



Queen's School of Business

**Business Forecast
2010**

28th Anniversary



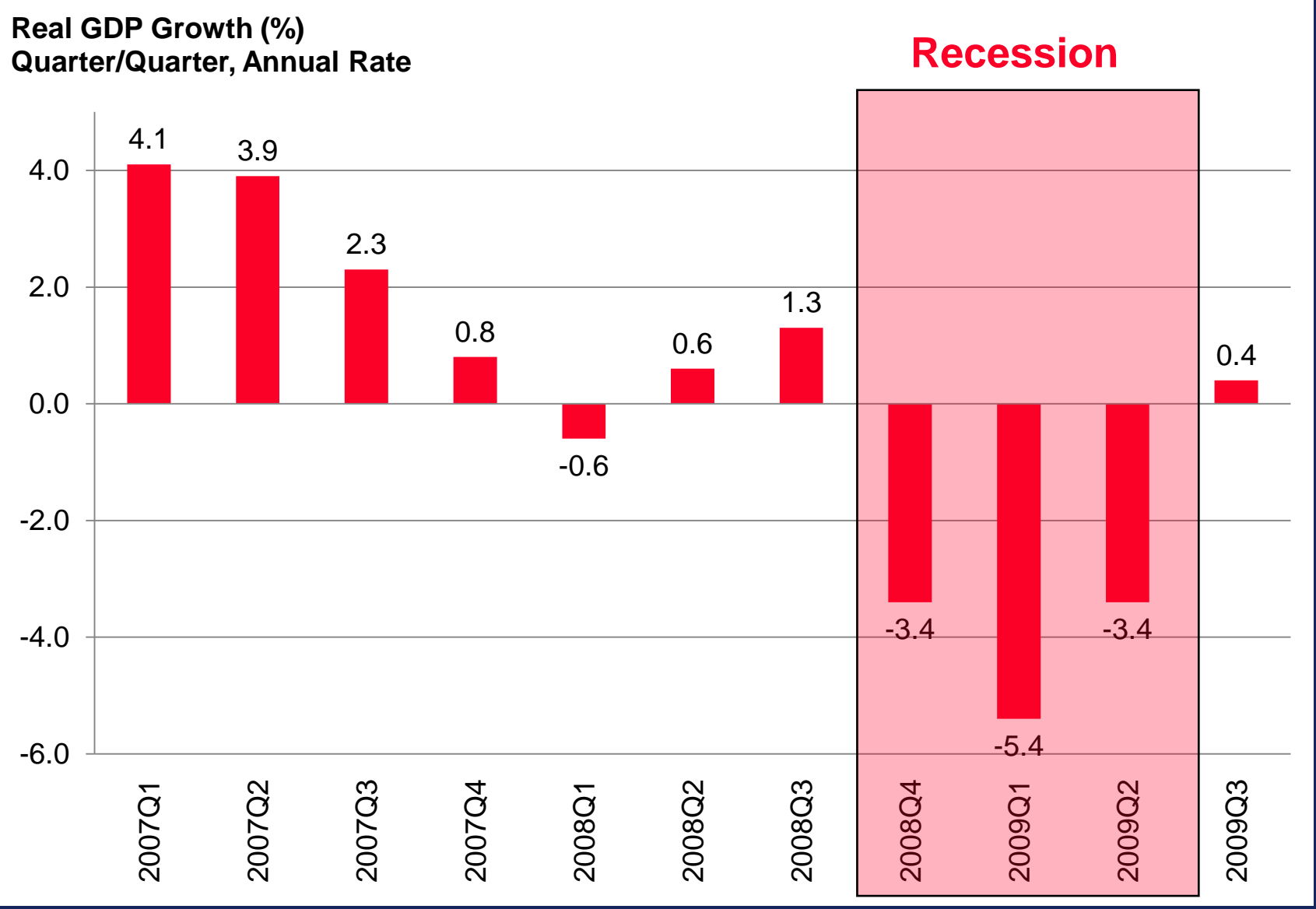
Macroeconomic Outlook

Lew Johnson



	Forecast	Actual
Real GDP Growth Rate Q3 2008 – Q3 2009	0.1%	
Inflation Rate (CPI) Oct 2008 – Oct 2009	1.4%	
Unemployment Rate October 2009	7.1%	
Interest Rate Prime December 2009	3.0%	
Exchange Rate December 2009	\$0.88	

Recession in 2009



What's Driving GDP in Canada?



	2000-07	2008	2009f	2010f
(annual % change)				
Real GDP	2.9	0.4	-2.4	2.7
Consumer Spending	3.6	3.0	0.0	2.3
Residential Construction	6.3	-2.7	-9.2	2.9
Business Investment	5.1	0.2	-16.0	-1.6
Government Spending	3.2	4.8	4.0	6.0
Exports	1.6	-4.7	-14.4	3.6
Imports	4.2	0.8	-15.4	5.5

What's Driving GDP in USA?

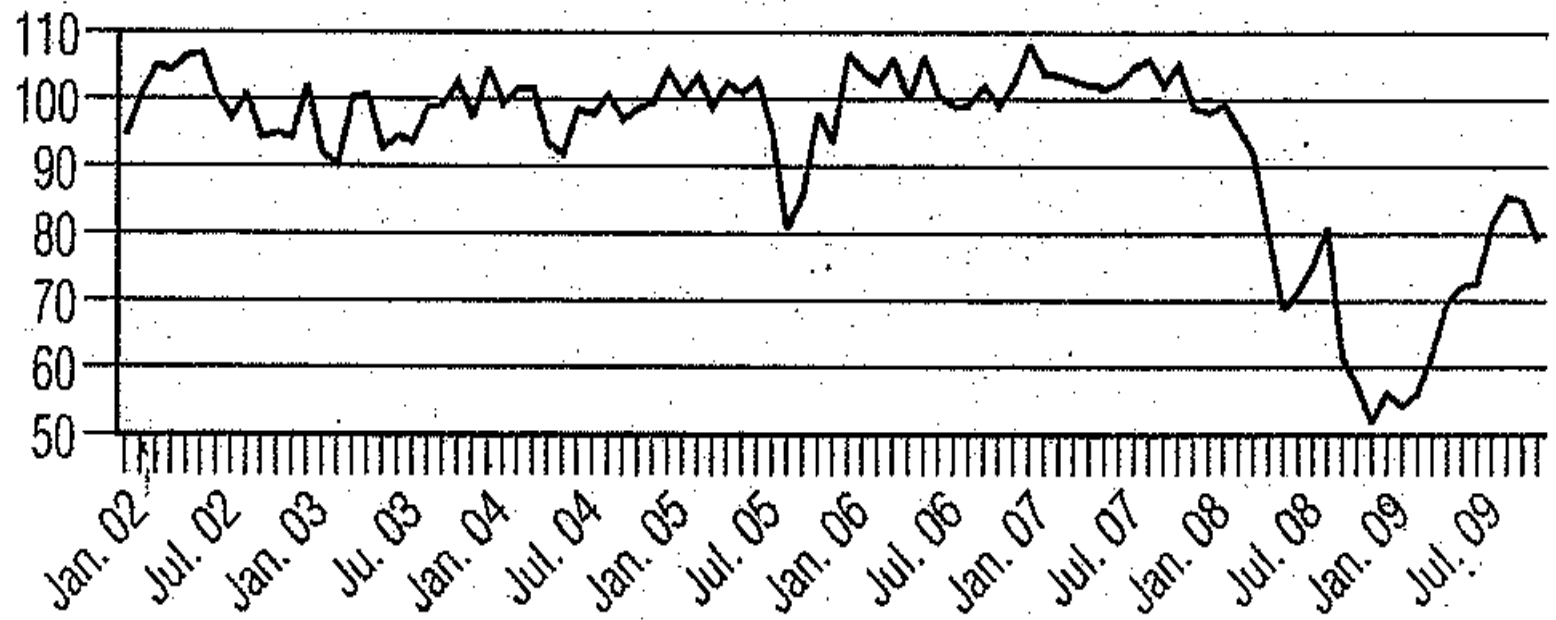


	2000-07	2008	2009f	2010f
(annual % change)				
Real GDP	2.6	0.4	-2.5	3.1
Consumer Spending	3.2	-0.2	-0.7	1.2
Residential Construction	0.2	-22.9	-20.1	4.8
Business Investment	3.2	1.6	-17.8	-0.4
Government Spending	2.2	3.1	2.2	5.1
Exports	4.4	5.4	-10.7	6.1
Imports	5.3	-3.2	-15.0	3.8

Consumer Confidence



Index of Consumer Confidence
(2002 = 100)

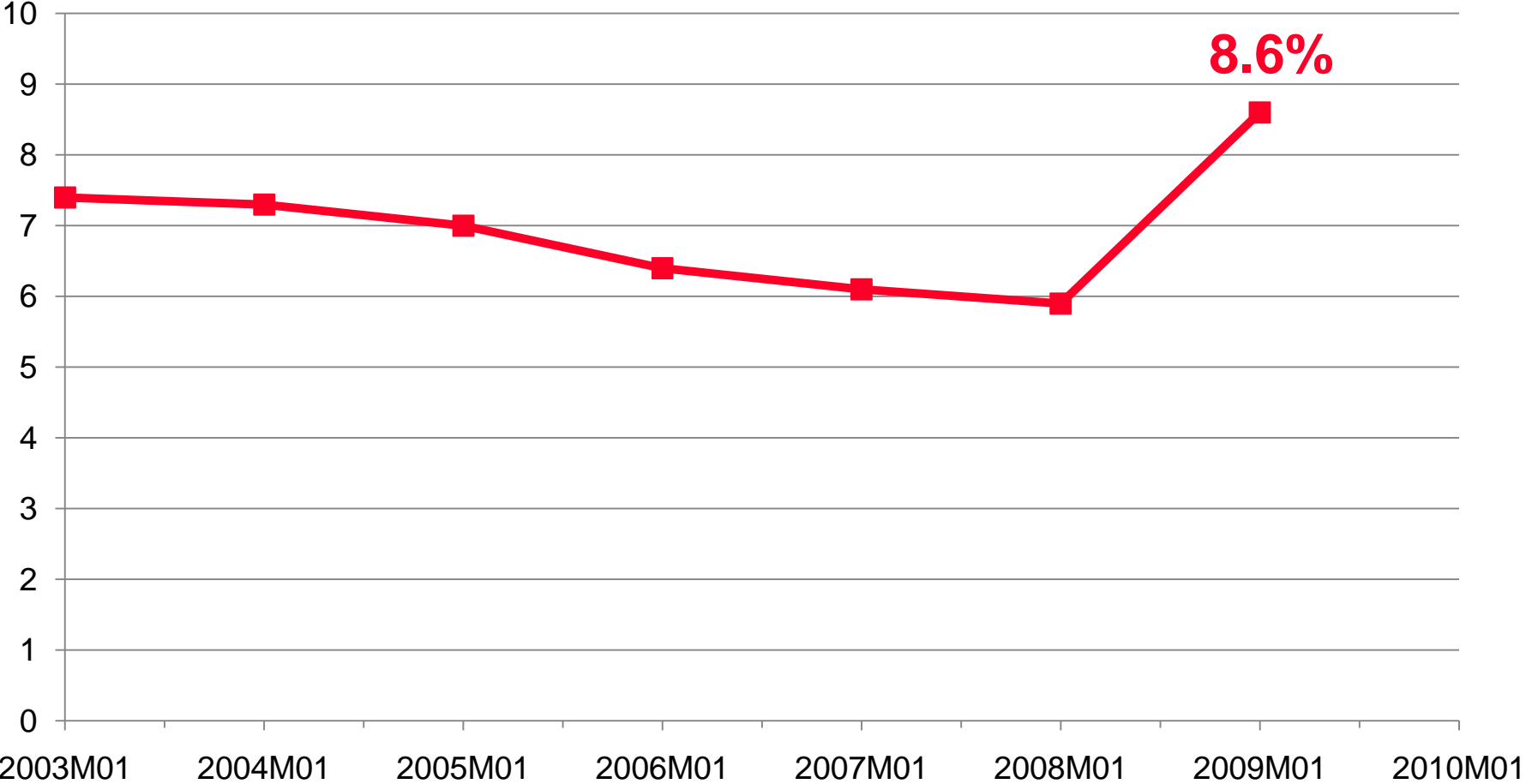


Source: The Conference Board of Canada.

