

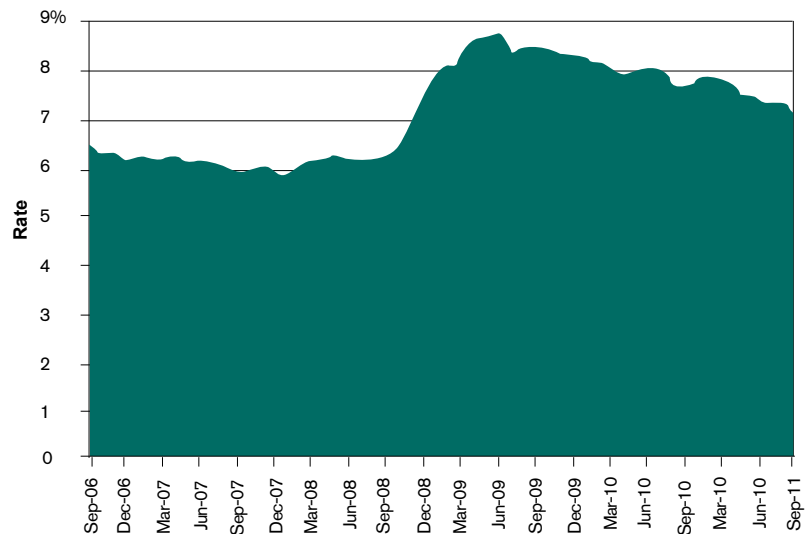
## The Economy: Key Indicators

This page and the next page focus on Segal Advisors' commentary on select economic indicators for the third quarter (Q3) of 2011.

### Labour Market and the Unemployment Rate

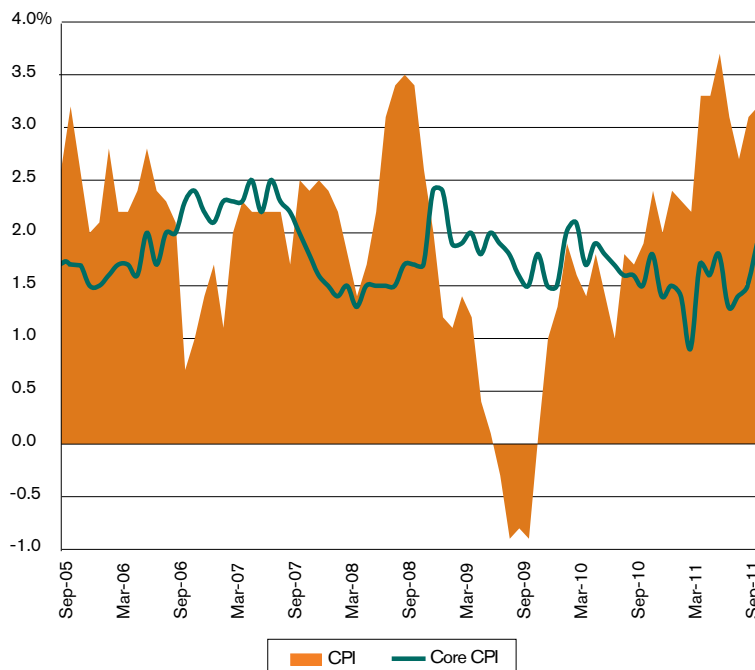
Following two months of little change, employment rose by 61,000 in September. All gains were in full-time positions. This increase pushed the unemployment rate down 0.2 percentage points to 7.1 percent, the lowest rate since December 2008.

In the 12 months that ended in September, employment had grown by 1.7 percent, primarily in Ontario and Alberta. Over this period, full-time employment rose by 2.5 percent, whereas part-time employment declined by 1.5 percent and total actual hours worked increased by 2.0 percent.



Source: Statistics Canada

### CPI: Percentage Change Year over Year



Source: Statistics Canada

The Consumer Price Index (CPI) rose 3.2 percent in the 12 months that ended in September. This follows a 3.1 percent increase in the 12 months that ended in August and 2.7 percent in the 12 months that ended in July, the other two months in the quarter.

The Bank of Canada's core CPI\* advanced 1.9 percent in the 12 months that ended in September, following a 1.4 percent rise in the 12 months that ended in June.

As has been the case in recent quarters, the increase was led primarily by higher prices for gasoline and food purchased from stores. Energy prices advanced 12.5 percent during the 12 months that ended in September with gasoline prices rising 22.7 percent, year-over-year.

