

WEEKLY ECONOMIC BULLETIN

ATB Financial[®]

Economist Dan Sumner

October 23, 2009

- **Alberta farmland valuations slow down**
- **US, Canadian leading indicators surge**
- **BOC dispels notion of rate hike**
- **Alberta wholesale trade still correcting**

Farmland Valuations Cool

Asset prices in Alberta's farming sector grew at very robust paces during the 'hay-days' of the boom years, but since then farmland price growth has moderated along with activity in the rest of the economy.

Prices for farmland in Wild Rose Country advanced 1.0% in the first half of 2009, according to Farm Credit Canada's (FCC) semi-annual Farmland Values Report. The 1.0% growth rate was the lowest semi-annual increase since the second half of 1998, when farmland values rose by just 0.2%.

In the report, FCC noted that a reduction in urban sprawl in Alberta's two largest cities lowered prices for land adjacent to the metros. Also, significant price volatility for both agriculture and energy products contributed to uncertainty, lowering investors affinity for products like farmland.

Alberta farmers, both crop and livestock, have had a tough go of it in 2009 with prices for both products

moderating during the year. Extremely poor growing conditions weighed heavily on crop production while feed supply issues and the new US COOL regulation has hit livestock farmers' bottom lines.

Farmland valuations in Canada had a slightly more positive beginning to 2009 with average prices across Canada rising by 2.9%. Among the western provinces, prices grew fastest in Manitoba (+5.5%), while B.C. saw negative (-0.7%) price growth.

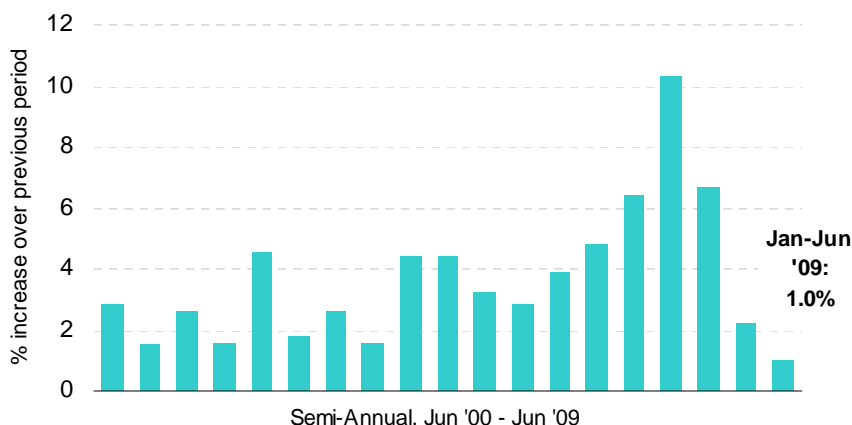
Farmland, by far the largest asset of Alberta farmers, is slow to respond to

changing market conditions and is typically considered to be a lagging indicator of the agriculture sector.

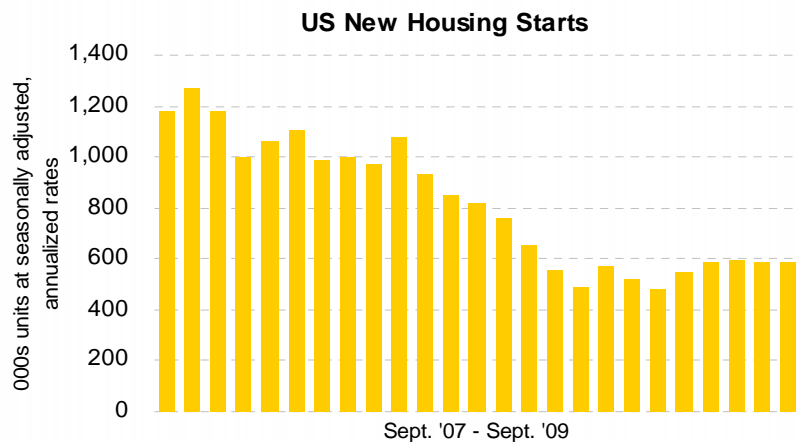
As for the future of farmland prices, two conflicting forces are at play: longer-term fundamentals seem to be on a solid footing, particularly for grains, but in the medium term the global recession and weather related factors are impacting negatively.

Considering Alberta farmland experienced massive gains in 2006 and 2007, prices could continue to consolidate before the long-term fundamentals take over.

Increase in Value of Alberta Farm Land



Source: Farm Credit Canada, Fall 2009 Farm Values Report



Source: US Department of Commerce, Oct. 20, 2009

Goldstein, Economist at The Conference Board, noted in the Conference Board's online press release that: "These numbers strongly suggest that a recovery is developing. However, the intensity of that recovery will depend on how much, and how soon, demand picks up."

