

January 27, 2010

The Weekly Monitor

- FOMC Meeting: No Change...
But Some Evolution!
- Bank of Canada: No Change...
But Some New Hints, Part II.

Carlos Leitao, Chief Economist (514) 350-3000
leitao@lb-securities.ca

Sébastien Lavoie, Assistant Chief Economist (514) 350-2931
lavoies@lb-securities.ca

Marie-Claude Guillotte, Economist (514) 350-2925
guillotemc@lb-securities.ca

Emir Coskun (514) 350-2941
coskune@lb-securities.ca

For subscription:

Martine Bérubé, Coordinator (514) 350-3006
berubem@lb-securities.ca



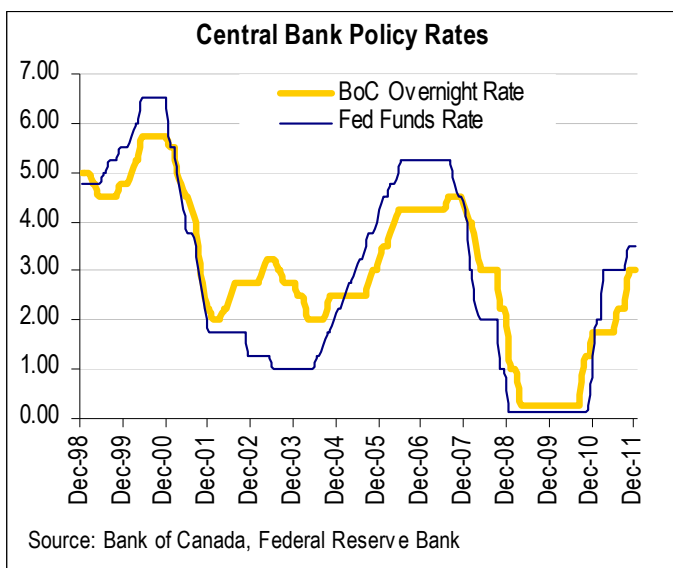
LAURENTIAN BANK
SECURITIES



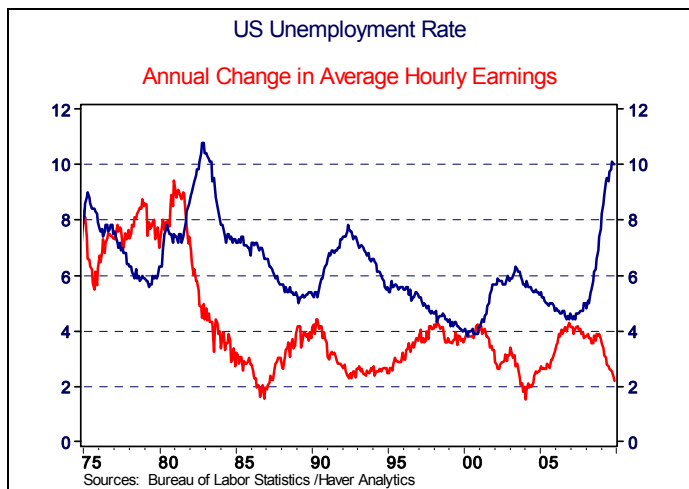
FOMC Meeting: No Change... But Some Evolution!

As widely anticipated, the U.S. Federal Reserve left its policy rate **unchanged** at 0-to-0.25% at the conclusion of its two-day policy meeting on January 27th. There were some relatively minor adjustments on the economic growth and inflation commentary, as well as some further detail on the withdrawal of last year's emergency liquidity facilities.

Nevertheless, the key commitment to keep the policy rate at *"exceptionally low levels [...] for an extended period"* was maintained, although this time one Fed official (Thomas Hoenig) voted against it judging that financial conditions had changed sufficiently to warrant an end to it. While this dissent is possibly a necessary first step towards an eventual normalization of policy rates, the **fact of the matter is that the Fed is still very far from actually doing anything in that respect.**



The stark reality is that household spending, the key ingredient in any sustainable economic recovery, remains "... constrained by a weak labour market, modest income growth, lower housing wealth and tight credit." And this reality is not expected to improve significantly any time soon. To this list of headwinds, I would add fiscal credibility and operational uncertainty regarding the exit from quantitative easing by the Federal Reserve itself.



In this context, it is important to note that the Fed also maintained its commitment to bring to an end by March its purchases of agency mortgage-backed securities (\$1.25 trillion). Citing improved financial markets, the Federal Reserve will also be closing over the next few months the numerous special liquidity facilities put in place in 2008-09.