On a year-over-year basis, prices increased in all eight major components in September: Food, Shelter, Household Operations, Clothing and Footwear, Transportation, Health and Personal Care, Recreation, Education and Reading, and Alcoholic Beverages and Tobacco Products. Transportation and Food posted the largest increases in Q3.

\* Core CPI excludes both food and energy prices.

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Canadian vs. U.S. Dollar Exchange Rate



Source: Bank of Canada

The Canadian dollar declined over Q3 against its U.S. counterpart. The decline caused the Canadian dollar to drop below parity for the first time this year. The decline is also one of the steepest declines over the recent two-year period.

The main reason for the Canadian dollar's decline was lower global expectations for commodities and the increased strength in the U.S. dollar.

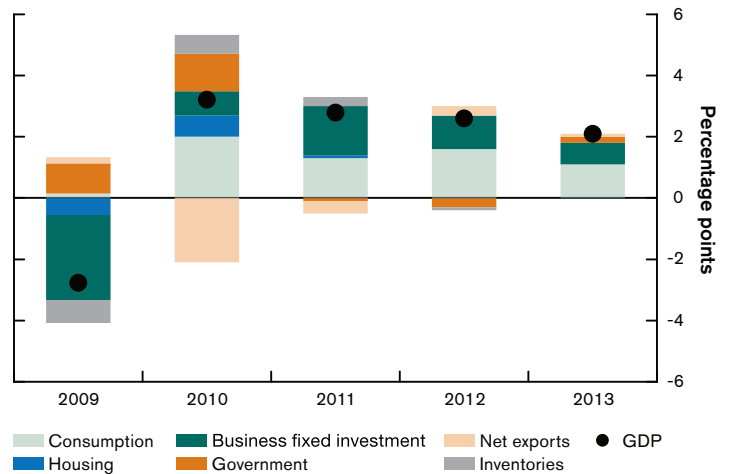
GDP Outlook for the Canadian Economy Weakens

On October 26, Bank of Canada (BoC) Governor Mark Carney released the October *Monetary Policy Report*. Some excerpts from his speech outlining the issues facing the Canadian Economy follow:

- "The outlook for the Canadian economy has weakened since July, with the significantly less favourable external environment affecting Canada through financial, confidence and trade channels. Although Canadian growth rebounded in the third quarter with the unwinding of temporary factors, underlying economic momentum has slowed and is expected to remain modest through the middle of next year."
- "Domestic demand is expected to remain the principal driver of growth over the projection horizon. Household expenditures are now projected to grow relatively modestly as lower commodity prices and heightened volatility in financial market weigh on the incomes, wealth and confidence of Canadian households."

The accompanying chart shows how gross domestic product (GDP) growth is expected to be driven mainly by consumption for the projected years.

Contributions to Real GDP Growth: Domestic Demand Is Projected to Remain the Primary Driver of Growth



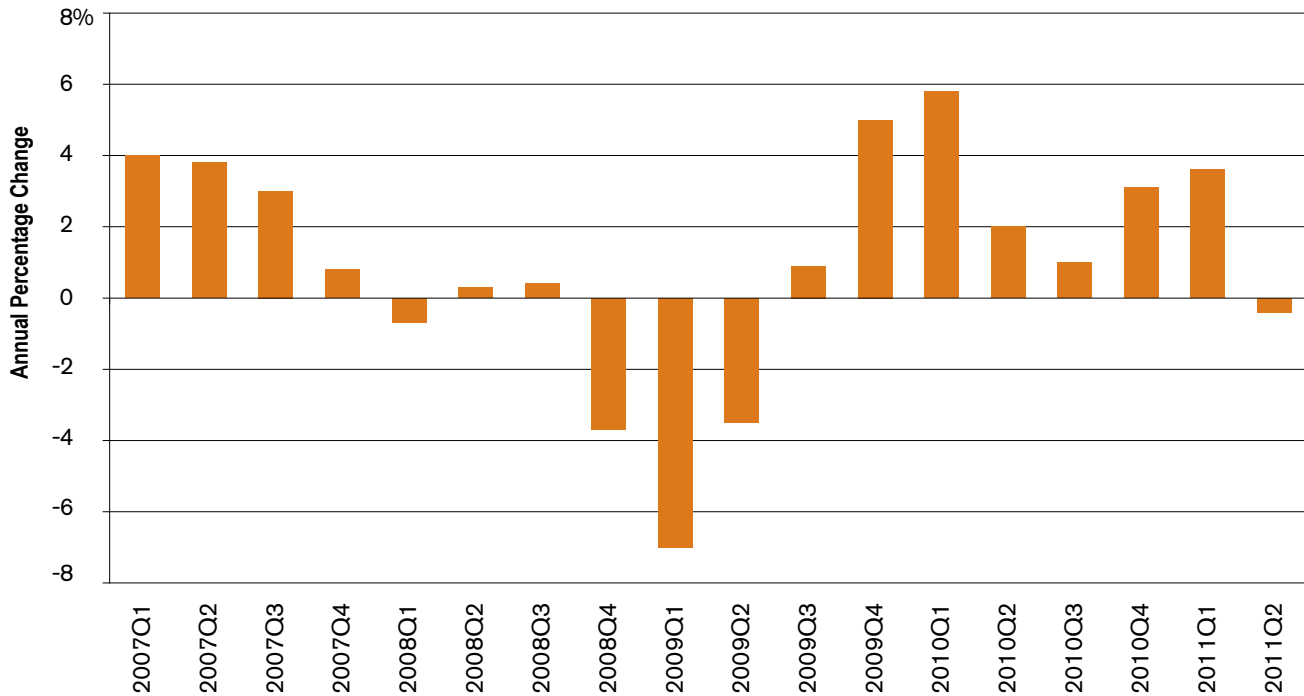
Source: Bank of Canada, *Monetary Policy Report*, October 2011: <http://www.bankofcanada.ca/wp-content/uploads/2011/10/mpr-october2011.pdf>