Canadian Leading indicators also surged in September, according to the latest Statistics Canada report on the index. The overall index gained 1.1% after jumping by 1.2% in August for the fourth consecutive monthly gain. Statistics Canada has noted that gains of this magnitude in the Canadian leading index are typically only seen at the early stages of an economic recovery. Seven of the ten components of the index advanced in September, with the housing and stock market indicators contributing the most to the upside momentum. The major pressure on the downside continued to stem from the manufacturing sector, under stress partly as a result of the lofty value of the loonie, as new orders for durable goods indicator fell 2.7%.

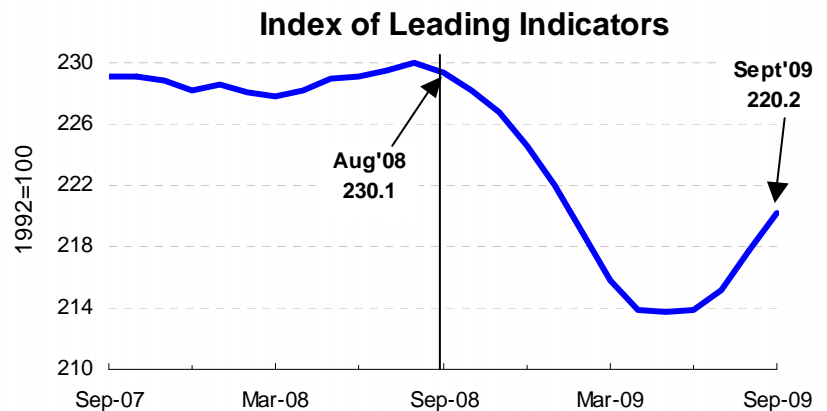
US Residential Construction Inches Along

US home builders broke ground on 590,000 seasonally adjusted, annualized homes in August 2009, well below a consensus of analysts expectations for 610,000 starts. US analysts have been looking towards the housing market for solid signs of a recovery in the US economy, considering the housing sector was ground zero for the 2008/'09 recession. Unfortunately, in contrast to Canadian new and resale markets, low interest rates have not had the profound impact in propping up sales and construction that they have in Canada.

Tuesday's report disappointed relative to analysts' expectations not only in terms of current housing starts, but indications for future housing starts as contractors took out building permits for only 573,000 new homes. Considering that the US population is still growing and the current stock of housing always needs updating, housing starts are bound to recover eventually, the question that remains though, is how long that will take.

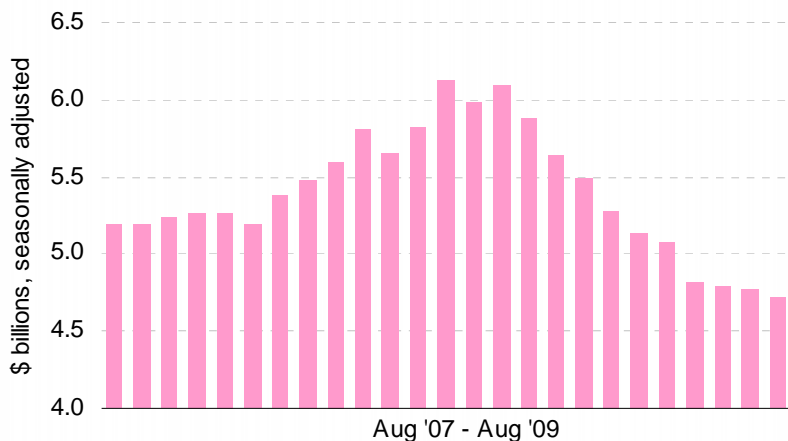
Horizon Looks Bright for US, Canadian Economies?

The US index of leading indicators jumped by 1.0% to 103.5 in September 2009, the sixth straight monthly increase and a larger gain than anticipated by a consensus of Bloomberg economists. All but two of the indicators contributed to the positive movement in the overall index in September, with the largest boost coming from the interest rate spread and consumer expectations; building permits and average workweek variables were the only two in negative territory. Ken



Source: Statistics Canada The Daily, Oct. 20, 2009

Alberta Wholesale Trade



Source: Statistics Canada, The Daily, Oct. 20, 2009

Alberta Wholesale Trade Steadies

Alberta wholesale trade fell for the tenth consecutive month in August 2009, as lower sales of machinery and electronic equipment weighed on wholesalers top lines. Wholesale sales fell 1.4% month-over-month in August to \$4.71 billion, bringing them 23.0% lower on a year-over-year basis. Wholesale trade has taken a larger hit than its retail cousin as businesses have cut spending in order to shore up their balance sheets to a greater extent than consumers. Nationally, wholesale trade also fell 1.4% in August but was only lower 10.1% on a year-over-year basis.

