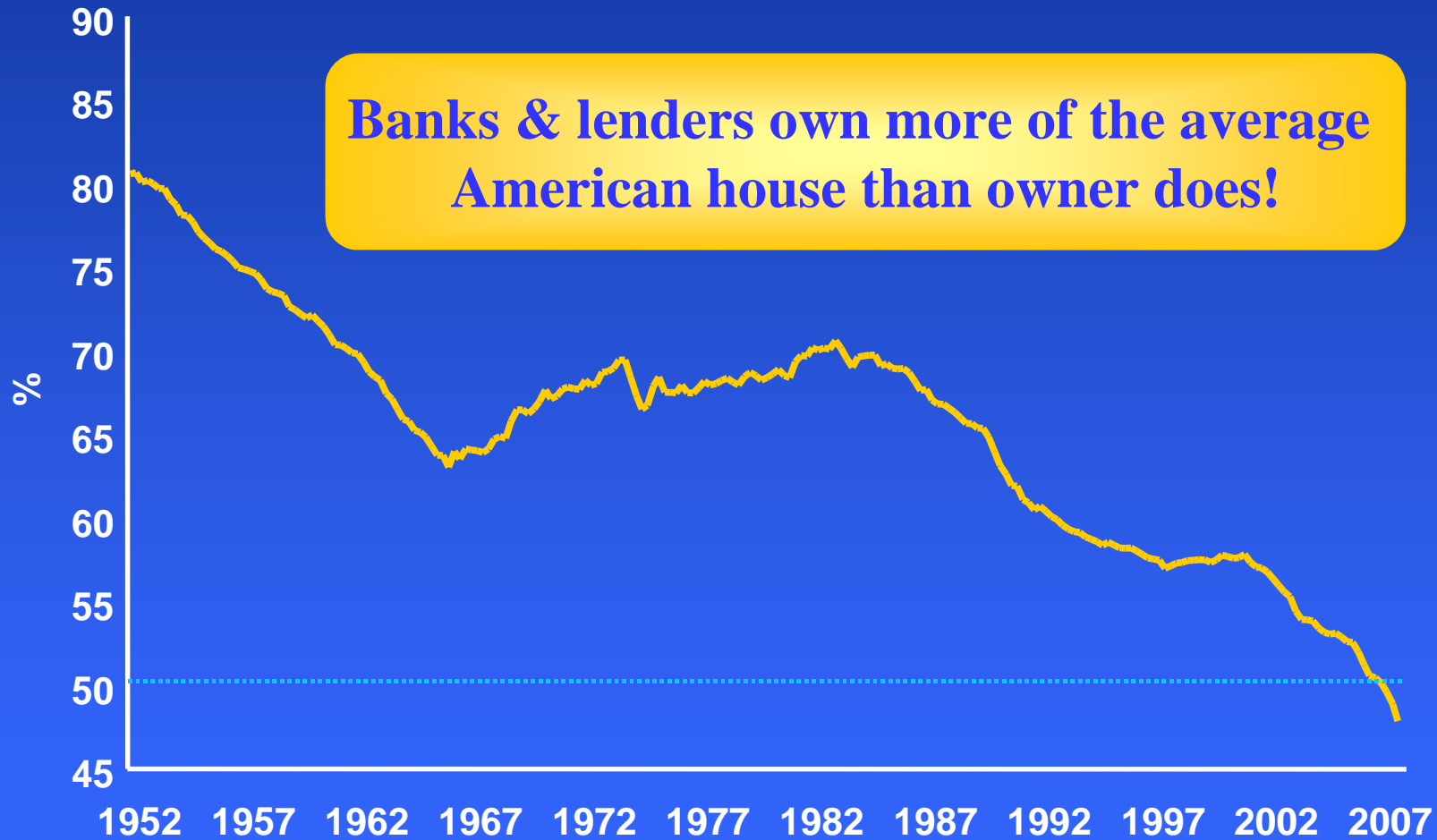


Source: Federal Reserve Senior Loan Officer Opinion Survey  
\*2007 Q2 onward calculated by PH&N



# Falling Homeowners Equity = Skewed Incentives

US Owner's Equity, % of Household Real Estate



**Banks & lenders own more of the average American house than owner does!**

Source: Federal Reserve Flow of Funds



HOME	ABOUT US	PROTECTION PLAN & KIT	FAQ	CONTACT US
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**YOU WALK AWAY**

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1(877) 878-9255



**YOU ARE NOT ALONE...  
OVER 2.9 MILLION HOMES  
HAVE FORECLOSED  
IN THE LAST 3 YEARS...**

Have any questions? Chat with one of our Advocates live right now:



**WALK AWAY**  
PROTECTION PLAN & KIT

[Click Here](#)

2007 Foreclosures

United States: Monthly Foreclosures

## IS FORECLOSURE RIGHT FOR YOU?

If you are facing or considering foreclosure, you're not alone.