Percentage Change in GDP

Expressed at an annualized rate, real GDP declined\* 0.4 percent in the second quarter (the most recent data available), after expanding by 3.6 percent in the first quarter of 2011. Real GDP declined by 0.1 percent in the second quarter. In comparison, U.S. real GDP grew 1.0 percent in the second quarter.

The decline in the second quarter was largely a result of a 2.1 percent decline in exports, after two quarters of gains. Energy exports contributed the most to this second quarter decline. Oil and gas extraction decreased 3.6 percent in the second quarter. Wildfires in Northern Alberta as well as maintenance shutdowns reduced petroleum production.

\* As a rule of thumb, two consecutive down quarters of GDP constitutes a recession.



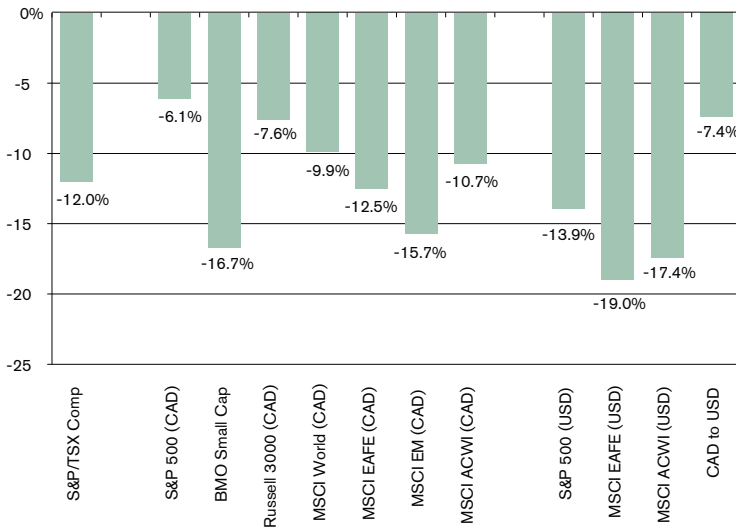
Source: Statistics Canada

Synopsis

## Investment Performance: Selected Rates of Return

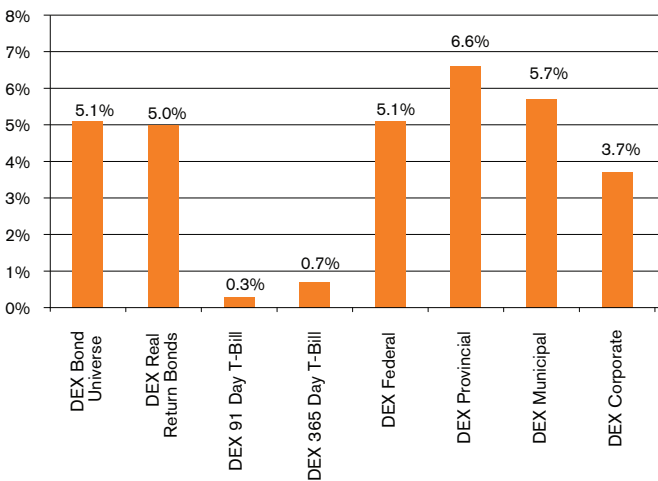
This page presents rates of return for selected equity, fixed-income and other indices. The graphs illustrate returns for Q3 2011. The tables of data show returns for the latest quarter and one-, three-, five- and 10-year annualized time frames. All data in the tables are percentages.

