

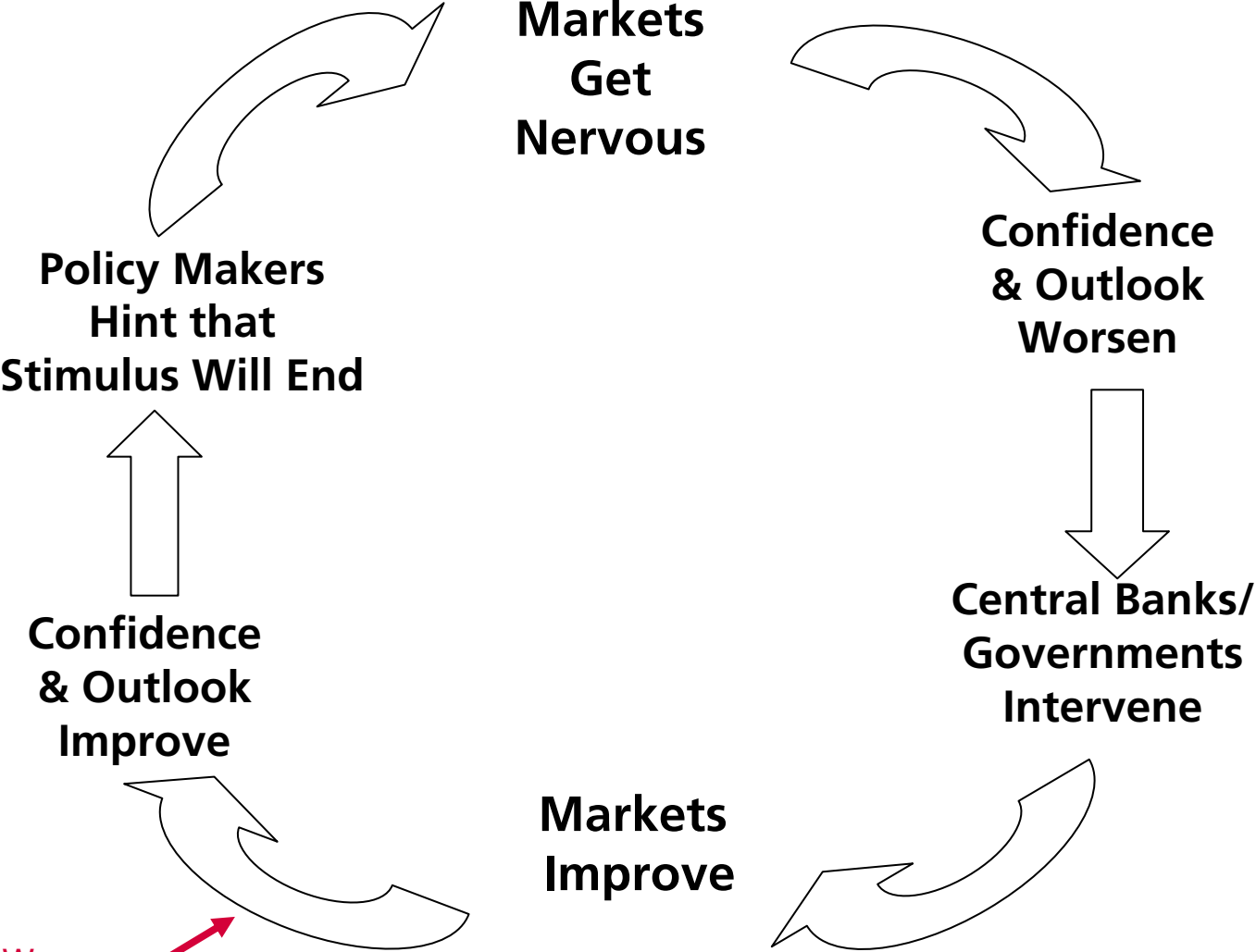
Heads I Win, Tails You Lose

By Avery Shenfeld, Chief Economist & Managing Director

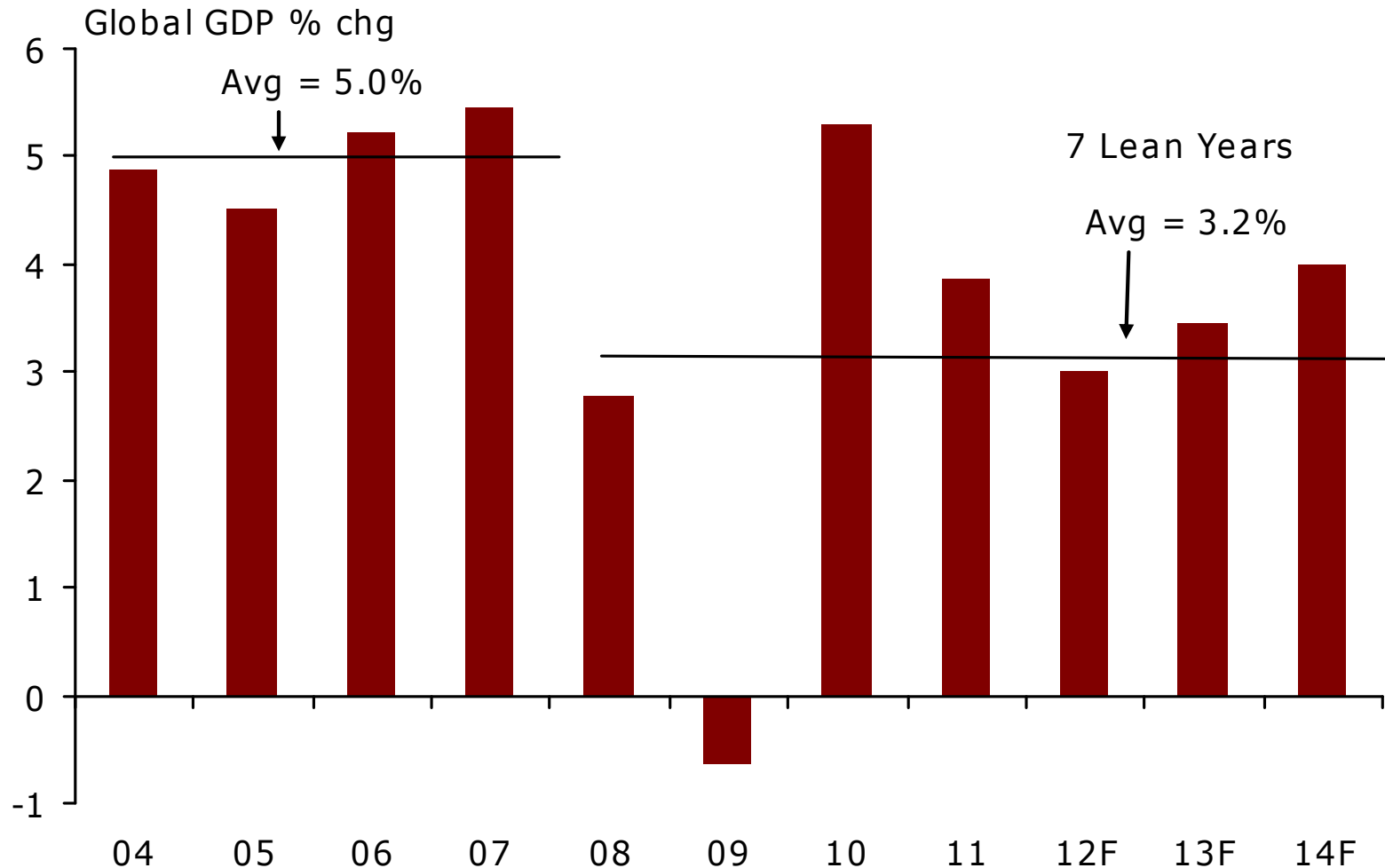
September 2012



The Circle Game



Global Economy: Not the Best of Times, Not the Worst of Times

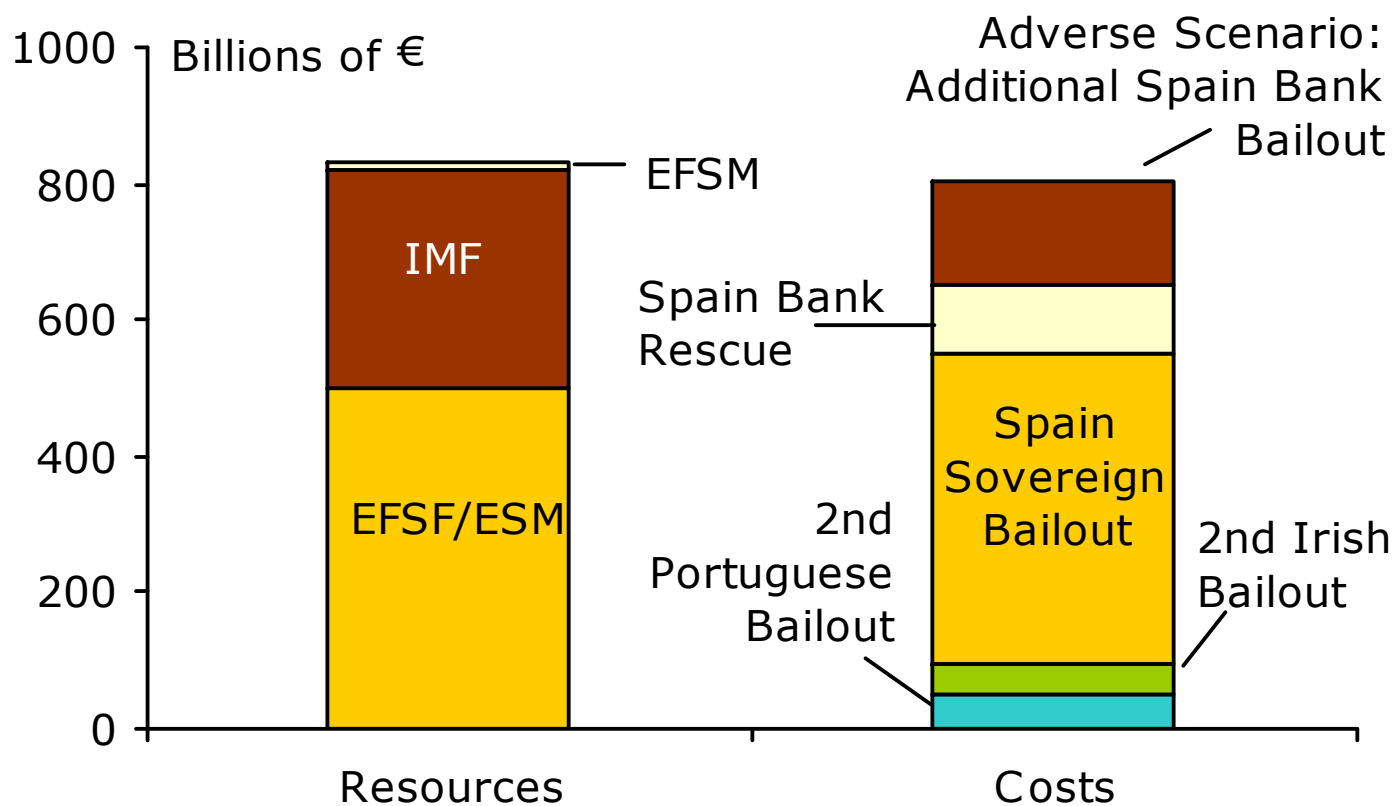


Europe's To-Do List: Progress, If a Bit Slow

- Austerity "Lite"**
- Greece: A third deal or exit**
- Cyprus**
- Spanish bank funding from EFSF**
- Spanish government funding from EFSF/ECB**
- Increased ESM resources**
- ECB bond purchases (short end)**
- ECB quantitative easing (long, unsterilized)**
- Extended financing Portugal/Ireland**
- Banking pact**
- Fiscal Stimulus from strongest countries**

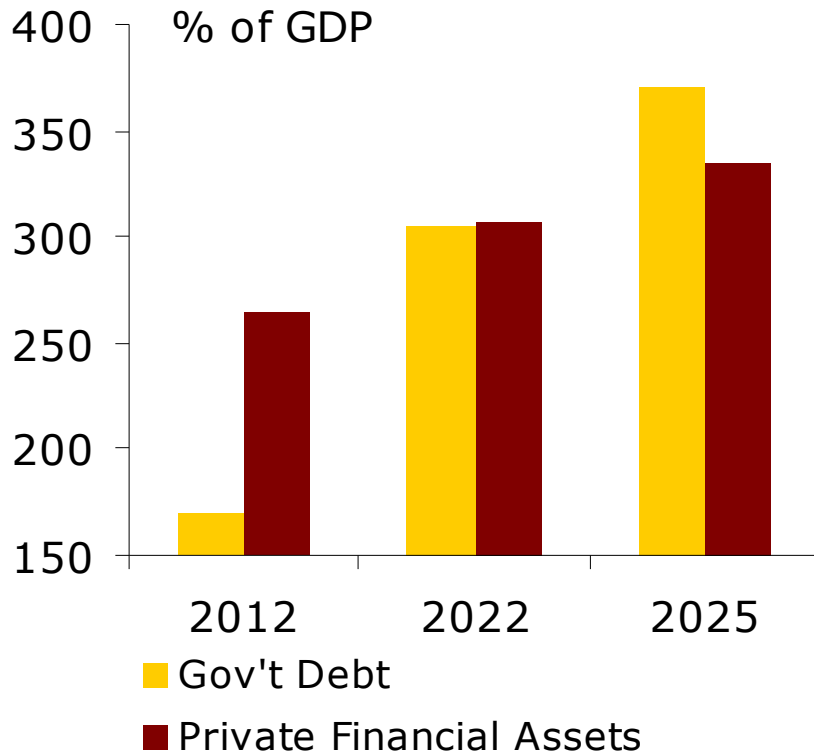


Spain: Too Big to Fail, Too Big to Bail?

