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Canada's economic growth remains solid

High flying Canadian Economy will see Loonie hit \$1.05 by end of 2008



Canadian dollar will trade at biggest premium since 1960

The Canadian economy will outperform the U.S. economy in 2008, despite the loonie reaching a nearly a half-century high of \$1.05 against the greenback, finds CIBC World Markets latest economic forecast.

"The loonie's flight is far from over," says Jeff Rubin, Chief Economist and Chief Strategist at CIBC World Markets. "By the end of next year, you'll

get as much as a nickel back when you trade your loonies for greenbacks, the biggest premium since 1960."

The forecast finds that across a wide spectrum of assets, the tables have suddenly turned between the American and Canadian economies. Canadian real GDP

growth is outpacing the U.S.; American housing prices continue to fall on mounting foreclosures while Canadian housing prices continue to rise due to a surging economy; and the resource-based TSX is set to outperform the S&P 500 for the fourth straight year.

Mr. Rubin notes that in the past, weakness in the American economy would spill over the border in a hurry, particularly when a par Canadian dollar exchange rate left exporters fully exposed. But with the developing world, not the U.S., now driving global resource demand, the umbilical cord that has always connected the Canadian economy to the much larger American market is being severed. That's already becoming apparent with Canadian real GDP growth poised to surpass the U.S. in a year when the Canadian dollar appreciated from 85 cents to parity.

"Canadians are getting richer compared to their American

neighbours, after having fallen so far behind during the IT-driven economy of the 1990s" says Mr. Rubin. "At the heart of this reversal of fortune is the huge shift in the global terms of trade over the last decade, which has seen economic value-added migrate from information technology back to resource rents under the ground.

"Nowhere is that shift more evident than when comparing soaring crude oil prices against stagnant or plunging technology prices. It takes only a third as many barrels of oil to buy a basic computer as it did at the start of the decade, when Silicon Valley drove the world economy."

The CIBC World Markets economic forecast finds that rising resource rents are continuing to swell corporate earnings, personal income and government tax

revenue in Canada. It notes that with consumer spending, business investment and government spending all well financed, the domestic economy will be firing on all cylinders.

The story in the U.S. economy is much different. Tumbling construction, business caution on inventories, and a consumer sector hit by credit concerns threaten to take GDP growth to near zero in the fourth quarter with not much better in the first quarter of 2008.

"A much stronger domestic economy north of the border will in turn translate into divergent monetary policies in continue page 23

Domestic strength offsets external challenges

Canada's economy is expected to grow by 2.8 per cent in the final half of 2007 and 2.5 per cent next year, according to the latest economic forecast from RBC.

"Despite recent financial market volatility, Canada should continue to sustain relatively solid economic growth for the rest of 2007 and into 2008," said

Craig Wright, vice-president and chief economist, RBC. "Strong consumer and business spending will

more than offset ongoing export-related weakness resulting from slower U.S. growth and the high Canadian dollar."

According to the RBC report, strong demand from emerging markets, such as China, has pushed prices higher for numerous natural resource products exported by Canada. As a result, Canada's terms of trade - a measure of the movement in the price of Canadian exports relative to imports - has improved significantly between 2002 and mid-2007, increasing by roughly 20 per cent. Improving terms of trade means that Canadians are able to purchase more as its export earnings rise. Consequently, while growth in overall export volumes is weak, particularly to the U.S., prices for these natural resource exports have skyrocketed and are helping to lead Canada's growth story.

As a result of the improved terms of trade along with continue page 23

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