### Equity Index Returns



Equity Indices	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
S&P/TSX Comp	-12.0	-11.9	-3.6	2.7	2.6	8.0
S&P 500 (CAD)	-6.1	-3.8	3.2	0.9	-2.4	-1.3
BMO Small Cap (CAD)	-16.7	-21.0	-5.4	14.0	2.8	10.3
Russell 3000 (CAD)	-7.6	-5.1	2.6	1.1	-2.2	-0.7
MSCI World (CAD)	-9.9	-7.5	-2.3	-0.2	-3.0	0.0
MSCI EAFE (CAD)	-12.5	-10.5	-7.5	-1.3	-4.3	1.2
MSCI EM (CAD)	-15.7	-17.5	-14.2	6.1	3.8	11.7
MSCI ACWI (CAD)	-10.7	-9.0	-4.0	0.5	-2.4	0.7
S&P 500 (USD)	-13.9	-8.7	1.1	1.2	-1.2	2.8
MSCI EAFE (USD)	-19.0	-15.0	-9.4	-1.1	-3.5	5.0
MSCI ACWI (USD)	-17.4	-13.6	-6.0	0.6	-1.6	4.4
CAD/USD	-7.4	-4.6	-1.6	0.7	1.4	4.2

### Bond Index Returns



Fixed-Income Indices	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
DEX Bond Universe	5.1	7.4	6.7	8.1	6.1	6.5
DEX Real Return Bonds	5.0	9.9	11.6	11.7	7.0	9.3
DEX 91 Day T-Bill	0.3	0.8	1.0	0.9	2.1	2.5
DEX 365 Day T-Bill	0.7	1.8	2.1	2.1	3.1	3.1
DEX Federal	5.1	6.9	6.0	6.5	5.7	5.9
DEX Provincial	6.6	9.2	8.5	9.2	6.5	7.2
DEX Municipal	5.7	8.7	8.0	9.2	6.7	7.0
DEX Corporate	3.7	6.5	6.0	9.9	6.5	6.9

## Investment Performance: Equity Data

The tables of data on this page present equity data broken down by the Global Industry Classification Standard (GICS) for selected indices. The GICS is a classification system developed by Morgan Stanley Capital International (MSCI) and Standard & Poor's consisting of 10 sectors, 24 industry groups, 68 industries and 154 sub-industries. The tables show returns by sector for both Q3 2011 and one-year periods. Each sector's weight in the overall index return as of September 30, 2011 is also noted.

### S&P/TSX Index

In Q3, the TSX Index had one of its worst quarterly performances in recent memory, declining 12.0 percent. Only two sectors — Utilities and Telecom Services — had positive performance, with Telecom Services just breaking the positive plane. Eight of the 10 sectors had negative returns for the quarter, and most of the negative sectors saw double-digit declines over the quarter.

The double-digit decline of the following five sectors contributed to the index decline, more so than the three largest weights in the index (*i.e.*, Financials, Energy and Materials): Energy, Information Technology, Industrials, Health Care and Consumer Discretionary. Of the double-digit declines, only Energy was heavily weighted in the index. With Industrials, Info Technology and Energy, 32.0 percent weight in the index had a decline of over 18.0 percent.

S&P/TSX	Quarter	1 Year	Weight
UTILITIES	3.6%	10.6%	2.1%
TELECOM SERVICES	0.3%	14.2%	5.0%
CONSUMER STAPLES	-0.9%	8.9%	2.9%
MATERIALS	-8.8%	-6.0%	22.7%
FINANCIALS	-9.6%	0.9%	30.0%
<b>S&amp;P/TSX Return</b>	<b>-12.0%</b>	<b>-3.6%</b>	
CONSUMER DISCRETIONARY	-15.1%	-10.0%	4.2%
HEALTH CARE	-16.3%	46.1%	1.2%
INDUSTRIALS	-18.3%	-5.1%	5.2%
INFO TECHNOLOGY	-18.7%	-36.4%	1.6%
ENERGY	-18.7%	-8.2%	25.2%