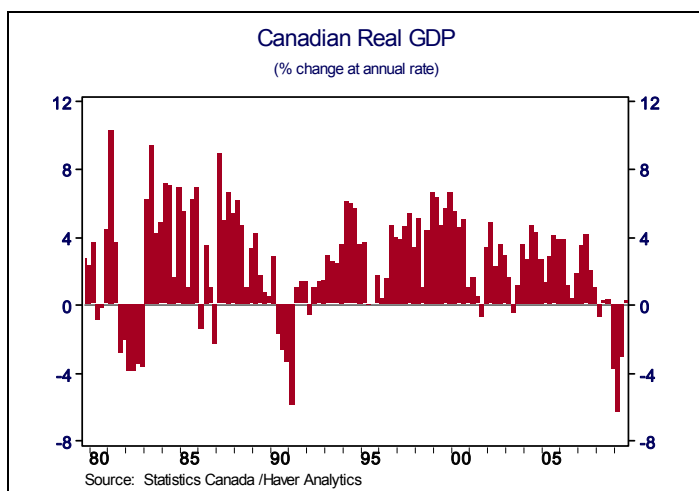
The bottom line is that the Federal Reserve is not any closer to raising policy rates; we still expect a first move to take place only in Q4-2010, at the earliest. In the meantime, all the special quantitative easing measures put in place over the past 18 months or so will be gradually wound-down. Economic growth is still fragile and we continue to have serious doubts about the "staying power" of the recovery. Real GDP growth in Q4-2009 and into Q1-2010 will indeed come in the 4-to-5 percent range but that reflects primarily increased public spending and a powerful inventory cycle. Final private domestic demand remains weak for all the reasons highlighted above, especially the distressed labour market. We continue to believe it is next to impossible for the Federal Reserve to start raising policy rates before the rate of unemployment has clearly peaked, and that is unlikely to happen before Q3-2010. In the next six months or so, the key uncertainty regarding monetary policy is not so much the timing of policy rate increases but rather the withdrawal of quantitative easing measures and market reaction to those changes. For example, once the \$1.25 trillion program of purchases of mortgage-backed securities expires on March 30th, it is not immediately clear what happens to bond yields and, ultimately, residential mortgage rates and the (fragile!) housing market.

Bank of Canada: No Change... But Some New Hints, Part II

Last week, the Bank of Canada made its first interest rate announcement of the year. The central bank said that it would keep its overnight policy rate at 0.25% and it reiterated its conditional commitment to maintain it at that level until the end of the second quarter of 2010.

The subsequent **Monetary Policy Report** published on January 21st, was in most respects quite similar to the one it released in October. The Bank boosted its real GDP growth forecast slightly to about 4% (annualized quarterly growth rates) for the period between the middle of 2010 and the start of 2011. The Bank expects the current economic expansion to be driven entirely by an increase in domestic demand. Household consumption is expected to account for close to two-thirds of real GDP growth during 2010 and close to one-half during 2011.

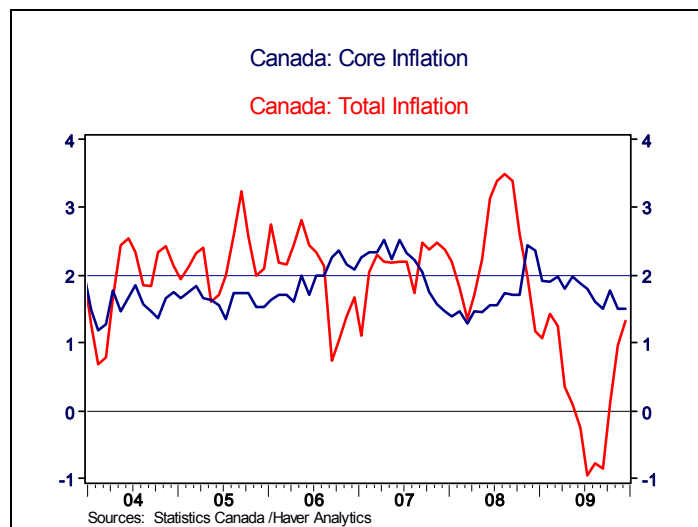
During 2010, many of these households will gradually pick up enough confidence in the economy that they will start to catch up on purchases that had been deferred from previous years. We too expect that the consumer will be the key engine of growth during 2010 and 2011... only not to the same extent as the Bank of Canada; household debt levels in particular will act as a damper on both consumer spending and housing market activity.