### ASK YOURSELF...

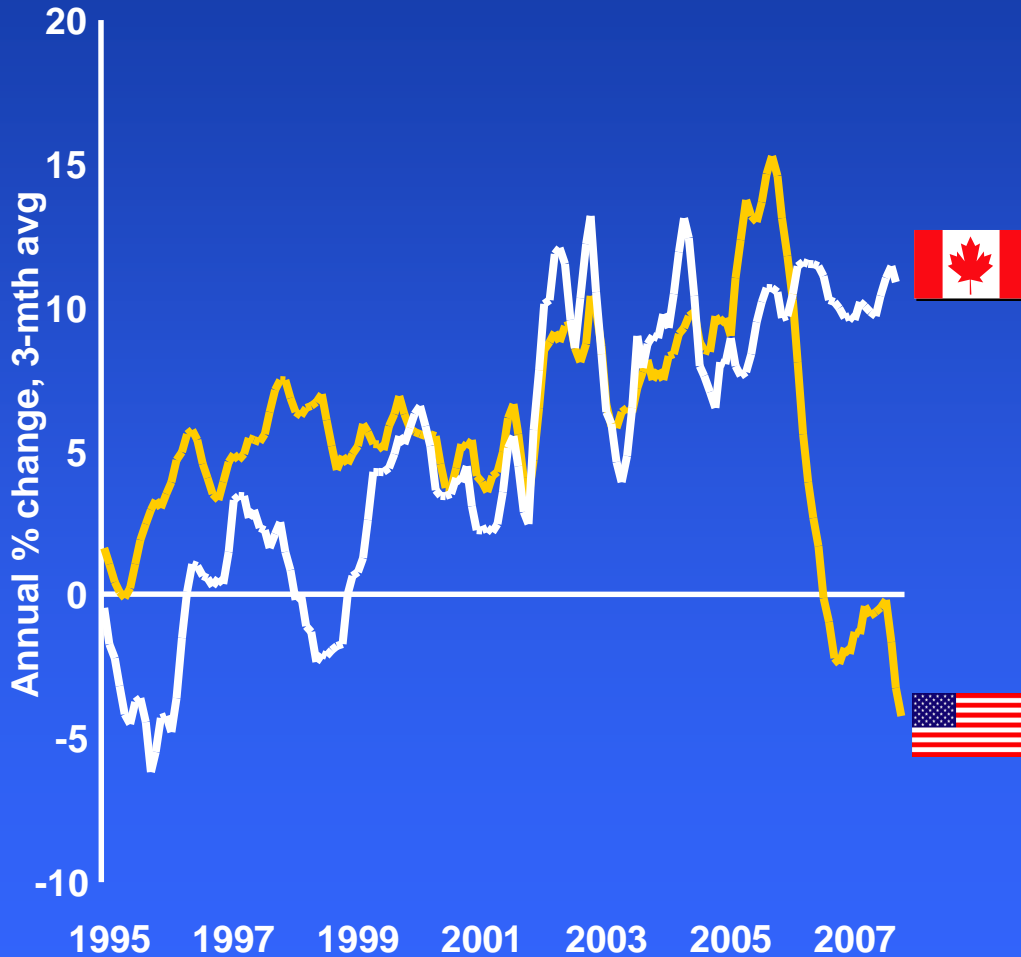
- ? Are you stressed out about your mortgage payments?
- ? Do you have little or no equity in your home?
- ? Have you had trouble trying to sell your house?
- ? Is your home sinking under the waves of the real estate crash?
- ? What if you could live payment free for up to 8 months or more and walk away without owing a penny?

Unshackle yourself today from a losing investment and use our proven method to Walk Away.