Source: Standard & Poor's

### U.S. S&P 500 Index (in Canadian Dollars)

S&P 500 Index	Quarter	1 Year	Weight
UTILITIES	10.7%	14.2%	4.0%
CONSUMER STAPLES	4.5%	11.9%	11.7%
INFO TECHNOLOGY	0.6%	6.0%	19.4%
TELECOM SERVICES	0.3%	7.9%	3.3%
HEALTH CARE	-1.9%	8.4%	12.1%
CONSUMER DISCRETIONARY	-5.1%	8.3%	10.6%
<b>S&amp;P 500 Index</b>	<b>-6.1%</b>	<b>3.2%</b>	
ENERGY	-13.3%	9.8%	11.6%
INDUSTRIALS	-13.9%	-2.7%	10.3%
FINANCIALS	-15.8%	-14.8%	13.6%
MATERIALS	-17.7%	-5.0%	3.4%

Source: Standard & Poor's

In Q3, the S&P 500 fared better than the TSX with four sectors providing positive returns over the quarter. The Utilities sector was able to provide a 10.7 percent return over the quarter. Four sectors did have double-digit declines, however, due to the more even weight distribution within the S&P 500 index, these sectors did not have as large an impact.

The other factor contributing to the S&P 500 returns is the exchange rate between the Canadian and U.S. dollar. The significant decline of the Canadian dollar against the greenback allowed the S&P 500 to have a better performance than the TSX.

Synopsis

## Investment Performance: Fixed-Income Data

This page focuses on selected fixed-income data.

The BoC left rates at 1.0 percent during Q3.

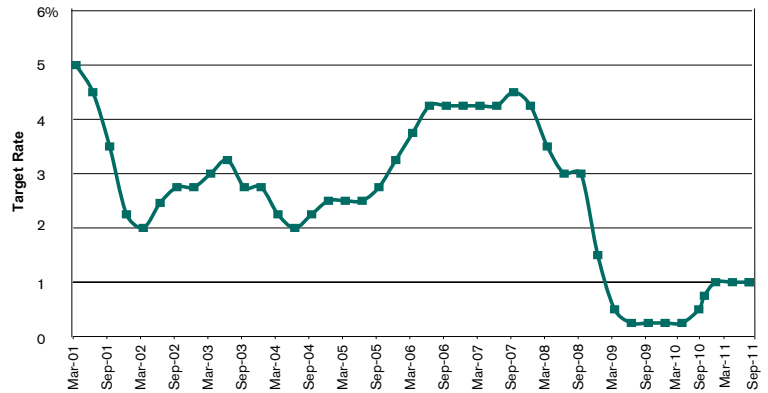
Over 2010, the BoC increased the rate from 0.25 basis points\* to 1.0 percent.

Given the current global economic slowdown the BoC is expected to keep rates at the current level for the remainder of the year.

\* As a reminder, 10 bps equals 0.1 percent.

### Bank of Canada (BoC) Target Rate

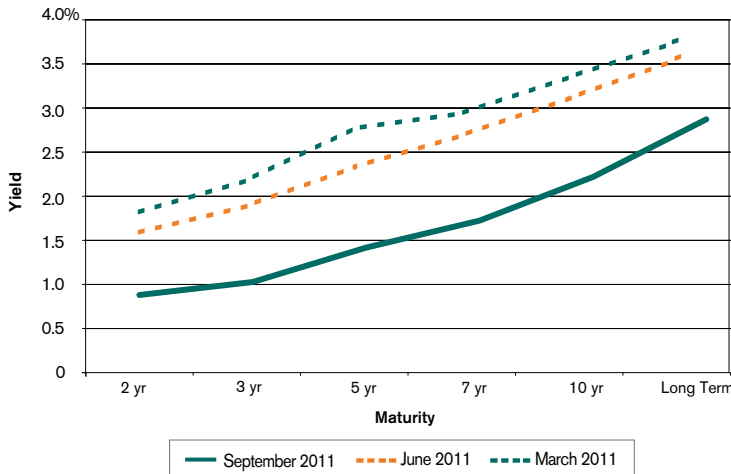
Interest Rates: Central Bank – Overnight Target Rate, Canada



Source: Bank of Canada

### Bank of Canada Bond Yield Curve

Treasury Yield Curve



Source: Statistics Canada

In the Q3, the yield curve shifted downward, falling significantly from the yield curves of the previous two quarters. The yield curve steepened over Q3 compared to the previous quarters' yield curves.

Yield curves are trading in a range from just under 1.0 percent for the short-term portion of the curve, to under 3.0 percent for the long-term portion of the yield curve.

