# WEEKLY ECONOMIC BULLETIN

ATB Financial®

Economist Dan Sumner

**November 13, 2009**

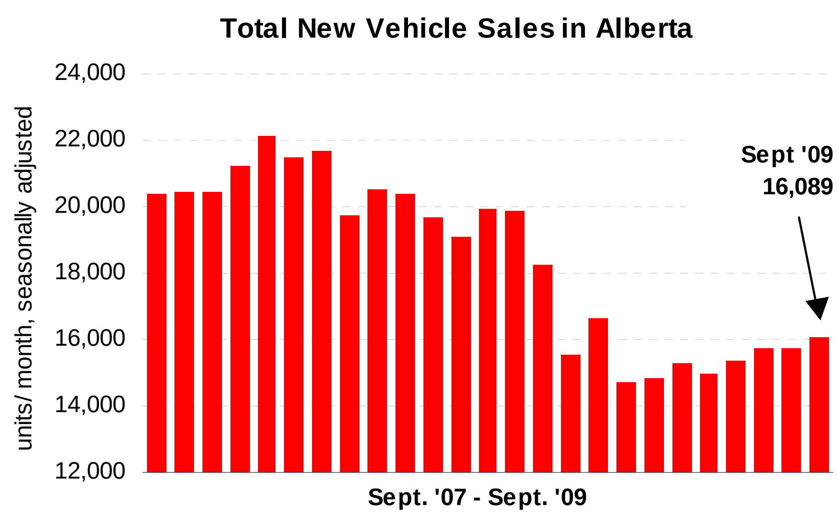
- **More new cars roll off the lots in September**
- **Alberta exports trend along at low level**
- **US consumers still weary**
- **Employment during recessions: then and now**

## Auto Sales Claw Higher

Many market pundits predicted that Canada and Alberta would see a gradual resumption towards normal levels of economic activity after the 2008/09 recession, and that is exactly what has happened with sales of new passenger vehicles.

16,089 new cars rolled off Alberta dealers' lots in September, a 2.2% increase from August, but down 19.3% from a year previous. Although auto sales are trending along at low level compared to the heydays of 2007 and 2008, September's sales figure was the strongest since January of this year.

Nationally, the vehicle sales report was similarly positive in September, with nationwide sales of autos up 1.2% over August to 128,415 units. The gains were concentrated in the North American passenger car category (+5.3%), with sales of trucks, vans and buses also seeing a slight gain (+0.5%).



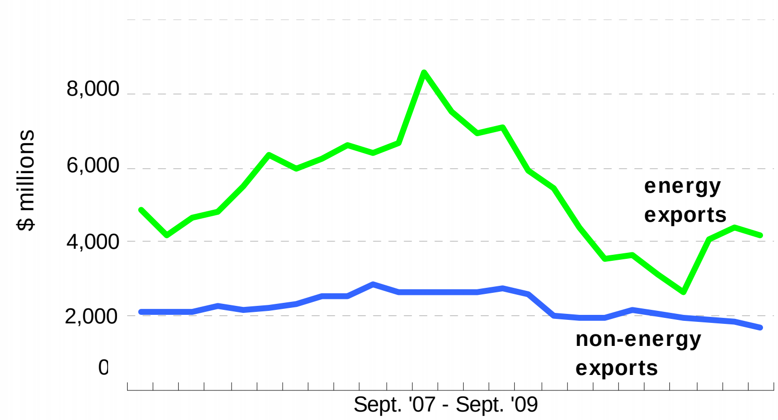

Source: Statistics Canada, The Daily, Nov. 13, 2009

Provinces in Eastern Canada saw by far the largest month-over-month gains with residents of New Brunswick (+8.7%), Newfoundland and Labrador (+10.6%) and P.E.I (+16.5%) eager to invest in new vehicles in September. Gains were also strong in B.C. (+3.9%) and Saskatchewan (+7.7%).

September's vehicle sales numbers reinforced the trend seen over the last few months in both Alberta and Canada; after dropping precipitously in late 2008 and early 2009, sales of new vehicles have been slowly climbing.

Despite healthy September figures, vehicle sales have a way to go before they get back to pre-boom levels. Sales of big ticket items like vehicles have a lot to do with consumers' confidence and mood, and much like vehicle sales, Canadians are gradually feeling more confident about the future of the economy, although some reservations probably still remain.

**International Exports from Alberta**




Souce: Statistics Canada CANSIM, Nov.13, 2009

## Energy Exports Flat in September

Alberta businesses sold a 0.4 lower value of goods abroad in September, compared to August figures. Exports of energy products declined by 1.1% month-over-month, as oil and gas prices both moved sideways in the early fall month. Nationally, Canadian businesses exported 3.5% more merchandise, largely due to higher automotive exports.