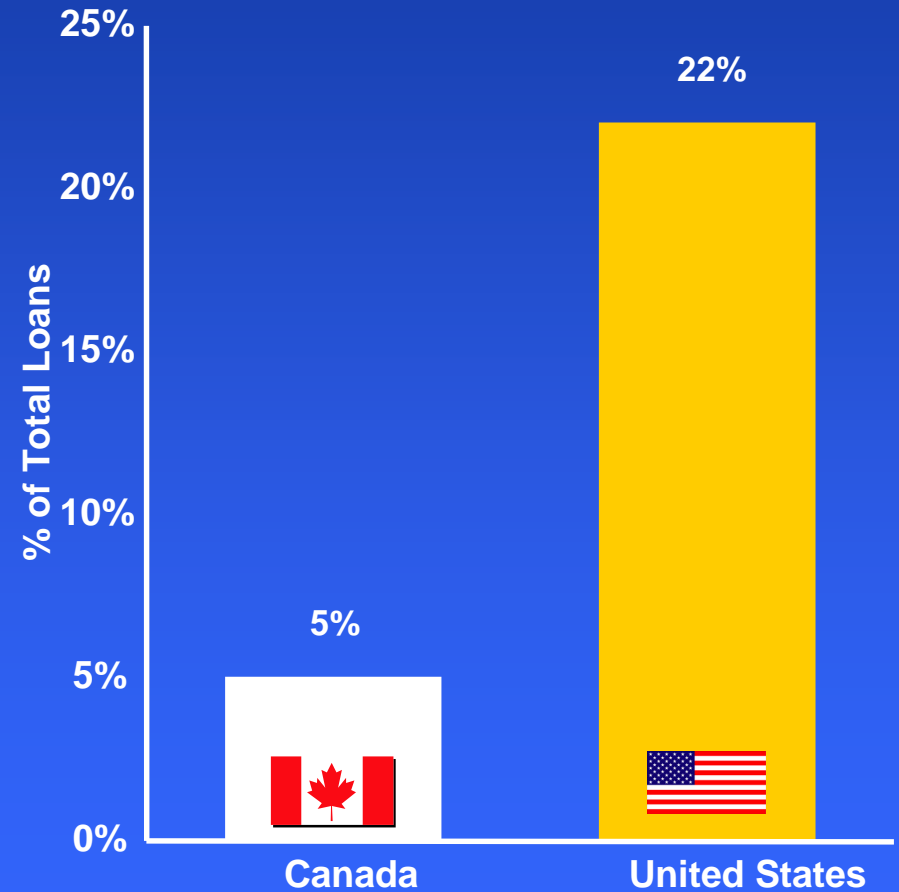
# Housing: A Tale of Two Markets

## Existing House Prices, Canada & U.S.



Source: Can. Real Estate Assoc.,  
National Assoc. of Realtors

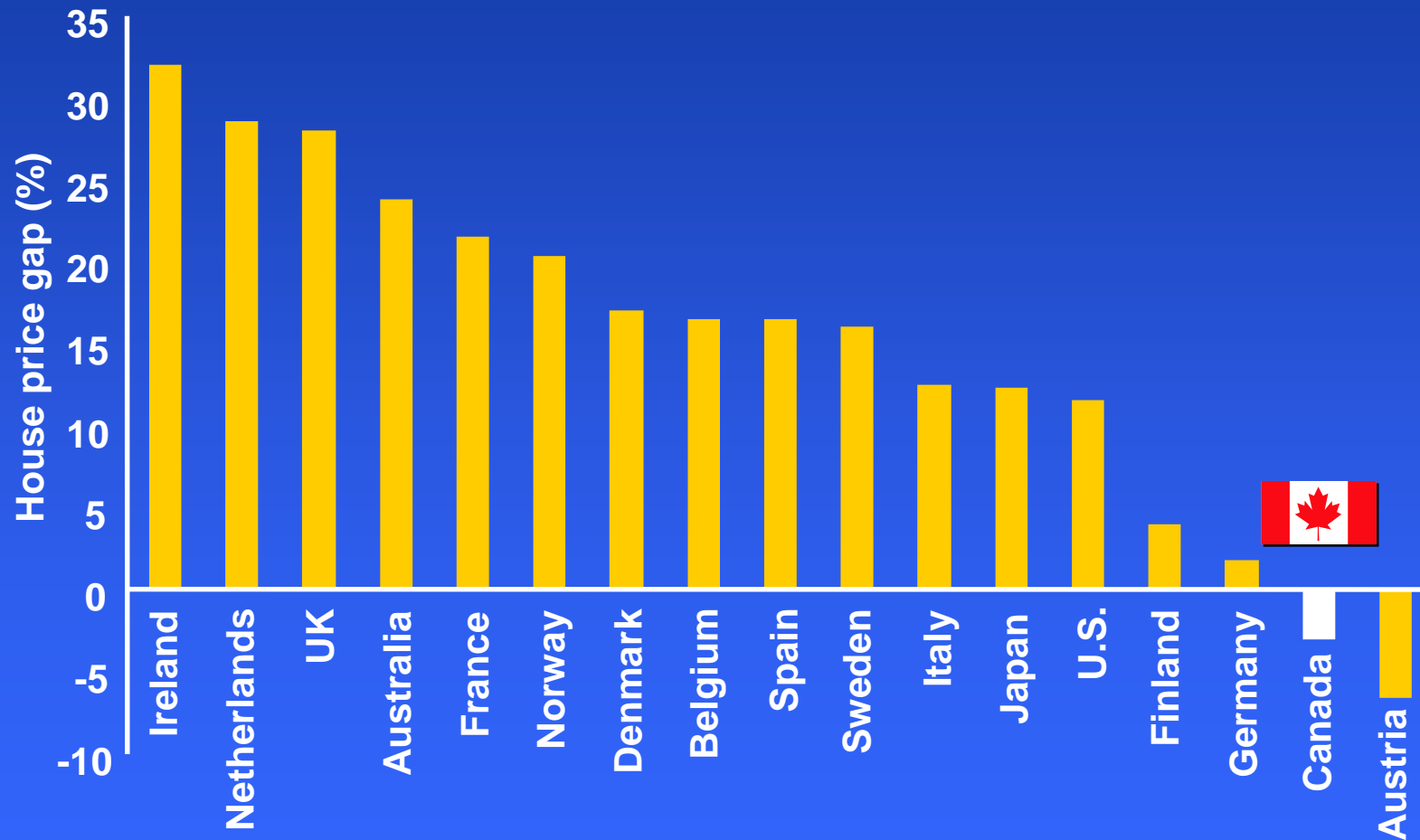
## Size of Subprime Mortgage Lending Market