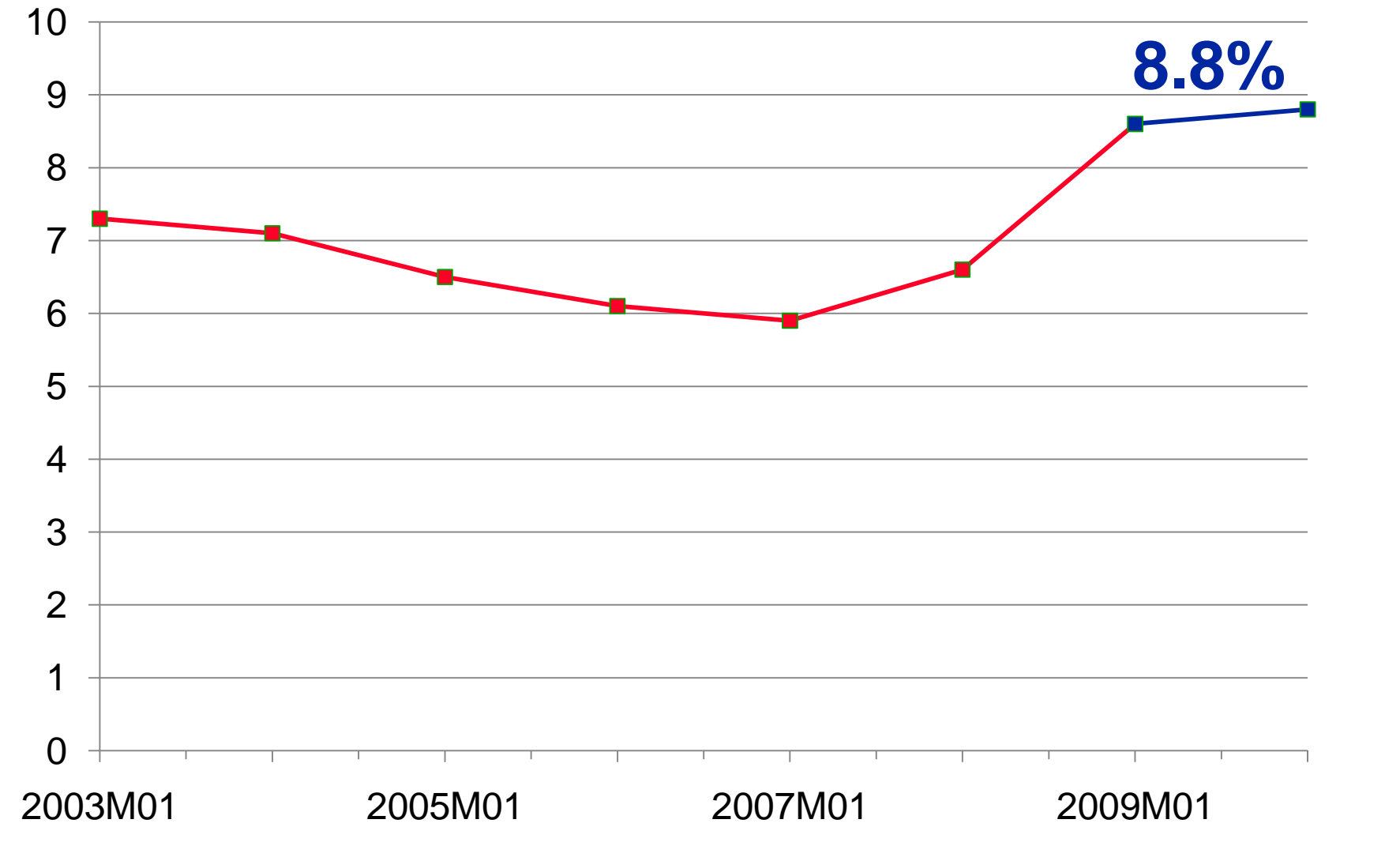
National unemployment rate



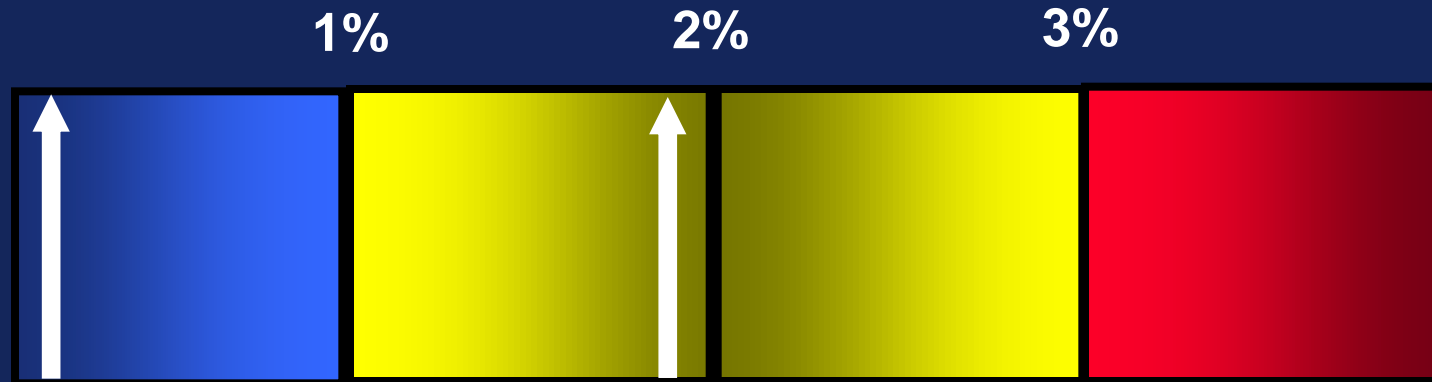
Unemployment Rate, %



Forecast little change in 2010



BFL inflation meter

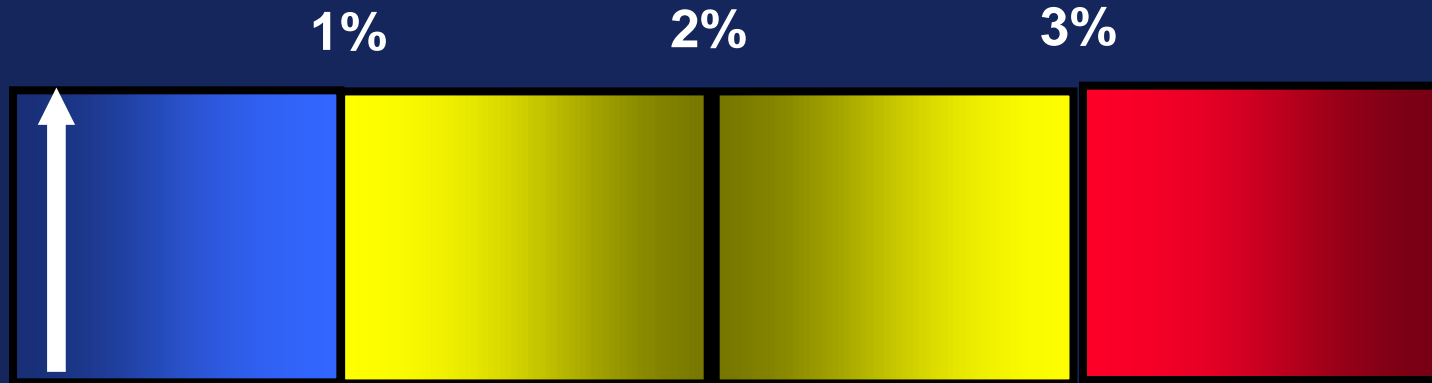


**October CPI
Inflation Rate**

= 0.1%

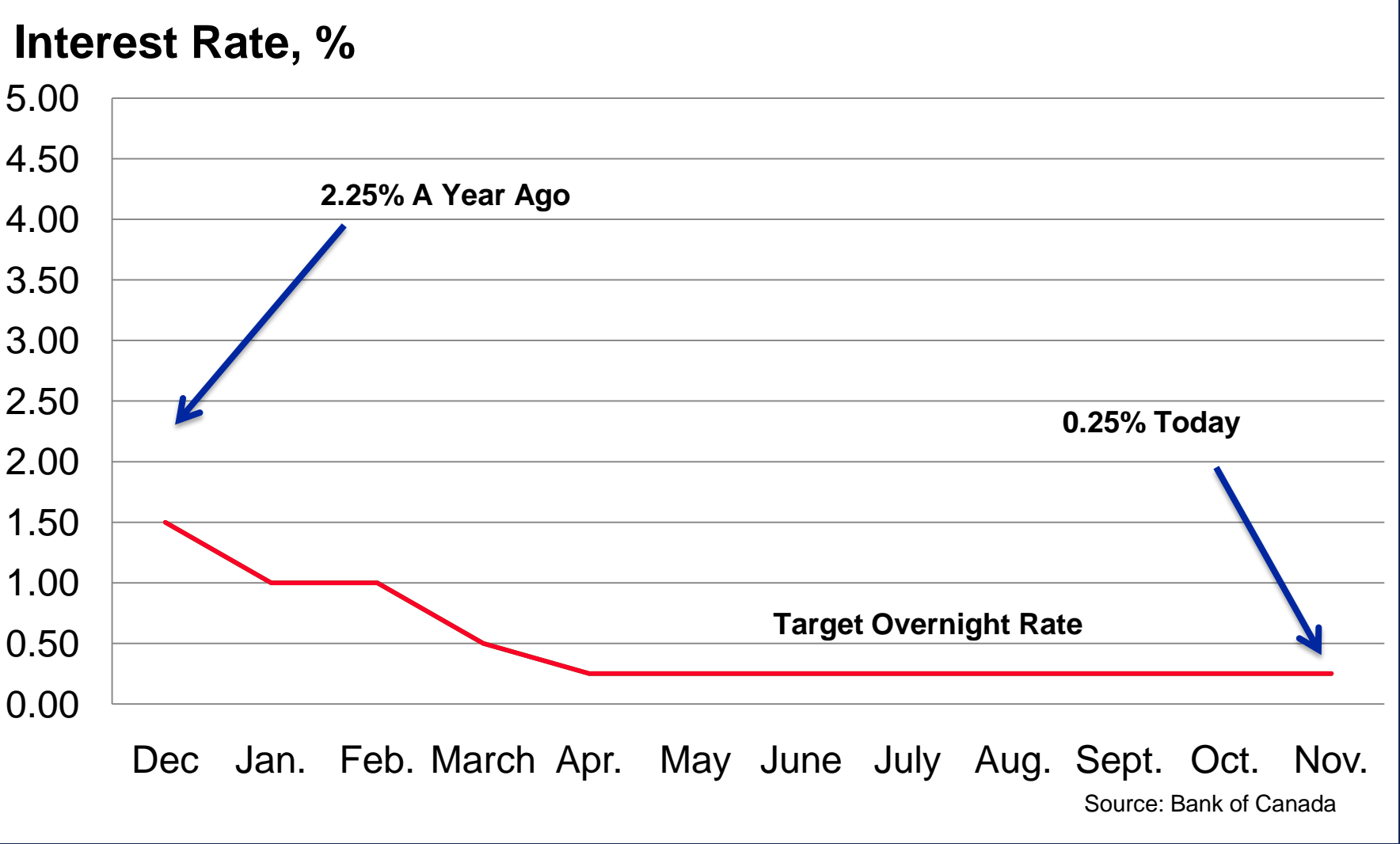
**Core Rate
= 1.8%**

Expect a return to “normal” inflation rate



Forecast: 1.8%
(October to October)

