

Economic news

Employment data not pretty in U.S. or Canada

- Figures released by the U.S. Labour Department showed employers cutting 533,000 jobs in November, the largest monthly reduction in 34 years. The announced figure was well above the expected number of 320,000, and the highest since a whopping 602,000 positions were slashed in December 1974, when the country was in a severe recession.
- The unemployment rate spiked to 6.7% from 6.5%, the highest the unemployment rate has been since 1993. However, the announced unemployment rate was actually lower than the expected rate of 6.8% as the number of workers leaving the labour force jumped.
- The bad news didn't end there as jobs data for September and October were also revised lower. Employers cut 403,000 jobs in September, versus 284,000 previously estimated, while October saw 320,000 cut, compared with an initial estimate of 240,000.
- Taking into account a much bigger U.S. labour force today than during past recessions, Friday's announcement of 533,000 jobs lost is not the largest decline in jobs as a percentage of labour force; it's not even in the top 10.
- Meanwhile, Canada's unemployment numbers were just as dour as the economy shed 70,600 jobs in November, almost three times the expected figure of 25,000 job losses.
- The unemployment rate in Canada edged higher to a two-year peak of 6.3% from 6.2% in October.
- Ontario, which has a large manufacturing presence, fared the worst among provinces with 66,000 net job losses announced, pushing the unemployment rate to 7.1% from 6.5% in October.

Oil prices continue to fall; approaching US\$40 per barrel

- The price of oil fell towards US\$40 per barrel last week as bad economic news, such as increased unemployment, further job cuts and reduced factory orders, continued to put a damper on financial markets.
- With last week's decline, the price of crude has now fallen more than US\$100 per barrel from its mid-July peak of just over US\$145 per barrel.
- The Energy Information Administration said in its weekly report that crude oil supplies in the U.S. fell 400,000 barrels to 320.4 million barrels in the week to November 28, compared with analysts' projections of a rise of 1.7 million barrels. Despite this unexpected drop in inventories, crude oil prices continued to fall.
- As evidence mounts of a significant decline in oil demand in all the major developed economies, many analysts expect the price of oil to cross the US\$40 a barrel level before year's end, while one analyst even forecasts US\$25 per barrel oil contingent on continued weakness in China.
- OPEC President Chakib Khelil told Algerian state television on Thursday that if prices remain at current levels the oil-producing group should cut oil output by a significant amount at its next meeting, scheduled for December 17. However, analysts caution that another OPEC cut in production, which would be the third since September of this year, would need to be drastic to invoke a price reaction.

Humbled automakers go to Washington again

- As cash deteriorates, executives of the major U.S. automakers drove to Washington to ask congress for the second time to consider helping the auto industry.
- Reeling from a steep slump in auto sales and a global credit crunch, they are seeking financial assistance while pledging to focus on higher fuel efficiency and striving to lower production costs to return to profitability.
- In November each of the major automakers saw significant declines in year-over-year sales:
 - Chrysler: -47%
 - General Motors: -41%
 - Toyota: -34%
 - Honda: -32%
 - Ford: -31%
- GM and Chrysler are looking for immediate funds to stave off bankruptcy, while Ford is asking for a credit line. GM & Chrysler were candid about the industry's less than glowing prospects and said they would consider the idea of a merger if it would improve the prospects of a bailout.
- The U.S. is officially one year into a recession, and it would likely suffer additional damage should the automakers not pull out of this decline. It appears there is a broad understanding of distress but no consensus yet in Congress to rescue U.S. automakers. Congress wants viable firms that will continue to be a strong and important part of the U.S. economy.
- Importantly, the United Auto Workers pledged to make concessions such as surrendering job security protections to help the companies survive the downturn.
- Currently plans being proposed include (i) redirecting US\$25 billion in funds from an existing Energy Department fuel-efficiency retooling loan program and (ii) including the automakers in the \$700-billion Troubled Asset Relief Program which would offer immediate cash to avert any collapse, followed by additional credit lines based on preset targets being met.

U.S. officially in recession

- The National Bureau of Economic Research (NBER) has officially stated that the U.S. entered into a recession as of December 2007 after 73 months of economic expansion since November 2001.
- The NBER has a more complex method of determining a recession rather than simply two consecutive quarters of negative economic growth. According to the NBER, "a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators".
- The following list shows the previous recessions going back to the Great Depression and how long each recession lasted. The current recession is already longer than all but three.
 - August 1929 – March 1933: 31 months
 - April 1960 – February 1961: 10 months
 - December 1969 – November 1970: 11 months
 - November 1973 – March 1975: 16 months
 - January 1980 – July 1980: 6 months
 - July 1981 – November 1982: 16 months
 - July 1990 – March 1991: 8 months
 - March 2001 – November 2001: 8 months
 - December 2007 - ??: 12 months+

ECB and BoE slash interest rates in effort to stimulate economy

- Europe's central banks slashed borrowing costs aggressively last week to try and ward off a long recession triggered by the financial crisis.
- The European Central Bank (ECB) cut its interest rate by the largest amount in 10 years, while the Bank of England dropped its overnight rate to the lowest level since 1951.
- The ECB lowered the key borrowing rate for the 15 nations that use the euro to 2.50% from 3.25%. Britain cut rates sharply to 2.0%.
- ECB President Jean-Claude Trichet refused to discuss any future rate cuts, such as speculation of another cut to 2% in January, but acknowledged that the bank needed to "beware of being trapped on nominal levels that would be much too low".
- However, many economists expect the British interest rate to fall further in the coming months to 1% or even zero. That would take the rate to an all-time low; rates have never fallen below 2% since the Bank of England was founded in 1694.
- The British government has warned that deflation may now be a bigger threat as the economy is forecast to contract by more than 1% in 2009. Trichet saw no deflation for the euro-zone, but demand in the euro area and across the world is likely to be dampened for a protracted period of time.