According to the Bank of Canada, the Canadian economy was growing somewhat above potential at the end of 2009 – 3.25% -- but that still left a large output gap of about 3.7%. An output gap that large provides a strong signal that there still is persistent excess supply in the system. One should not expect, therefore, inflation risks to increase anytime soon. Core inflation will remain below the central bank's 2% target level until 2011Q3, though the projected rate for 2010 was revised slightly higher (due to the upwards revision in the real GDP growth forecast). LBS Economic Research projects that the cost of living will increase by 1.6% during 2010, following the small 0.3% jump during 2009. Furthermore, contrary to the last year and a half, the spread between total CPI and core CPI should narrow in the coming quarters.

In conclusion, LBS Economic Research projects that the central bank will begin to tighten its monetary policy towards the end of the third quarter of 2010 with a 50 basis point increase in its policy rate. Our year end forecast target for the policy rate is 1.75%. As we have frequently noted, **the fact of the matter is that interest rates will rise from exceptionally low ... to merely low**. Therefore, a true normalization of policy rates is unlikely to occur this year, or even next year for that matter. After all, for domestic demand growth to be that vigorous in the two coming years, it's a safe bet that the Bank of Canada will need to keep a fairly loose monetary policy in place.

One more issue to keep in mind, particularly when comparing Canada to the U.S. or Europe, is that here there is no need to unwind quantitative easing measures. Therefore, if policy rates here rise before those in the U.S. or Europe, it does not necessarily follow that monetary policy in Canada is tighter than in those countries.



North American Forecasts

This Week's Forecasts			
(%)	This Week	Next 4 Weeks	In 3 Months
Canada			
3-Month T-Bills	0.15 - 0.25	0.10 - 0.25	0.25
2-Year Bond	1.35 - 1.45	1.20 - 1.40	1.30
10-Year Bond	3.50 - 3.60	3.40 - 3.60	3.50
Canadian Dollar (CAN\$/US\$)	1.031 - 1.039	1.025 - 1.058	1.06
United States			
3-Month T-Bills	0.05 - 0.15	0.00 - 0.25	0.10
2-Year Bond	0.90 - 1.00	0.80 - 1.00	1.00
10-Year Bond	3.70 - 3.80	3.60 - 3.80	3.65
Yen (Yen/US\$)	90.5 - 92.5	90.0 - 93.0	94.0
Euro (US\$/Euro)	1.42 - 1.44	1.44 - 1.47	1.47

19/01/2010

Interest-Rate and Exchange-Rate Forecasts												
	Historical Data						Forecasts*					
	2007	2008	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2
Canada												
Overnight Rate	4.35	3.03	0.50	0.25	0.25	0.25	0.25	0.25	0.75	1.75	2.25	2.75
3-Month Treasury Bills	4.14	2.33	0.39	0.24	0.22	0.19	0.25	0.30	0.75	1.75	2.40	2.50
2-Year Bond	4.18	2.66	1.07	1.20	1.26	1.43	1.30	1.50	1.75	2.25	2.65	2.95
10-Year Bond	4.27	3.61	2.79	3.36	3.31	3.60	3.40	3.50	3.40	3.65	4.00	4.25
30-Year Bond	4.31	4.06	3.74	3.91	3.84	4.07	4.00	4.10	4.00	4.25	4.60	4.85
United States												
Federal Funds Rate	5.05	2.08	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.00	2.00	3.00
3-Month Treasury Bills	4.48	1.40	0.21	0.19	0.14	0.06	0.10	0.15	0.20	1.00	2.00	3.00
2-Year Bond	4.36	2.01	0.81	1.11	0.96	1.14	0.90	0.95	1.15	1.50	2.00	3.00
10-Year Bond	4.63	3.66	2.71	3.53	3.32	3.85	3.60	3.50	3.00	3.25	3.80	4.90
30-Year Bond	4.84	4.29	3.56	4.32	4.03	4.63	4.50	4.25	3.75	4.00	4.50	5.60
Canadian Dollar (US\$/C\$)	0.930	0.938	0.794	0.893	0.935	0.953	0.950	0.930	0.960	0.980	0.990	0.970
Canadian Dollar (Euro/C\$)	0.679	0.637	0.599	0.652	0.639	0.663	0.646	0.637	0.671	0.667	0.669	0.651
Euro (US\$/Euro)	1.371	1.473	1.326	1.370	1.463	1.438	1.470	1.460	1.430	1.470	1.480	1.490
Yen (Yen/US\$)	118	103	99	95	90	93	94	95	93	91	89	90