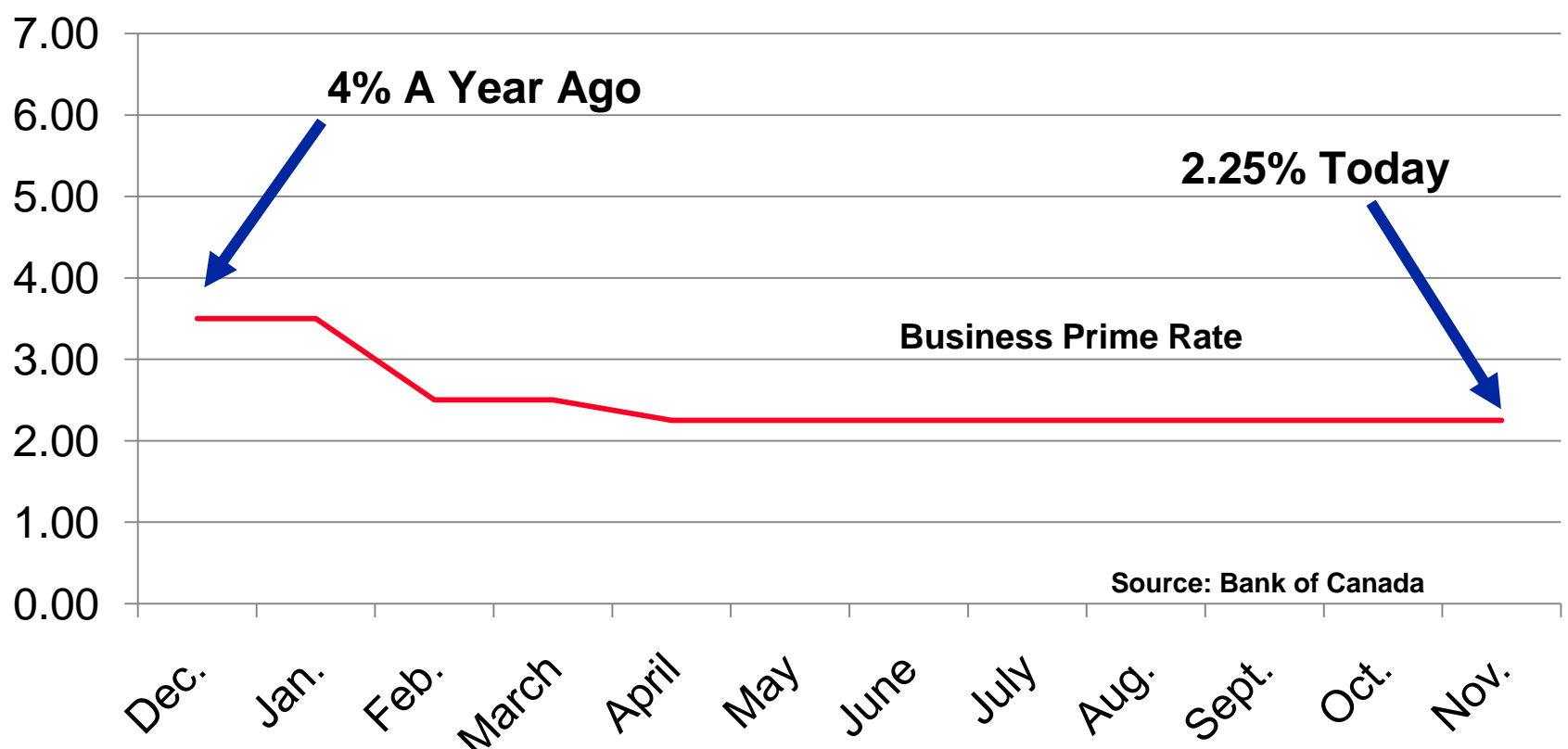
BOC has lowered interest rates



Business prime rate has followed

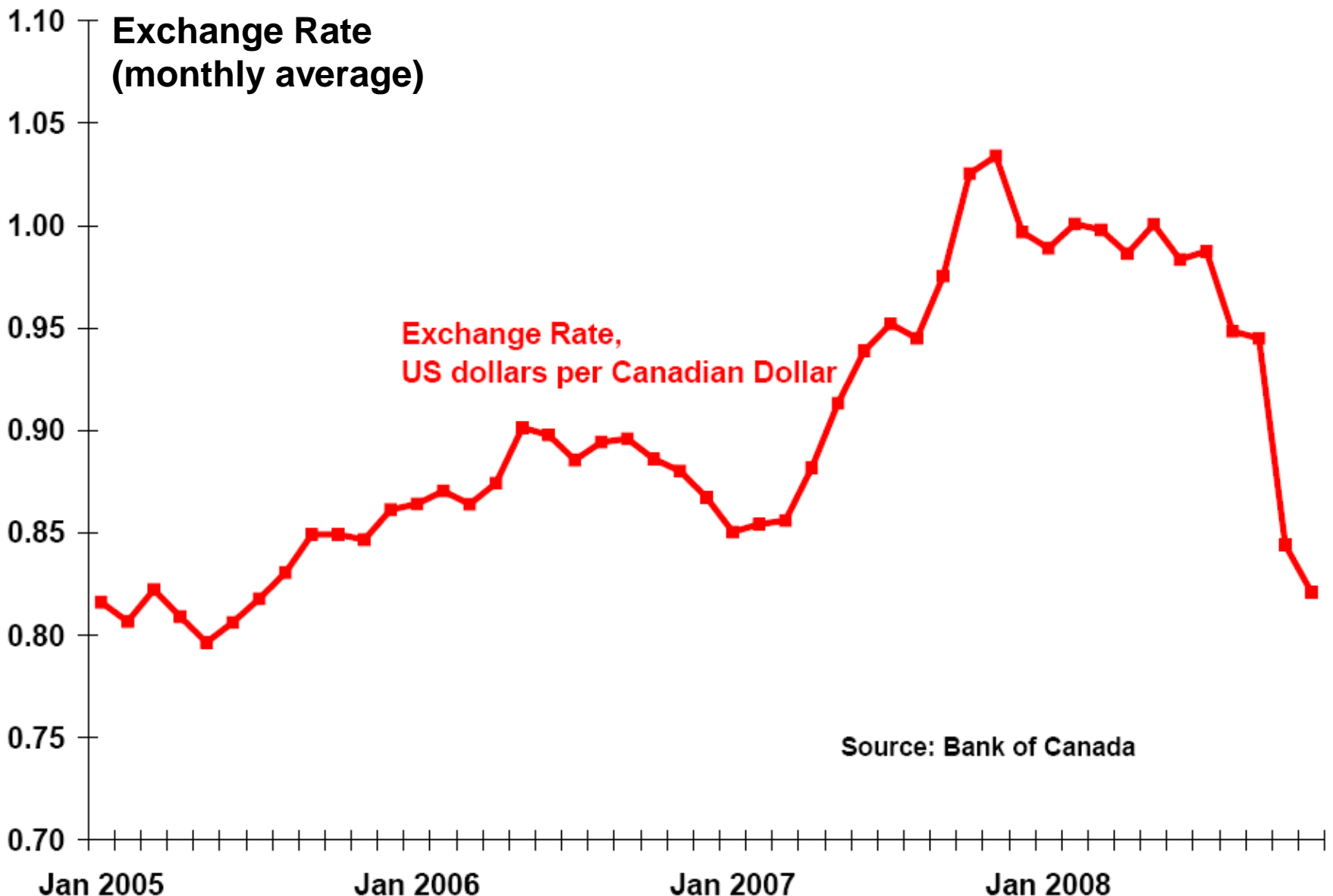


Interest Rate, %



Source: Bank of Canada

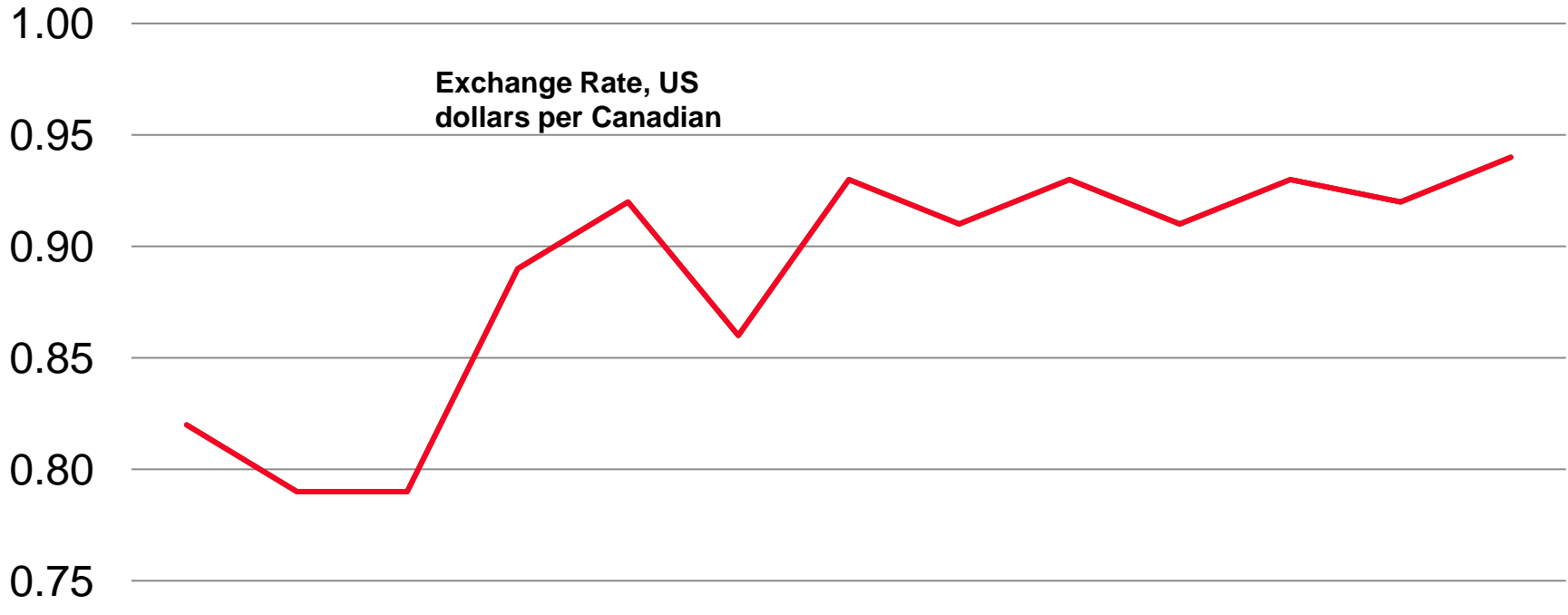
Roller coaster ride for the dollar



Roller coaster ride for the dollar continues

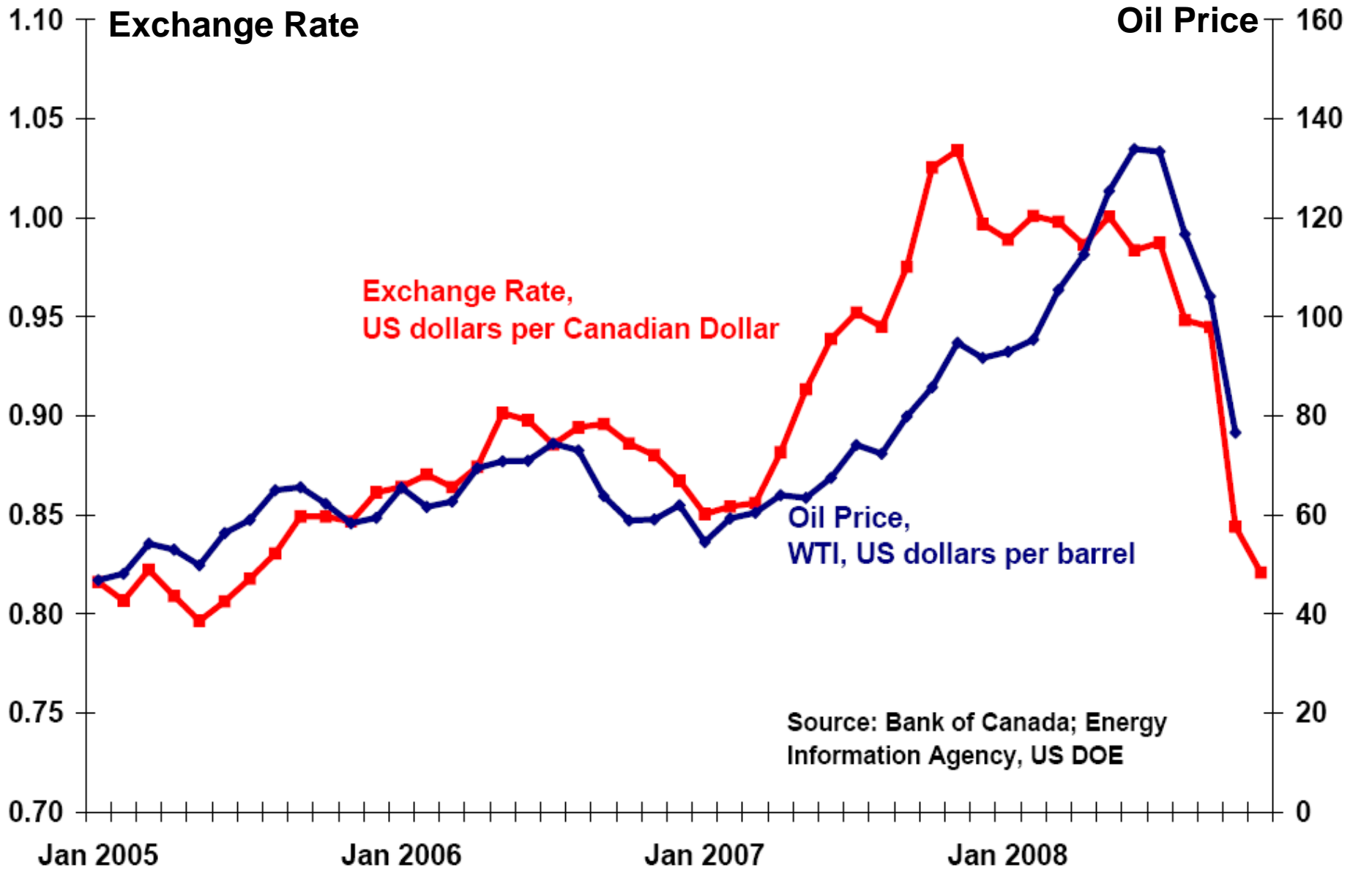


Exchange Rate (monthly average)

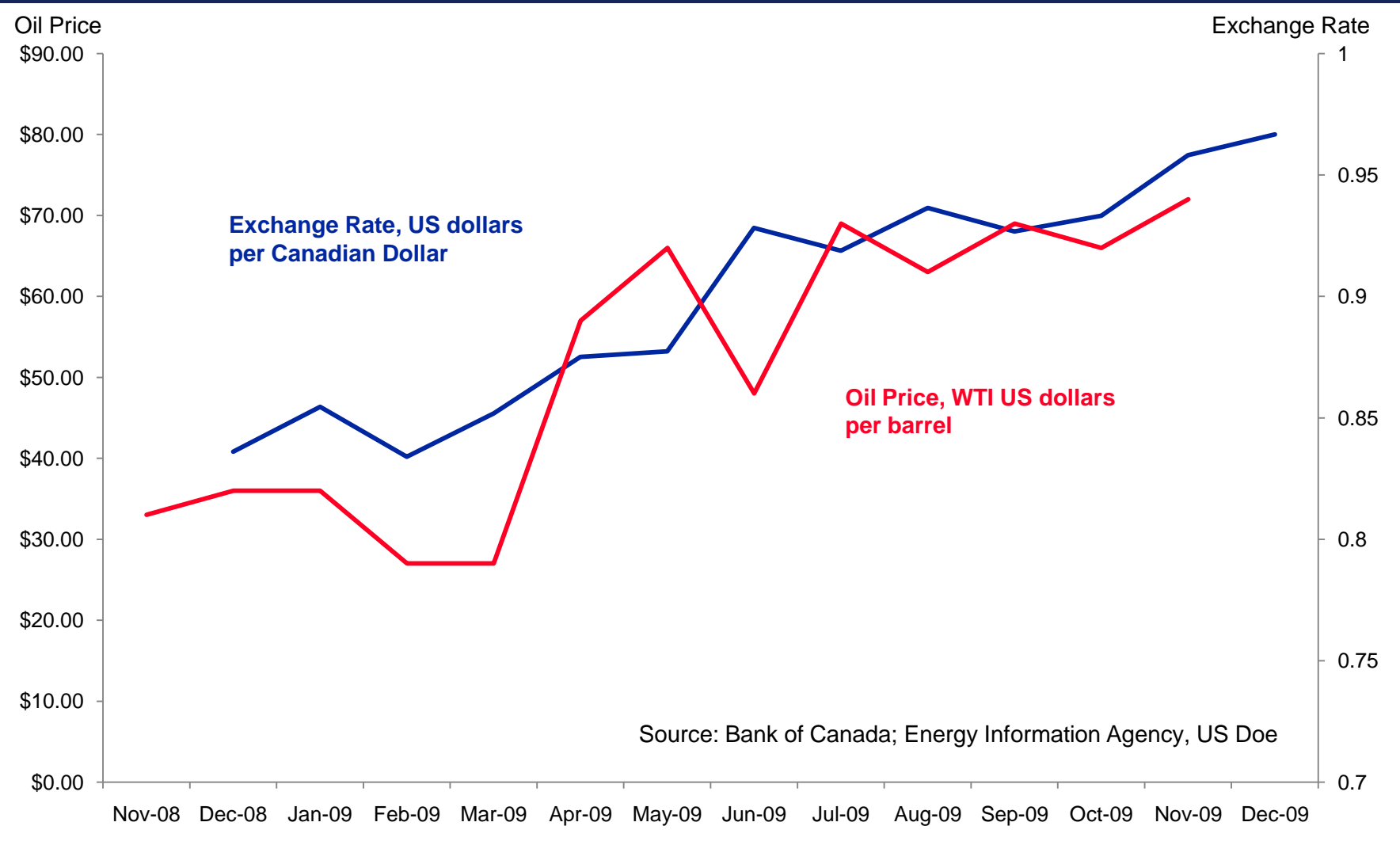


Source: Bank of Canada

Petrocurrency?



