

# *focus*

*A Weekly Financial Digest*

## Market Mayhem

- Fear Paralyzes Global Financial Markets
- Unprecedented Global Coordinated Rate Cut...
- ...But Equities, Commodities, Bonds Still Drop
- Governments Take Action Globally
- Canadian Dollar Plunges Even as Employment Surges

## More Action—Crisis Intensifies



SHERRY COOPER

All indicators suggest that the crisis is intensifying despite ballooning rescue efforts by governments all over the world. Three-month Libor rates rose overnight as the fear of counterparty risk is so great that the only bank prepared to lend is the central bank. Stock markets continue to fall reflecting the credit crisis and weaker fundamentals. Commodities are slumping on recession worries. **This is a global financial pandemic.** Just like viral pandemics, it is **pervasive and prolonged** and there has been little advance planning to deal with it. There are no firewalls that can prevent it from spreading, as we have seen, but the question is how to deal with it once it has spread.

We are quickly ticking off the rescue actions I predicted early this week:

- **Coordinated rate cut**—done and more to come
- **Direct capital infusion into healthy banks** through preferred share investment by Treasury—done in the U.K., likely the next step in the U.S.
- **Insure all U.S. bank deposits** regardless of size. Denmark, Germany and Ireland have already done so.
- **Guarantee interbank debt**—done in the U.K. The U.S. Treasury might go as far as **guaranteeing all bank debt.**
- Accelerate the FDIC process to **shut down insolvent banks** or (better still) arrange sales of insolvent banks with or without government assistance.
- **Loans to state governments**, which in turn could make loans to local governments. Treasury could purchase municipal bonds and **insure state and local pension funds.**
- Government low-interest loans to households

G-7 finance ministers are meeting this weekend. No doubt, additional actions will be taken prior to Asia's open. Watch out for another wild Monday.

After the U.S. election, further actions will be taken:

- A government **housing bailout** including subsidized loans to creditworthy delinquent homeowners and government purchases and redevelopment of vacant housing.
- **Fiscal stimulus** for the economy, including stepped up government spending for infrastructure, alternative energy, education and health care.
- Massive enhancement and restructuring of financial market **regulation.**

Today, the **Government of Canada announced it would add liquidity** to the Canadian mortgage market by purchasing up to \$25 billion in insured mortgage pools through the CMHC. This helps to enhance the long-term funding capacity of the banks at a time when private credit markets have seized up. Canadian banks are the healthiest in the world, but they too have been hit by the global credit crisis, reducing the availability and increasing funding costs for banks and for all market participants.

It would be prudent for the Bank of Canada to consider creating a commercial paper (CP) and bankers' acceptances (BA) funding facility, similar to the one announced by the Fed earlier this week, to provide liquidity for short-term credit markets. Businesses and banks finance their short-term credit needs in these markets; in recent weeks, rates have risen and term funding (three month) has all but dried up.

Additional government provision of credit will help mitigate the effects of the liquidity crisis on households and businesses. Without the free flow of credit, the transmission mechanism of easier monetary policy does not function properly.

**Bottom Line: The crisis will grind economic growth to a halt in many countries.** The IMF believes a global recession is likely, revising the global growth outlook down to 3.0% for 2009. The longer the crisis lasts, the worse it will be for economic activity going forward, but at this point I suggest that we will see a longer and deeper recession in the U.S. than many are thinking with at least three quarters of negative growth beginning in Q3 of this year. Canada will not suffer as much, but recession is likely here as well, and also in the U.K., the Eurozone and Japan. Canada will have the strongest growth in the G-7, but that will likely be less than 1%, insufficient to prevent a rise in unemployment. China, India, Brazil, Russia and the Middle East will slow as well as exports to the developed world slow and commodity prices slump. The poorest regions of the world will feel the least impact because they are the least exposed to financial turmoil (think sub-Saharan Africa).

### After the Crisis: Lasting Effects

The root causes of the crisis will be studied for years to come. At first glance, most have blamed U.S. subprime lending and securitization. In my view, the **housing bubble was merely a symptom** of an unstable global order that allowed the richest nation to live beyond its means. There was no penalty, until now, for the growing U.S. current account deficit because foreigners were perfectly willing to fund it. It had gone on for so long that credit risk was perceived negligible, driving spreads off government yields to historical lows. So credit markets boomed and so did spending in the U.S., U.K. and elsewhere. Housing bubbles emerged in the U.S., U.K., Spain, Ireland and Australia and all of these countries are suffering the greatest banking problems, credit crises and will have the most severe economic slowdowns.

The markets since 1982, when interest rates peaked, and especially since 1989 when the Cold War ended, reflected the positive effects of falling inflation and the opening up of the Iron Curtain and China to global capitalism. Trade, globalization and leverage increased. As some have said, the U.S. became the “spender and borrower of last resort” especially for China whose growth was export-led. American household debt increased sharply. Money was cheap and growth was fuelled by the mounting savings glut—current account surpluses—in Asia, Russia and the Middle East.