Quarter-end data and annual averages

January 15, 2010

Market Review: Bonds and Currencies

International 3-Month Rates

	Current Yield
U.S.	0.06
Canada	0.16
UK	0.49
France	0.32

Spreads (b.p.) against U.S.						
Jan-22-10	-1 week	-4 weeks	-1 quarter	-1 year	Jan-09	
10	11	7	15	71	74	
43	42	37	40	93	122	
26	26	25	35	109	176	

International Bonds: Benchmark 10-Year Yield

	Current Yield
U.S.	3.62
Canada	3.37
UK	3.93
France	3.45
Germany	3.20
Japan	1.35

Spreads (b.p.) against U.S.						
Jan-22-10	-1 week	-4 weeks	-1 quarter	-1 year	Jan-09	
-25	-21	-24	-1	18	40	
31	24	14	16	104	67	
-17	-20	-28	10	117	108	
-42	-44	-49	-16	60	61	
-227	-237	-257	-215	-142	-117	

Provincial Bonds: Benchmark 10-Year Yield

	Current Yield
Canada	3.38
Alberta	3.85
British Columbia	3.92
Prince Edward Island	4.07
Manitoba	3.97
New Brunswick	4.02
Nova Scotia	4.02
Ontario	3.99
Quebec	4.03
Saskatchewan	3.92
Newfoundland	4.04

Spreads (b.p.) against Canada						
Jan-22-10	-1 week	-4 weeks	-1 quarter	-1 year	Jan-09	
47.0	51.0	50.0	56.0	123.0	123.0	
54.0	51.0	60.0	61.0	120.0	120.0	
69.0	66.0	75.0	75.0	157.0	151.0	
59.0	56.0	65.0	65.0	135.0	134.0	
64.0	61.0	69.0	73.0	138.0	138.0	
64.0	61.0	69.0	72.0	138.0	138.0	
61.0	58.0	67.0	65.0	126.0	126.0	
65.0	62.0	72.0	69.0	153.0	147.0	
54.0	51.0	63.0	62.0	125.0	123.0	
66.0	63.0	72.0	72.0	134.0	133.0	