Over Q3, the DEX Bond Universe had a positive return of 5.1 percent, led by Provincial bonds, returning 6.6 percent over the quarter.

The increased volatility over the quarter had the greatest impact on Corporate bonds, which only returned 3.7 percent over the quarter.

The adjacent table shows returns for the sectors of the DEX Universe and the sector weights.

### DEX Universe Bond Index

DEX Universe Bond Index:

Breakdown by Corporate, Municipal, Provincial and Federal Sectors

DEX Universe Index*	Quarter	1 Year	Weight
Provincial (9.0)	6.6%	8.5%	27.2%
Municipal (7.3)	5.7%	8.0%	1.6%
DEX (6.5)	5.1%	6.7%	
Federal (5.4)	5.1%	6.0%	44.9%
Corporate (5.8)	3.7%	6.0%	26.4%

Note: Modified Duration in parenthesis. "Modified Duration" is a formula that expresses the measurable change in the value of a security in response to a change in interest rates.

Source: PC-Bond

## Noteworthy Developments in the U.S. and Global Economy

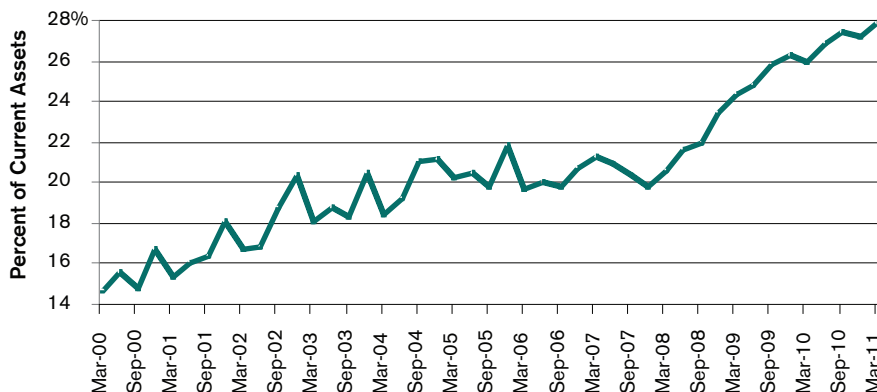
Segal Advisors finds the developments discussed below to be noteworthy for institutional investors.

### Corporate Cash

The recent market environment has seen volatility and inconsistencies become the norm; however, one constant has been the strength of corporate finances. Much of the corporate sector came out of the 2008-2009 recession with its balance sheets and overall finances in good order and has only strengthened since then.

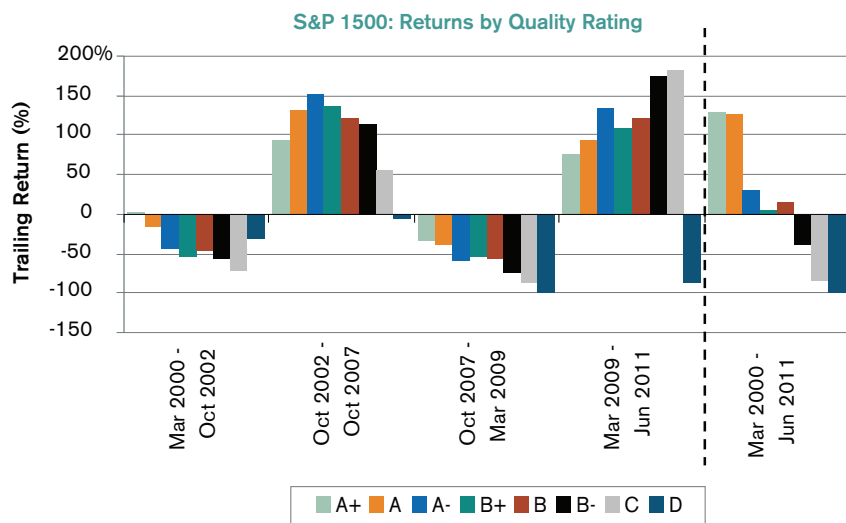
As of Spring 2011 (the most recent data available), cash on non-financial corporate balance sheets had risen to more than \$1.6 trillion (U.S.), a jump of more than 10 percent from 2008, and a 6 percent annual growth rate from the last cyclical peak in 2007. Multiple factors, including financial regulations and tightening credit standards, have contributed to the record amount of cash on balance sheets. However, the fears of a double-dip recession continue to be at the forefront of corporate management and the market as a whole, preventing corporations from using their cash for investments in human capital, acquisitions and share repurchases.