Now, private spending and borrowing is falling fast and the government rescue efforts are creating much bigger fiscal deficits and bigger and riskier central bank balance sheets. Beyond the emergency measures and subsequent financial reforms, **we need to see more balanced global growth.** The U.S., the U.K. and others will deleverage, creating much lower current account deficits while the emerging world must shift focus to consumption-led growth. Without a booming western world, China can only continue to grow rapidly if it steps up consumer spending through rising wages and faster development of consumer credit. As well, China will need to tolerate serious appreciation in its currency, which in turn will reduce the western current account deficits.





DOUGLAS PORTER

After largely staying above the fray, the Canadian dollar has been fully dragged into the depths of the global financial mayhem. Just two short weeks ago, the currency stood at just under 97 cents; since then, it has plummeted an astounding 13% to 84 cents, a drop that nearly doubles the previous deepest two-week decline. After last year's amazing run—the year of the loonie—the Canadian dollar has done a 180, dropping all the way back to levels not seen in more than three years. Few currencies have been spared the turmoil, as the Brazilian real, Mexican peso, Korean won and Australian dollar have all taken even deeper dives against a rejuvenated U.S. dollar—the yen and the yuan are the rare currencies heading in the other direction.

Absolutely ignoring Canada's firmer financial and economic backdrop (e.g. the 106,900 September job surge), forex markets have locked onto the risk aversion trend and the deep sag in commodity prices. Since hitting record highs barely three months ago, the CRB has plunged 37%, paced by a 45% drop in crude oil prices. Stacked just against that metric, the Canadian dollar's decline seems reasonable. Accordingly, the dollar's drop is unlikely to make much of an impact on Bank of Canada policy, which has completely turned to trying to cushion the inevitable economic blow from tight credit markets and the wealth destruction from declining stocks. Any inflationary impact will be minimal, with energy and food prices in full retreat, and an expected big pullback in spending leaving no room for price hikes in other areas. And while the currency slide no doubt relieves one big source of intense pressure on domestic manufacturing, factories will now be dealing with the brutal reality of a broad-based downturn in global demand, with Canada's high auto-intensity a big negative.

The flow of recent events is likely to narrow the massive growth gap between Central and Western Canada. While certainly not good news for Ontario and Quebec, the deep drop in commodity markets and sagging global demand are even worse news for previously booming Western Canada. Housing markets there are already starting to cool markedly—Alberta starts have been cut in half in the past year—and employment growth could be next.




MICHAEL GREGORY

The Bank of Canada cut its policy rate 50 bps to 2.50% on Wednesday, participating in the global coordinated move along with the Fed, ECB, BoE, SNB and Riksbank. Interestingly, the Bank is up first with its regular policy announcement on October 21 (the BoE cancelled its policy announcement scheduled the day after the cuts). The market is pricing in a full quarter-point rate cut with slight odds of a 50 pointer. The latest Reuters survey of the 12 primary dealers revealed 4 expecting 50 bps, 1 expecting 25 bps (okay, that's us), 4 expecting no move and 3 not yet prepared to make a call.

We judge the BoC will follow-up the coordinated action with its own rate cut because of the severe downside inflation and growth risks posed by the freefalling situations in global financial markets and the U.S. economy. The negative feedback loop between a weaker U.S. economy and tighter credit markets became the Bank of Canada's critical downside risk at the prior policy announcement (Sep-3). By the end of last month (Sep-25), Governor Carney acknowledged that this risk had become "more

probable” and, during the past couple weeks, the situation has become dire enough to compel coordinated rate cut action and waves of country-specific measures to support local banks and credit markets. Even the Canadian government introduced a C\$25 billion program on Friday to permit local banks to fund their insured mortgages at cheaper (CMHC) rates, and prime lending rates initially dropped by only half the BoC’s rate reduction reflecting the upward pressure on other term money market rates. The U.S. measures in particular, TARP and CPFF, should materially help melt the global credit freeze, but not until they are fully effective (still weeks away?). In the meantime, all central banks have to keep pumping up liquidity and pushing down policy rates to promote minimal credit market viability.