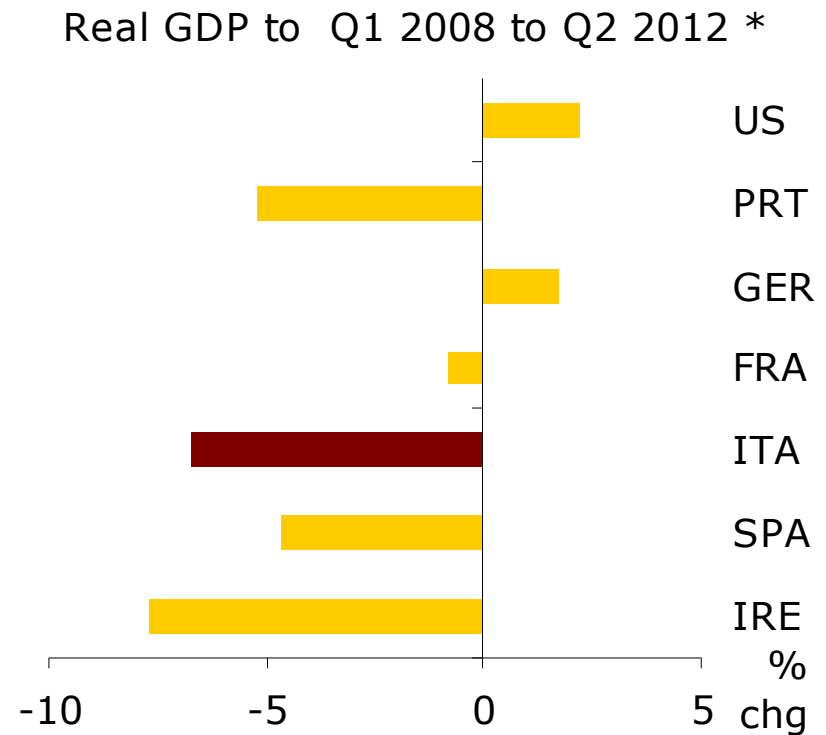


Source: EFSF, IMF, European Union, Bloomberg, CIBC

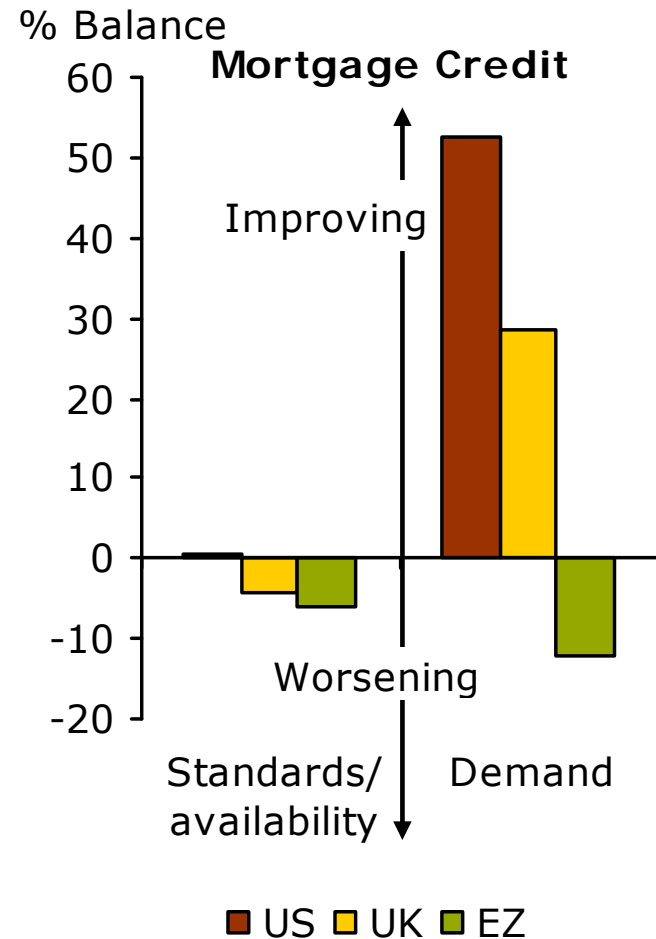
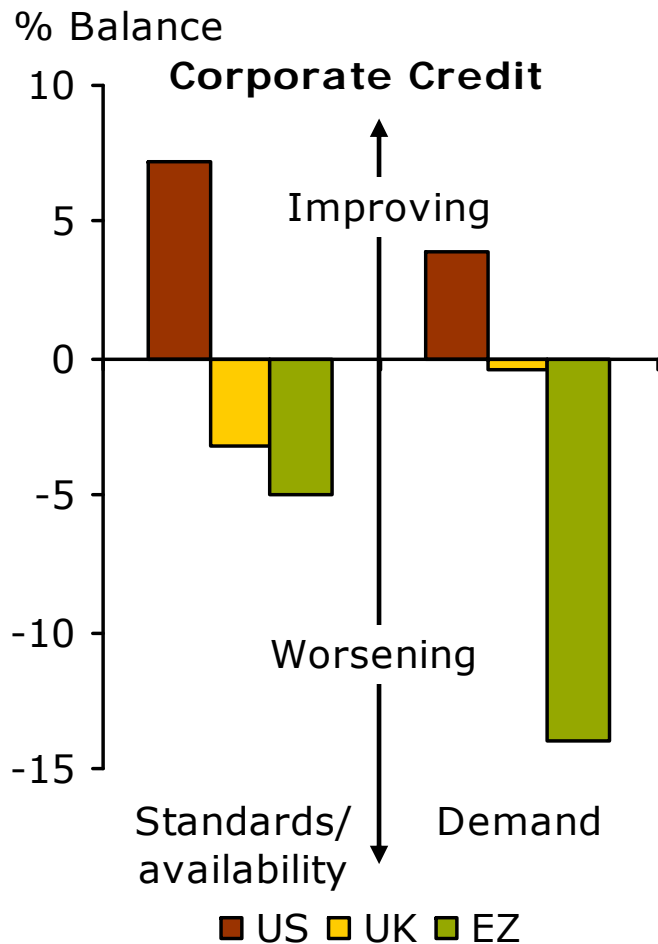
Japan's Debt a Ticking Time Bomb (L), Italy's Recession Threatens Fiscal Resolve (R)



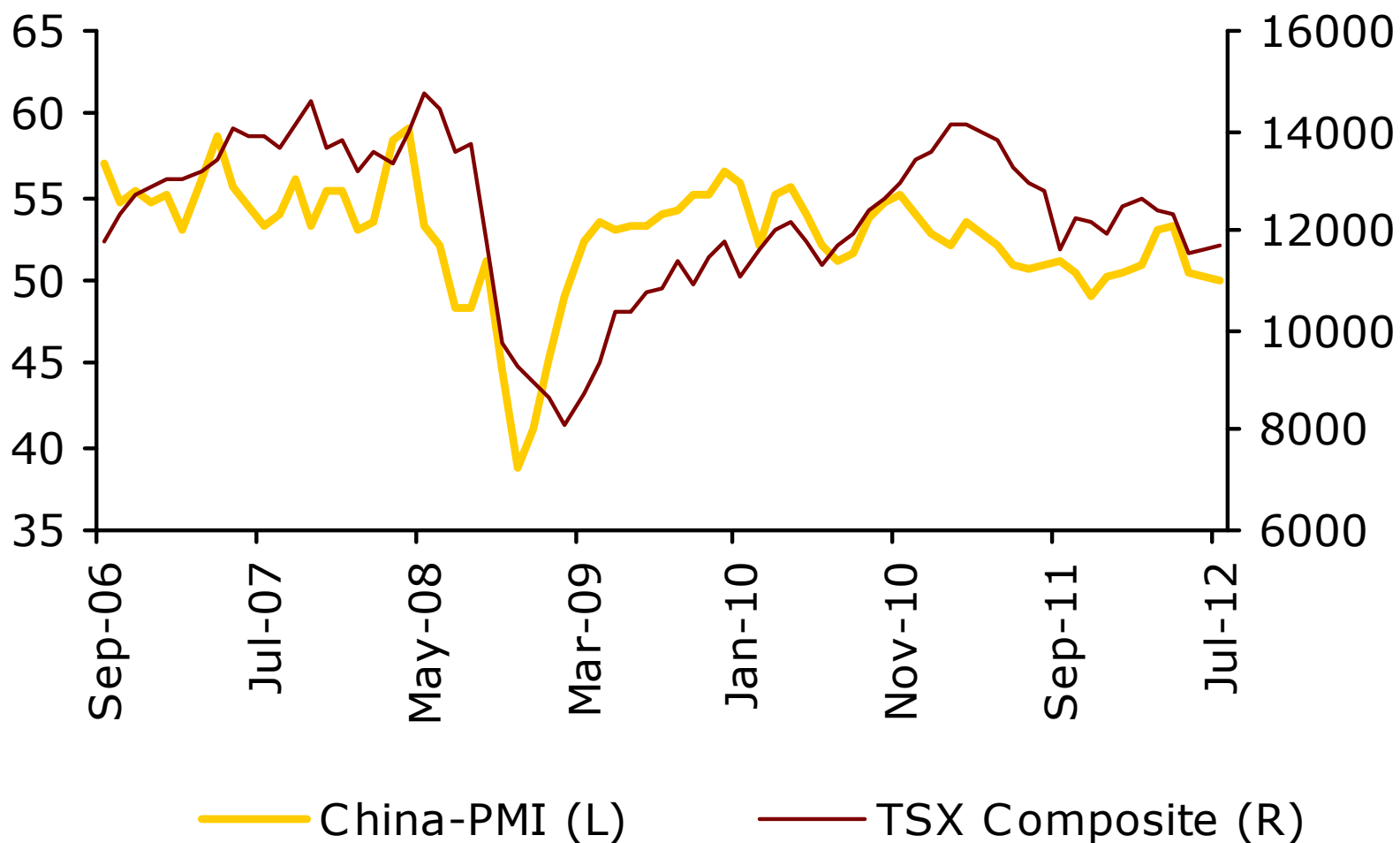
Source: Hoshi and Ito, 2012



Europe's "Other" Problem: Credit

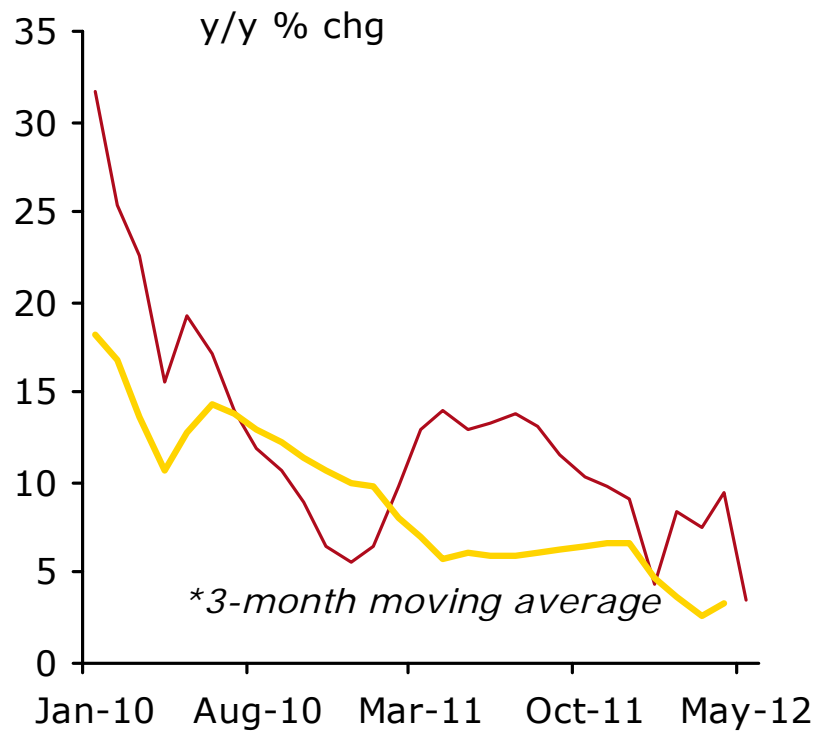


China Factory Activity Index Leads TSX Turns

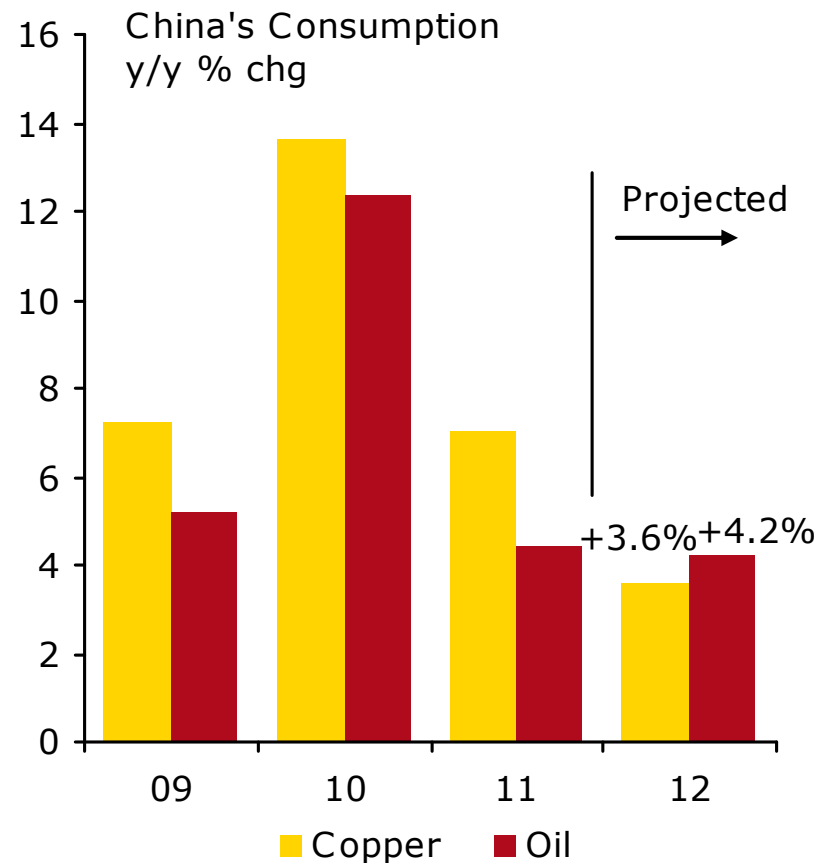


Source: CFLP, S&P

China: From Tiger to Pussycat (L) Means Weaker Resource Demand (R)



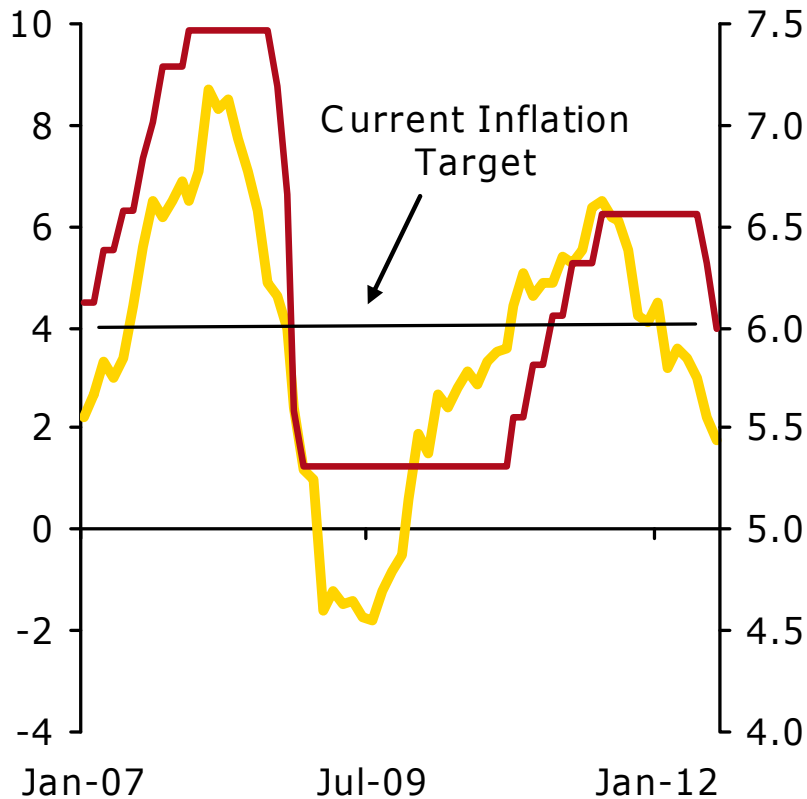
— Electricity Use* (R)
— Railway Freight Volumes* (R)