Source: CIBC World Markets



# Canada's Housing Market Not Overvalued

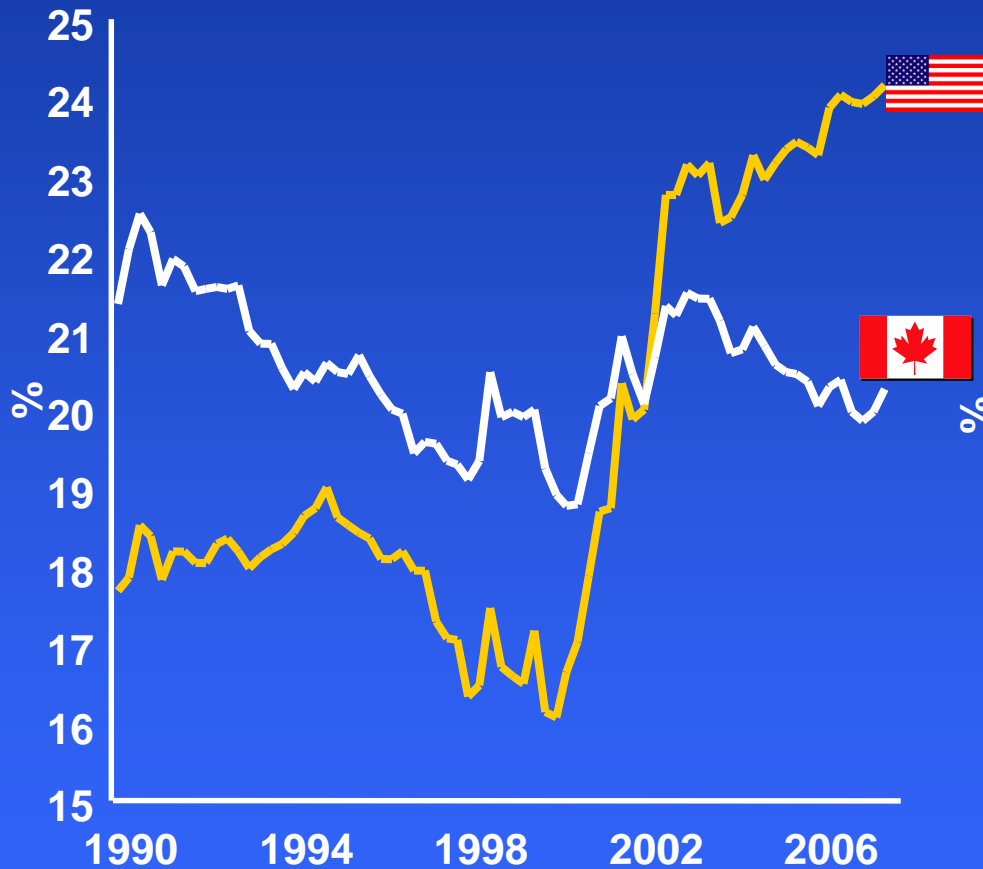


Source: International Monetary Fund, National Bank Financial April 2008

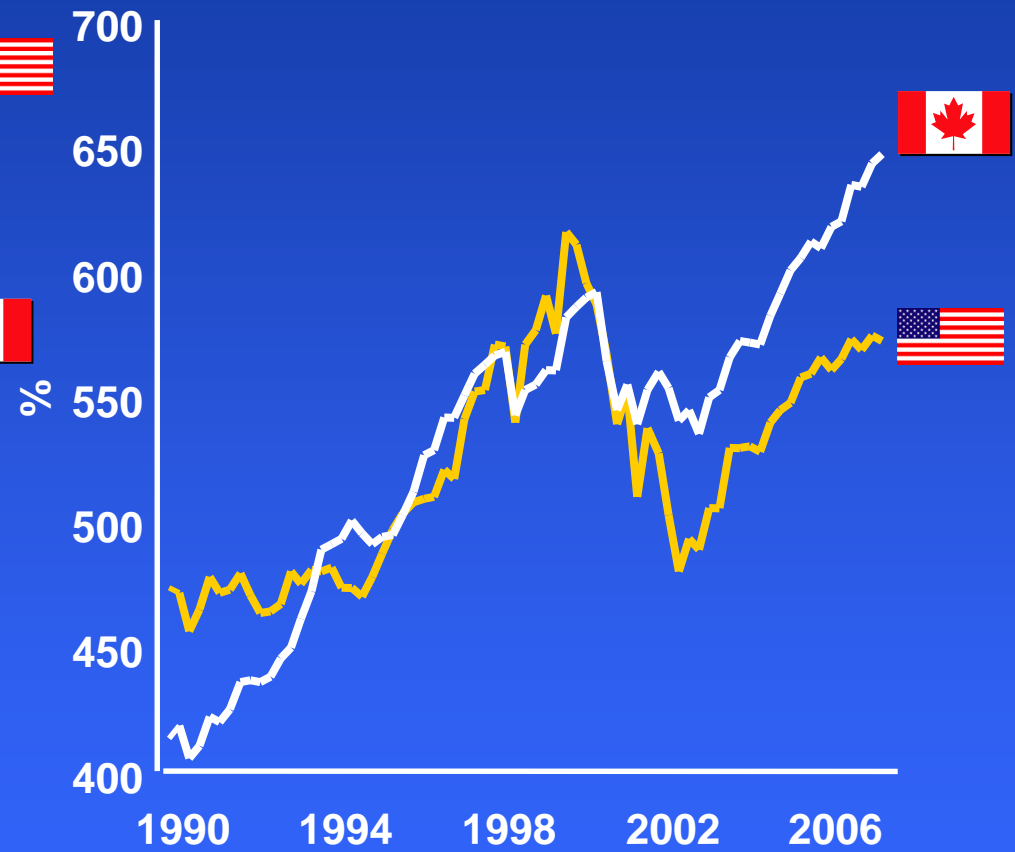


# A Tale of Two Consumers

## Household Liabilities, % of Net Worth



## Household Net Worth, % of Disposable Income



Source: Federal Reserve Flow of Funds, Statistics Canada National Balance Sheet Accounts