The fact that the Canadian economy managed to create a record number of jobs in September should do little to dissuade the Bank of Canada from cutting rates (although it probably strengthens the arguments of those on the MPC calling for 25 rather than 50 bps). Besides, the wheels have fallen off global financial markets since the Labour Force Survey was conducted, eroding some of its policy significance. The recent weakness in the Canadian dollar also does little to dissuade a rate cut. Recent declines have mostly matched the freefall in commodity prices (apart from gold) and are, therefore, the “Type I” variety of moves that do not normally impinge on policy. We look for a 25 bp cut on October 21st, with risk of a more aggressive move in timing (another global coordinated action?) and magnitude. The 2002/04 BoC policy rate low of 2% is in the cards and Carney & Co. might simply want to get there sooner rather than later. **Ponti**



SAL GUATIERI

The body blows to the U.S. economy are coming fast and furious, suggesting a deeper recession is all but inevitable. The economy appeared to be sinking even before the recent global financial meltdown. Consumer credit shrank the fastest in a decade in August, while chain-store sales dropped in September. The latter, combined with a nosedive in auto sales, all but guarantees the first contraction in consumer spending in 67 quarters. The prospect of a consumer recession overlaid on a housing downturn and the worst financial crisis in modern times has sent a chill through business corridors. While the Fed’s backstopping of the commercial paper market should allow firms to roll over short-term debt and continue day-to-day operations, soaring long-term corporate yields will put a severe bite on capital spending. State and local governments are also laying off workers and cutting expenses due to shrinking property taxes and costlier credit.

The sole good news this week was that pending home sales shot up 7.4% in August, helped by lower mortgage rates and fire-sale prices of foreclosures. But mortgage applications have sagged amid the recent market convulsions. Exports fell for the first time in five months and still-high jobless claims suggest employment losses are accelerating.

The mounting job losses could delay the housing recovery by lifting foreclosures and damping sales. And until house prices stop falling, the distress in credit markets will persist, notwithstanding the government’s multi-pronged rescue efforts.

Broadening economic weakness could prolong the housing slump and credit freeze, a vicious cycle that may take a year to turn around. The Fed's rate cuts will help, but only if credit markets thaw soon, and recent indicators aren't encouraging (e.g., TED spread at record high 4½ ppts). One thing that seems certain is that the prospects of a long, deep downturn are growing with each passing day of intense financial volatility. Over \$8 trillion in equity market wealth has vanished in the past year. This, combined with more than \$3 trillion in lost real estate wealth, dwarfs the tech-wreck losses of earlier this decade. The last recession was short and shallow, the current one will likely be anything but.

The economy's longer-term prospects also are dimming. The eventual recovery will be subdued, as consumers rebuild lost savings and governments tighten their belts to control rising deficits. A mountain of financial market regulation, a less levered financial system, and a more risk-averse investment culture could reduce the economy's potential rate. Simply put, the hangover from the housing and credit parties could be felt well into the next decade.




JENNIFER LEE

The People's Bank of China was a notable participant in the mid-week global co-ordinated rate cut move. Although reportedly not part of the calls made the night before, the PBoC responded quickly with easing of its own. For the second time in the past three weeks, the one-year lending rate was trimmed 27 bps (rates are always set in multiples of 9) to 6.93%, its lowest level in over a year. Reserve requirements were also relaxed 50 bps to 17% for large banks, and to 16% for other banks. Plus, the government temporarily removed the 5% tax on interest earned on personal savings accounts. Steps were already taken even before this latest round of anxiety hit. In mid-September, to prop up equities, the government eliminated stamp duties on stock purchases, and set up an investment agency that will buy shares in three state-controlled banks.

Taking such measures is a clear sign that China shares the rest of the world's concern about the credit crisis' impact on its economy, and any worries about inflation have been tossed aside. Although real GDP should clock in at nearly 10% growth this year, it is expected to at best dip to around 9% in 2009, which would be the slowest in seven years. Some indicators are already flashing red. Passenger car sales fell from year-ago levels in August. Toyota announced that it would curb production in China, noting *"the market overall is not expanding as quickly as we thought initially"*. Meantime, the property market is softening as home sales are down in the coastal cities and house prices are off their peaks. A more severe downturn in the market could make an even bigger impact on broader commodity demand and prices. China's economy may be holding up better than much of the rest of the developed world so far. However, its move to reduce interest rates shows deepening concerns about weaker global growth and that China is quite willing to do its part to try to contain the credit crisis.



Jennifer Lee, Economist

## CANADA

- BoC cuts overnight rate 50 bps to 2.50%
- TSX and CAD fall to 3-year low
- BoC's BOS showed ebbing expectations
- Senior Loan Officer Survey: record high tightening of lending standards

## UNITED STATES

- Fed cuts funds rate 50 bps to 1.5%, and discount rate 50 bps to 1.75%
- Creates commercial paper funding facility
- Stock market losses amount to \$8 trln over this year

## EUROPE

- ECB cuts 50 bps to 3.75%
- BoE cuts 50 bps to 4.50%
- U.K. government introduces a £400 bln rescue plan
- Germany guarantees private deposits
- Spain sets bailout fund

## JAPAN

- BoJ stands on the sidelines, cheering global rate cut; injects liquidity into money markets

## AUSTRALIA

- RBA slashes rates 100 bps
- AUD dives to 5-year low

### GOOD NEWS

**Employment** +106,900 (Sep.)  
**Jobless Rate** unch at 6.1% (Sep.)  
**Trade Surplus** widened to \$5.8 bln (Aug.)  
**Housing Starts** +0.1% to 217,600 a.r. (Sep.)  
**New Housing Prices** unch (Aug.)  
**Ivey PMI** +9.5 pts to 61.0 (Sep.)