Petrocurrency!



Forecasts for 2010



	Last Year	Forecast
Real GDP Growth Rate Third quarter to third quarter	-3.2%	2.0%
Inflation Rate (CPI) October to October	0.1%	1.8%
Unemployment Rate October	8.6%	8.8%
Interest Rate Prime December	2.25%	2.25%
Exchange Rate December	\$0.94	\$0.95



Financial Market Outlook

Sean Cleary

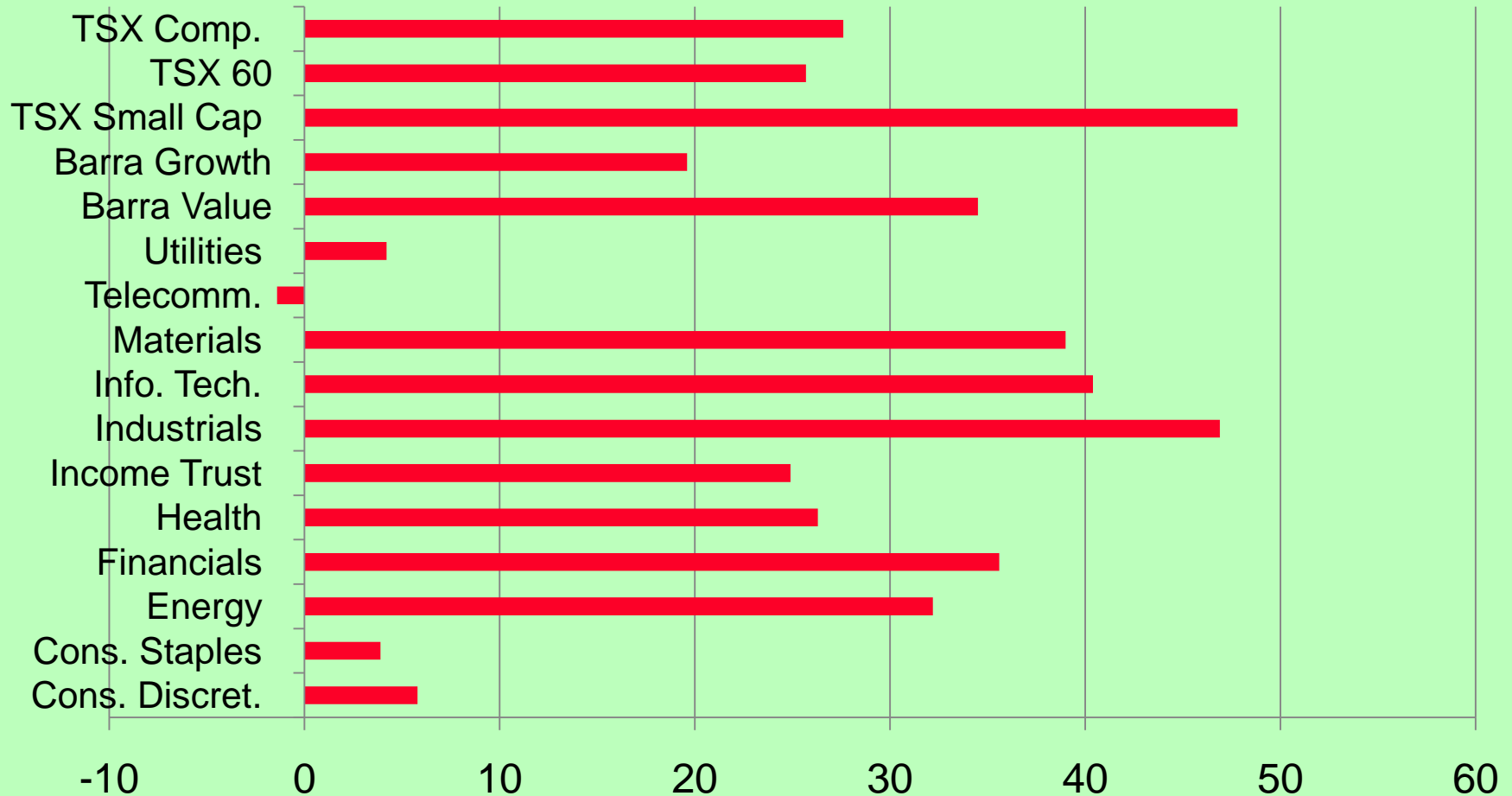
It's been a good year so far...



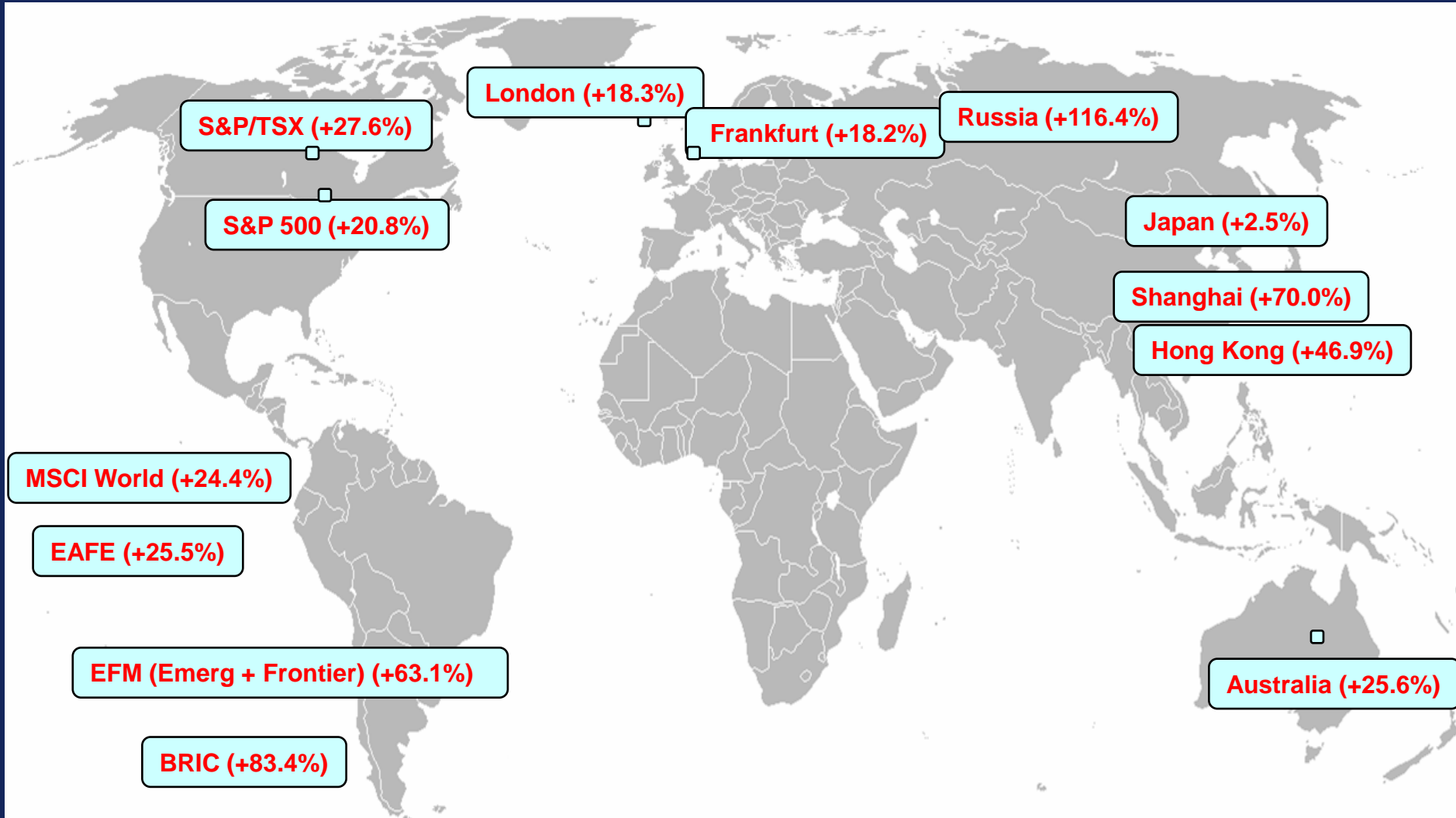
Pretty much across the board.... (2009 to Nov 27)



YTD (% chg)



And globally ...



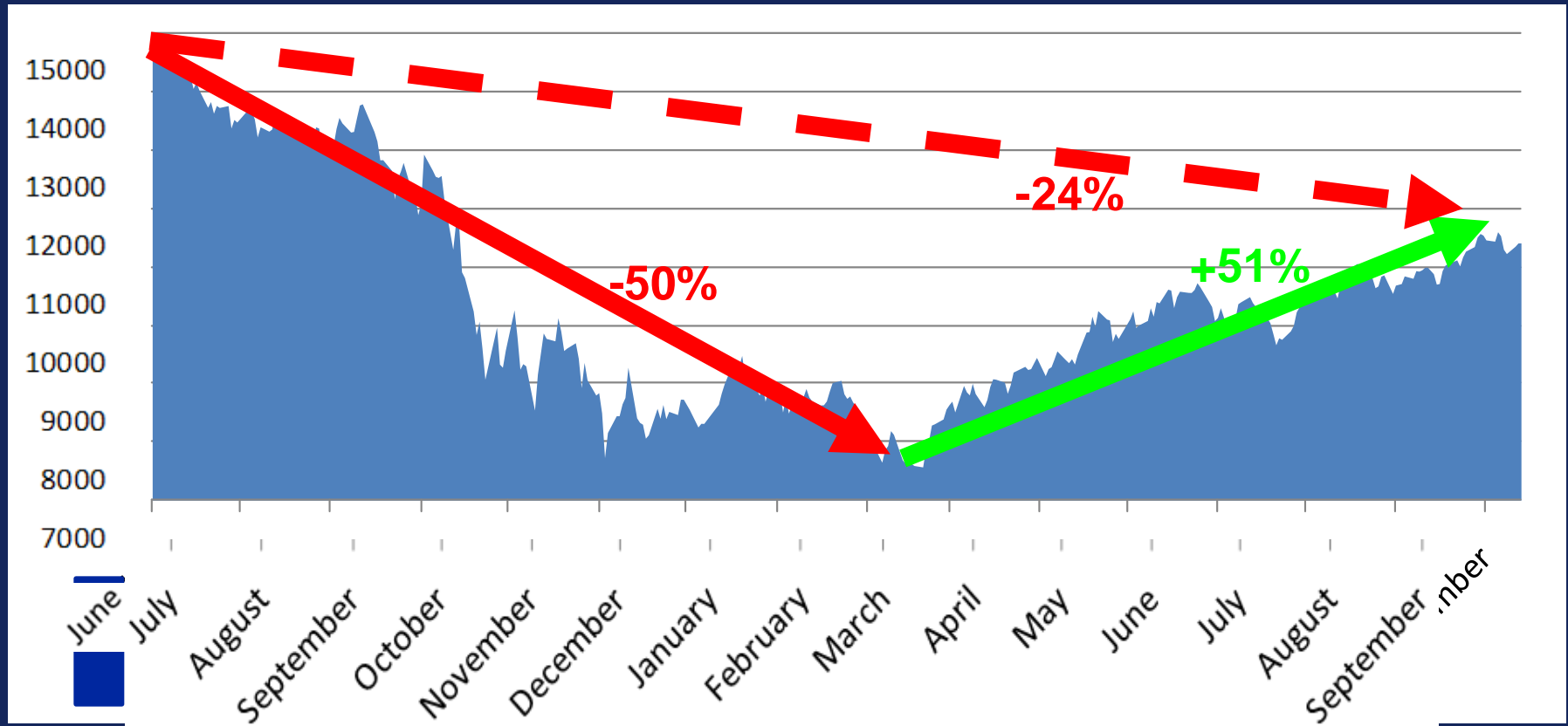
*Local currency performance

Putting it in perspective...

(S&P/TSX)



June 18th 2008 (Market High) – November 27, 2009



We are still nearly over 3,600 points from the highs of June 2008.

How does this rally compare to previous rebounds?

Bear Markets – TSX Composite (1956-2009)



Period	# Months	Return	Returns from END of Bear		
			6 Month	12 month	24 Month
May 57 - Dec 57	7	-26.9%	14.2%	31.2%	37.3%
May 69 - Jun 70	13	-25.4%	19.1%	27.5%	45.5%
Oct 73 - Sep 74	11	-35.0%	22.1%	23.2%	35.9%
Jun 81 - Jun 82	12	-39.2%	46.8%	86.9%	76.3%
Jul 87 - Nov 87	4	-25.4%	10.9%	14.5%	42.1%
Dec 89 - Oct 90	10	-20.1%	14.8%	18.6%	16.4%
Apr 98 - Aug 98	4	-27.5%	15.1%	28.1%	109.4%
Aug 00 - Sep 02	25	-43.2%	3.7%	22.5%	45.5%
May 08 - Feb 09	10	-43.3%	36.4%	?	?
Average		-31.8%	18.3%	31.6%	51.0%

The six month rebound is the 2nd strongest from the end of a bear market

What about the future?



	TSX	S&P 500
Div Yield	2.8%	2.3%
LT Bond Yield	3.8%	4.2%
P/E (lagging)	21.4	21.9
P/E (forward)	14.4	14.4

- **Close to LT average P/E ratios**
- **Fairly priced? Or, “disconnect” from economy?**

Some “good news”...