# Canada Tied to U.S. Like Maple Syrup to Pancakes



Country U.S. Exports  
(% of GDP)

1.	Venezuela	26.1	
2.	Canada	25.5	
3.	Mexico	23.8	
4.	China	10.9	
5.	Saudi Arabia	8.8	
6.	Chile	6.3	
7.	Korea	5.5	

Country U.S. Exports  
(% of GDP)

8.	Sweden	3.9	
9.	Switzerland	3.6	
10.	Belgium	3.5	
11.	Germany	3.0	
12.	Japan	3.0	
13.	Brazil	2.8	
14.	Argentina	2.5	

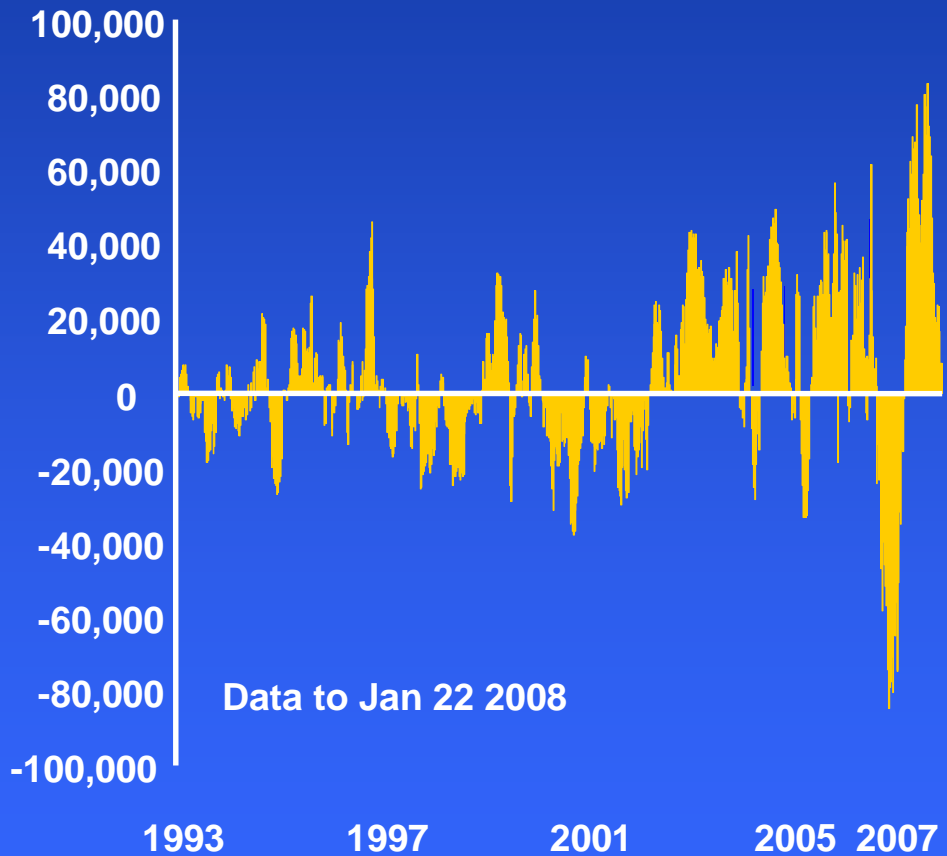
Source: Merrill Lynch, Sept. 2006



# The Long and The Short of the C\$

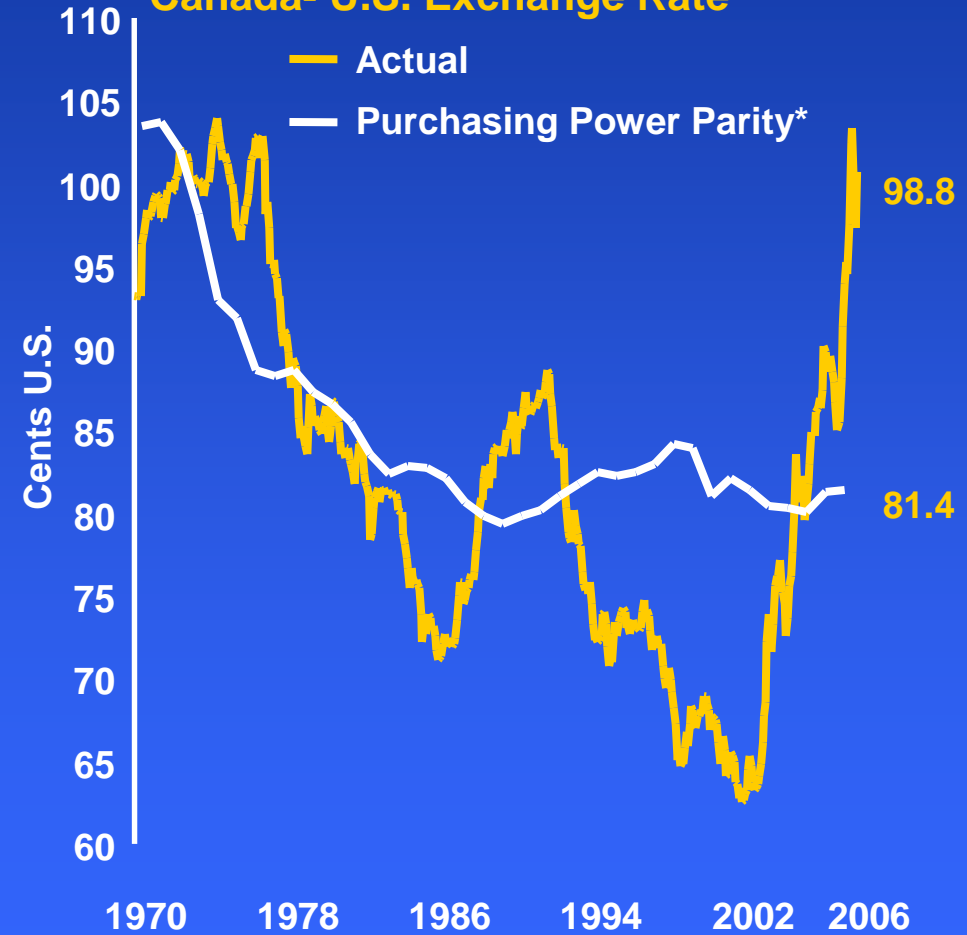


### Net Long Non-Commercial C\$ Positions



Source: U.S. Commodity Futures Trading Commission

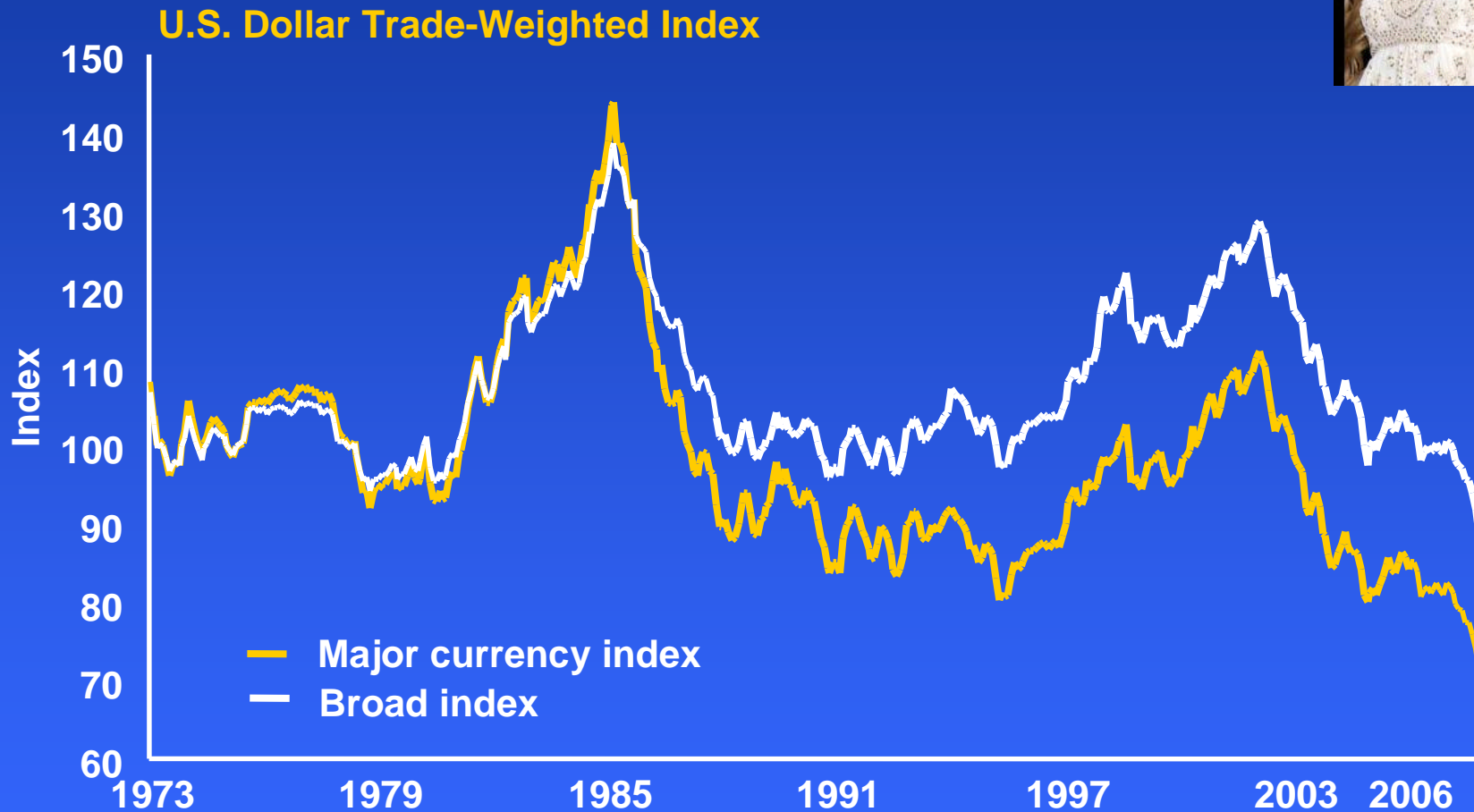
### Canada- U.S. Exchange Rate



Source: Bank of Canada, OECD