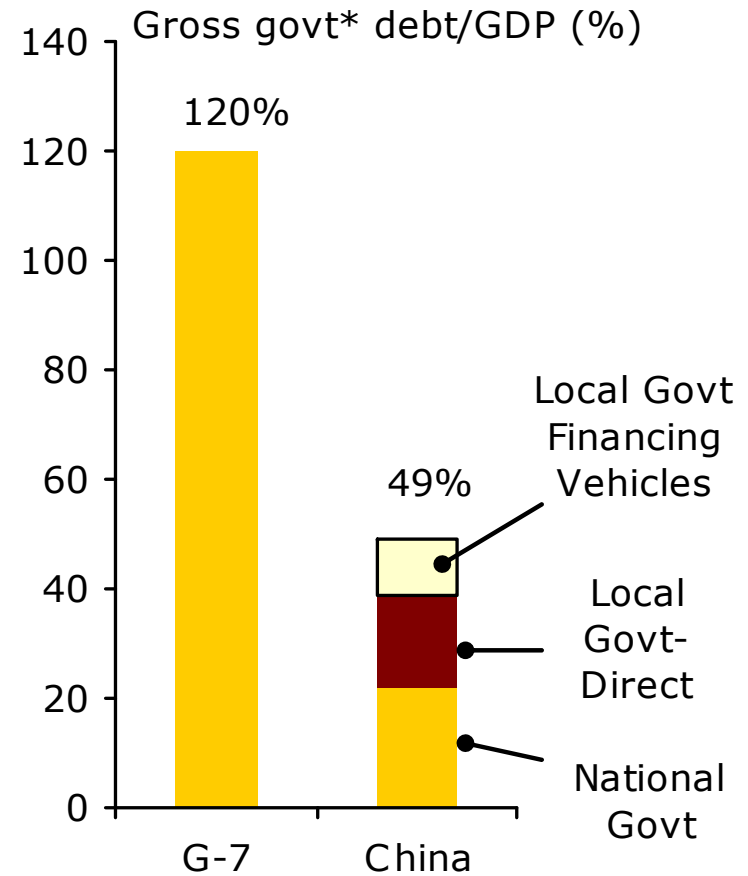
Source: IEA, CRU, ICSG



Lower Inflation (L), Modest Debt (R): Room for Chinese Monetary/Fiscal Boost



— CPI, y/y % chg (L)
— 1-year best lending rate, % (R)

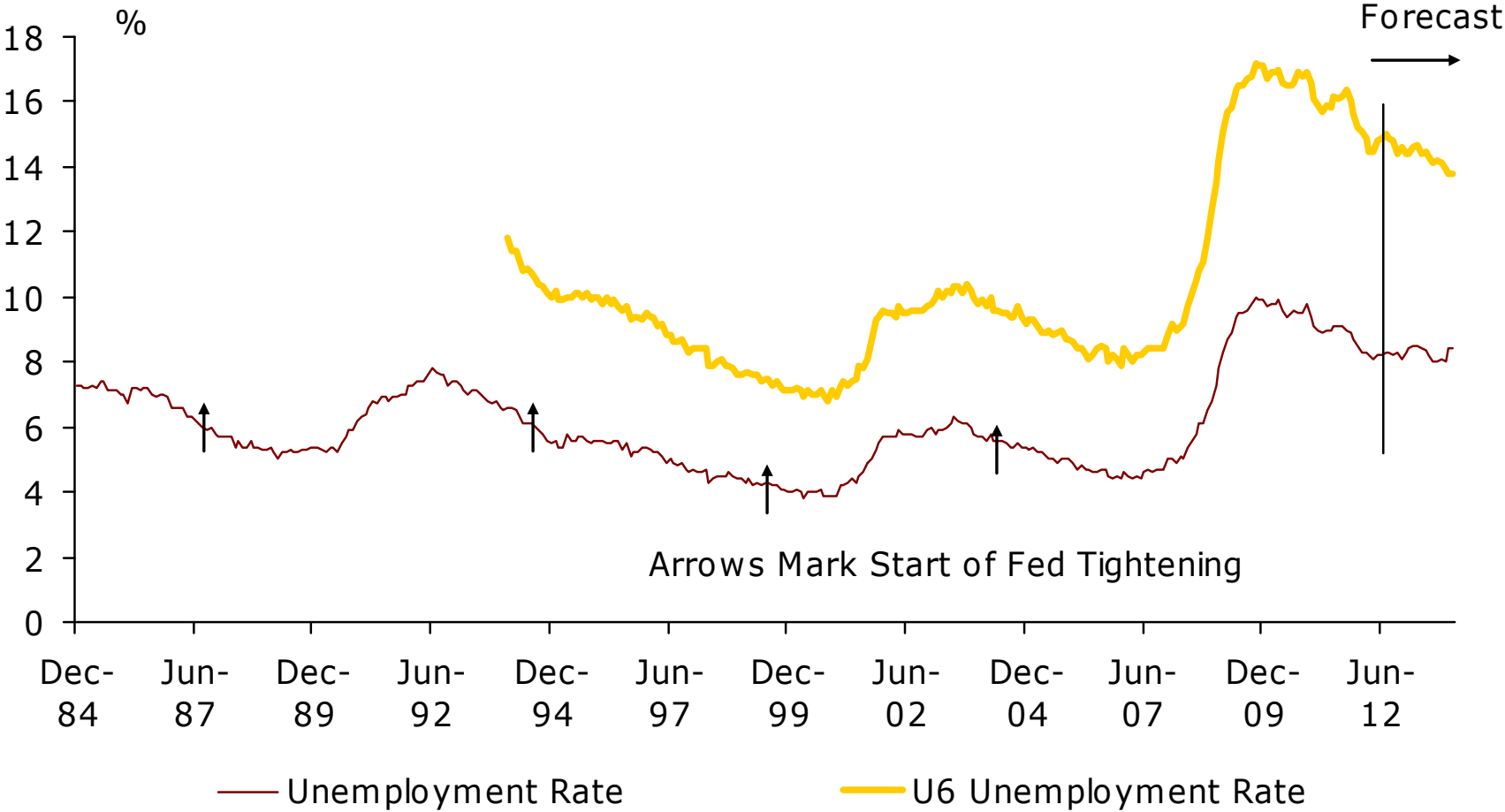


* national and sub-national

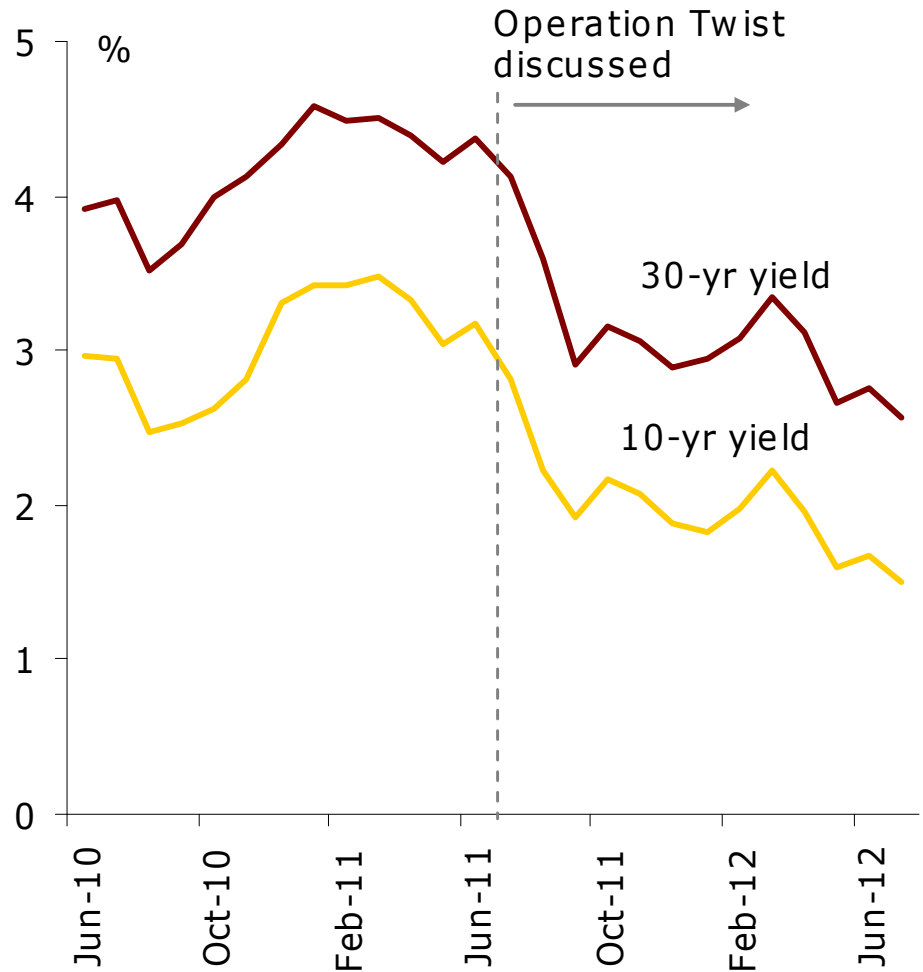
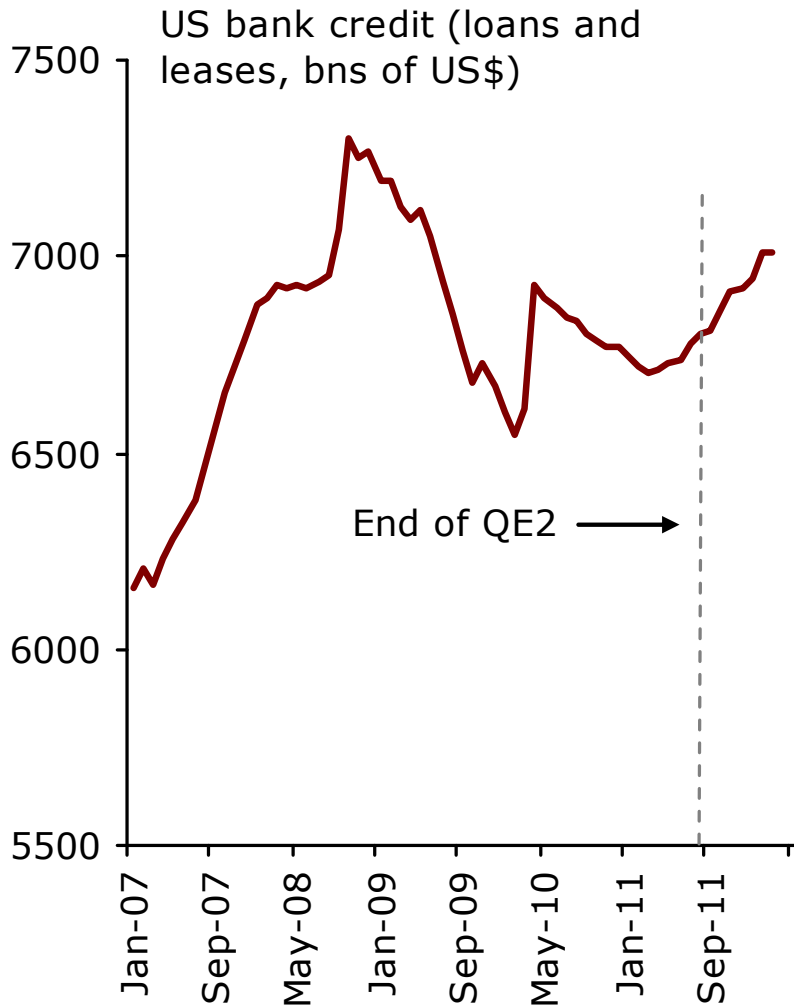


Source: Bloomberg, Moody's CIBC, IMF

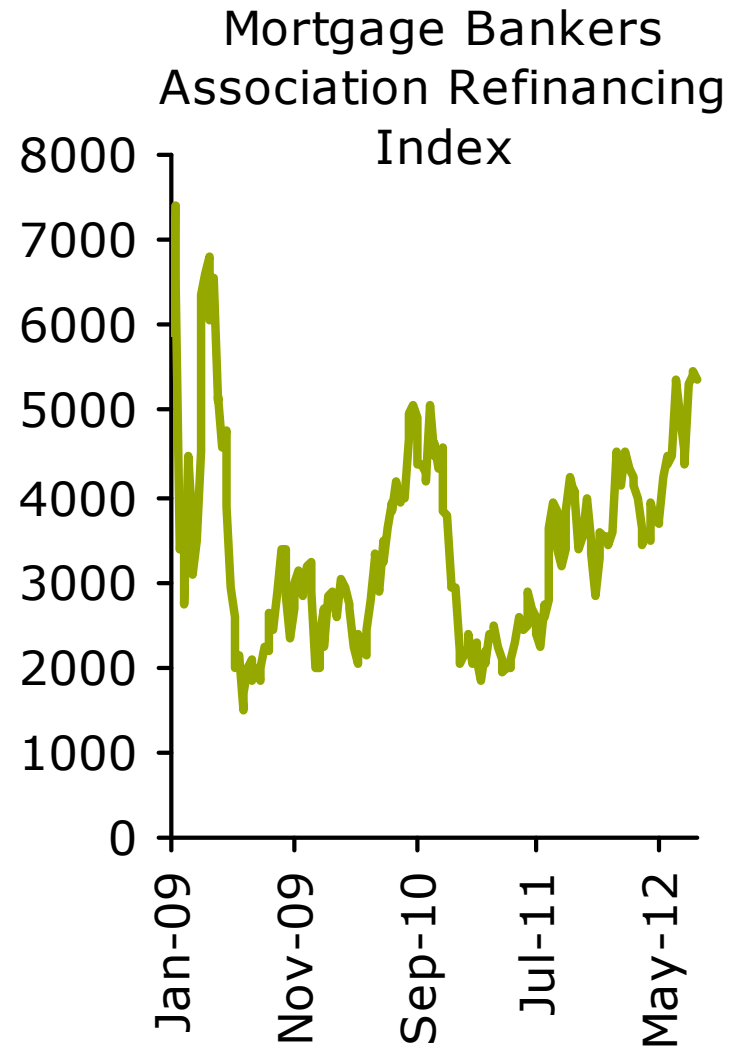
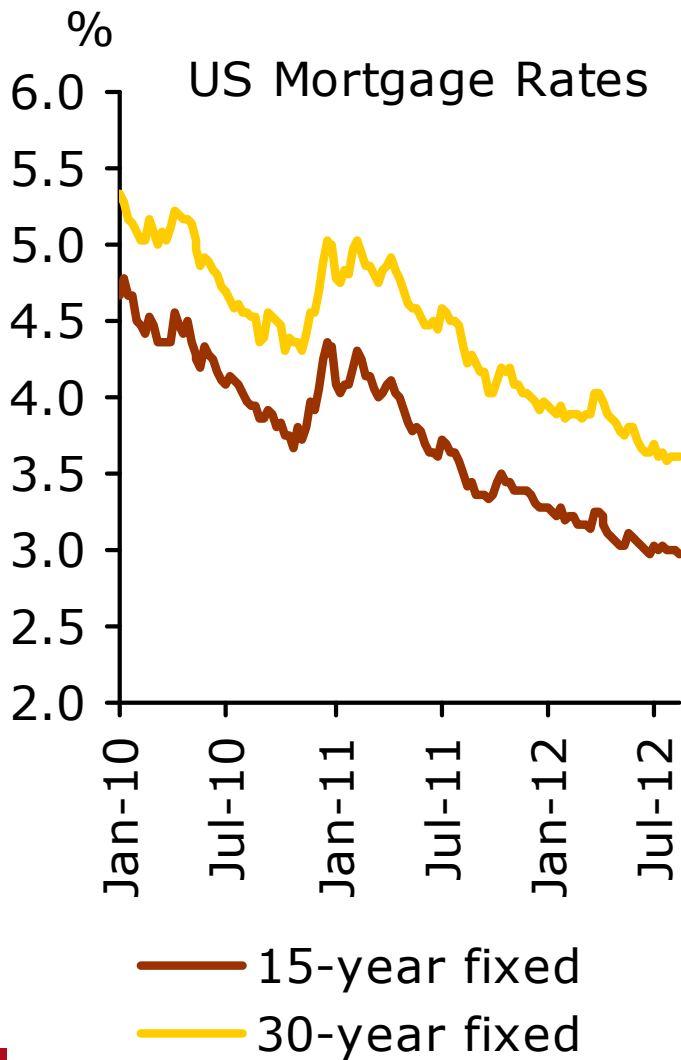
2% US Growth Retains Labour Market Slack Keeps Fed On Hold As Far As Eye Can See