S&P 500 – Corporate Cash as a Percent of Current Assets



Source: Standard and Poor's, FactSet and J.P. Morgan Asset Management

### Returns by Standard & Poor's Quality Rating



The adjacent graph depicts the returns of the S&P 1500 Index constituents based on their Standard & Poor's quality ratings, which are calculated based on the growth and stability of earnings and dividends over a trailing 10-year period ending in June 2011 (the most recent available data). The S&P 1500 includes all stocks in the S&P 500, S&P 400, and S&P 600.

Historically, higher quality stocks tend to perform better during periods of economic instability. During the two recessions that the U.S. underwent over the past 10 years, in March 2001 and in December 2007, higher quality stocks outperformed lower quality stocks. However, during periods of economic recovery when steep market rebounds are expected, lower quality stocks generally perform better than higher quality stocks.

Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management

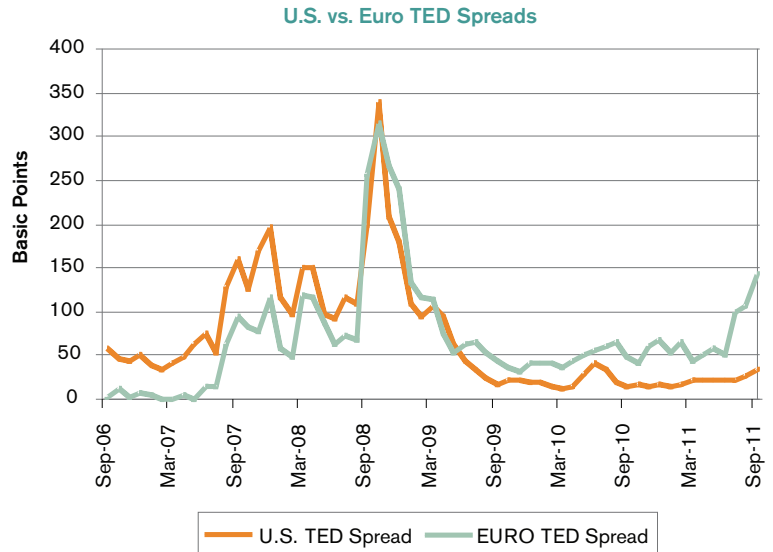
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U.S. vs. Euro TED Spreads

The U.S. TED Spread measures the difference between the three-month Libor, which is the interbank borrowing rate, and the three-month Treasury-bill, the risk-free borrowing rate. It is an indicator of credit risk in the general economy where an increase in the spread means that lenders believe there is a greater risk in interbank loans defaulting, leading them to demand a higher interest rate over safer investments.

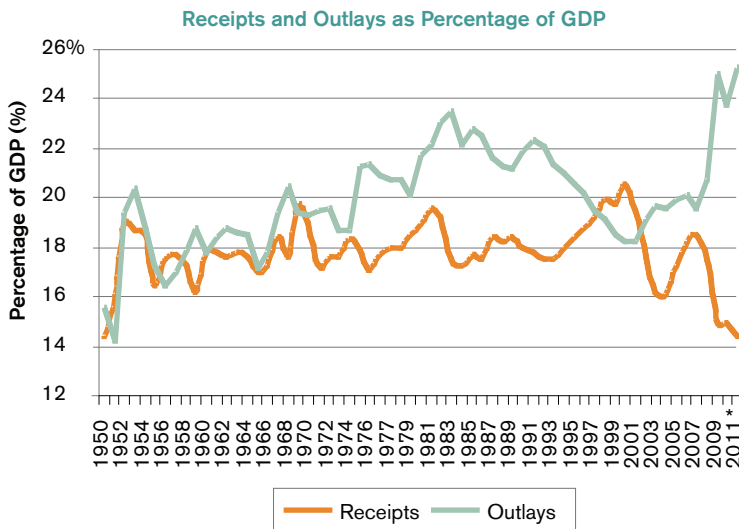
The spread increased by 13 basis points in Q3 2011, ending the quarter at 34 bps. Levels have stayed within a 30 bps range, between 12 to 42 bps, for approximately two years (since Q3 2009). Although current levels may indicate moderate funding pressure, the Treasury Department's efforts in keeping interest rates low, as well as significant amounts of cash reserves on most banks' balance sheets, may be artificially widening the spread and distorting underlying borrowing habits in the U.S.