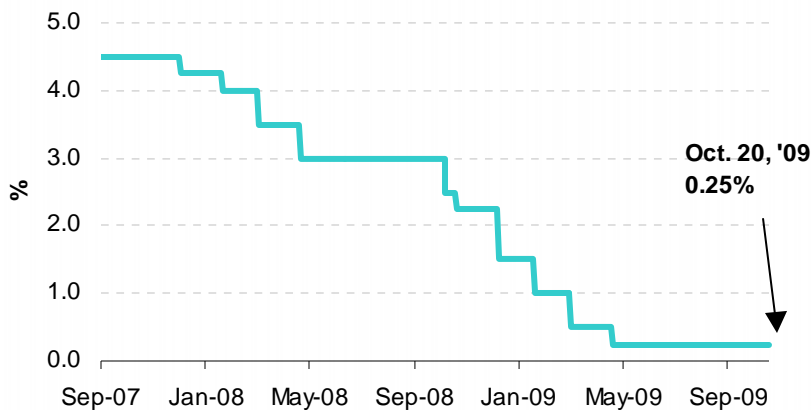
Bank of Canada Stays the Course

Canada's central bank announced this week that they are keeping overnight interest rates at 0.25% and reiterated

that they are not going anywhere until at least June 2010 in their interest rate announcement press release this week. The BOC continued to talk tough on the Canadian dollar stating that the Canadian economy had shown more solid signs of recovery but that *"the current strength in the dollar is expected, over time, to more than fully offset [those] favourable*

developments." BOC Governor Mark Carney also reiterated to reporters that the Bank does have options when it comes to currency intervention. On the bright side the BOC posited in its quarterly Monetary Policy Report that Canadian labour markets may be in for better times ahead as it sees a possible end to job market deterioration.

Bank of Canada Overnight Rate



Source: Bank of Canada, Oct. 20, 2009

TECHNICALLY SPEAKING

by Will Van't Veld

The Return of Keynes?

The American economist Dr Tyler Cowan was chosen to deliver the 15th Eric Hanson Memorial Lecture, entitled "Should we all be Keynesians again?" at the U of A on the 16th of October. The topic was very timely, given how conventional economic wisdom seems to have shifted during the great recession. A graduate of Harvard, frequent economic contributor to the NY Times and professor of economics at George Mason University, Dr Cowan's credentials to speak on the matter were impeccable and he shared some very interesting insights.

Before addressing his primary question, Dr Cowan first established what he believed to be the primary cause, leading up to the great recession, that being a state of 'creeping over optimism'. That is to say, since 1989 all the major crises in the world have been traversed rather effortlessly. Whether it was the collapse of the Mexican Peso, the Asian Financial Collapse, the Dot Com bubble or Sept 11, in the bigger scheme of things all were overcome without any major worldwide disruptions.

Dr Cowan's term 'creeping over optimism' could be likened to a term first coined by Keynes earlier in the 20th century, 'animal spirits'. That is to say, humans don't make economic decisions based purely on mathematical expectations, but often simply because there is a pervasive sense of optimism that it's the right decision to make, rightly or wrongly. Investors and consumers can get complacent when things are too good, for too long, underestimating risks and overestimating potential gains.

As an aside, Dr Cowan believed that Canada, New Zealand and Australia weathered the economic storm because of a pervasive anti-risk sentiment that's

ingrained in these countries. Risk tolerance in America is simply higher, meaning they are more susceptible to crashes.

Governments, of course, have introduced massive stimulus packages, which are typically considered a Keynesian response and have led to a resurgence of interest in his ideas. Dr Cowan, however, was quick to point out that Keynes' ideas were far more diverse than simply spending money in the face of a drop of aggregate demand. In fact, Keynes had stated publicly on a number of occasions that fiscal stimulus might not always work, as timing stimulus spending is difficult. For his part, Dr. Cowan estimated that only 15% of the US stimulus had been actually spent, which means inflation might still be the biggest worry as the economy recovers and the majority of the stimulus is spent.

Keynes, Dr. Cowan believes, was a pragmatist at heart. For example, when Keynes was called upon to help reform the world's economy after World War Two with his American counterpart Dr. White, it turned out that most reforms were done from the standpoint of what was practical at the time and didn't pay strict adherence to his major work, 'The General Theory'.