Market bottom called for U.S. equities

- Bill Miller, of Legg Mason fame, is well known and often quoted in the U.S. media. He has announced the "bottom was made" in the stock market earlier this year, both from a psychology standpoint and "from what we've seen in the credit markets," and he expects a better 2009.
- He also stated the U.S. Federal Reserve (Fed) should buy stocks and bonds to avert a deeper financial crisis. He believes if the Fed does buy assets in the marketplace, "the taxpayer would make a killing" as markets rebound.
- This is not the first time this year Miller has called a market bottom; he called one in April, one month after Bear Stearns' demise.
- Tony Genua, Senior-Vice President and Portfolio Manager adds, "Calling market bottoms has been elusive. Although markets may fall more, there is growing evidence that a market bottom is forming. For long term investors stocks today are cheap. This market sell-off has provided ample opportunities for excellent returns amongst the different asset classes."

Corporate news

Big Five Banks report fourth-quarter results; profit falls at four of them on trading losses

- Another quarterly earnings season for Canada's major banks came to a close on Friday with Royal Bank reporting their fiscal fourth-quarter results.
- Four of the banks reported a decrease in fourth-quarter net income relative to the same period last year (see table 1) due to the severe dislocation in credit markets.
- Bank of Montreal was the lone bank to report an increase in profit with a gain of \$108 million (+24%) relative to the fourth quarter of 2007 due to tax recoveries, higher profit at its Canadian retail banking unit and new accounting rules.

AGF week in review



Recap – week of December 1-5

What are you doing after work?

- All of the major banks took advantage of recent amendments to fair-value accounting rules, effectively postponing hundreds of millions in credit market losses by allowing them to reclassify certain non-derivative financial assets into categories that don't require them to record the assets at fair value (i.e. mark-to-market) and recognize the gains or losses in trading income.
- Due to increased scrutiny of the banks' capital reserves, many of them announced new equity financings to strengthen their capital positions, including a \$1.4 billion common equity offering from Toronto Dominion Bank.
- As a result of the increased equity financings, all of the banks have Tier 1 capital ratios in the range of 9.0-10.5% which is well above the 7.0% regulatory requirement.
- Of note is the fact that none of the banks have cut their quarterly dividends, so with the recent drop in share prices their dividend yields have become quite attractive at 5-8%.

Table 1 – Net Income Highlights Fourth Quarter 2008

Bank	Net Income Q4 2008 (\$mil)	Net Income Q4 2007 (\$mil)	Dollar Change (\$mil)	Percentage Change
Bank of Montreal	\$560	\$452	\$108	24%
Bank of Nova Scotia	\$315	\$954	-\$639	-67%
Toronto Dominion	\$1,014	\$1,094	-\$80	-7%
CIBC	\$436	\$884	-\$448	-51%
Royal Bank	\$1,120	\$1,324	-\$204	-15%

Source: company reports

RIM third-quarter guidance lower on currency translation and softer subscriber growth

- Research In Motion (RIM) warned that third-quarter profit would be lower than expected due to the depreciation of certain foreign currencies relative to the U.S. dollar and lower subscriber growth than previously expected.
- RIM said third-quarter revenue would be in the range of \$2.75-\$2.78 billion, down about 9% from its previous forecasts.
- RIM, as well as other smartphone makers, is starting to feel the effects of the global economic slowdown as consumers are more reluctant to dole out cash for high-tech gadgets.
- A report by research firm Gartner said growth in the global smartphone market slowed to 11.5% in the third quarter, the slowest pace since it started tracking smartphone sales.
- Critics of RIM say they have been slow to innovate. They point to products like Apple's iPhone which has gained a clear lead in the "applications" department with their App Store which allows users to download thousands of applications directly to their iPhone.

Enbridge raises 2009 outlook, increases dividend

- Enbridge Inc., Canada's second largest oil and gas pipeline company, increased its 2009 outlook, indicating that it expects a "very favourable financial performance next year".
- For the 2009 fiscal year, Enbridge said it expects to earn between \$2.18 and \$2.32 per share, above analysts' previous expectations of \$2.17 per share.

AGF week in review



Recap – week of December 1-5

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- Enbridge also announced a 12% increase to its dividend from \$0.33 to \$0.37 starting in March 2009. Company chief executive Pat Daniels said Enbridge still expects profit to increase by 10% per year through to 2012.
- The company said its main businesses are largely insulated from the financial crisis and the steep reduction in crude prices, due to the nature and the structure of their contracts. Credit risk is relatively low since almost all contracts are with large energy and industrial companies.

BNP Paribas wins approval to buy Fortis' assets

- BNP Paribas won European Union approval to buy the Belgian and Luxembourg banking arms of lender Fortis and has agreed to sell off a credit card unit to eliminate antitrust problems.
- French bank BNP Paribas became the largest holder of private savings in the 15-nation euro area when it snapped up most of Fortis at a knockdown price in October.
- The European Commission said the purchase could go through as long as BNP Paribas sells off BNP Paribas Personal Finance Belgium and avoids becoming by far the largest issuer of credit cards in Belgium and Luxembourg.
- BNP Paribas paid €14.5 billion for the package, which gives it three-quarters of Belgium's largest bank, all of Fortis' Belgian insurance business and two-thirds of Fortis' Luxembourg operations. The Belgian and Luxembourg governments have the remaining stake.
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The week ahead

- Canadian economic releases – Bank of Canada rate announcement, housing starts
- U.S. economic releases – retail sales, PPI, consumer sentiment

Sources: Bloomberg, Associated Press, Wall Street Journal, Thomson Corp. and Reuters

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