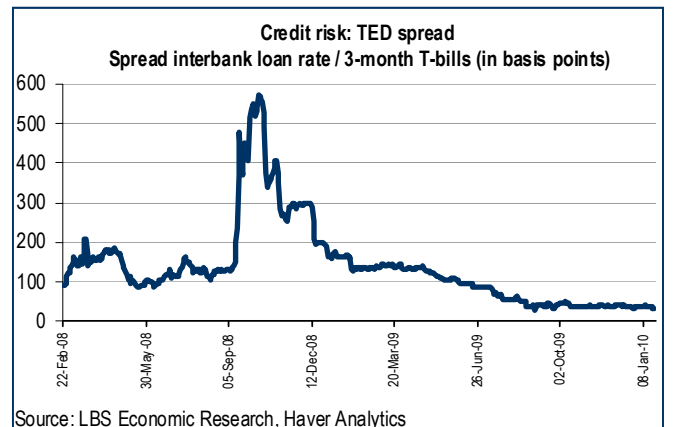
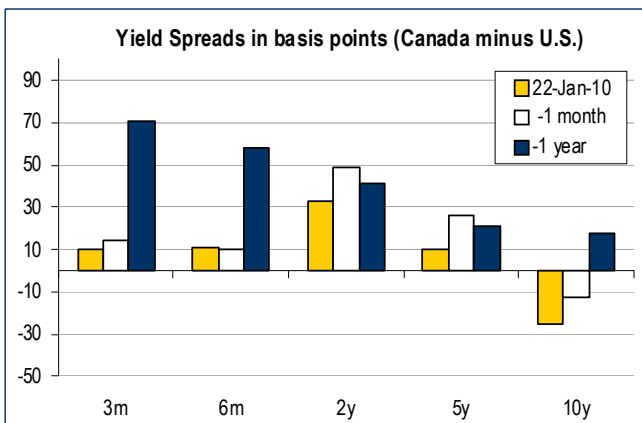
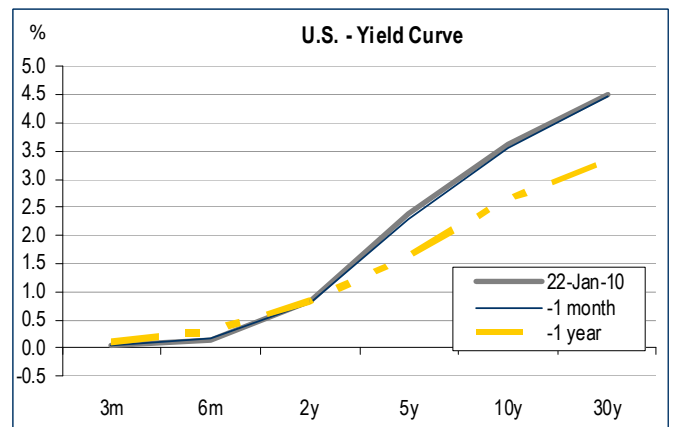
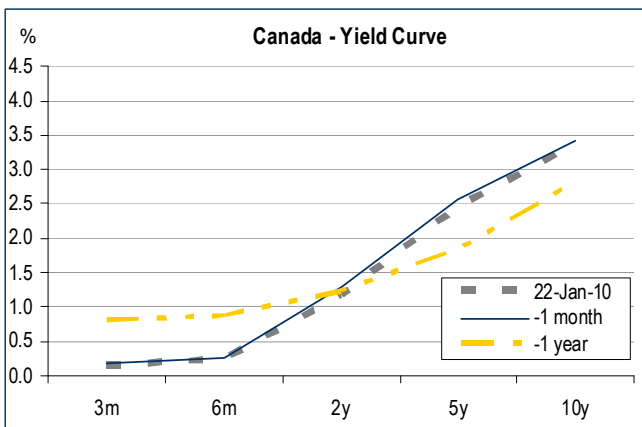
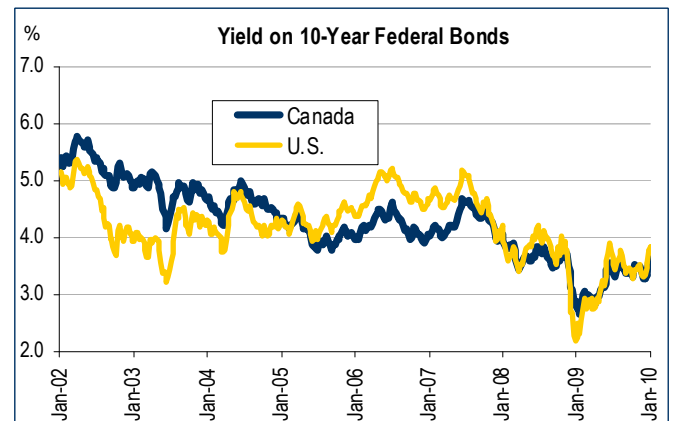
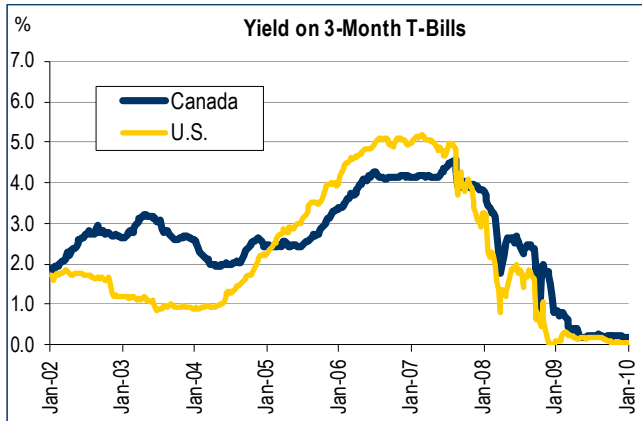
Currencies

	Current Yield
Canada (Canada/US\$)	1.0561
Canada (US\$/Canada)	0.9469
Australia (Australia/US\$)	0.9050
U.K. (US\$/£)	1.6121
Japan (US\$/Yen)	90.07
Euro (US\$/Euro)	1.4154

Currencies						
Jan-22-10	-1 week	-4 weeks	-1 quarter	-1 year	Jan-09	(%)
1.0561	1.0306	1.0592	1.0618	1.2478	-13.2	
0.9469	0.9703	0.9441	0.9418	0.8014	15.2	
0.9050	0.9233	0.8833	0.9200	0.6522	-22.3	
1.6121	1.6303	1.6082	1.6351	1.3657	10.7	
90.07	90.96	90.95	91.96	88.72	-1.0	
1.4154	1.4323	1.4318	1.4941	1.2849	1.6	