The European version of the TED Spread utilizes the same concept but measures the difference in interest rates between the 3-month Euribor rate and the three-month German Treasury Bill. Levels have increased sharply in Europe as the TED Spread increased by 44 bps in Q3 2011 and is up approximately 92 bps since the start of Q2 2011. Even though current levels are below peak levels during the financial crisis of 2008, the increase reflects a degree of funding pressure and default risk on banks as the sovereign debt crisis has yet to find a long-term solution.



Source: Bloomberg

U.S. Government Receipts vs. Outlays



\* 2011 estimate

Source: U.S. Office of Management and Budget

Following the deep recession of 2008-09 and anemic recovery, the gap between U.S. federal government outlays and revenue has been widening, and is now at a level not experienced since World War II. While outlays have certainly increased to fund countercyclical spending, it is also noteworthy that tax receipts have fallen to the lowest level relative to GDP since 1950. The federal government now faces the conundrum that, as federal spending accounts for a greater percentage of GDP, the tax base — in the form of private economic activity — is necessarily diminished against total spending and income. Thus, the fiscal year 2011 budget includes estimated receipts and outlays of approximately \$2.17 trillion and \$3.82 trillion, respectively, creating an expected gap of \$1.65 trillion, or 11.3 percent of GDP.

Under terms of the 2011 Budget Control Act, the Joint Select Committee on Deficit Reduction has been charged with identifying means to close the gap between receipts and outlays. The committee is due to report to Congress by November 23. Congress then has until December 23 to act on this proposal. Under terms of the Budget Control Act, failing these deadlines triggers large automatic spending cuts. As federal deficit spending has come to represent a significant part of the U.S. economy, the decisions made by Congress will have a significant impact on growth prospects over the next decade.

## Helpful Online Resources

### News Websites

- Bloomberg  
[www.bloomberg.com](http://www.bloomberg.com)
- Business News Network  
[www.bnn.ca](http://www.bnn.ca)
- *Financial Times*  
[www.ft.com](http://www.ft.com)
- Google Finance  
[www.google.com/finance](http://www.google.com/finance)
- *The Globe and Mail*  
[www.theglobeandmail.com](http://www.theglobeandmail.com)
- Moody's Economy.com  
[www.economy.com](http://www.economy.com)
- *The National Post*  
[www.nationalpost.com](http://www.nationalpost.com)
- *The Wall Street Journal*  
[www.online.wsj.com/public/us](http://www.online.wsj.com/public/us)
- Yahoo Finance Canada  
[www.ca.finance.yahoo.com/](http://www.ca.finance.yahoo.com/)

### Publication Websites

- *Benefits and Pensions Monitor*  
[www.bpmmagazine.com](http://www.bpmmagazine.com)
- *Benefits Canada*  
[www.benefitscanada.com](http://www.benefitscanada.com)
- CFA Institute Publications  
[www.cfapubs.org](http://www.cfapubs.org)
- *The Economist*  
[www.economist.com](http://www.economist.com)
- *Pensions & Investments*  
[www.pionline.com](http://www.pionline.com)

### Government Websites

- Alberta Finance and Enterprise  
[www.finance.alberta.ca](http://www.finance.alberta.ca)
- Bank of Canada  
[www.bank-banque-canada.ca](http://www.bank-banque-canada.ca)
- Financial Institutions Commission (BC)  
[www.fic.gov.bc.ca](http://www.fic.gov.bc.ca)
- Financial Services of Ontario  
[www.fsco.gov.on.ca](http://www.fsco.gov.on.ca)
- Saskatchewan Financial Services Commission  
[www.sfsc.gov.sk.ca](http://www.sfsc.gov.sk.ca)
- Statistics Canada  
[www.statcan.gc.ca](http://www.statcan.gc.ca)

### Index Firm Websites

- Barclays  
<https://ecommerce.barcap.com/indices/index.dxml>
- BMO Capital Markets  
[www.bmocm.com](http://www.bmocm.com)
- MSCI  
[www.msci.com](http://www.msci.com)
- PC-Bond  
[www.canadianbondindices.com](http://www.canadianbondindices.com)
- Russell  
<http://www.russell.com/indexes/data/default.asp>
- Standard & Poor's  
[www.standardandpoors.com/indices/main/en/us](http://www.standardandpoors.com/indices/main/en/us)

### Organization Websites

- International Monetary Fund  
[www.imf.org](http://www.imf.org)
- Organisation for Economic Co-operation and Development  
[www.oecd.org](http://www.oecd.org)
- The World Bank  
[www.worldbank.org](http://www.worldbank.org)

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