Lending Growth (L), Huge Reserves, and Low Yields (R) Limit QE or Twist Utility

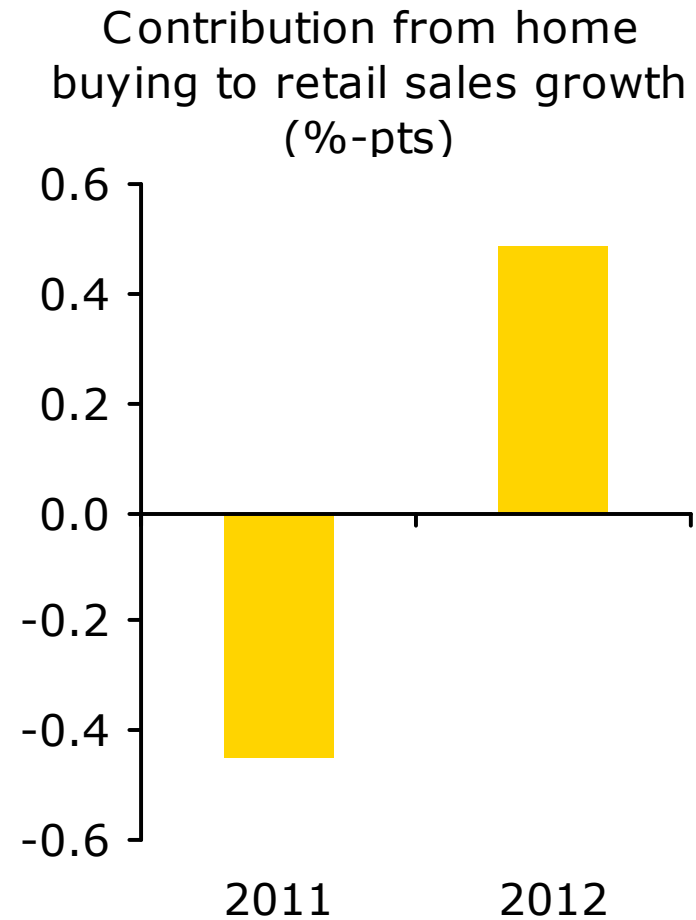
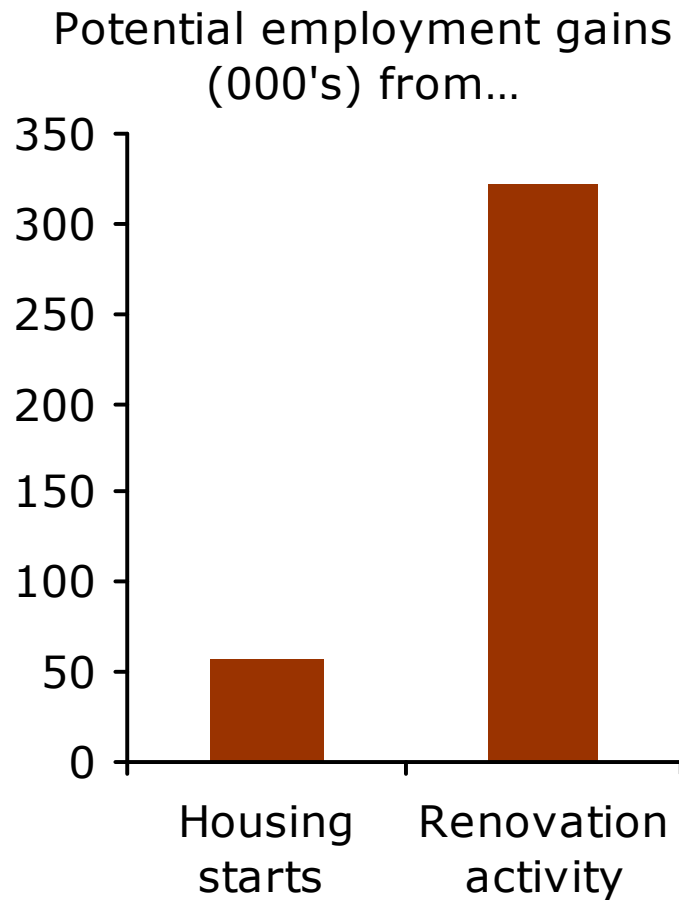


Record Low Mortgage Rates (L) Starting to See Results (R)



Source: Fannie Mae, MBA, Bloomberg, CIBC

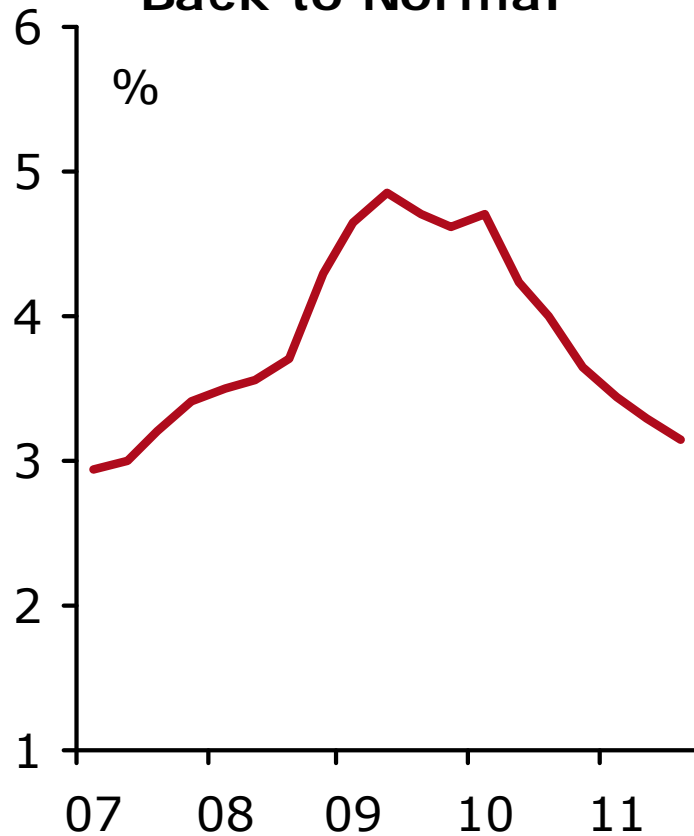
Housing Upturn to Support Employment (L) and Consumer Spending (R)



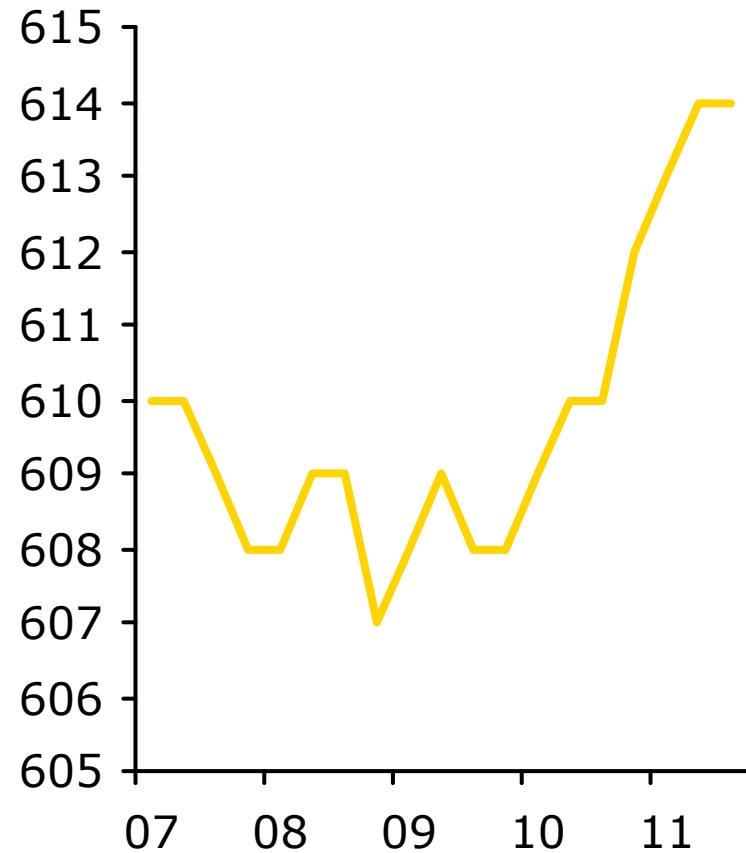
Source: BEA, NAHB, CIBC

Credit Quality Improving

Consumer Loan Delinquency Rate Back to Normal

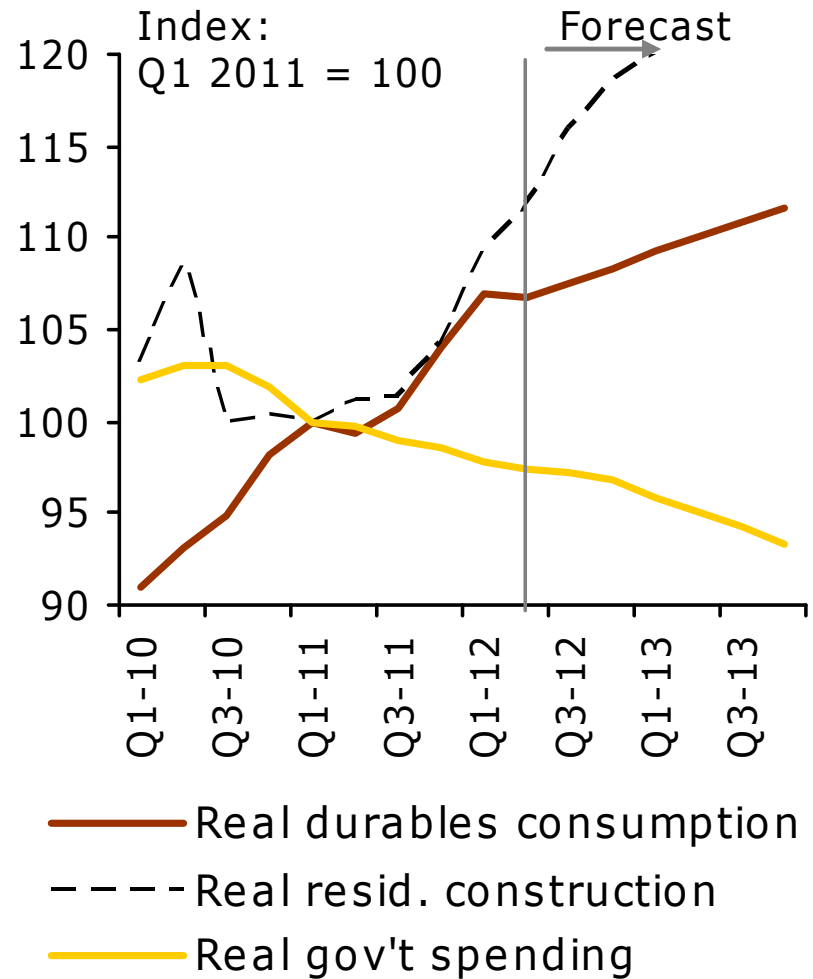
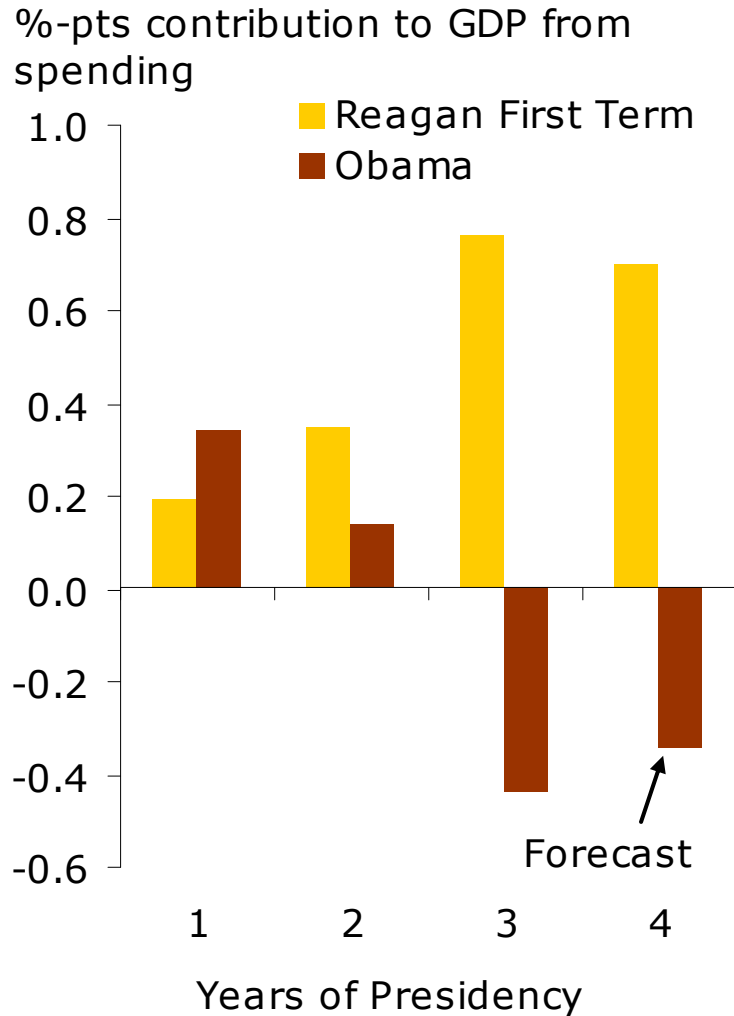