**Pending Home Sales** +7.4% (Aug.)  
**Initial Claims** -20k to 478k (Oct. 4 wk)—but still elevated  
**Trade Deficit** narrowed to \$59.1 bln (Aug.)  
**Import Prices** -3.0% (Sep.)

**Germany—Factory Orders** +3.6% (Aug.)  
**Germany—Industrial Production** +3.4% (Aug.)  
**Italy—Industrial Production** +1.4% (Aug.)

**Employment** +2,200 (Sep.)

CANADA

U.S.

EUROPE

JAPAN

AUSTRALIA

### BAD NEWS

**Building Permits** -13.5% (Aug.)  
**Average Hourly Wages** +4.6% y/y (Sep.)

**Redbook** -1.4% (Oct. 4 wk)  
**Chain Store Sales** +1.0% y/y (Sep.)—portends a difficult holiday season for retailers  
**Wholesale Sales** -1.0% (Aug.)

**Germany—Trade Surplus** narrowed to €10.6 bln (Aug.)  
**France—Trade Deficit** widened to €5.4 bln (Aug.)  
**France—Industrial Production** -0.4% (Aug.)  
**U.K.—Trade Deficit** at a record £8.2 bln (Aug.)  
**U.K.—HBOS House Prices** -12.4% y/y (Sep.)  
**U.K.—Nationwide Consumer Confidence** -3 pts to 50 (Sep.)

**Leading Index** -2.1 pts to 89.3 (Aug. P)  
**Machine Orders** -13.0% y/y (Aug.)  
**Machine Tool Orders** -20.7% y/y (Sep. P)

**Jobless Rate** +0.2 ppts to 4.3% (Sep.)

Indications of stronger growth and a move toward price stability are good news for the economy.



CANADA	2008				2009				ANNUAL		
	I	II	III	IV	I	II	III	IV	2007	2008	2009
Real GDP (q/q % chng : a.r.)	-0.8	0.3	1.7	-0.7 ↓	-0.5 ↓	0.6 ↓	1.9 ↓	2.4	2.7	0.7	0.5 ↓
Consumer Price Index (y/y % chng)	1.8	2.3	3.5	3.4	3.4	2.5	1.9	2.1	2.1	2.7	2.5
Unemployment Rate (%)	5.9	6.1	6.1	6.4	6.7	6.9	7.0	7.0	6.0	6.1	6.9
Housing Starts (000s : a.r.)	234	220	210	190	188	185	184	183	228	214 ↑	185
Current Account Balance (\$blns : a.r.)	17.8	27.0	10.1	5.0 ↓	-3.6 ↓	-9.2 ↓	-11.1 ↓	-12.3 ↓	13.6	15.0	-9.0 ↓
<b>Interest Rates</b> (average for the quarter : %)											
Overnight Rate	3.83	3.00	3.00	2.17 ↓	2.00 ↓	2.00 ↓	2.08 ↓	2.67 ↓	4.35	3.00 ↓	2.19 ↓
3-month Treasury Bill	2.99	2.54	2.31	2.04	2.00	2.34	2.85	3.36	4.14	2.47	2.64
10-year Bond	3.73	3.67	3.63	3.38	3.40	3.57	3.76	3.94	4.27	3.60	3.67
<b>Canada/U.S. Interest Rate Spreads</b> (average for the quarter : bps)											
90-day	90	89	79	78	57	60	74	88	-34	84	70
10-year	7	-22	-23	-12	-13	-17	-21	-24	-36	-12	-19
<b>UNITED STATES</b>											
Real GDP (q/q % chng : a.r.)	0.9	2.8	-0.8 ↓	-1.8 ↓	-0.6 ↓	0.5 ↓	1.7 ↓	2.3 ↓	2.0	1.4 ↓	0.0 ↓
Consumer Price Index (y/y % chng)	4.2	4.3	5.3	4.1 ↓	3.2 ↓	2.3 ↓	1.1 ↓	1.5 ↓	2.9	4.5	2.0 ↓
Unemployment Rate (%)	4.9	5.3	6.0	6.4	6.7 ↑	6.9 ↑	7.1 ↑	7.3 ↑	4.6	5.6	7.0 ↑
Housing Starts (mlns : a.r.)	1.05	1.03	0.91	0.83	0.80	0.79 ↓	0.79 ↓	0.84 ↓	1.34	0.96 ↓	0.81 ↓
Current Account Balance (\$blns : a.r.)	-703	-733	-684 ↑	-622 ↑	-591 ↑	-557 ↑	-531 ↑	-521 ↑	-731	-685 ↑	-550 ↑
<b>Interest Rates</b> (average for the quarter : %)											
Fed Funds Target Rate	2.75	2.00	2.00	1.17 ↓	1.00 ↓	1.00 ↓	1.08 ↓	1.58 ↓	5.00	1.98 ↓	1.17 ↓
3-month Treasury Bill	2.09	1.66	1.52	1.26	1.43	1.74	2.11	2.48	4.47	1.63	1.94
10-year Note	3.66	3.88	3.86	3.49	3.53	3.74	3.96	4.18	4.63	3.73	3.85
<b>EXCHANGE RATES</b> (average for the quarter)											
US\$/C\$	99.6	99.0	96.0	84.7 ↓	83.9 ↓	84.8 ↓	85.7 ↓	86.6 ↓	93.5	94.8 ↓	85.3 ↓
C\$/US\$	1.004	1.010	1.042	1.180	1.192	1.179	1.167	1.154	1.074	1.059	1.173
¥/US\$	105	105	108	104 ↓	107 ↓	109 ↓	108 ↓	106 ↓	118	105 ↓	108 ↓
US\$/Euro	1.50	1.56	1.50	1.36 ↓	1.34 ↓	1.33 ↓	1.32	1.30	1.37	1.48 ↓	1.32 ↓
US\$/£	1.98	1.97	1.89	1.72 ↓	1.69 ↓	1.68 ↓	1.67 ↓	1.65 ↓	2.00	1.89 ↓	1.67 ↓