# Gisele Wants to Be Paid In Euros



Source: U.S. Federal Reserve



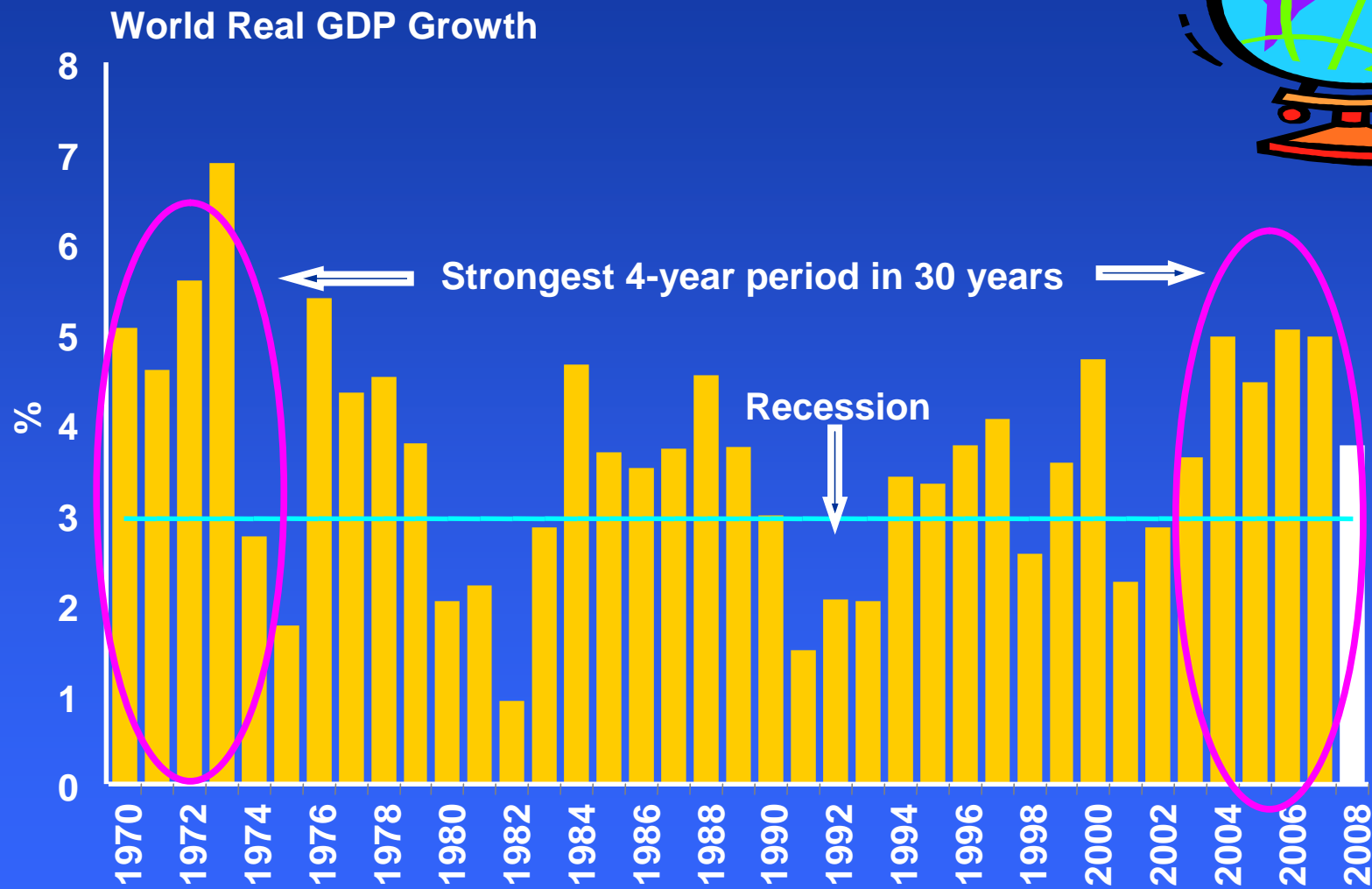
# Mixed Picture Outside of North America

- ◆ European economy slowing – ECB reluctant to cut rates
- ◆ Bank of England weighing growth/inflation trade-off – house prices weakening
- ◆ Japan's economy fragile
- ◆ India slowing somewhat
- ◆ China challenged