Alberta total exports recovered somewhat during the summer on the back of a recovery in oil prices. Non-energy exports, on the other hand, have seen no such recovery and have continued a downward trend since the global economy took a nose-dive last September.

## Canada's Employment Downturn in Perspective

Statistics Canada released a study this week comparing employment changes in the current recession with those in 1990 and 1981. According to the study, employment declined much quicker in the early months of the current recession, while in the previous recessions the job losses were spread over a longer period of time. In fact, after reaching an all-time high in October 2008, employment fell by 2.1% in the following five months. Five months after the 1981 and 1990 recessions, employment had only fallen by 0.8% and 0.6% respectively. However, in 1981 and 1990 employment losses continued for 17 and 11 months respectively, while in the current recession employment stabilized after the initial drop.

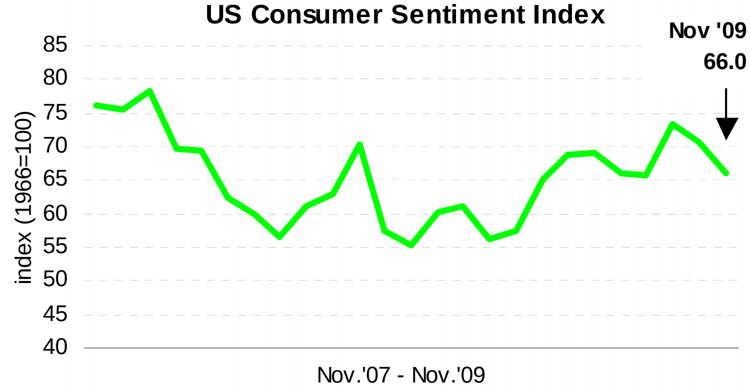
The study reported that the 2008/09 recession has been very inconsistent with who it has impacted. The manufacturing sector, which has been shedding jobs since late 2002, was the hardest hit sector with employment down by 218,000. Furthermore, since late 2002, Canadian employment in manufacturing has fallen by 573,000. The 2008/'09 recession has also been particularly difficult for "the private sector, young people, low-paid workers and families with children, while modest employment gains occurred among those aged 55 and over," read Statistics Canada's report.

## Americans Still Unsure Of Future Economic Prospects

Consumer confidence south of the border fell for a second consecutive month in November, according to the most recent reading of the Reuters/University of Michigan index of consumer confidence.

After reaching a high for the most recent cycle of 73.5 in September, confidence fell in both October and November bringing it to 66.0. The report, released this morning was

**US Consumer Sentiment Index**




Source: Reuters, Nov. 13, 2009

particularly disappointing considering it was expected to rise to 71.0 in November.

The US jobless rate advancing into the double digits in October probably took a toll on many American's moods in November. The weakness is also raising questions about the upcoming Christmas season and could imply lackluster sales for US retailers.

## New Housing Prices up in Calgary, Flat in Edmonton

Prices for new homes moved in opposite directions in Alberta's two metropolitan areas. In September, the price for a new home rose by 0.6% in Calgary month-over-month, while Edmonton saw 0.1% decline over the same period.

Alberta's large cities continued to see some of the biggest year-over-year declines of all major Canadian centers as of September 2009. In Edmonton a new home cost 11.4% less than the year previous (the largest decline in the country) while in Calgary a new home cost 6.4% less, tied for the third largest drop.
Nationally, new housing prices have surged in recent months with the average price of a new home in Canada only 2.7% lower than a year ago. The largest declines have been concentrated in the West with other cities like Quebec City (+6.3%), St. John's (+7.5%) and the large centers of New Brunswick (+3.1%) actually seeing robust price increases.

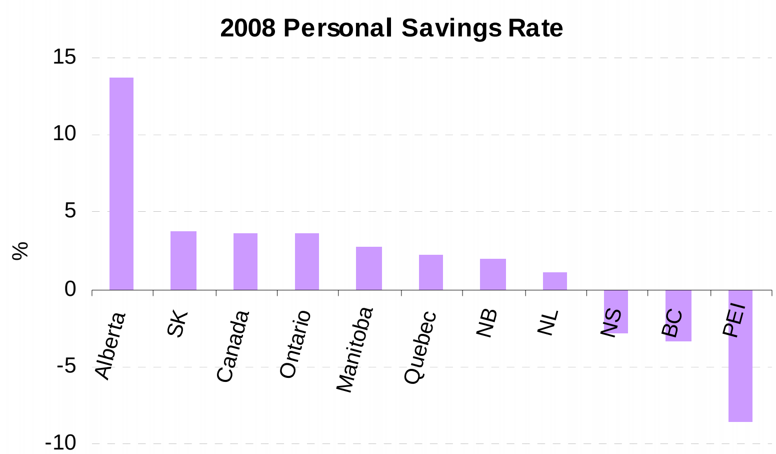
## A Penny Saved

In 2008 the average Albertan saved 13.7% of their disposable income, compared to the Canadian average of 3.7%. In the province with the second highest rate of savings, Saskatchewan (3.8%), the residents put aside money at less than a third of Alberta's rate.