In terms of looking for policy prescriptions that are based on what will work and not ideologically driven, Dr. Cowan is a supporter of Keynes and in this regard he believes the actions taken by the Fed and world governments are 'Keynsian'. That said, he does not believe conventional economic wisdom has reverted to Trudeau era Keynesianism, when big government was applauded and huge deficits the norm.

Going forward Dr Cowan believes there are still major risks to the economy that shouldn't be underestimated:

1. Health Care Costs in the US.
2. US Financial system didn't learn its lesson and will return to taking on excessive risks.
3. Fiscal house of the States in the US are in ruin and many are mostly living off of Federal government largesse, which is scheduled to end in two years.
4. The imbalance between China and the US, with China refusing to continue bankrolling US debts.

Financial Data

Interest Rates	23-Oct-09	16-Oct-09	Equity Markets	23-Oct-09	16-Oct-09	
<i>Note: Data is as of 10 a.m. MST</i>			S&P TSX Composite	11,551.38	11,432.29	
Call Loan	0.20	0.20	Dow Jones Industrial Average	10,092.04	9,967.17	
CAD Prime Rate	2.25	2.25	NASDAQ	2,188.49	2,418.51	
Fed Funds (effective)	0.100	0.120	Commodity Prices	23-Oct-09	16-Oct-09	
USD Prime Rate (base rate)	3.75	3.75	NYMEX MMBTU(USD)	5.031	4.503	
1 month schedule I Bank B.A. (bid)	0.34	0.35	Crude Oil (WTI in USD)	81.40	77.40	
3 month schedule I Bank B.A. (bid)	0.36	0.36	Gold (London A.M. in USD)	1066.20	1050.00	
1 year CAD T-Bill (bid)	0.61	0.67	Prices \$/tonne*	22-Oct-09	16-Oct-09	1 year ago
2 year CAD Bond (bid)	1.528	1.644	<i>*Average elevator bids, Edmonton, unless otherwise noted</i>			
5 year CAD Bond (bid)	2.773	2.863	Canola (crusher FOB)	383.74	n/a	407.1
2 year CAD Swap	1.4650	1.0456	Feed Barley	130.91	n/a	139.9
5 year CAD Swap	2.8370	1.5406	Oats (Red Deer)	112.62	n/a	n/a
Implied 2 year CAD Swap in 1 Year	2.8220	1.6660	Feed Wheat	137.3	n/a	121.5
Implied 5 year CAD Swap in 1 Year	3.5345	85.3600	Alberta direct cattle sales \$/cwt			
Exchange Rates	23-Oct-09	16-Oct-09	Steers	82	77.0-78.00	n/a
Canada/U.S.	1.0496	1.0393	Heifers	80.6	n/a	n/a
Canada/Euro	1.5772	1.5467	Western Hog Exchange (WHE) base cash price			
Canada/GBP	1.7194	1.7004	Index 100 hogs (\$/kg)	1.026	0.939	1.37
Yen/Canada	87.50	87.60				

Data as of Thursday, Oct. 22, 2009

Compass Portfolio Fund Name	1 week % change	30 day % change	YTD % change	Incep (as of Sept. 30)	Compass Portfolio Fund Name	Current yield %
Compass Balanced Growth Portfolio	0.36	0.32	17.28	4.77 (12/02)	ATB Money Market Series A	0.13
Compass Balanced Portfolio	0.42	0.39	15.58	4.89 (12/02)	ATB Money Market Series I	0.24
Compass Conservative Balanced Portfolio	0.53	0.39	15.24	5.08 (12/02)		
Compass Conservative Portfolio	0.42	0.34	12.31	4.17 (12/02)		
Compass Growth Portfolio	0.29	0.24	17.78	4.25 (12/02)		
Compass Maximum Growth Portfolio	0.32	0.34	18.93	3.50 (12/02)		

Economic Data

Retail Sales	Aug-08	Jul-09	Aug-09	June 2008 to June 2009
<i>seasonally adjusted</i>	\$ millions			% Change
Canada	28,219	27,013	27,156	-3.8%
Automotive	12,244	10,957	10,957	-10.5%
Furniture	2,637	2,385	2,386	-9.5%
Buiding & Outdoor	2,300	2,229	2,241	-2.6%
Food	8,006	8,211	8,221	2.7%
Drug	2,453	2,581	2,582	5.2%
Clothing	1,994	1,925	1,929	-3.2%
General Stores	4,333	4,356	4,339	0.1%
Other	1,835	1,824	1,821	-0.8%
Alberta	5,086	4,618	4,608	-9.4%

More data is available in StatsCan, The Daily, Oct 22, 2009

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Where there's a way