**Pace of Global Growth Set to Slow**



# IMF Puts 25% Probability on World Recession

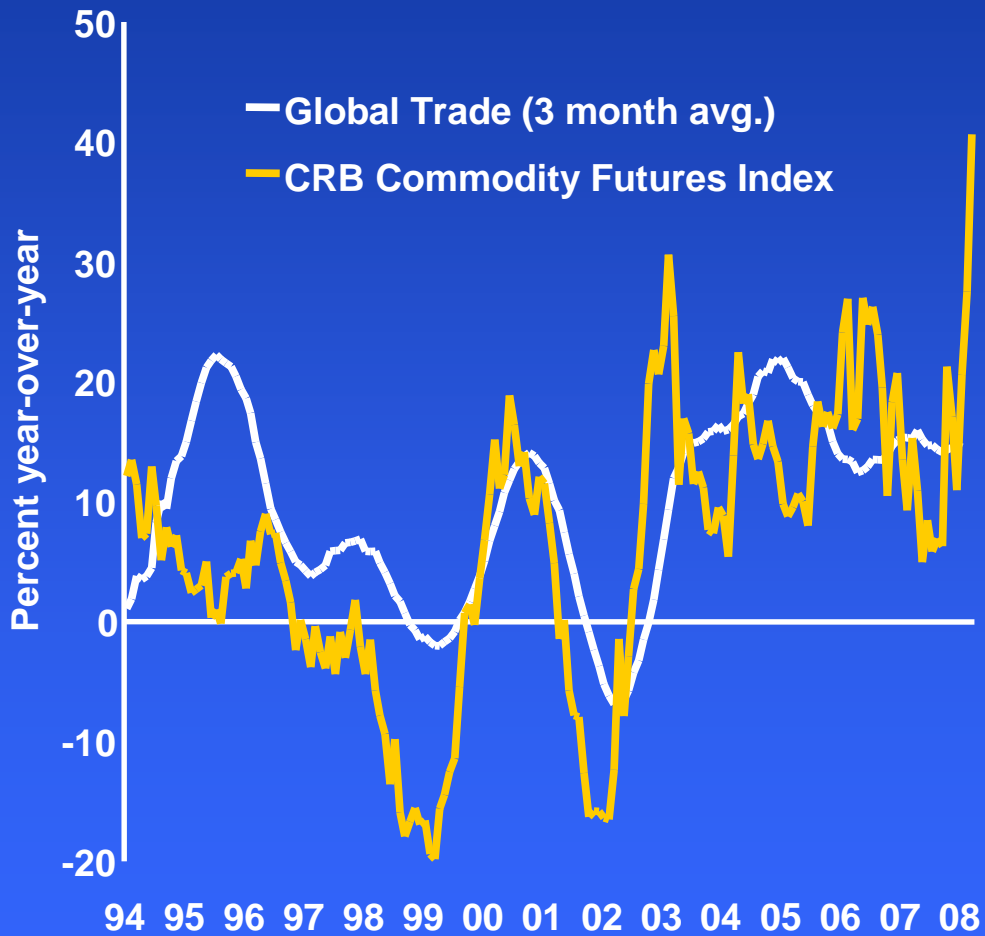


Source: IMF World Economic Outlook



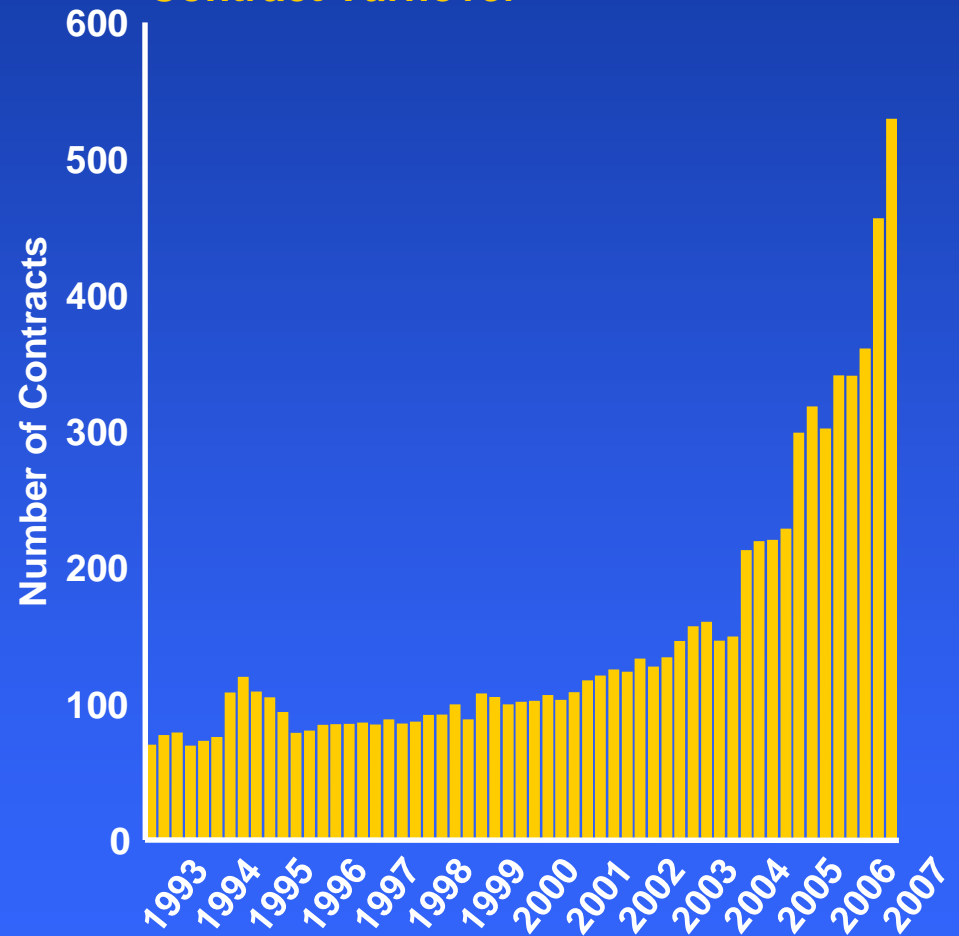
# Commodities Detach From Near-Term Reality

## Global Trade and Commodity Futures



Source: Commodity Research Bureau, IMF, Datastream

## Global Commodity Derivative Trading Contract Turnover



Source: Bank for International Settlements



# 2008/09 – Risky Business

1. U.S. recession
2. Further fall out from sub prime crisis – contagion to commercial real estate, credit card and auto loans, bank failures
3. Stagflation in Europe
4. China stumbles – global recession
5. Geopolitical factors/protectionism/U.S. election
6. Inflation led by soaring food prices