The reason Albertans are able to both save and spend more money is that, simply, disposable income is higher here than in other provinces. On average, Alberta workers both earned higher incomes and paid lower taxes, which means more money is left over for the 'finer things in life' and to add to reserves. The discrepancy between the Canadian and the Albertan savings rates has existed since 2004, as Alberta residents have grown their nest-eggs at a rate significantly above the Canadian average.

## Housing Starts Surprise to the Upside

The residential construction story has turned decidedly positive over the last few months and according to data released early this week by Canada's national housing agency, the recovery saga continued to gain traction in October. Alberta contractors and developers picked up the pace in October, breaking ground on 25,000 (seasonally adjusted, annualized) residential homes. October's 25,000 starts were a solid 10.6% gain over activity in September but barely changed from year-ago levels (25,200).
Alberta residential construction activity bottomed out in March 2009 at 11,900 units, the lowest level of activity in Alberta since June 1995. But since then the trend has done a 180-degree turn, and with interest rates near historical lows, the future looks somewhat brighter for housing starts.




Source: Statistics Canada, Provincial and Territorial Economic Accounts Review, Nov. 9, 2009

# TECHNICALLY SPEAKING

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*by Will Van't Veld*

## Let the Gold Bugs Rejoice

The year is 1965 and the United States has just announced the highest balance of payments deficit in its history. In these days the US Federal Reserve is required to convert dollars for gold at a fixed rate, but the math doesn't add up and the world knows it. The US dollars accumulated by creditor nations far exceeded the FED's gold supply. French President Charles De Gaul demands a conversion of his country's USD holdings to gold, leading other nations to do the same. To avoid a complete depletion of the nation's gold supply the US suspends convertibility, ending gold's official role in the monetary supply.

De Gaul didn't want an end to gold's role, as he was actually a gold bug, wanting to strengthen its role by returning to full gold convertibility. At the time all currencies were pegged to the USD, which in turn was convertible to gold. A gold bug simply believes that the officials responsible for managing the money supply will inevitably cheat (which the US had).

Since 2005, the price of gold has gone from a low of $412.52 USD/oz to $1,095.10 USD/oz. Fluctuating demand for alternative uses of gold partly influenced the rise, but many believe that the rise was mostly attributable to its use as a store of value. A role it has played for centuries. A rising gold price can be interpreted as meaning that investors aren't convinced that a country's currency isn't a good store of value. This might be because investors expect inflation to increase.

An increase in the price of gold is then sometimes viewed as a leading indicator for future inflation. Greg Tkasz, of the Bank of Canada, studied this relationship in a paper entitled 'Gold Prices and Inflation' in 2007. Mr. Tkasz focused on data from numerous countries, both developed and developing, and constructed a simple model where inflation rates and returns on gold were regressed. In this way, Mr. Tkasz was able to study whether official monetary objectives played an important role. Also, he was able to take into account the fact that investors could easily move into currencies that are uncorrelated with the USD if they are solely concerned with hedging inflation risk.

Concerning monetary policy, some developed countries have a formal inflation target, such as Canada or the EU, whereas in other countries, such as Japan or the United States, have duel mandates of stable prices and maximum employment. Mr. Tkasz found that for countries with formal targets there is a very strong predictive power. He attributes this result to an anchoring of expectations, resulting in the markets being better able to asses the inflation risks. Results for developing countries and ones without inflation targeting mandates had weaker explanatory power.

Mr. Tkasz also looked at whether there existed a long or short time lag between when gold prices increased and inflation occurred by varying the lagged periods in his regression. It doesn't appear that the predictive power of gold for inflation covers a short time horizon, as according to Mr. Tkasz for most developed countries with inflation targets, the observed increase in inflation doesn't occur until 12 to 18 months down the road.

It's worth highlighting that gold is only one of many supposed predictors of inflation. Other indicators, such as the output-gap, would actually suggest that it's not inflation that we need to worry about but deflation. In other words, the alternative explanation of the jump in gold prices is that it is simply a bubble. Bubbles often occur when trends and circumstances are not well understood and the recent actions by monetary authorities have been anything but conventional.