Note: Blocked areas represent BMO Capital Markets forecasts  
Up and down arrows indicate changes to the forecast ↑↓



## CANADA

Douglas Porter, CFA, Deputy Chief Economist

### Federal Election

Tuesday

The global financial hurricane tore through the heart of the Canadian election campaign, and appears to have significantly altered the political landscape. After appearing poised to cruise to victory, with a majority within grasp just a few short weeks ago, it now appears that the Conservatives may struggle to hold on for a plurality of seats. While the polls have been bouncing around, the 4-day average results from Harris/Decima peg the Conservatives at 34% support (versus 36.3% and 124 seats in 2006), the Liberals at 26% (from 30.2% and 103 seats), the NDP at 18% (17.5% and 29), the Greens at 12% (4.5% and none), and the Bloc Quebecois at 9% (10.5% and 51). It is possible that Green support will prove soft, and will shift to the other parties. There has been growing talk that some of the opposition parties may try to form a coalition government in the event of a tight minority result. The sudden change in the polls, and the increased uncertainty, may have played a role in the Canadian dollar's steep dive this week, although obviously there were many other factors at play in this tumultuous week.

### Existing Home Sales

Wednesday (expected)

		Average Prices
Sep. (e)	-2.5%	-7.0% y/y
Aug.	-3.4%	-5.0% y/y

Early returns from housing markets in some of the major cities uniformly pointed to weakness. Each of Toronto, Vancouver, Calgary and Edmonton reported declines in prices in September (on average by nearly 5% y/y), although sales actually did rise from a year-ago in both of the Alberta cities. However, the ongoing deep dive in sales in Vancouver (-43% y/y), the priciest city in the country, means that reported average prices nationwide are bound to decline markedly (around -7% y/y) after drops in the three prior months. Prices remain firm in most other smaller cities, although the global financial firestorm is likely to undercut sales heavily, putting prices under pressure almost everywhere.

## UNITED STATES

Sal Guatieri, Senior Economist

### Producer Price Index

Wednesday, 8:30 am

Sep. (e)	-0.4%	+8.7% y/y
Consensus	-0.4%	+8.7% y/y
Aug.	-0.9%	+9.6% y/y
<b>Ex. Food &amp; Energy</b>		
Sep. (e)	+0.1%	+3.6% y/y
Consensus	+0.2%	+3.8% y/y
Aug.	+0.2%	+3.6% y/y

The one-third haircut in resource prices since July likely cut producer prices for the second straight month in September. The expected monthly decline of 0.4% should lower the yearly rate a full percentage point below the 27-year high of 9.8% reached this summer. Core prices are expected to rise slightly, keeping its annual rate at a 17-year peak of 3.6%. Lower commodity prices and a firmer greenback should greatly diminish the pressure on factory input-costs in the year ahead.

### Retail Sales

Wednesday, 8:30 am

		Ex. Autos
Sep. (e)	-0.7%	-0.3%
Consensus	-0.5%	-0.1%
Aug.	-0.3%	-0.7%

A 9% plunge in unit auto sales and dismal chain-store sales suggest overall retail spending fell for the third straight month in September, likely by 0.7%. As well, lower gasoline prices cut service station receipts, while retailers offered more discounts. Rising unemployment, evaporating wealth, tighter credit standards and now rising borrowing costs have taken a severe toll on consumers. Quarterly spending likely declined for the first time since the 1991 recession in Q3. The recent market dislocations point to another drop in Q4.