- **Strong financial system (relatively)**
- **Earnings**
- **Economy(ies) growing – finally!**
- **Strength in commodities**



Domestic

Unemployment

Exports

Dollar

Global

Credit markets
(Dubai, etc.)

Banks (Europe)

Emerg. Markets

Japan



US Economy

Risk of “double dip”?

“Fake” recovery?

- Gov't spending

- Easy money

Unemployment

FI troubles

Loan issues

- Defaults

- Delinq. rates

Auto industry

LT inflation concerns



- **Market is “fair- to over-valued”**
 - ST – limited upside
 - LT – good potential
- **Focus on appropriate asset allocation – err on “conservative” side**
- **Canadian markets better than US and most global markets, especially since CAD has more upside than downside potential**
- **Stay with solid companies with strong earnings, dividends, low debt...**

Some thoughts...



- **“if the consequences of having bad results are dire for you, you had better be very careful of these markets.”**

• John C. Bogle

- **“Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ...Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.”**

• Warren Buffett

Cautious Optimism

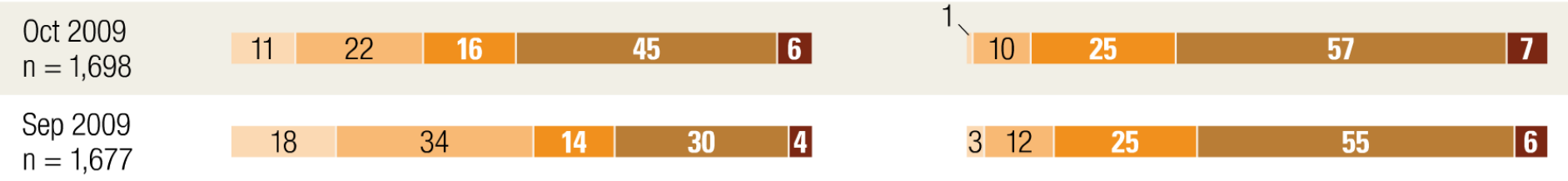


% of respondents¹

Substantially worse
 Moderately worse
 The same
 Moderately better
 Substantially better

How are current economic conditions in your country compared with conditions in early September 2008?

How do you expect your country's economy to be at the end of the first quarter of 2010?²



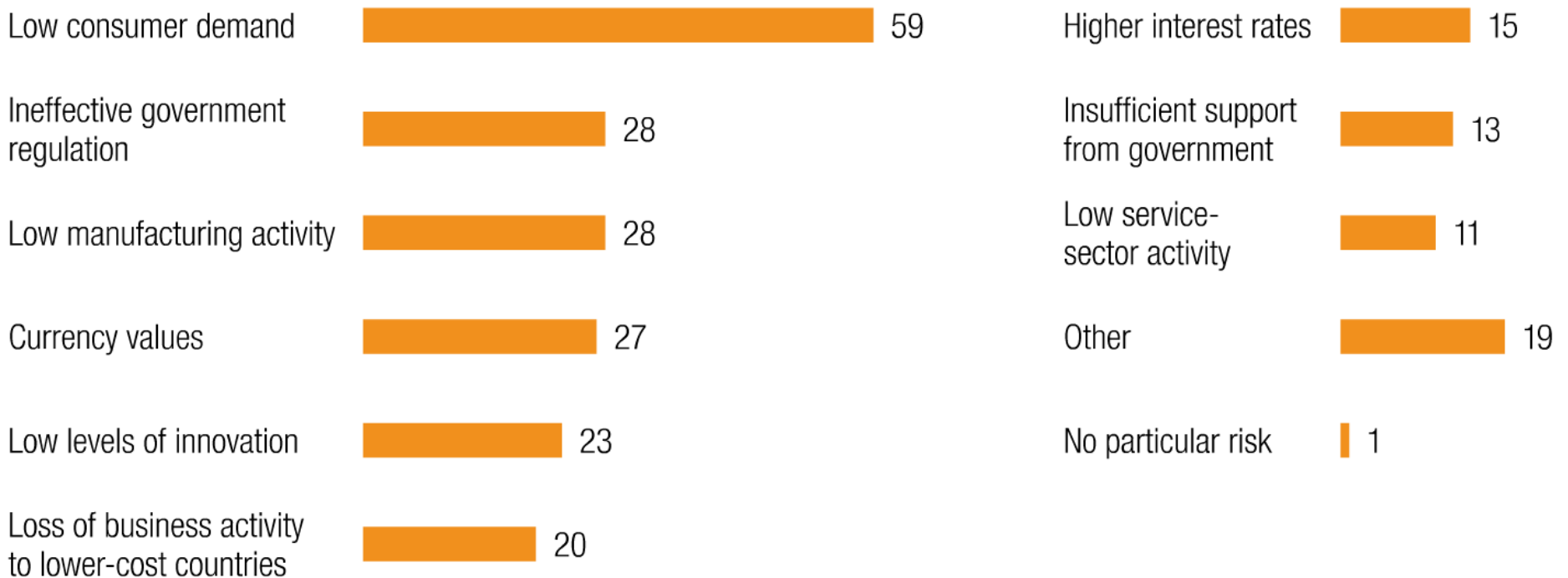
¹Figures may not sum to 100%, because of rounding.
²In September 2009, the question was asked in terms of expectations at the end of 2009.

Demand is the Obstacle



% of respondents,¹ n = 1,698

Biggest barriers or risks to country's economic growth over the next 12 months



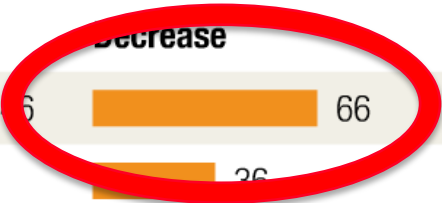


Especially True for Profit Losers

% of respondents,¹ n = 1,583

By expected change in profits in 2009, compared with 2008

Biggest barriers or risks to company's growth over the next 12 months	Total	By expected change in profits in 2009, compared with 2008		
		Increase	No change	Decrease
Low customer demand for our products or services	52	41	6	66
Loss of business to lower-cost competitors	34	32	33	26
Competition from new entrants to our sector	21	25	20	17
Low levels of innovation	19	20	9	21
Currency values	17	19	14	16
Ineffective government regulation	16	19	11	15
Inability to get needed funding	15	12	21	16
Consolidation in our sector	14	13	9	17
Insufficient support from government	8	10	8	8
Higher interest rates	8	10	6	8
Other	8	8	6	8
No particular barriers or risks	4	4	4	2



What Matters?



% of respondents

2009, n = 456
2008, n = 1,453

Issues expected to have the most impact, positive or negative, on shareholder value over next 5 years





The Local Economy

A Tale of Two Kingston's

Ken Wong

2009 versus 2007 – Are We Back?

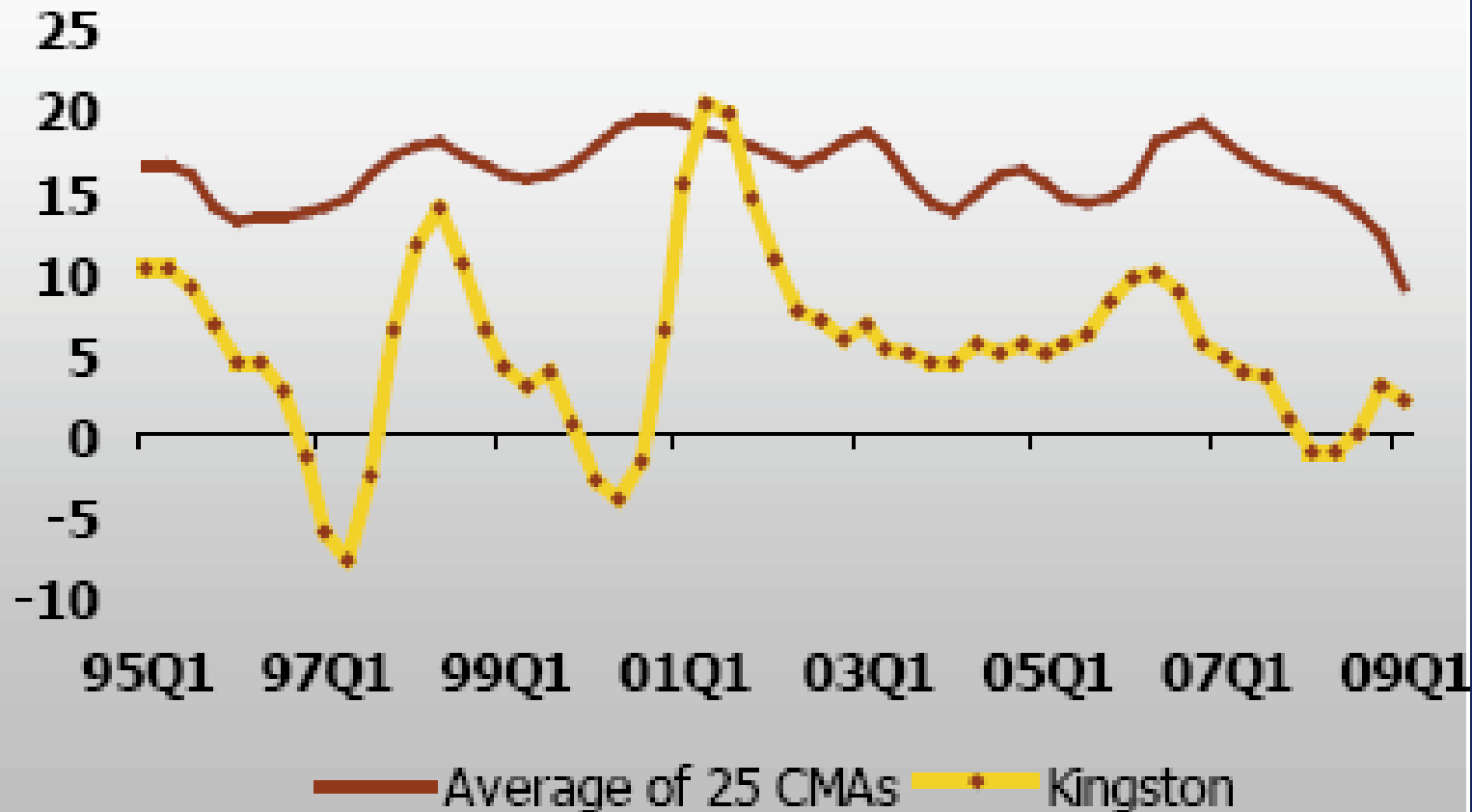


<u>Category (2007=100)</u>		<u>Kingston</u>	<u>Ontario</u>	<u>Canada</u>
GDP (% change)	2009	99.7	97.3	98.7
WE DID NOT SUFFER AS MUCH				
Income per capita (% chg)	2009	105.3	101.8	103.2
WE CLOSED THE GAP				
	2008\$	\$36,500	\$37,500	\$36,900
Retail Sales (% change)	2009	99.9	98.9	99.5
OUR RETAIL SECTOR HELD UP WELL				
Housing Starts (% chg)	2009	44.4	75.3	63.4
HOUSING WAS OFF AFTER SOME GREAT YEARS				
Employment (% change)	2009	100.0	98.6	99.5
EMPLOYMENT REMAINED LEVEL				

Overall, Kingston Made Up Lost Ground



CIBCWM Metropolitan Economic Activity Index

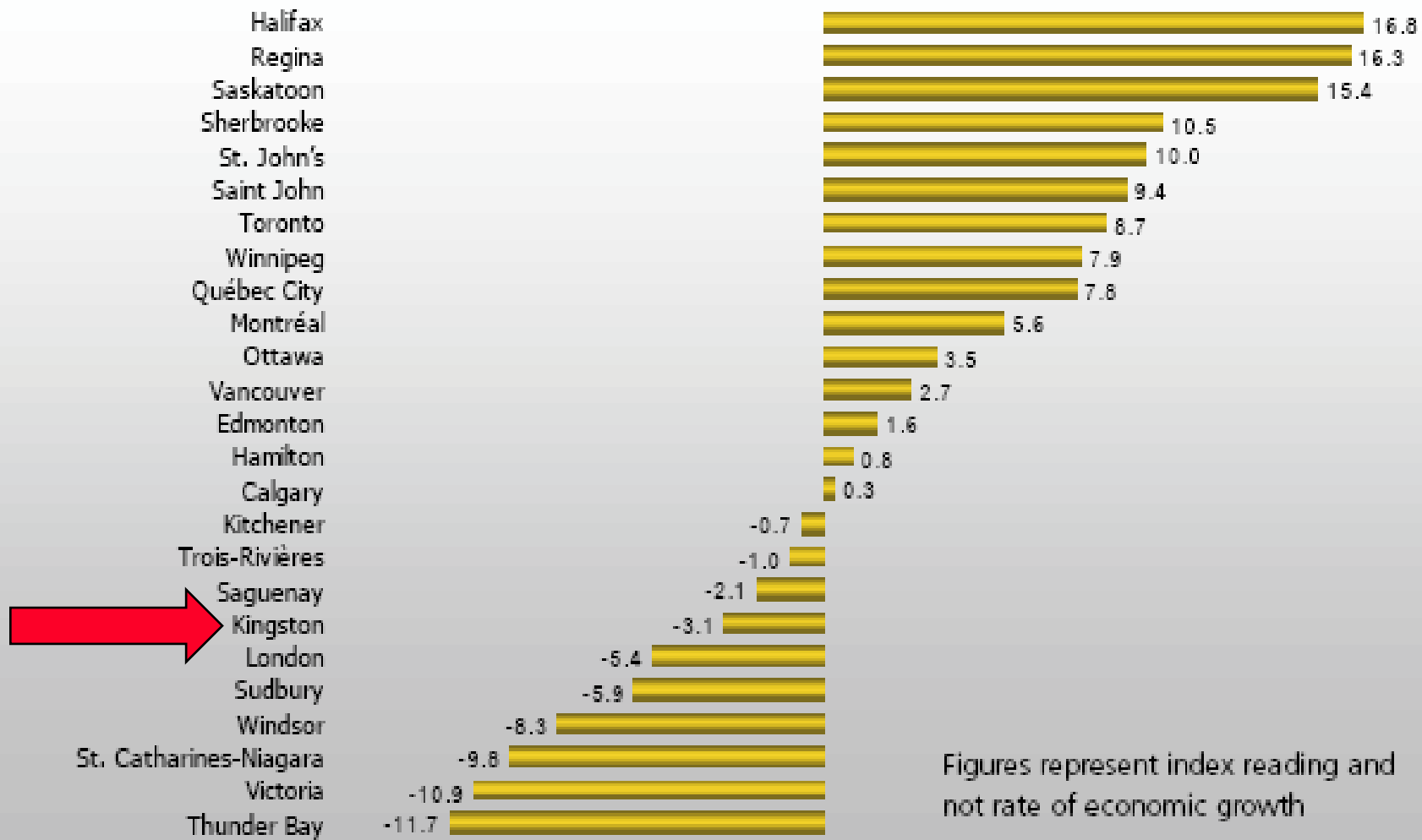


“Getting Better” Doesn’t Mean “Good”