Average Credit Score of Lowest Score Quartile



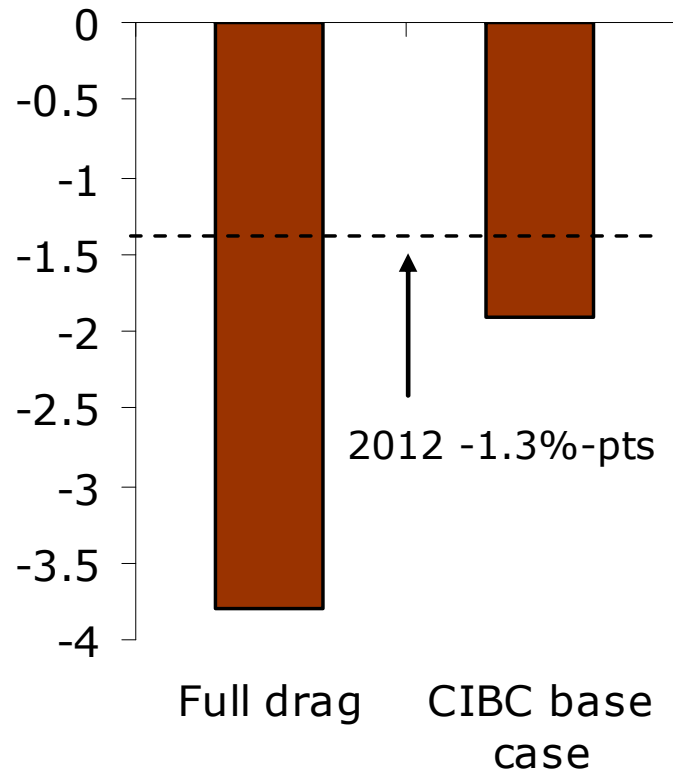
Source: CIBC, Federal Reserve Board

Let's Get Fiscal: Obama Has Been No Ronald Reagan

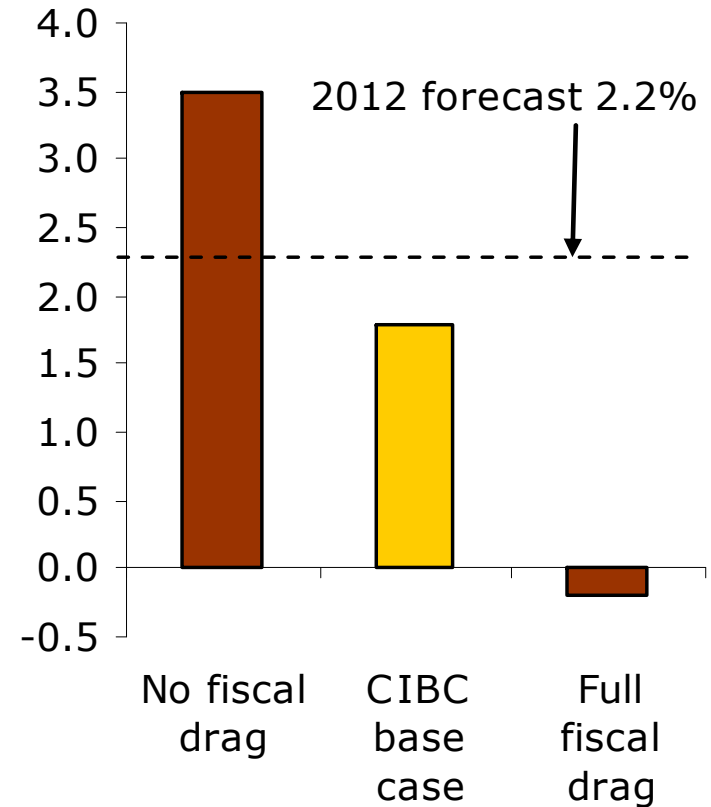


Fiscal Outlook Takes the Fun Out of 2013

2013 Fiscal drag %-pts



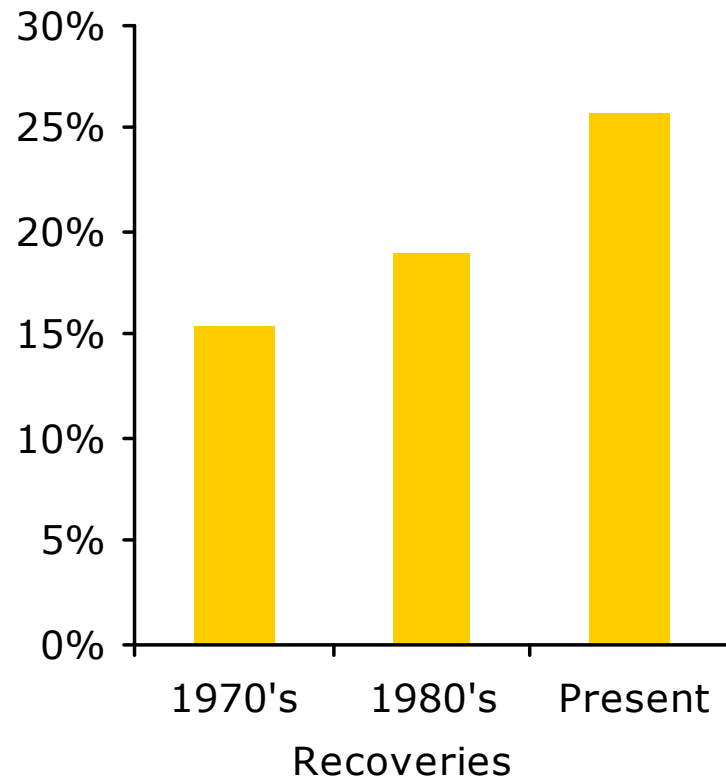
2013 US GDP growth forecasts



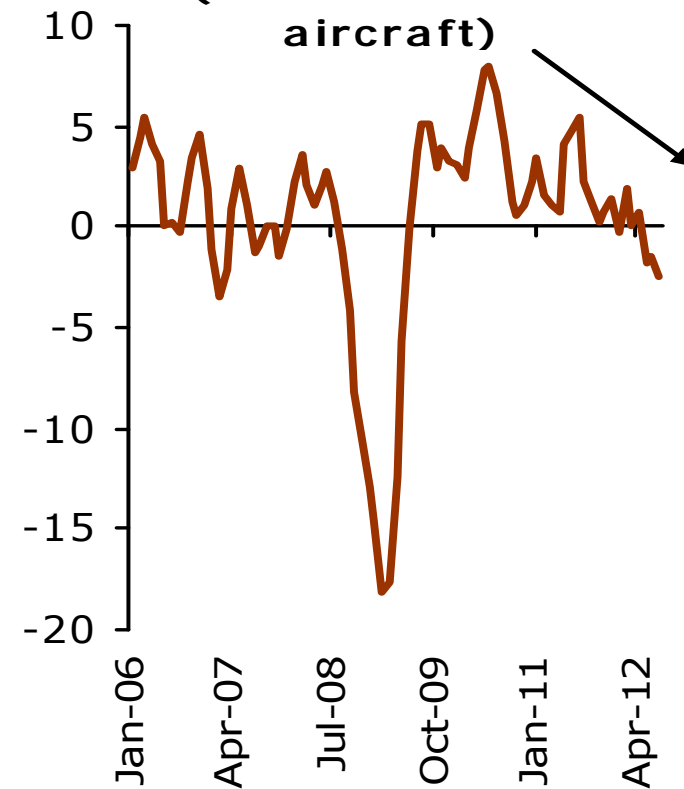
CIBC base case assumes all planned spending cuts and tax increases are delayed except; the expiration of payroll tax cut, expiration of high income tax reduction and implementation of automatic spending cuts.

Business Investment: Fiscal Fears Holding Back Activity

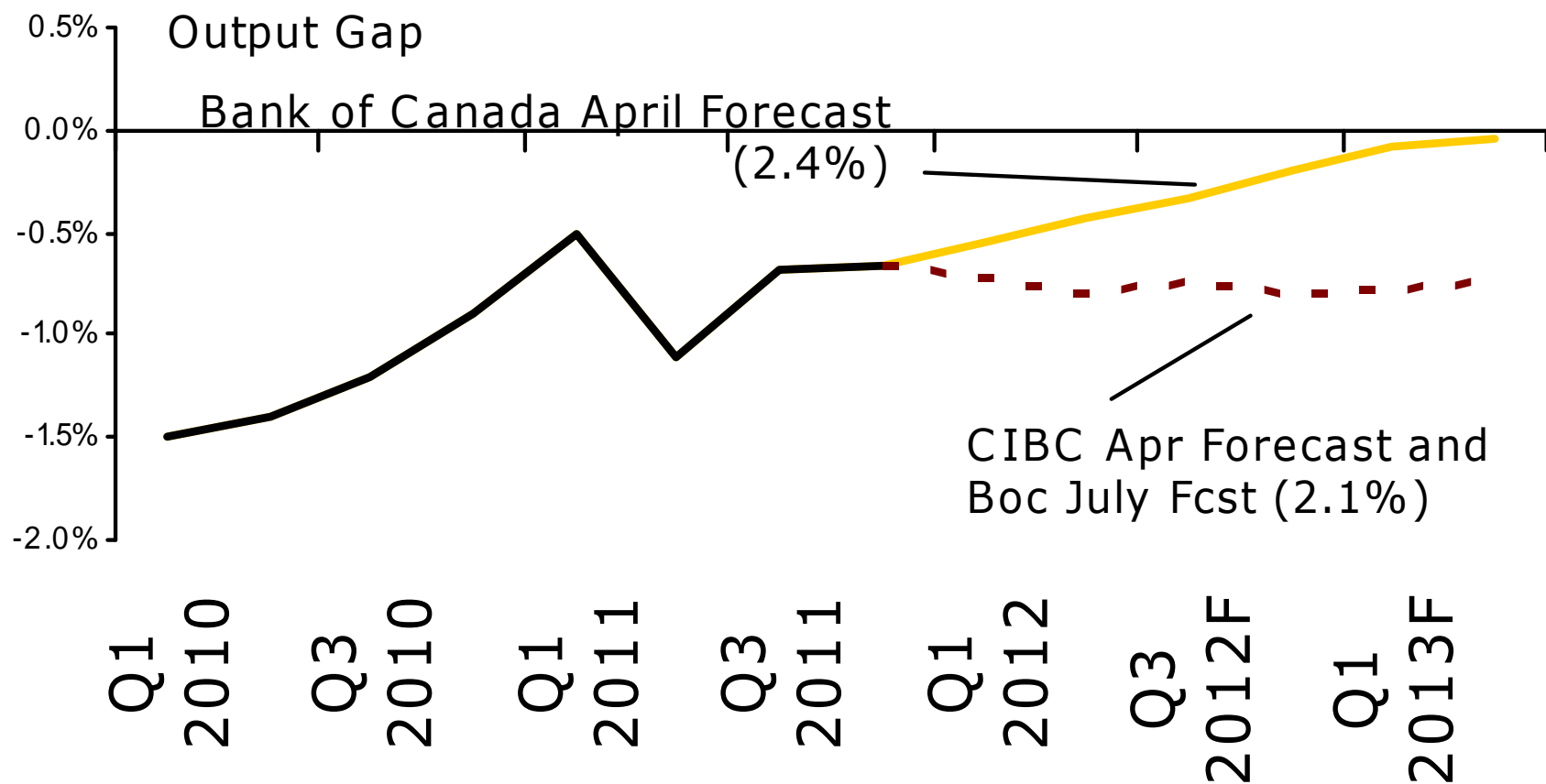
Average contribution from
business investment as a %
of GDP growth



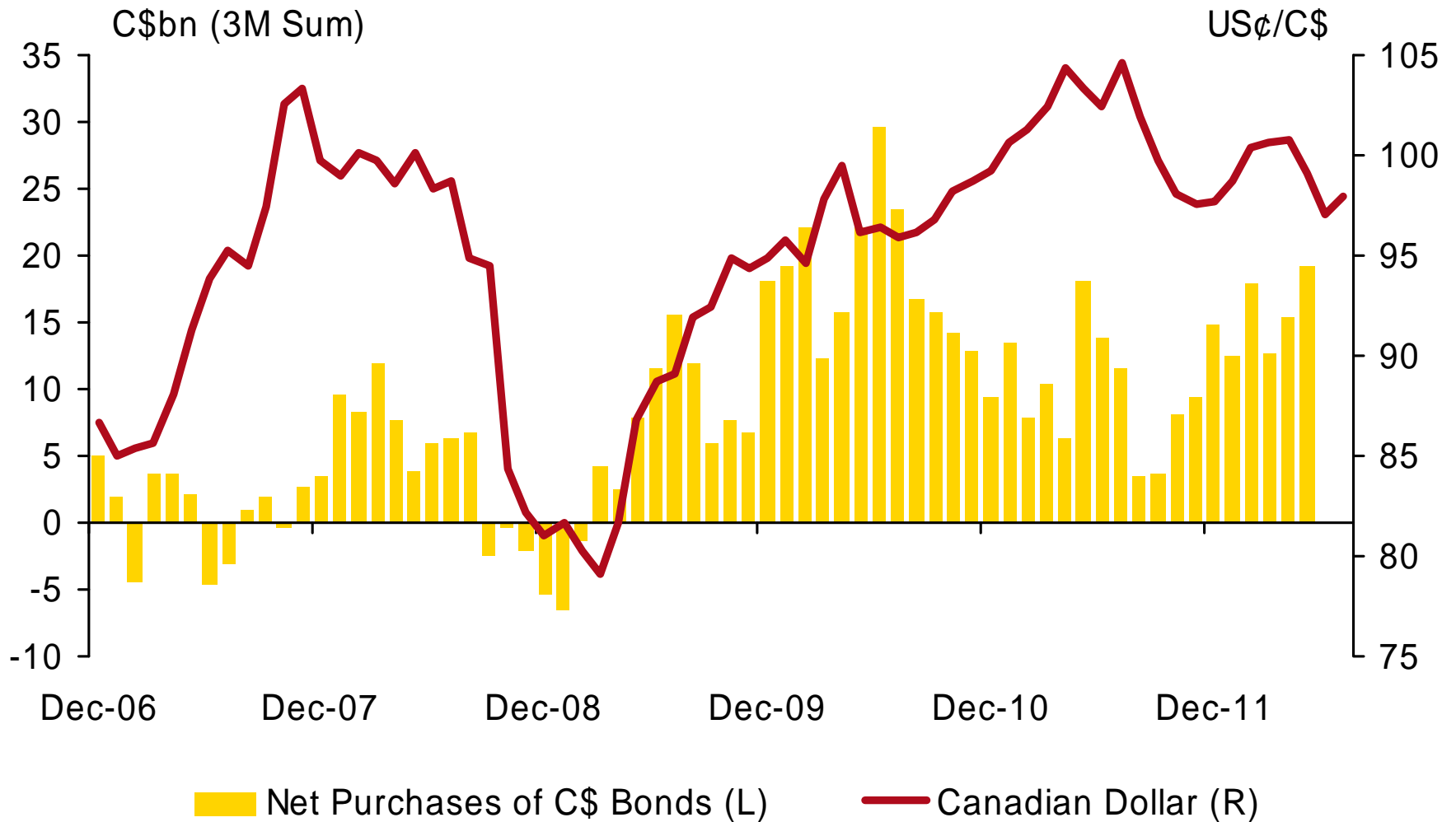
Core capital goods
orders
(non-defense ex
aircraft)