**Fed's Beige Book**

Wednesday, 2:00 pm

This update on regional activity is likely to paint a darker picture of the economy than the August report, setting the stage for another Fed rate cut on October 29. The report will capture the latest distress in financial markets, and the collateral damage to consumers and business. It should show a further decline in residential and commercial real estate, and a hit to manufacturing from sagging global demand and the Boeing strike. Look for increased reports of price discounting as retailers attempt to pry a few dollars from consumer wallets.

**Consumer Price Index**

Thursday, 8:30 am

<b>Sep. (e)</b>	<b>+0.1%</b>	<b>+5.1% y/y</b>
<i>Consensus</i>	+0.2%	+5.0% y/y
Aug.	-0.1%	+5.4% y/y
<b>Ex. Food &amp; Energy</b>		
<b>Sep. (e)</b>	<b>+0.2%</b>	<b>+2.5% y/y</b>
<i>Consensus</i>	+0.2%	+2.5% y/y
Aug.	+0.2%	+2.5% y/y

Softer gasoline prices and stepped-up discounts likely tamed consumer prices in September. A slight monthly gain would lower the yearly rate to 5.1%, down from the 17-year high of 5.6% hit in July. The core rate will likely rise a moderate 0.2%, holding the annual rate at 2.5%. It has edged higher in the past year because some firms were forced to pass along soaring input costs. However, the commodities pullback and rising unemployment point to a complete reversal, and a possible 1%-handle on headline inflation by next summer.

**Industrial Production**

Thursday, 9:15 am

<b>Sep. (e)</b>	<b>-0.8%</b>	<b>Capacity Utilization</b>
<i>Consensus</i>	-0.7%	<b>78.0%</b>
Aug.	-1.1%	78.0%
		78.7%

Industrial production likely plunged for the second straight month amid hurricanes (both natural and financial), the Boeing strike, a tumbling auto sector and a steadily deteriorating economic backdrop. The slide in the ISM index signals a hefty decline in manufacturing, while the hurricanes suspended oil and gas production. A likely rebound in utilities following pronounced declines the prior two months could provide a partial offset. The industrial capacity utilization rate is expected to slide to a four-year low of 78.0%, keeping a tight lid on previous cost pressures.

**Housing Starts**

Friday, 8:30 am

<b>Sep. (e)</b>	<b>868,000 a.r. (-3.0%)</b>
<i>Consensus</i>	880,000 a.r. (-1.7%)
Aug.	895,000 a.r. (-6.2%)
<b>Building Permits</b>	
<b>Sep. (e)</b>	<b>835,000 a.r. (-2.6%)</b>
<i>Consensus</i>	840,000 a.r. (-2.0%)
Aug.	857,000 a.r. (-8.5%)

Homebuilding shrank by almost one-fifth in the past two months alone, and the prospects for September aren't looking much better given the ongoing slide in building permits, near record-low builders' activity, and an 11% plunge in August new home sales. We look for starts to fall 3% to 868,000 units annualized, implying a quarterly contraction of nearly 40%, comparable to the hefty declines seen in the second half of last year. While starts have retreated to levels reached in past housing downturns, this is no regular correction. Residential construction will likely clip one percentage point from Q3 GDP growth, contributing to an outright contraction.