CIBCWM Metropolitan Economic Activity Index (2009Q3)

3Q Moving Average



Figures represent index reading and not rate of economic growth

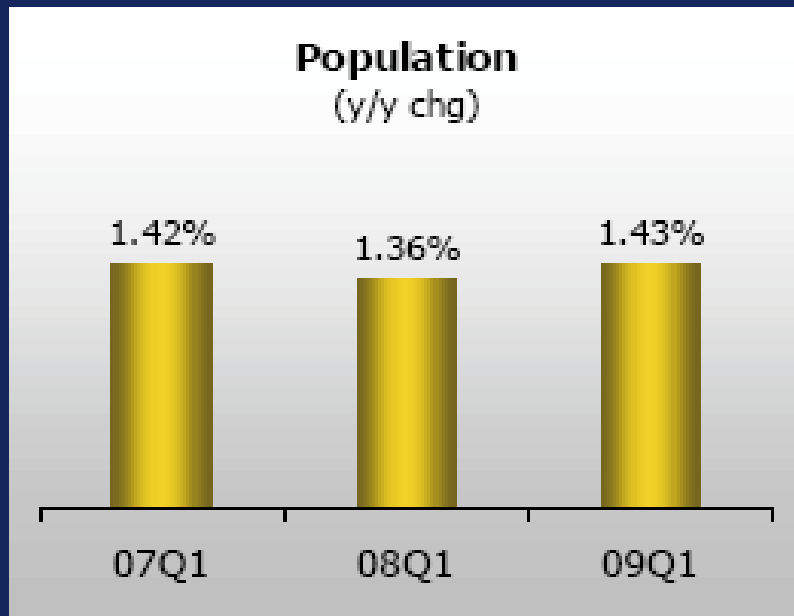


Going Forward – Some Issues

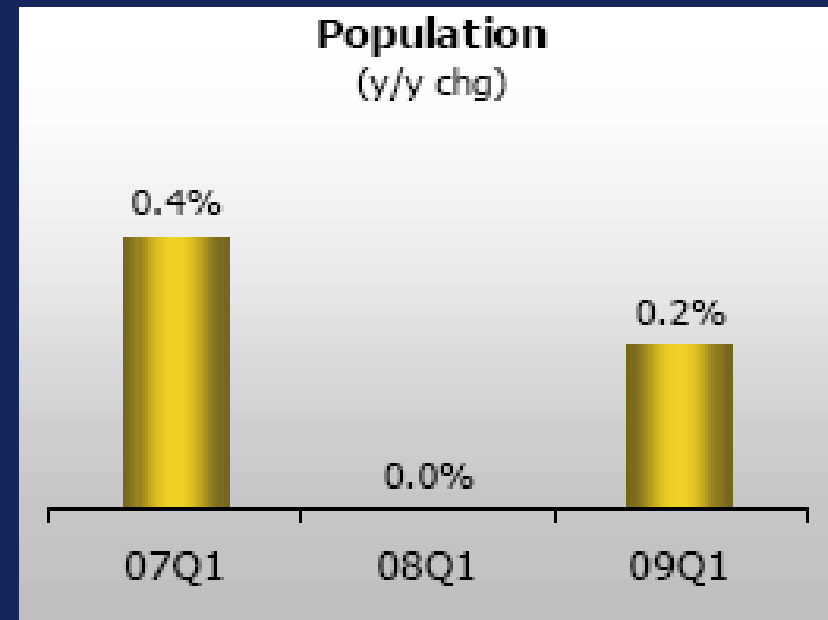


Kingston grew only 14% as much as other CMAs

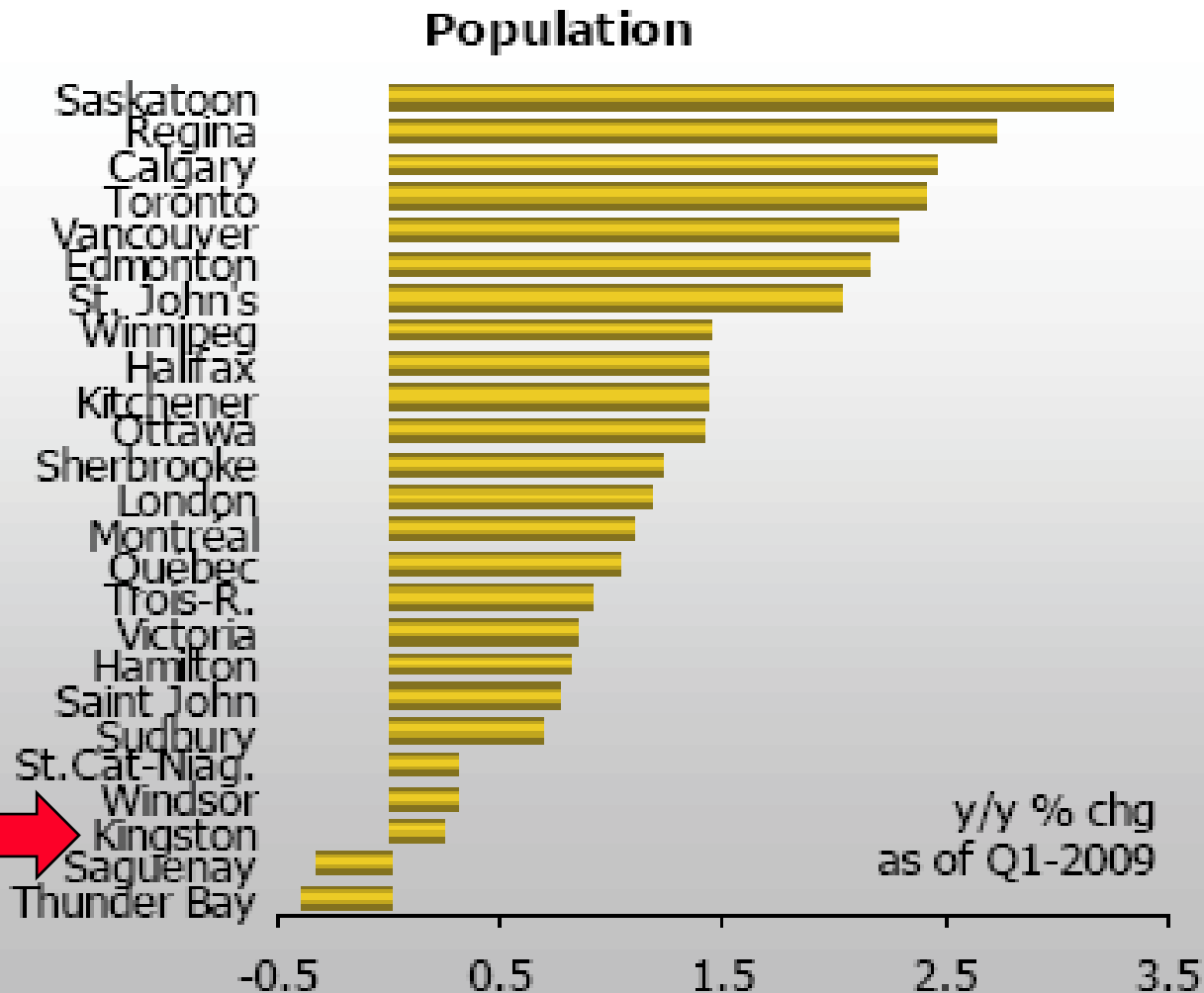
All Cdn CMAs



KINGSTON



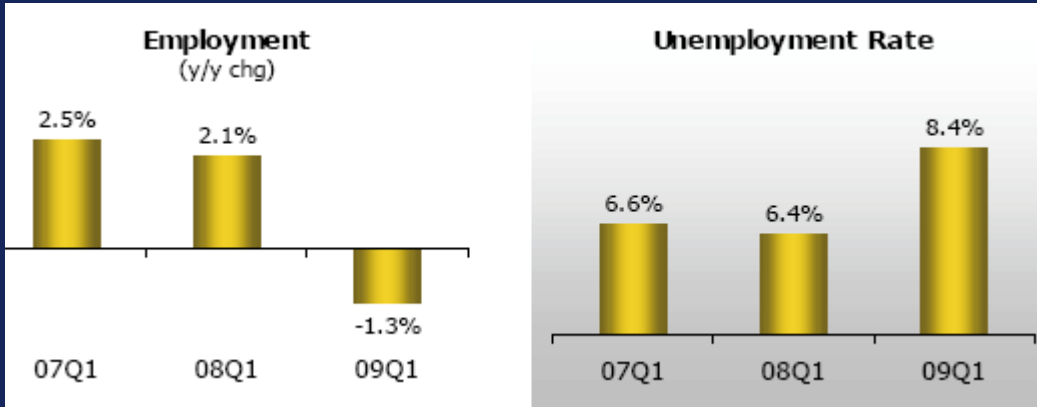
Losing Ground May Mean Losing Markets



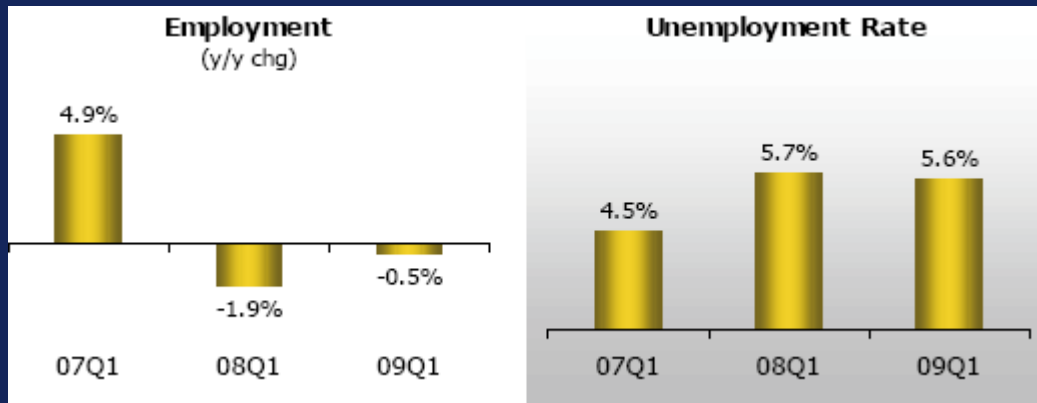
EMPLOYMENT



All Cdn CMAs



KINGSTON

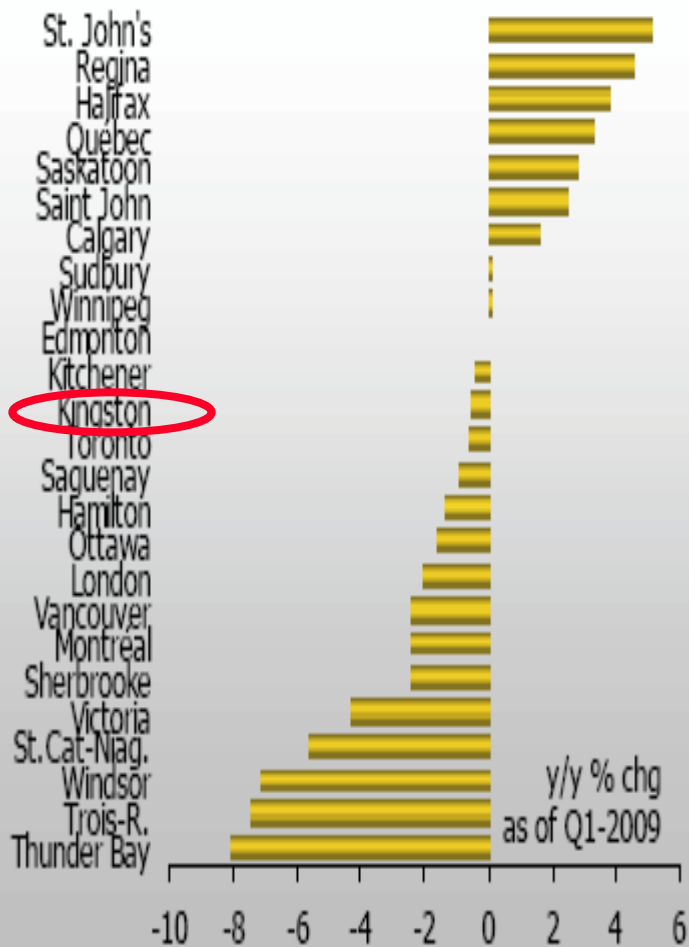


**Kingston did
much better
than other
CMAs!**

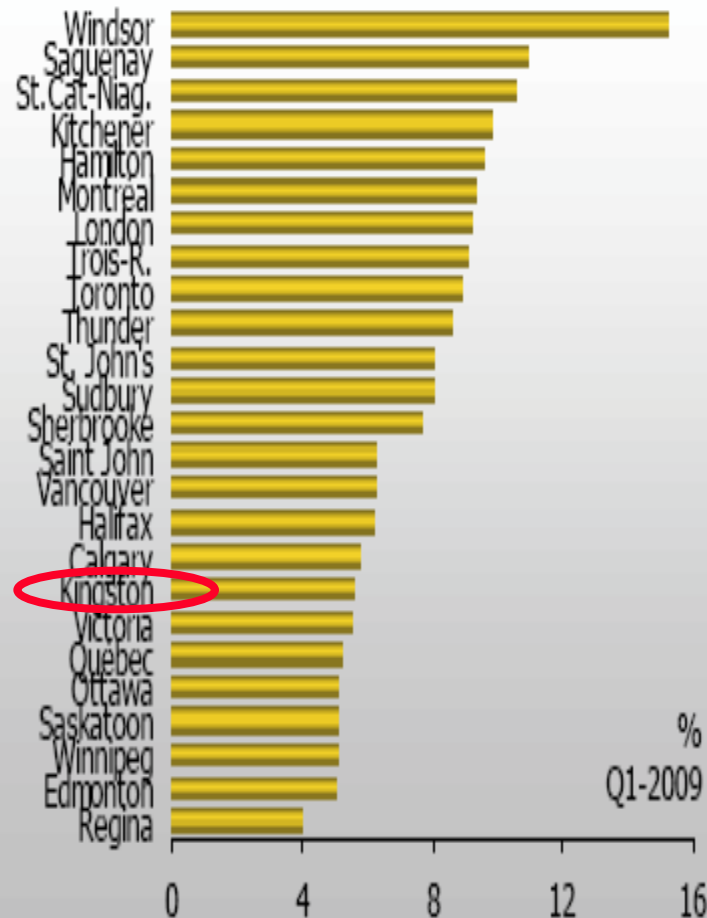
Did We Do Well OR Did Others Do Poorly?