Data updated as at: 28/01/2010

Market Review: Fixed Income Charts



Market Review: Stocks Exchange and Commodities

Stock Market Summary

	Level			Change (%)				
	Jan-22-10	52w HI	52w LOW	(-1W)	(-4W)	(-13W)	(-52W)	Jan-2009
Canada								
S&P/TSX	11,343	11,954	7,567	-2.9	-3.4	-0.3	31.5	24.5
S&P/TSX 60	662	703	458	-2.9	-4.3	-2.1	27.7	20.6
S&P/TSX Small Cap Index	576	601	310	-3.5	0.2	7.8	58.6	54.0
United States								
S&P 500	1,092	1,150	677	-3.9	-3.1	1.1	31.2	19.0
Dow Jones	10,173	10,725	6,547	-4.1	-3.4	2.0	25.9	14.2
Nasdaq	2,205	2,320	1,269	-3.6	-3.6	2.4	49.3	37.4
International								
U.K. - FTSE 100	5,303	5,538	3,512	-2.8	-2.1	1.2	30.9	17.9
Germany - DAX	5,695	6,048	3,666	-3.1	-4.9	-0.8	36.3	15.8
France - CAC 40	3,821	4,045	2,519	-3.4	-2.8	0.3	34.1	16.4
Japan - Nikkei 225	10,591	10,982	7,055	-3.6	0.9	3.0	36.7	18.3
Hong Kong - Hang Seng	20,726	22,944	11,345	-4.3	-3.6	-8.2	64.8	40.8
Russia - RST	1,556	1,590	498	-0.2	7.3	6.5	212.2	146.3
Australia - ASX All Ordinaries	4,772	4,981	3,112	-3.2	-1.0	-1.8	44.6	30.5
Brazil - Bovespa	66,220	70,729	36,235	-4.0	-2.3	1.8	73.7	68.3

S&P/TSX Sector Summary

	Level			Change (%)				
	Jan-22-10	52w HI	52w LOW	(-1W)	(-4W)	(-13W)	(-52W)	Jan-2009
S&P/TSX	11,343	11,954	7,567	-2.9	-3.4	-0.3	31.5	24.5
Energy	286	308	175	-3.4	-3.8	-4.5	37.5	28.0
Materials	323	369	224	-5.0	-3.2	1.0	27.6	30.2
Industrials	82	83	60	-0.5	0.7	5.2	19.3	9.8
Consumers Discretionary	95	99	59	-2.1	-1.6	7.3	29.7	19.6
Consumers Staples	177	181	156	-1.0	-0.2	6.7	8.8	5.9
Health Care	35	36	25	0.2	-0.5	2.3	20.4	26.1
Financials	167	180	91	-3.0	-4.6	-3.1	48.8	30.5
Information Technology	28	29	17	-2.1	-3.0	3.6	38.3	47.9
Telecommunication Services	78	80	68	-0.3	-1.2	5.5	3.2	-1.8
Utilities	195	200	152	-1.4	-1.0	8.5	17.2	10.2

Commodities

	Level			Change (%)				
	Jan-22-10	52w HI	52w LOW	(-1W)	(-4W)	(-13W)	(-52W)	Jan-2009
London -- Gold (US\$/once)	1108.25	1212.50	870.25	1128.00	1092.17	1061.75	875.75	872.13
London -- Silver (US\$/once)	17.14	19.45	11.87	18.48	17.52	17.75	11.87	11.34
Aluminium (US\$/LB)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0.62	0.72
Copper (US\$/LB)	3.34	3.48	1.41	3.36	3.29	3.02	1.46	1.42
WTI Crude Oil (US\$/barrel)	74.54	83.18	33.98	78.00	77.91	80.50	45.47	45.47
Natural Gas (Henry Hub) (US\$/MMBTU)	5.53	7.38	1.92	5.67	5.83	4.85	4.75	5.53

Data updated as at:
28/01/2010

Calendar of Major Economic Indicators

KEY ECONOMIC INDICATORS

WEEK OF JANUARY 25, 2010

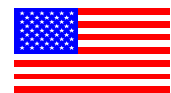


Canada

Date	Time	Release	Unit	Data for:	LBS *	Consensus	Previous
Jan 29	8:30	Industrial Product Price	M/M	December	-	-	1.0%
Jan 29	8:30	Raw Materials Price Index	M/M	December	-	-	2.2%
Jan 29	8:30	Gross Domestic Product	M/M	November	-	0.3%	0.2%

* Laurentian Bank Securities Forecast

Consensus from Bloomberg L.P.