## Financial Data

| Interest Rates | 13-Nov-09 | 06-Nov-09 |
|---|---|---|
| *Note: Data is as of 10 a.m. MST* | | |
| Call Loan | 0.20 | 0.20 |
| CAD Prime Rate | 2.25 | 2.25 |
| Fed Funds (effective) | 0.120 | 0.130 |
| USD Prime Rate (base rate) | 3.75 | 3.75 |
| 1 month schedule I Bank B.A. (bid) | 0.33 | 0.34 |
| 3 month schedule I Bank B.A. (bid) | 0.36 | 0.36 |
| 1 year CAD T-Bill (bid) | 0.53 | 0.54 |
| 2 year CAD Bond (bid) | 1.400 | 1.403 |
| 5 year CAD Bond (bid) | 2.714 | 2.737 |
| 2 year CAD Swap | 1.3950 | 1.4100 |
| 5 year CAD Swap | 2.7690 | 2.8150 |
| Implied 2 year CAD Swap in 1 Year | 2.6996 | 2.7332 |
| Implied 5 year CAD Swap in 1 Year | 3.5064 | 3.5524 |

| Exchange Rates | 13-Nov-09 | 06-Nov-09 |
|---|---|---|
| Canada/U.S. | 1.0520 | 1.0722 |
| Canada/Euro | 1.5620 | 1.5937 |
| Canada/GBP | 1.7523 | 1.7757 |
| Yen/Canada | 85.25 | 83.91 |

| Equity Markets | 13-Nov-09 | 06-Nov-09 |
|---|---|---|
| S&P TSX Composite | 11,359.94 | 11,104.65 |
| Dow Jones Industrial Average | 10,229.81 | 9,940.82 |
| NASDAQ | 2,154.81 | 2,090.06 |

| Commodity Prices | 13-Nov-09 | 06-Nov-09 |
|---|---|---|
| NYMEX MMBTU(USD) | 4.406 | 5.139 |
| Crude Oil (WTI in USD) | 76.60 | 79.20 |
| Gold (London A.M. in USD) | 1105.90 | 1042.90 |

| Prices $/tonne* | 12-Nov-09 | 5-Nov-09 | 1 year ago |
|---|---|---|---|
| **Average elevator bids, Edmonton, unless otherwise noted* | | | |
| Canola (crusher FOB) | 367.47 | 383.83 | 405.9 |
| Feed Barley | 116.27 | 121.95 | 146.7 |
| Oats (Red Deer) | 120.79 | 120.09 | 154.37 |
| Feed Wheat | 138.05 | 138.05 | 103.6 |
| Alberta direct cattle sales $/cwt | | | |
| Steers | 77.5 | 79.1 | 94.00-96.00 |
| Heifers | N/A | 79.1-81.4 | 93.60-96.00 |
| Western Hog Exchange (WHE) base cash price | | | |
| Index 100 hogs ($/kg) | 1.043 | 1.054 | 1.163 |

*`Data as of Thursday, Nov. 12, 2009*

| Compass Portfolio Fund Name | 1 week % change | 30 day % change | YTD % change | Incep (as of Sept. 30) | |
|---|---|---|---|---|---|
| Compass Balanced Growth Portfolio | 0.76 | 0.83 | 16.83 | 4.52 | (12/02) |
| Compass Balanced Portfolio | 0.57 | 0.90 | 15.39 | 4.69 | (12/02) |
| Compass Conservative Balanced Portfolio | 0.51 | 1.05 | 15.31 | 4.93 | (12/02) |
| Compass Conservative Portfolio | 0.41 | 0.77 | 12.43 | 4.07 | (12/02) |
| Compass Growth Portfolio | 0.91 | 0.75 | 17.09 | 3.93 | (12/02) |
| Compass Maximum Growth Portfolio | 0.99 | 0.94 | 18.24 | 3.20 | (12/02) |

| Compass Portfolio Fund Name | Current yield % |
|---|---|
| ATB Money Market Series A | 0.12 |
| ATB Money Market Series I | 0.23 |

## Economic Data

| New Housing Price Index | Sept 2009 | Sept 2008 to Sept 2009 | Aug '09 to Sept '09 |
|---|---|---|---|
| | *index* | % change | |
| Canada | 154.4 | -2.7 | 0.5 |
| Houses Only | 162.5 | -3.2 | 0.7 |
| Land Only | 137.8 | -1.9 | 0.1 |
| Calgary | 231.9 | -6.4 | 0.6 |
| Edmonton | 207.4 | -11.4 | -0.1 |
| *More data is available from Statistics Canada, The Daily, Nov. 12, 2009* | | | |

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Where there's a way