Employment



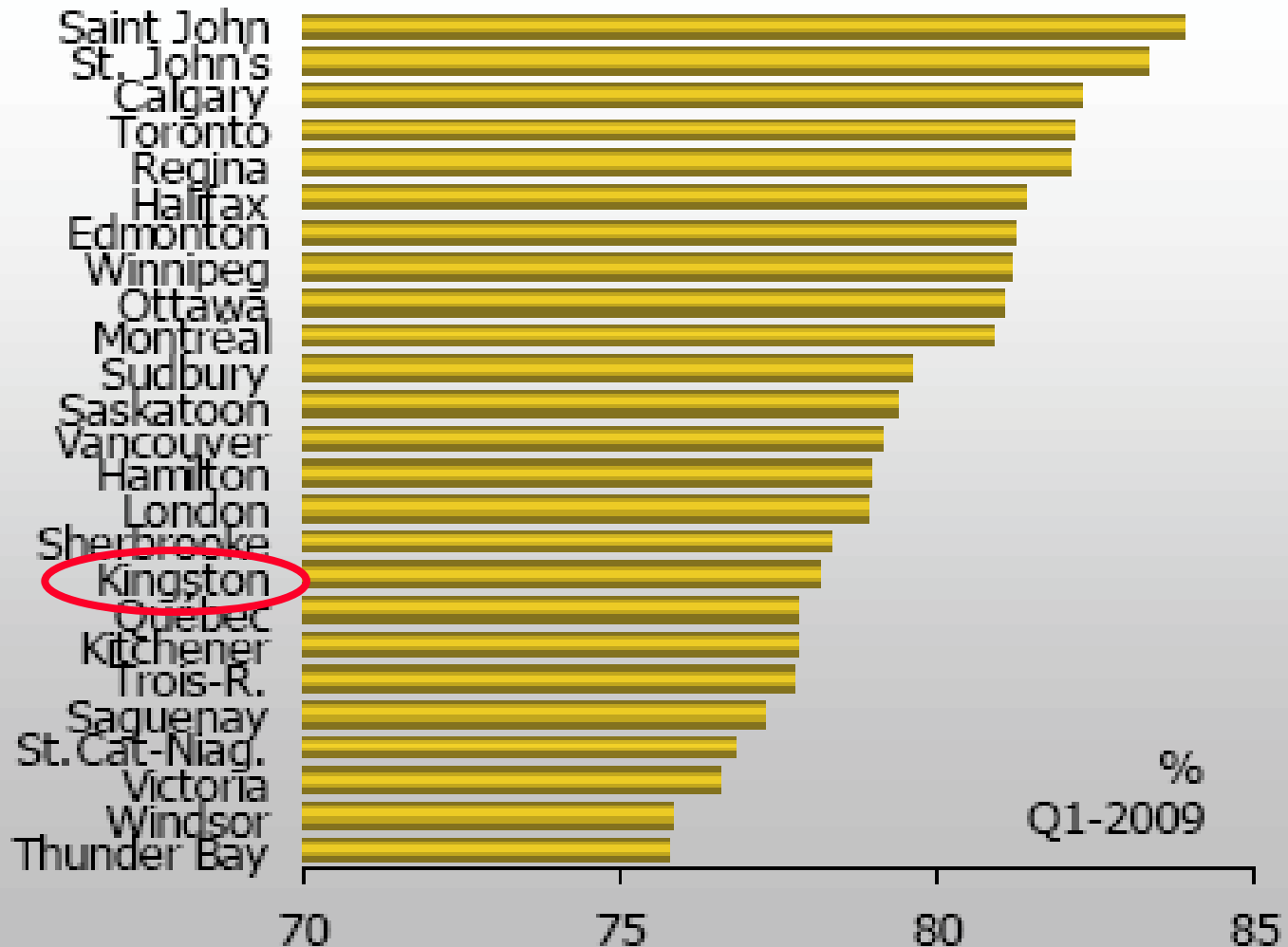
Unemployment Rate



We Still Lag in Full-time Positions



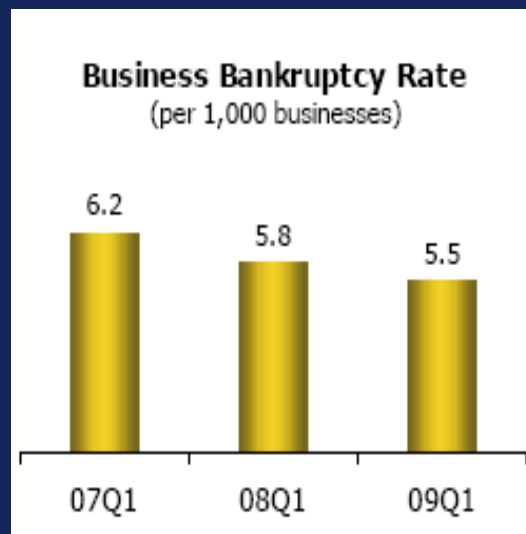
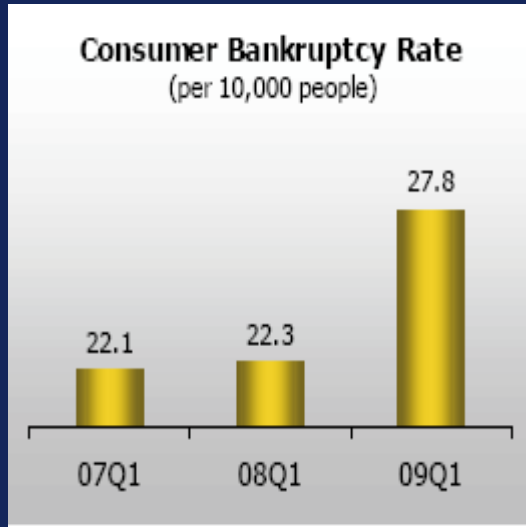
Full Time as a Share of Total Employment



Bankruptcy – A Major Problem Everywhere



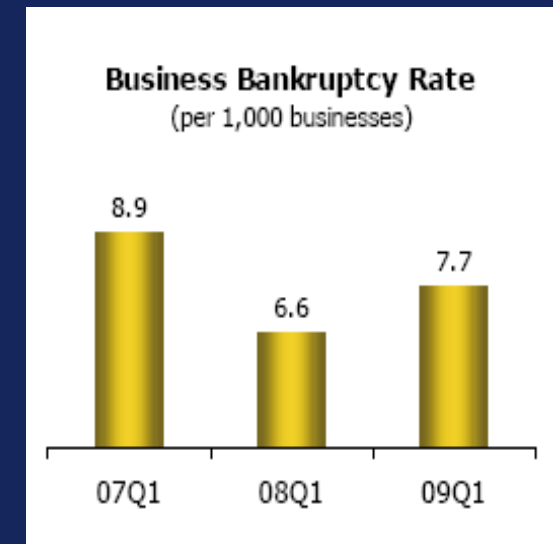
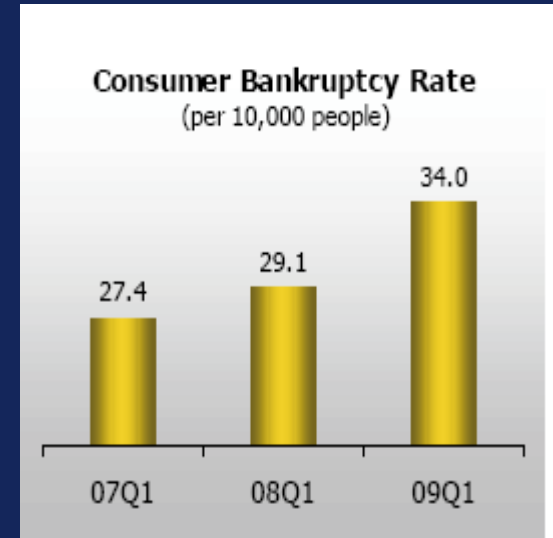
All CMAs



22% higher in KINGSTON

40% higher in KINGSTON

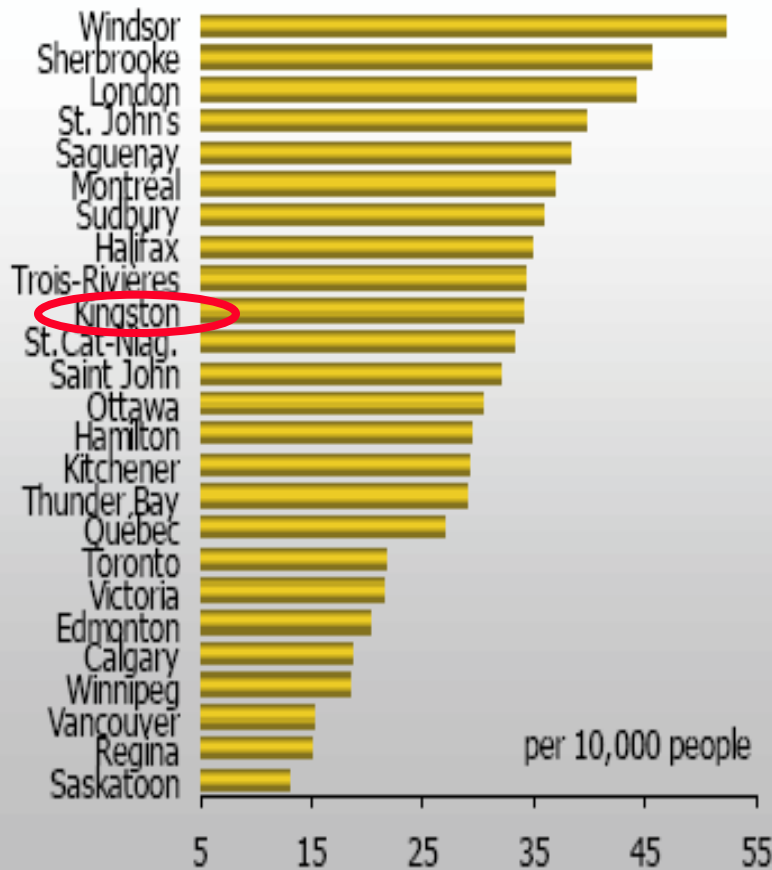
KINGSTON



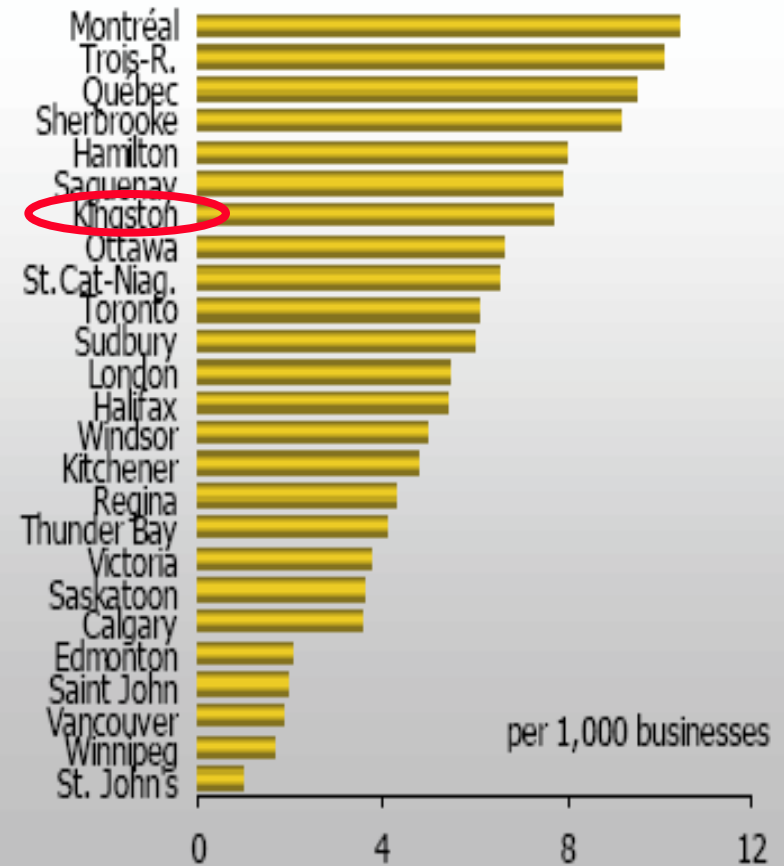
Kingston - One of Canada's 10 Worst !!!