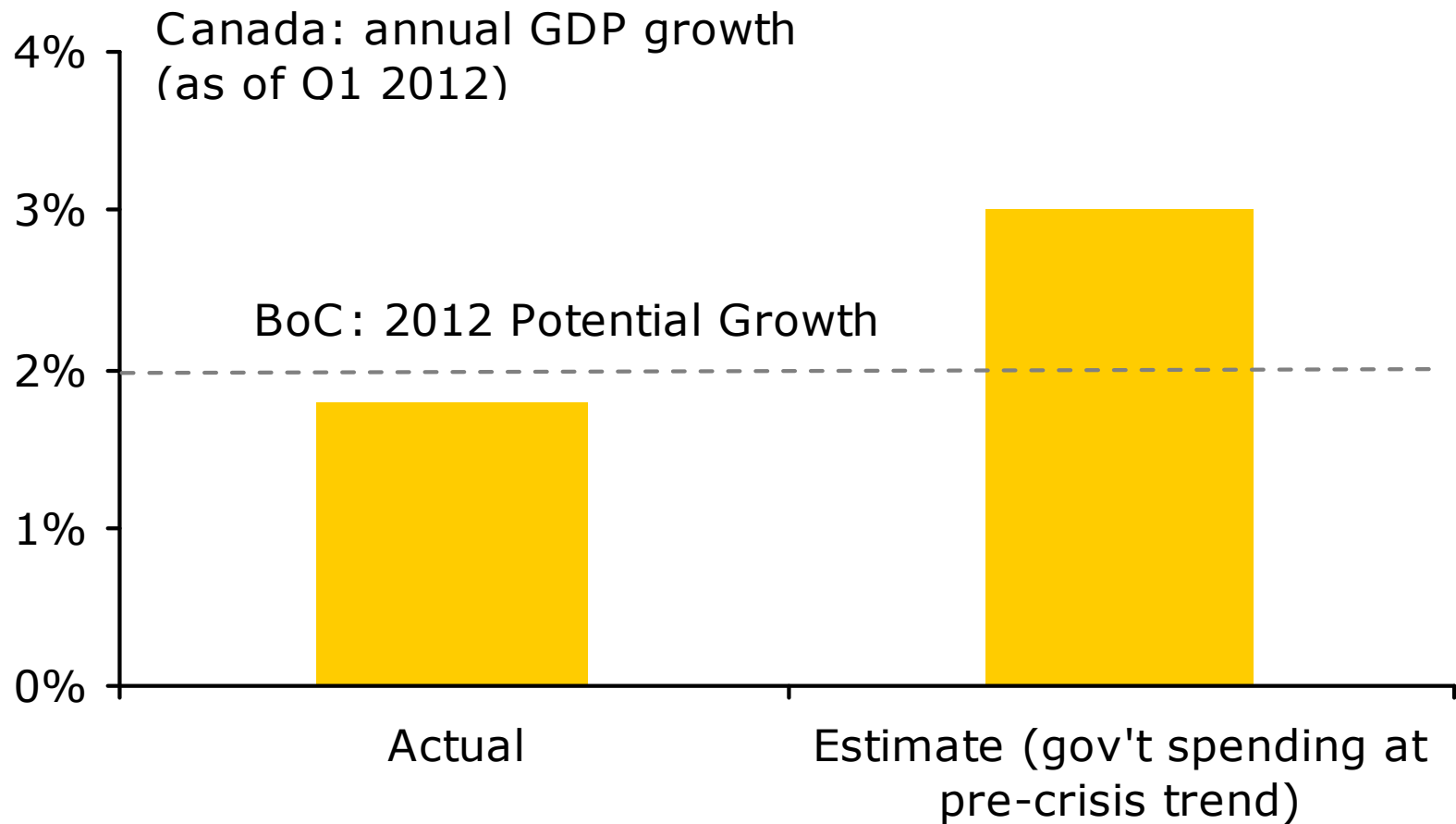
Canadian Interest Rate Outlook: A Fine Line



Fiscal Performance Attracts Safe Haven Flows Key to C\$ Through Parity

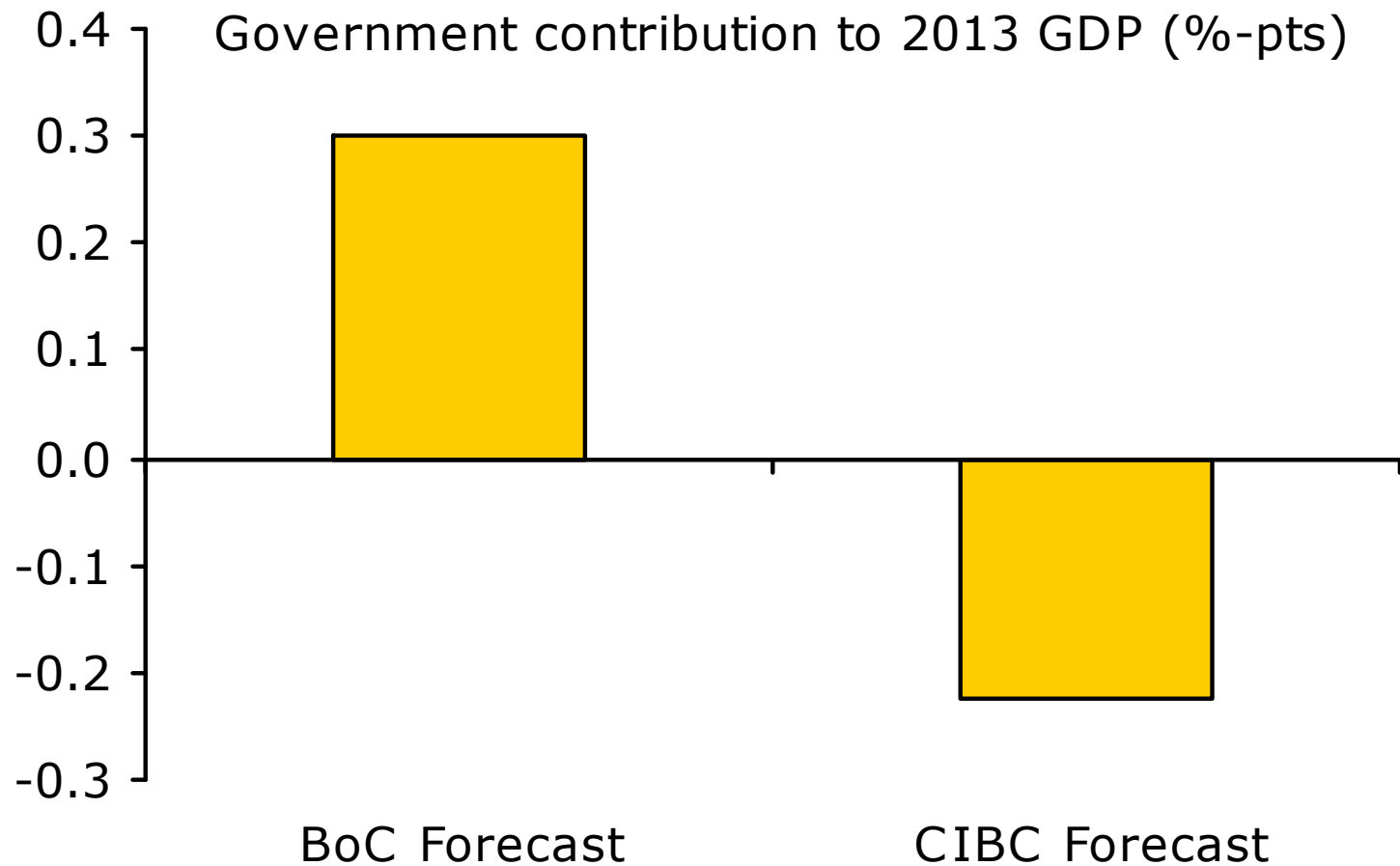


Growth Would Have Hit 3% with Government Spending at 1997-07 Trend



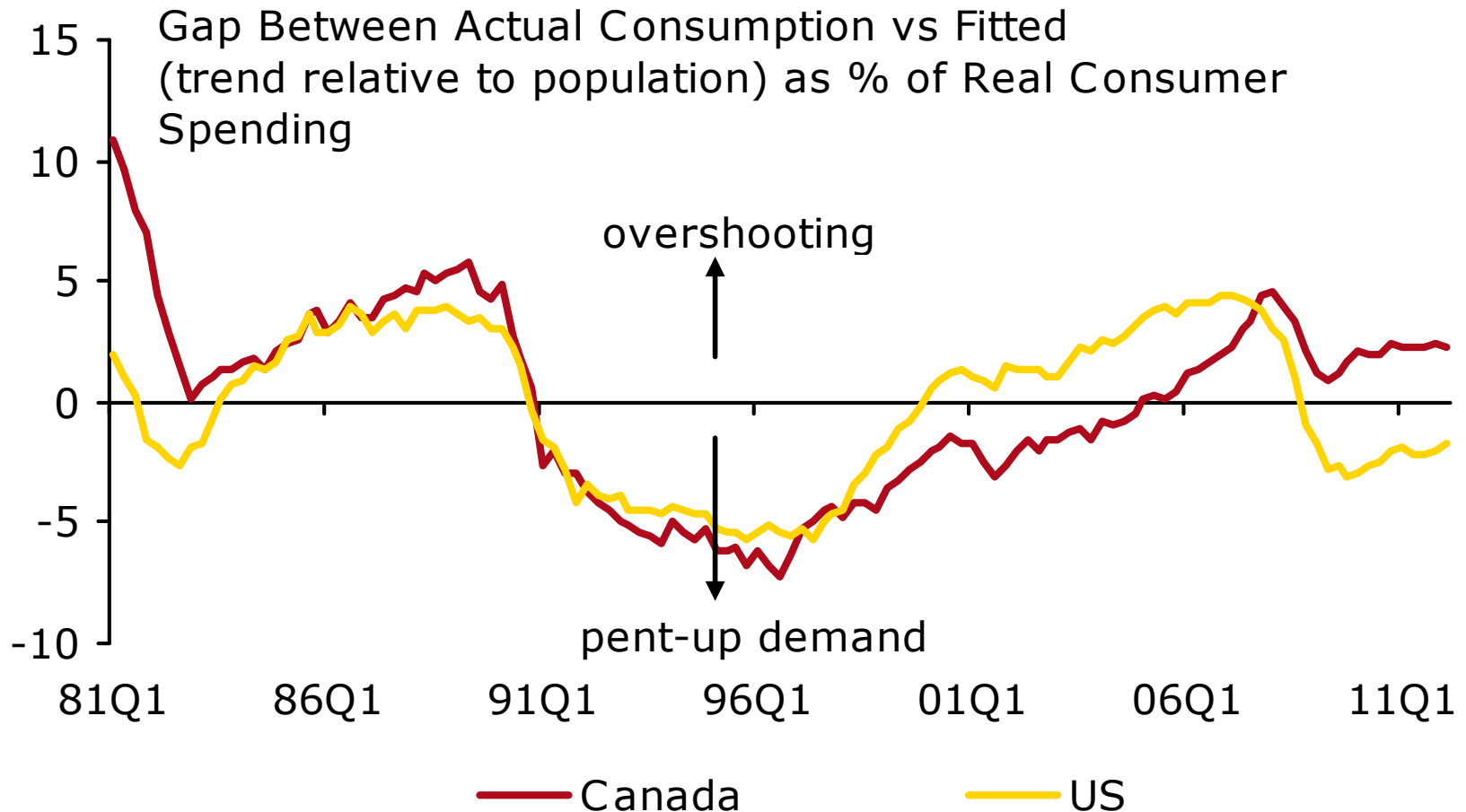
Source: Statistics Canada, Bank of Canada, CIBC

BoC Looks Too Rosy on Gov't Boost to 2013 GDP



Source: CIBC, Bank of Canada

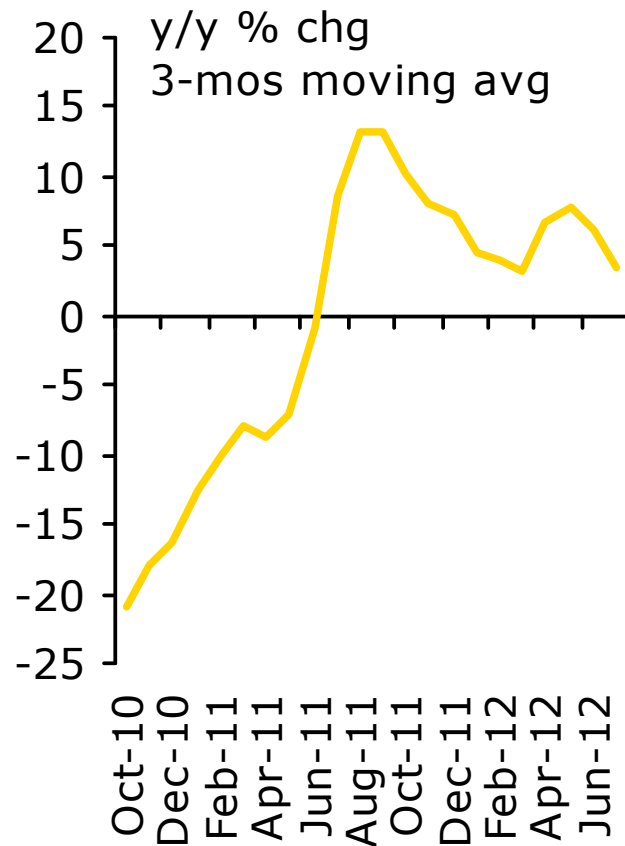
No Pent-up Demand in Canadian Consumption; US Consumers a Better Investment Target Now