	OCT 10*	OCT 3	CHANGE FROM: (BASIS POINTS)		
			WEEK AGO	4 WEEKS AGO	DEC. 31/07
<b>Canadian Money Market</b>					
Call Money	2.50	3.00	-50	-50	-175
Prime Rate	4.50	4.75	-25	-25	-150
<b>U.S. Money Market</b>					
Fed Funds (effective)	1.50	2.00	-50	-50	-275
Prime Rate	4.50	5.00	-50	-50	-275
<b>3-Month Rates</b>					
Canada	0.60	1.20	-60	-177	-322
United States	0.30	0.47	-16	-116	-293
Japan	0.72	0.56	16	14	16
Eurozone	5.38	5.34	4	42	70
United Kingdom	6.29	6.27	2	58	29
Australia	7.71	7.98	-27	49	79
<b>Bond Markets</b>					
<b>2-year Bond</b>					
Canada	2.25	2.52	-27	-52	-150
United States	1.62	1.59	4	-59	-143
<b>10-year Bond</b>					
Canada	3.85	3.59	27	26	-14
United States	3.88	3.61	27	16	-15
Japan	1.52	1.46	6	-2	1
Germany	3.99	3.92	6	-20	-32
United Kingdom	4.47	4.41	6	-13	-4
Australia	5.14	5.29	-15	-54	-119
<b>Currencies</b>					
				(% CHANGE)	
US\$/C\$	84.92	92.36	-8.1	-10.0	-15.2
C\$/US\$	1.178	1.083	—	—	—
¥/US\$	99.88	105.32	-5.2	-7.5	-10.6
US\$/Euro	1.3560	1.3772	-1.5	-4.7	-7.1
US\$/£	1.713	1.771	-3.3	-4.5	-13.7
US\$/A\$	66.41	77.40	-14.2	-19.4	-24.1
<b>Commodities</b>					
CRB Futures Index	300.48	326.51	-8.0	-16.5	-16.2
Oil (generic contract)	82.35	93.88	-12.3	-18.6	-14.2
Natural Gas (generic contract)	6.72	7.36	-8.7	-8.8	-10.2
Gold (spot price)	898.38	835.50	7.5	17.4	7.7
<b>Equities</b>					
S&P/TSX Composite	9345	10803	-13.5	-26.8	-32.4
S&P 500	886	1099	-19.4	-29.2	-39.7
Nasdaq	1616	1947	-17.0	-28.5	-39.1
Dow Jones Industrial	8361	10325	-19.0	-26.8	-37.0
Nikkei	8276	10938	-24.3	-32.2	-45.9
Frankfurt DAX	4604	5797	-20.6	-26.2	-42.9
London FT100	4099	4980	-17.7	-24.3	-36.5
France CAC40	3257	4081	-20.2	-24.8	-42.0
S&P ASX 200	3961	4695	-15.6	-19.2	-37.5

\* as of 10:30 am

JAPAN

**MONDAY OCTOBER 13**
**TUESDAY OCTOBER 14**
**WEDNESDAY OCTOBER 15**
**THURSDAY OCTOBER 16**
**FRIDAY OCTOBER 17**

EUROZONE

**Corporate Goods Price Index**

Sep. (e)	-0.6%	+6.6% y/y
Aug.	-0.1%	+7.2% y/y

**Consumer Confidence**

Sep. (e)	29.9	
Aug.	30.5	

**Trade Balance**

Aug. '08 (e)	-¥0.1 trln	
Aug. '07	+¥0.8 trln	

**Current Account Surplus**

Aug. '08 (e)	¥1.2 trln	
Aug. '07	¥1.5 trln	

**Industrial Production**

Aug. F (e)	-3.5%	-6.9% y/y
July	+1.3%	+2.4% y/y

**Machine Tool Orders**

Sep. F (e)	-20.7% y/y	
Aug.	-13.9% y/y	

**Tertiary Index**

Aug. (e)	-0.8%	
July	+1.2%	

**Nationwide Dept. Store Sales**

Sep.		
Aug.		-3.1% y/y

**EUROZONE**

**Industrial Production**

Aug. (e)	+1.2%	-1.6% y/y
July	-0.3%	-1.7% y/y

**GERMANY**

**ZEW Survey**

Oct. (e)	-51.1	
Sep.	-41.1	

**FRANCE**

**Consumer Price Index**

Sep. (e)	unch	+3.4% y/y
Aug.	-0.1%	+3.5% y/y

**ITALY**

**Consumer Price Index**

Sep. F (e)	+0.3%	+3.7% y/y
Aug.	unch	+4.2% y/y

**EUROZONE**

**Consumer Price Index**

Sep. F (e)	+0.1%	+3.6% y/y
Aug.	-0.1%	+3.8% y/y

**Consumer Price Index—Core**

Sep. (e)	+1.9% y/y	
Aug.	+1.9% y/y	

**GERMANY**

**Consumer Price Index**

Sep. F (e)	-0.1%	+3.0% y/y
Aug.	-0.4%	+3.3% y/y

**EUROZONE**

**Trade Deficit**

Aug. (e)	€5.4 bln	
July	€6.4 bln	

**ITALY**

**Industrial Orders**

Aug. (e)	-1.7%	-2.3% y/y
July	+2.6%	+5.5% y/y

U.K.