Consumer Bankruptcy Rate



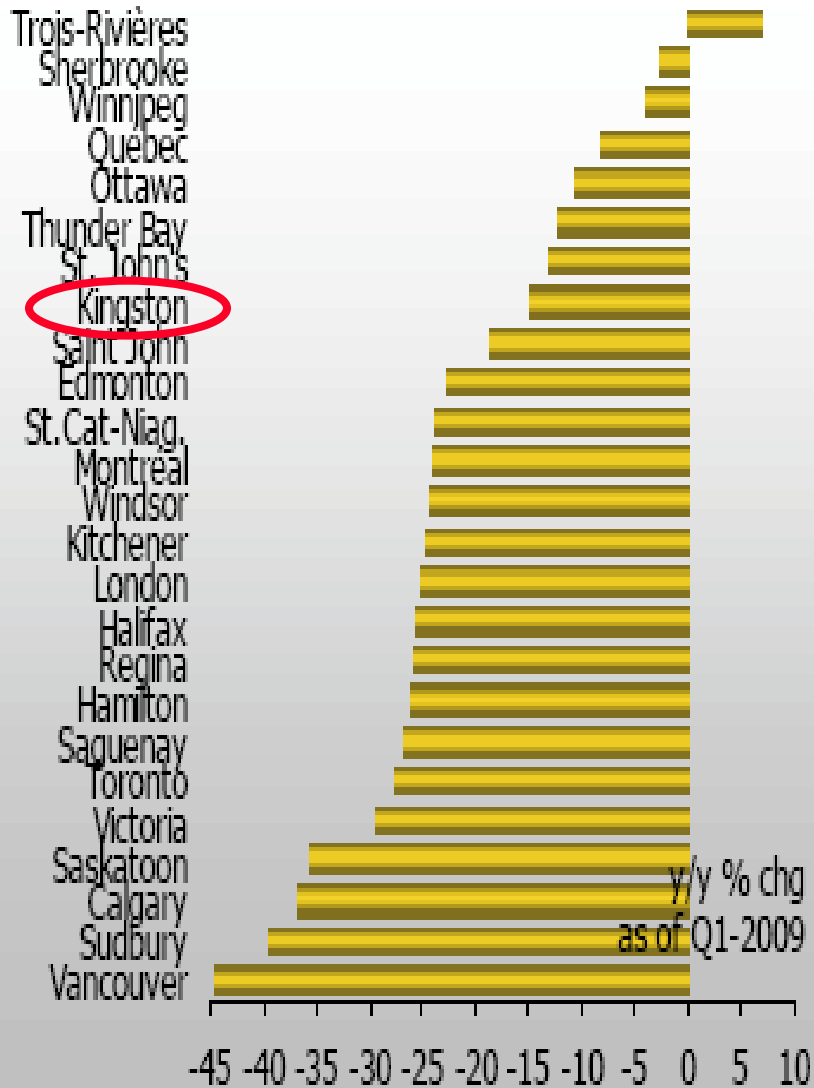
Business Bankruptcy Rate



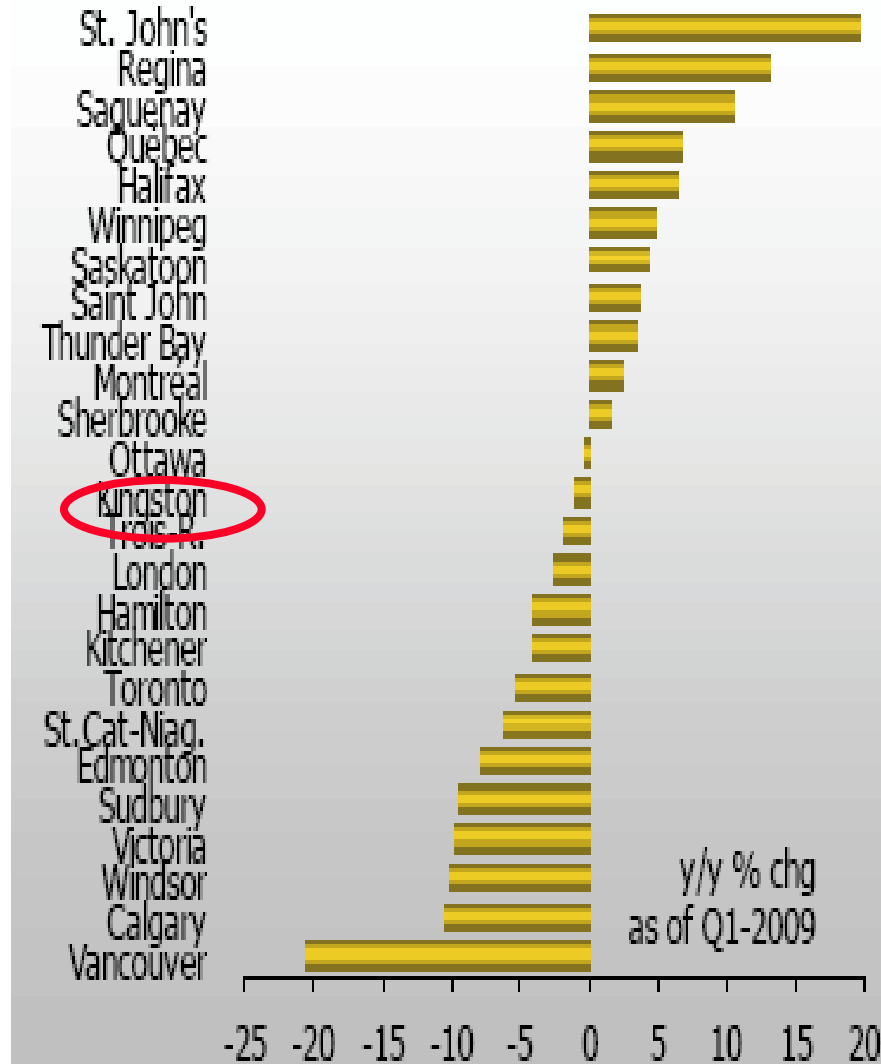
Housing Sales Held Their Own



MLS Unit Sales



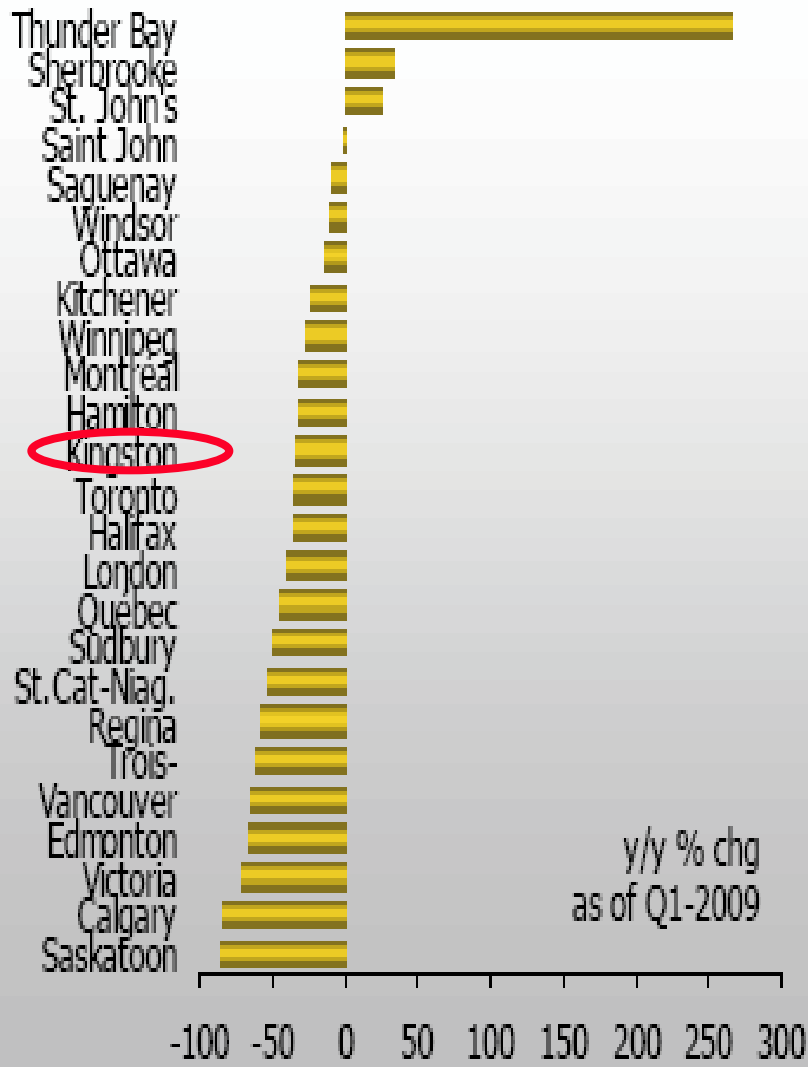
MLS Average Price



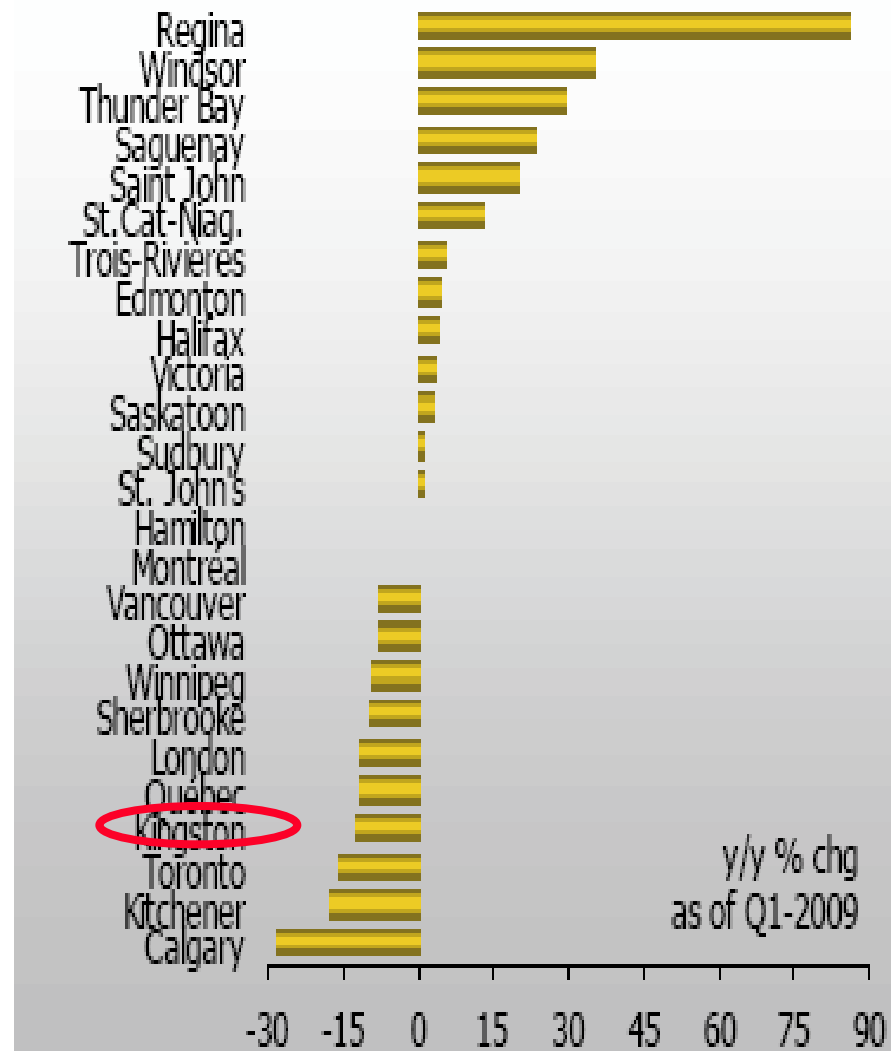
But Private Construction Was Off



Housing Starts



Non-Residential Building Permits



The Forecast for 2010 (Conf Board & RBC)



Category (2007=100)		Kingston		Ontario		Canada	
GDP (% change)	2009	99.7	1.8	97.3	2.5	98.7	2.4
	2010f	101.5		99.7		101.1	
Income per capita (% chg)	2009	105.3		101.8		103.2	
	2010f	108.4	2.9	101.1	(0.7)	106.0	2.7
	2008\$	\$36,500		\$37,500		\$36,900	
Retail Sales (% change)	2009	99.9		98.9		99.5	
	2010f	104.4	4.5	103.2	4.3	103.8	4.3
Housing Starts (% chg)	2009	44.4		75.3		63.4	
	2010f	55.5	25.0	95.1	26.3	72.9	14.9
Employment (% change)	2009	100.0		98.6		99.5	
	2010F	98.7	(1.3)	98.7	---	99.7	---

Some Troubling Issues



- **KINGSTON IS NOT IMMUNE TO U.S. ECONOMIC WOES**
- **THE TWO SIDES OF BEING A PUBLIC SECTOR TOWN**
 - How long before government deficits require either higher federal/provincial taxes or reductions in services?
- **WEAK FUNDAMENTALS**
 - Low population growth and business tax base => budget pressures
- **SOONER OR LATER WE ALL PAY**
 - What happens when Queen's capital spending slows and its operating budget reductions hit full stride?
 - Can we keep adding social programming, services and "studies" while "asking" staff to reduce budgets?
 - How many studies can we ignore before we make decisions.
- **ARE THERE TWO KINGSTON'S?**