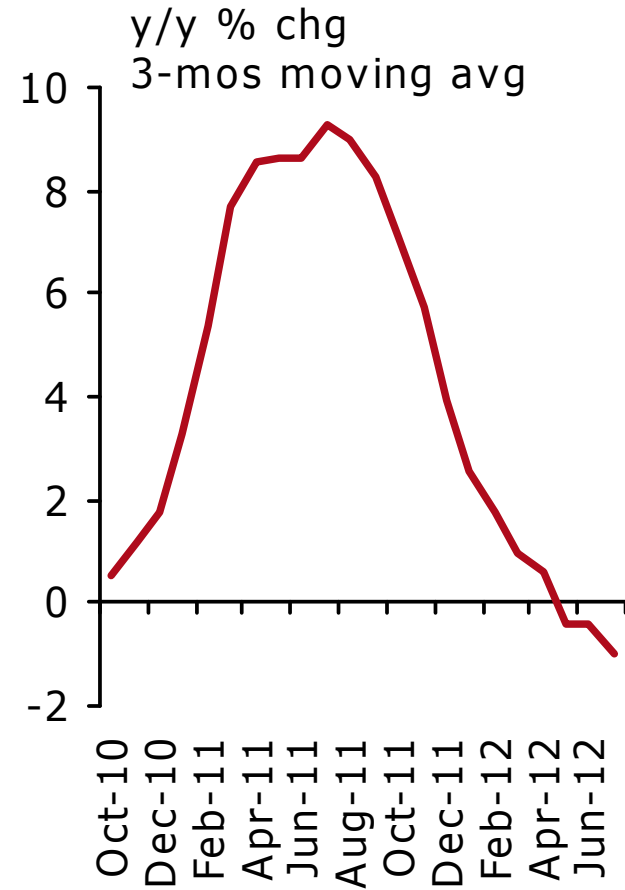
Source: US Department of Commerce, Statistics Canada, CIBC

The Housing Market: Cooling Underway

Unit Sales

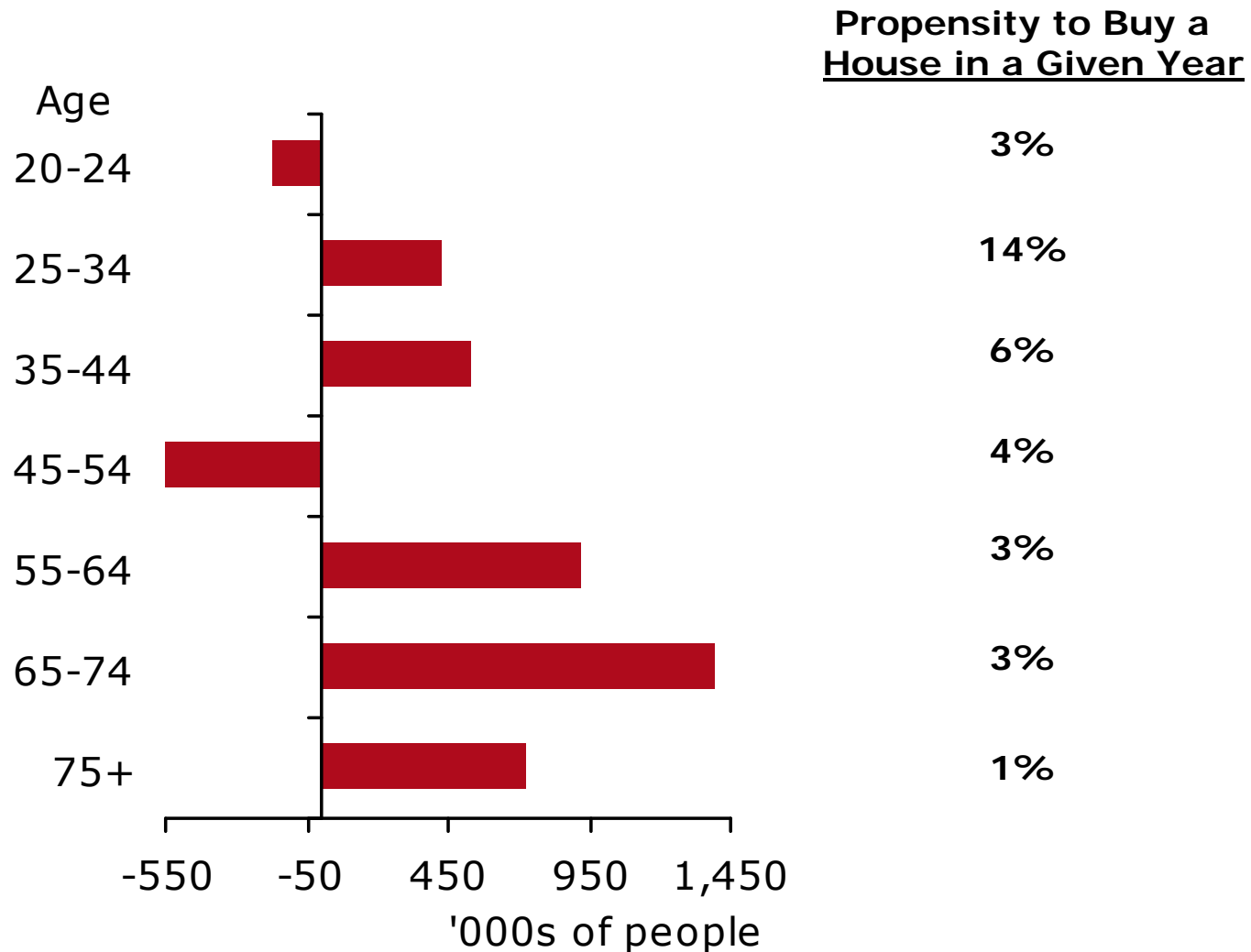


Avg House Price



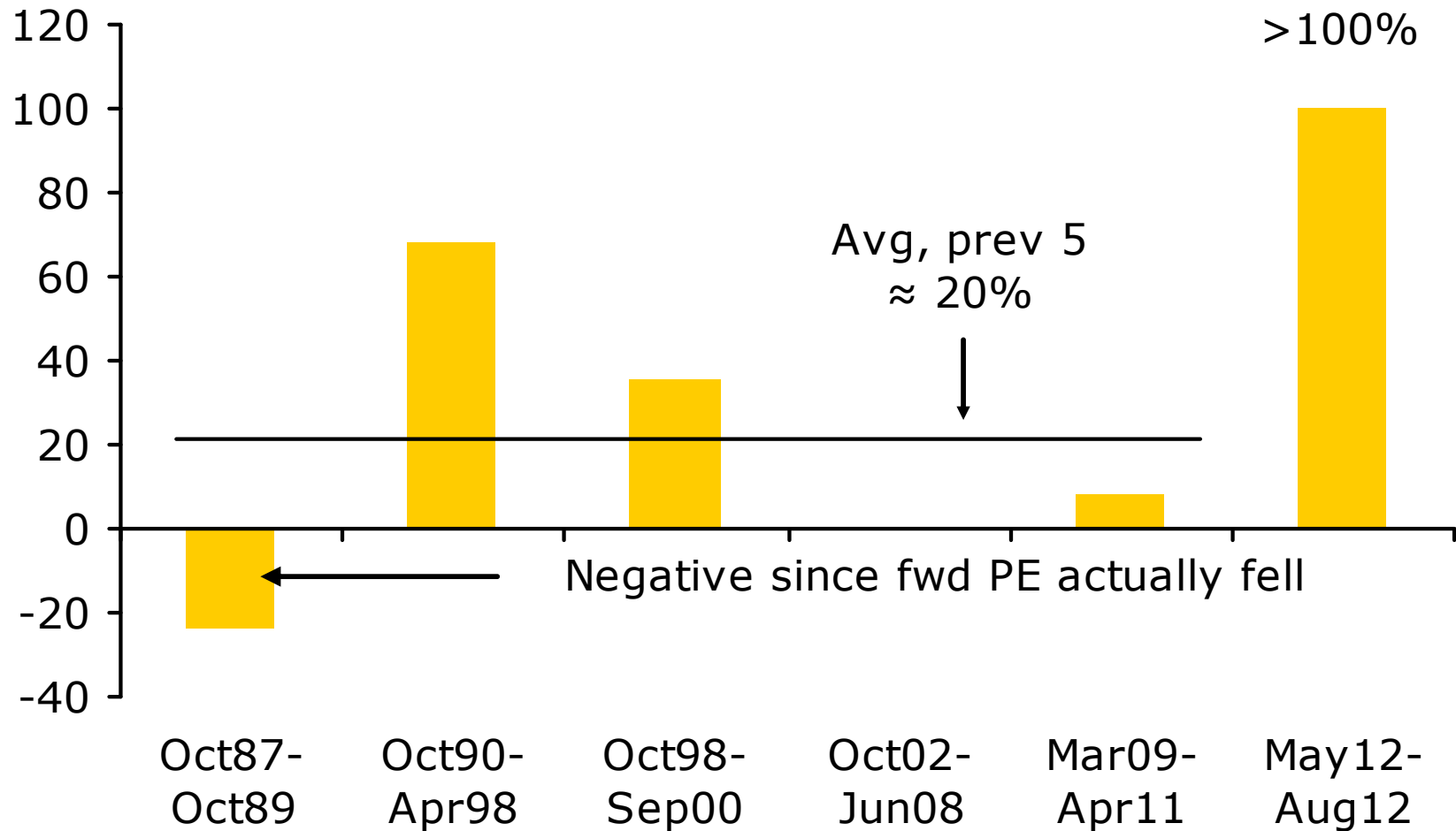
Source: CREA, CIBC

Population Growth Will Cushion Housing Correction



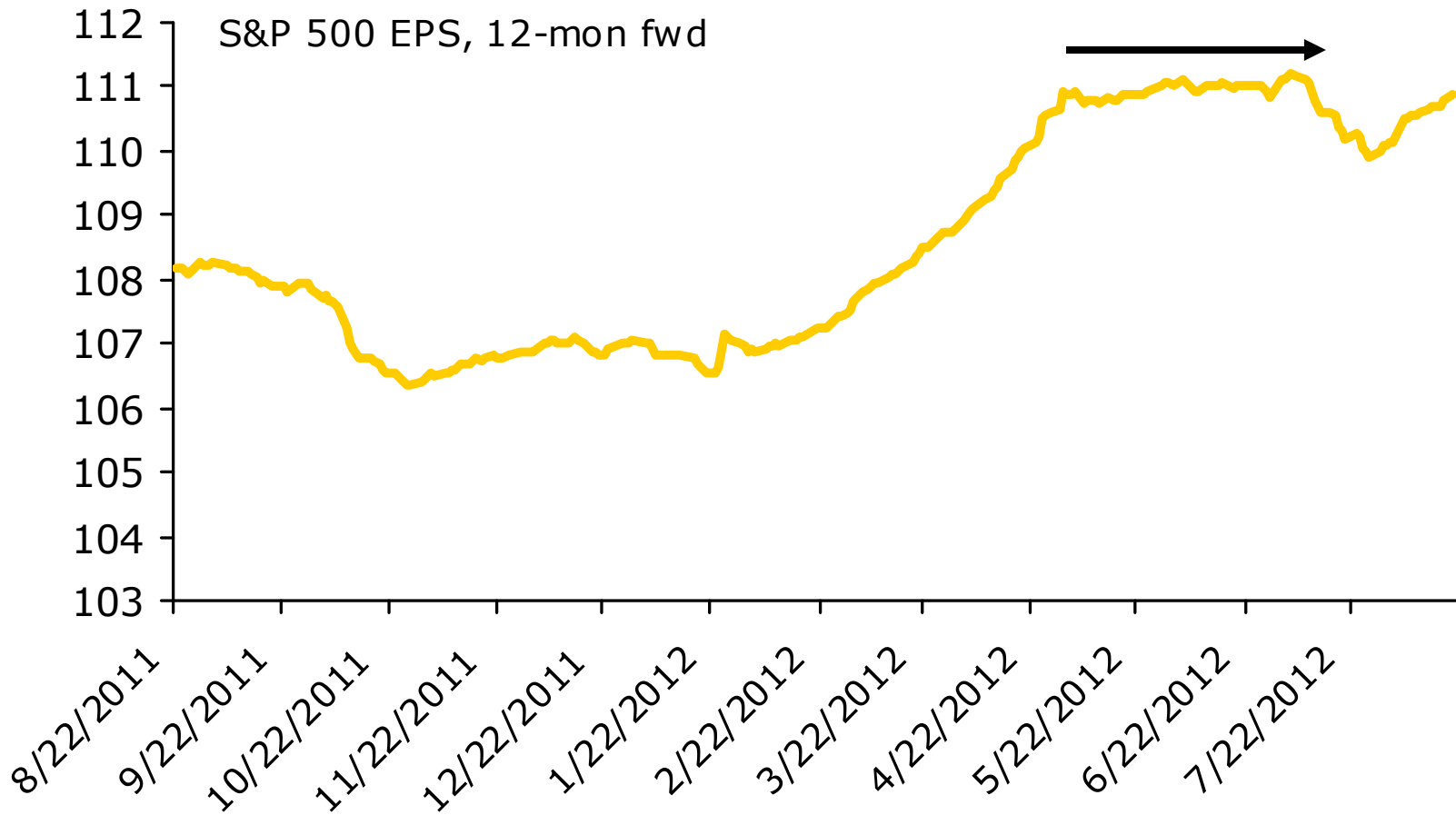
Source: Statistics Canada, CMHC, Harris Decima, CIBC