United States

Date	Time	Release	Unit	Data for:	LBS*	Consensus	Previous
Jan 25	10:00	Existing Home Sales	Millions	December	-	6.00	6.54
Jan 25	10:00	Existing Home Sales	M/M	December	-	-8.3%	7.4%
Jan 26	10:00	Consumer Confidence	-	January	-	53.5	52.9
Jan 27	10:00	New Home Sales	Thousands	December	-	370.0	355.0
Jan 27	10:00	New Home Sales	M/M	December	-	4.2%	-11.3%
Jan 27	14:15	FOMC Rate Decision	-	Jan. 27	0.25%	0.25%	0.25%
Jan 28	8:30	Durable Good Orders	M/M	December	-	2.0%	0.2%
Jan 28	8:30	Durable Good Orders Ex. Transportation	M/M	December	-	0.3%	2.0%
Jan 28	8:30	Initial Jobless Claims	Thousands	Jan. 23	-	452.0	482.0
Jan 29	8:30	GDP (Annualized)	Q/Q	4Q S	5.0%	4.5%	2.2%
Jan 29	8:30	GDP Price Index	Q/Q	4Q S	-	1.3%	0.4%
Jan 29	8:30	Core PCE	Q/Q	4Q S	-	1.4%	1.2%
Jan 29	9:55	U. of Michigan Confidence	-	Jan. F	-	73.0	72.8

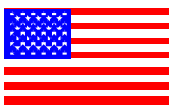
Consensus from Bloomberg L.P.

North American Economic Indicators



Canada

	Period	Monthly Chg. (% or Level)		Cumulative change	
		Current	Previous	- 3 Month	- 1 Year
Gross Domestic Product (GDP)	October	0.2%	0.4%	0.5%	-3.2%
Manufacturing Shipments	October	2.1%	0.8%	1.5%	-16.5%
Housing Starts (' 000) *	November	168	167	158	141
Retail Sales	October	1.0%	1.1%	3.1%	-1.2%
Trade Balance (M\$) *	October	-344	-781	-984	-721
Employment (' 000) **	December	-3	79	67	-258
Unemployment Rate *	December	8.5	8.5	8.7	7.2
Wages (avg. hourly earnings)	December	2.4%	2.3%	3.3%	4.8%
Total CPI inflation	December	1.2%	1.0%	-0.8%	1.1%
Inflation ex-food & energy	December	1.4%	1.4%	1.6%	1.9%
Industrial Product Price Index	November	1.0%	-0.3%	0.2%	-2.8%
Raw Materials Price Index	November	2.2%	2.5%	3.8%	9.3%



United States

	Period	Monthly Chg. (% or Level)		Cumulative change	
		Current	Previous	- 3 Month	- 1 Year
ISM - manufacturing *	November	53.6	55.7	52.9	36.6
ISM - Non-manufacturing *	November	48.7	50.6	48.4	36.6
Industrial Production *	November	99.7	99.1	98.3	104.8
Capacity Utilization Rate *	November	71.5	71.0	70.2	74.4
Consumer Confidence Index *	December	72.5	67.4	73.5	60.1
Retail Sales	November	1.8%	1.2%	0.9%	2.5%
Trade Balance (M\$) *	October	-33,189	-35,650	-31,415	-43,247
Housing Starts (' 000) *	November	580	524	581	655
Existing home sales	November	7.4%	9.9%	28.5%	44.1%
Median price of ex. home sales	November	-1.3%	-2.2%	-4.1%	-5.7%
Non-Farm Payrolls (' 000) **	November	4	-127	-262	-4760
Unemployment Rate *	November	10.0	10.1	9.8	7.4
Wages (avg. hourly earnings)	November	2.3%	2.5%	2.6%	3.9%
Total CPI inflation	November	1.9%	-0.2%	-1.9%	1.0%
Inflation ex-food & energy	November	1.7%	1.7%	1.5%	2.0%
Producer Price Index	November	1.8%	0.3%	1.6%	2.7%
- Ex-Food & Energy	November	0.5%	-0.6%	-0.2%	1.2%

* Level

** Change in level for the last month, 3 months and 1 year

*** Annual % change

Data updated as at:

28/01/2010

North American Forecasts

Canada													
	Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated												
									Annual Average			4th Qtr/4th Qtr	
	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2009	2010	2011	2010	2011	
Real GDP (%)	-3.1	0.4	3.0	3.1	3.2	2.7	2.8	-2.6	2.3	2.7	3.0	2.5	
Consumption	1.8	3.1	2.7	2.6	2.8	2.6	2.6	0.1	2.7	2.6	2.6	2.6	
Private investment	-9.9	8.7	0.4	2.9	1.8	2.9	3.7	-13.3	2.1	5.6	2.8	7.2	
Machinery and equipment	-15.4	25.6	0.0	3.5	4.4	6.2	8.0	-17.4	4.8	9.1	0.0	10.5	
Residential construction	7.4	8.1	5.9	4.4	-3.2	-2.8	-1.1	-8.4	2.6	-0.4	-0.7	0.0	
Government spending	5.2	7.9	5.5	5.1	4.1	2.7	2.7	4.2	4.9	1.3	3.6	0.3	
Exports	-19.5	15.3	9.0	8.1	8.1	7.8	8.5	-14.0	7.1	6.1	8.1	0.0	
Imports	-6.9	36.0	3.0	8.3	9.8	8.5	9.0	-13.9	9.7	6.8	5.5	5.2	
Current account balance in % of GDP	-3.7	-4.1	-3.2	-3.1	-2.7	-2.5	-2.3	-3.4	-2.6	-2.2	-	-	
Inflation (%)													
Total CPI (Y/Y)	0.1	-0.9	0.8	1.3	1.4	1.8	1.8	0.3	1.6	2.0	1.8	2.0	
Core CPI (Y/Y)	1.9	1.6	1.7	1.5	1.3	1.5	1.5	1.8	1.5	1.8	1.5	2.0	
Unemployment rate (%)	8.4	8.6	8.6	8.6	8.5	8.4	8.2	8.3	8.4	8.0	-	-	
Employment	-1.5	-0.8	0.9	0.5	0.9	0.7	0.9	-1.6	0.4	1.3	0.7	1.6	
Housing starts (000s)	128	148	168	165	155	150	140	146	153	145	-	-	
Before-tax Corp. Profits (Y/Y)	-42.9	-42.0	-19.3	1.3	15.3	10.7	4.2	-34.6	7.6	10.0	4.2	14.2	

Unemployment rate: average rate for the quarter or the year.

Forecasts as of January 6, 2010

United States												
	Historical Data				Forecasts							
	2009	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2010	2011
Real GDP (%)	-2.5	-6.4	-0.7	2.2	4.0	3.7	3.1	2.5	2.5	2.6	3.0	2.7
Consumption	-0.6	0.6	-0.9	2.8	2.0	1.8	1.7	1.7	1.7	1.8	1.8	1.8
Private investment	-18.1	-38.8	-9.0	-5.1	-2.1	2.7	3.6	4.9	5.6	9.4	0.6	7.6
Machinery and equipment	-17.4	-36.4	-4.9	1.5	2.5	6.0	6.0	6.0	7.0	10.0	4.1	8.7
Residential construction	-20.2	-38.2	-23.2	18.9	9.0	4.0	2.0	2.0	3.0	3.5	4.0	2.8
Government spending	1.9	-2.6	6.7	2.7	-0.1	5.8	4.6	3.8	3.8	1.3	3.7	2.3
Exports	-10.3	-29.9	-4.1	17.8	8.9	8.4	6.1	6.0	5.8	4.6	7.9	5.0
Imports	-14.4	-36.4	-14.7	21.3	6.5	6.8	5.3	5.2	5.3	3.9	6.3	4.0
Inflation (%)												
Total	-0.4	-0.2	-0.9	-1.6	1.0	2.0	1.8	1.5	1.2	1.7	1.6	1.9
Core	1.6	1.7	1.8	1.5	1.3	1.3	1.1	1.0	1.0	1.2	1.1	1.5
Unemployment rate (%)	9.3	8.1	9.3	9.6	10.2	10.4	10.2	10.3	10.0	9.8	10.2	9.7
Housing Starts (000s)	557	528	540	587	575.0	600	600	650	650	700	625	725
Before-tax profits (% y/y)	-8.9	-19.0	-12.6	-6.6	6.0	10.0	7.5	10.0	10.0	5.0	9.4	8.2

Real GDP (and its components) and before-tax profits: for quarters, quarter-to-quarter change annualized; for whole years, change from the previous year. Inflation: change in price index from a year earlier. Unemployment rate: average rate for the quarter or the year.

Forecasts as of December 31st, 2009

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