**Producer Price Index—Input**

Sep. (e)	-1.5%	+19.8% y/y
Aug.	-2.0%	+26.0% y/y

**Producer Price Index—Output**

Sep. (e)	-0.4%	+8.8% y/y
Aug.	-0.6%	+9.7% y/y

**Consumer Price Index**

Sep. (e)	+0.4%	+5.0% y/y
Aug.	+0.6%	+4.7% y/y

**Consumer Price Index—Core**

Sep. (e)	+2.0% y/y	
Aug.	+2.0% y/y	

**RICS House Price Balance**

Sep. (e)	-85.0	
Aug.	-81.0	

**Unemployment**

Sep. (e)	+36,000	
Aug.	+32,500	

**Jobless Rate**

Sep. (e)	2.9%	
Aug.	2.8%	

**Average Earnings ex. Bonuses**

Aug. (e)	+3.7% y/y	
July	+3.7% y/y	

OTHER

**CHINA**

**Trade Surplus\***

Sep. (e)	\$24.5 bln	
Aug.	\$28.7 bln	

**Money Supply—M2\***

Sep. (e)	+16.1% y/y	
Aug.	+16.0% y/y	

**MEXICO**

**Jobless Rate**

Sep. (e)	4.1%	
Aug.	4.2%	

**MEXICO**

**Industrial Production**

Aug. (e)	-0.5% y/y	
July	-0.2% y/y	

**Bank of Mexico  
Monetary Policy Meeting**

\* date approximate

CANADA

UNITED STATES

## MONDAY OCTOBER 13

**Thanksgiving Day**  
(markets closed)

## TUESDAY OCTOBER 14

**8:30 am** **New Motor Vehicle Sales**  
Aug. (e) **-3.0%**  
July -0.8%

**Federal Election**

**10:35 am** **3, 6 & 12-month T-bill auction \$14.0 bln**  
(New cash \$2.7 bln)

**8:55 am** **Redbook**  
**Oct. 11**  
Oct. 4 -1.4%  
**5:00 pm** **ABC News/Washington Post Consumer Comfort Index**  
**Oct. 12**  
Oct. 5 -43

**Columbus Day**  
(stock markets open,  
bond markets closed)

**1:00 pm** **3 & 6-month T-bill auction \$52.0 bln**  
(New cash \$11.0 bln)

## WEDNESDAY OCTOBER 15

**Existing Home Sales \* Average Prices \***  
**Sep. (e)** **-2.5%** **-7.0% y/y**  
Aug. -3.4% -5.0% y/y

**8:30 am** **PPI**  
**Sep. (e)** **-0.4%** **+8.7% y/y**  
*Consensus* -0.4% +8.7% y/y  
Aug. -0.9% +9.6% y/y

**8:30 am** **PPI Ex. Food & Energy**  
**Sep. (e)** **+0.1%** **+3.6% y/y**  
*Consensus* +0.2% +3.8% y/y  
Aug. +0.2% +3.6% y/y

**8:30 am** **Retail Sales Ex. Autos**  
**Sep. (e)** **-0.7%** **-0.3%**  
*Consensus* -0.5% -0.1%  
Aug. -0.3% -0.7%

**8:30 am** **Empire State Manufacturing Survey**  
**Oct. (e)** **-10.0**  
Sep. -7.4

**10:00 am** **Business Inventories**  
**Aug. (e)** **+0.4%**  
July +1.1%

**12:15 pm** **Fed Chairman Bernanke speaks to the Economic Club of New York**

**2:00 pm** **Beige Book**

**Presidential Debate**

## THURSDAY OCTOBER 16

**8:30 am** **Mfg. Sales Mfg. New Orders**  
**Aug. (e)** **-2.5%** **-3.0%**  
*Consensus* -0.5% n.a.  
July +2.7% +1.1%

**8:30 am** **CPI**  
**Sep. (e)** **+0.1%** **+5.1% y/y**  
*Consensus* +0.2% +5.0% y/y  
Aug. -0.1% +5.4% y/y

**8:30 am** **CPI Ex. Food & Energy**  
**Sep. (e)** **+0.2%** **+2.5% y/y**  
*Consensus* +0.2% +2.5% y/y  
Aug. +0.2% +2.5% y/y

**8:30 am** **Initial Claims**  
**Oct. 11 (e)** **485,000 (+7,000)**  
Oct. 4 478,000 (-20,000)

**9:00 am** **Net TIC Flows**  
**Total Long Term**  
**Aug.**  
July -\$74.8 bln \$6.1 bln

**9:15 am** **Industrial Production Capacity Utilization**  
**Sep. (e)** **-0.8%** **78.0%**  
*Consensus* -0.7% 78.0%  
Aug. -1.1% 78.7%

**10:00 am** **Philadelphia Fed Index**  
**Oct. (e)** **-5.0**  
Sep. 3.8

**10:35 am** **DoE's Petroleum & Natural Gas Status Reports (Oct. 10 week)**

**1:00 pm** **NAHB Housing Index**  
**Oct. (e)** **17**  
Sep. 18

## FRIDAY OCTOBER 17

**8:30 am** **Housing Starts**  
**Sep. (e)** **868,000 a.r. (-3.0%)**  
*Consensus* 880,000 a.r. (-1.7%)  
Aug. 895,000 a.r. (-6.2%)

**8:30 am** **Building Permits**  
**Sep. (e)** **835,000 a.r. (-2.6%)**  
*Consensus* 840,000 a.r. (-2.0%)  
Aug. 857,000 a.r. (-8.5%)

**10:00 am** **Univ. of Michigan Consumer Sentiment**  
**Oct. P (e)** **66.0**  
*Consensus* 68.0  
Sep. 70.3

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