TSX Rallies: % of Rise Due to Growth in Forward Multiple, Rather Than Earnings



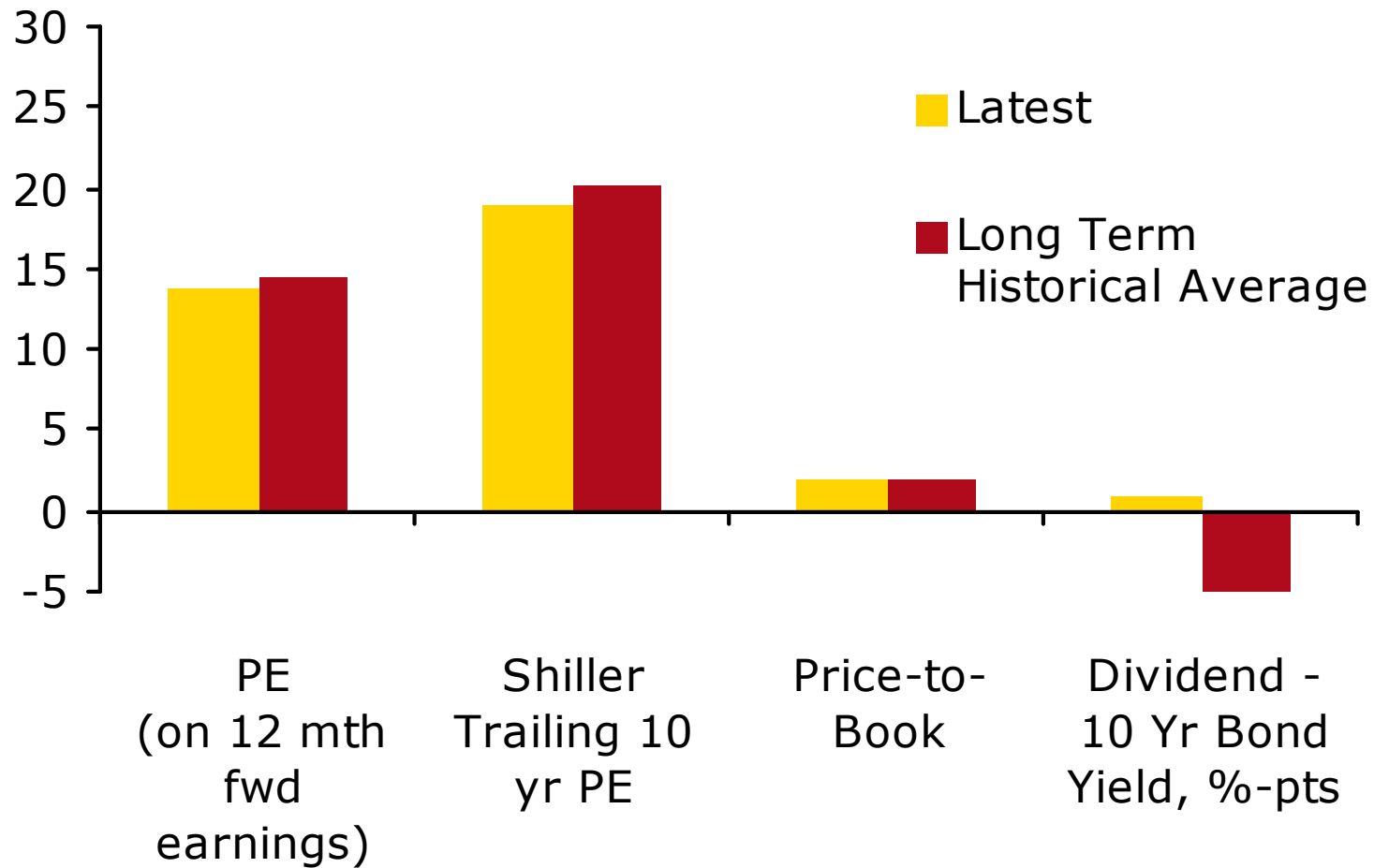
Source: Bloomberg, CIBC, Thomson Reuters, S&P

Same Story in US: Forward Earnings Expectations Little Moved



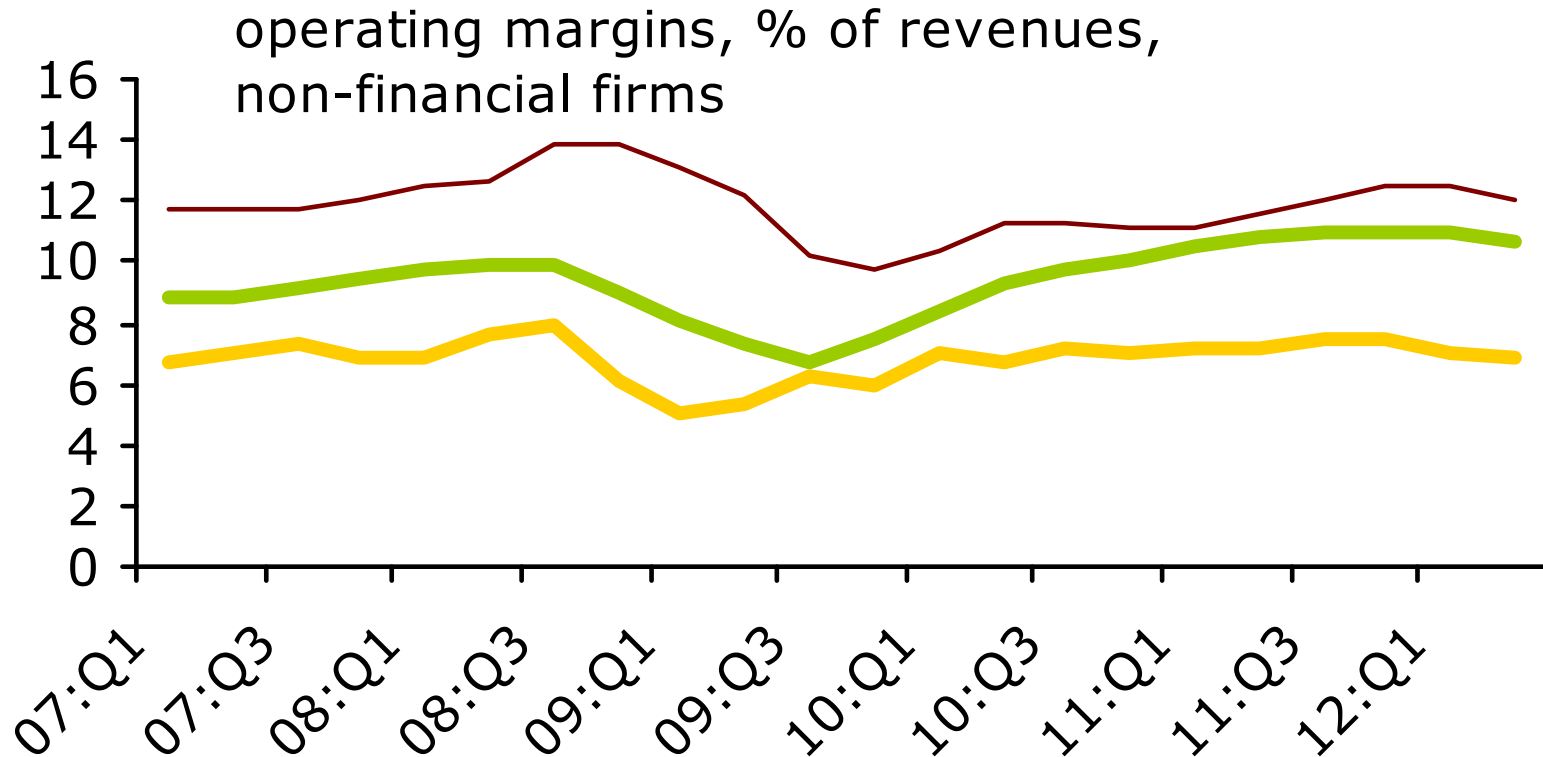
Source: Bloomberg, CITI

Aside From Dividend-Bond Yield Gap, Stocks Look Close to “Fair Value”



Source: Bloomberg, CIBC, Thomson Reuters, S&P

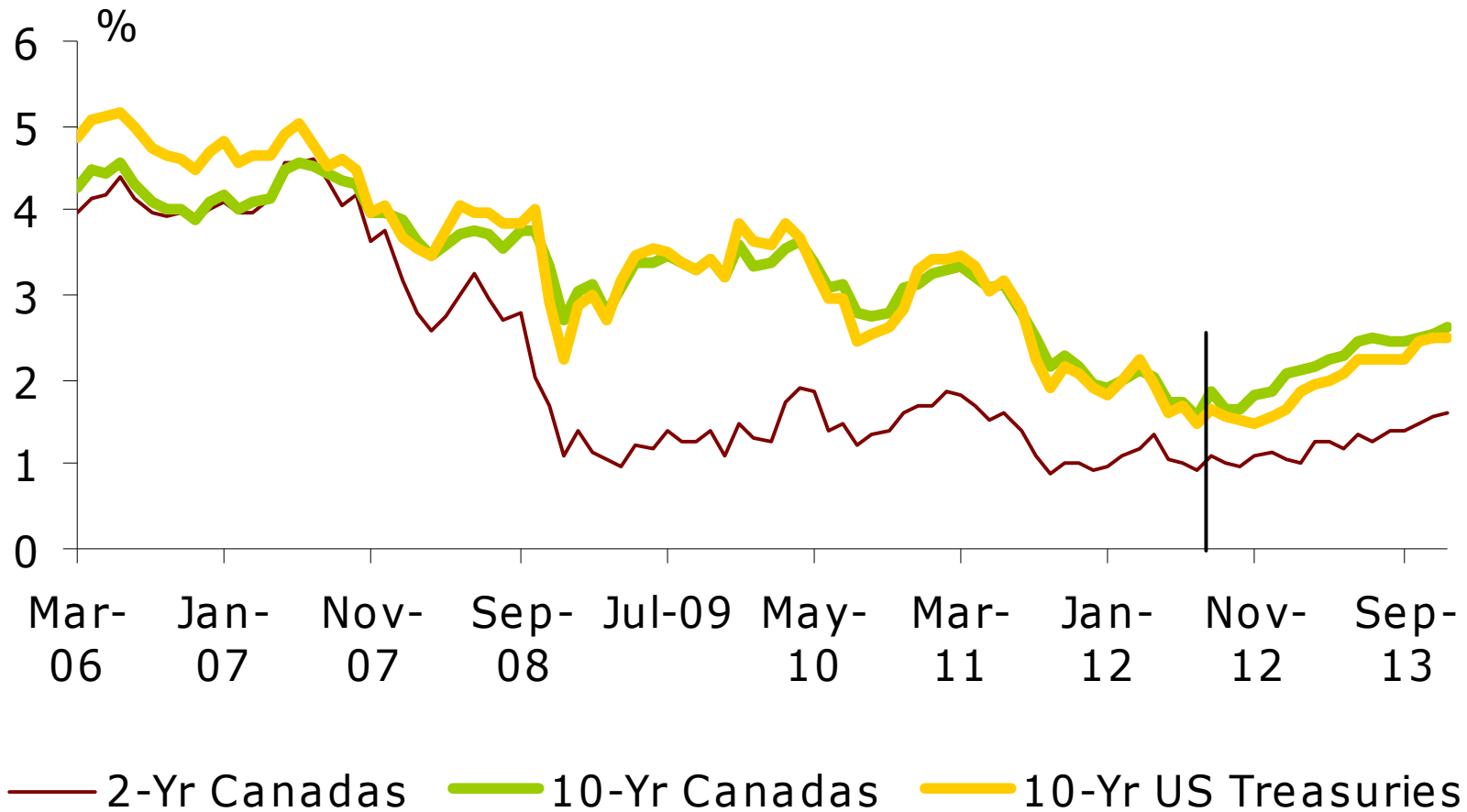
TSX Profit Margin Still Higher Despite US Cost Cutting



- Canadian Corporate Universe (Stats Can)
- TSX Composite
- S&P 500

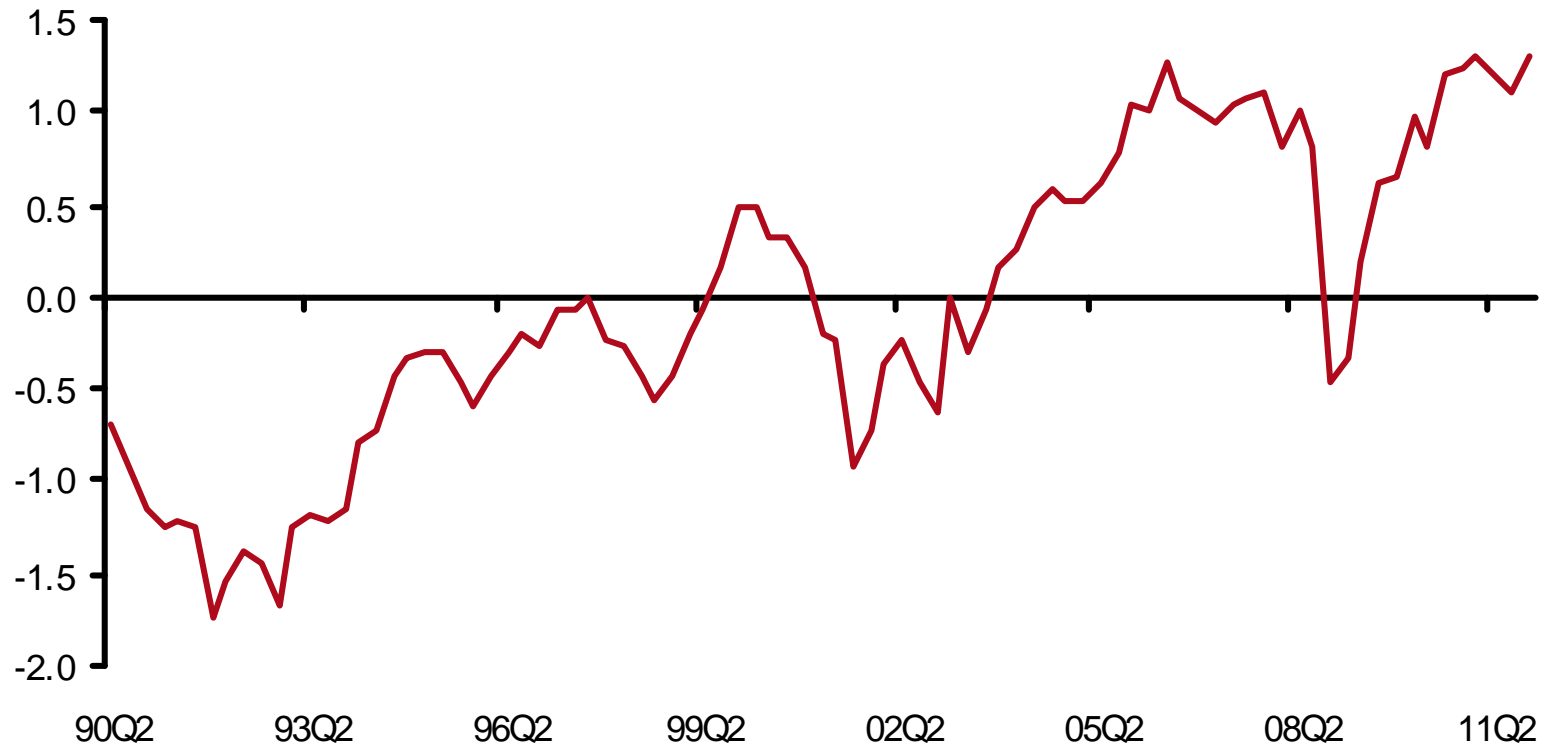


Bond Yields Drift Higher in 2013, But Still Very Low By Historic Standards



CIBC Indicator A Picture of Corporate Health

Composite Indicator of Corporate Canada's Strength



Source: Bloomberg, CIBC

Spreads Build in Huge Cushion for Default Climb

