

# Economic review

Second Quarter 2008

## The economy

The slowing economy and the concern over rising costs have been the primary economic themes during the second quarter of 2008. Inflation concerns have been driven by the continued rise in the price of oil and food. The slowing economy has resulted in a number of high profile job losses in Canada.

Index	3 Months	1 year June 30, 2008
S&P/TSX	9.09	6.75
S&P 500 (\$C)	-3.60	-16.78
MSCI EAFE (\$C)	-3.12	-14.37
DEX Univ Overall Bond TR	-0.73	6.80

## Canada

The prevailing Canadian economic story continues to be the strength of the energy sector in Western Canada. The price of a barrel of oil rose 27 per cent in the second quarter to close at an all-time high of US\$134. The Canadian dollar rose 0.9 per cent during the quarter to end the period at US\$0.9817. The strong Canadian dollar has adversely impacted the Ontario economy and has resulted in job losses in the manufacturing sector. In April, the Bank of Canada lowered interest rates to three per cent where it has remained over concerns of inflation. The inflation rate for the year to date ending June 30, 2008 was 3.1 per cent and there are concerns it will exceed four per cent by the end of the year. The central bank is caught in a difficult position trying to balance a slowing economy with rising inflation.

The DEX Bond Universe posted a -0.7 per cent decline during the second quarter while the S&P/TSX gained 9.09 per cent. Seven out of 10 sectors had positive performances with Materials and Energy leading the way. Meanwhile, the Consumer Discretionary and Health Care sectors were the weakest performing sectors in the quarter. The Energy sector has eclipsed the Financial sector as the largest segment of the Canadian stock market. The Canadian stock market saw a slight increase with the help of companies such as Potash, up 48 per cent and Encana, up 19 per cent on the quarter.

## United States

The second quarter saw concerns over economic growth being eclipsed by the concerns over rising inflation. Increasing energy and food costs have caused US inflation to rise to five per cent from the previous year to the highest level since 1982. During the quarter the

economy shed over 130,000 jobs as unemployment rose to 5.5 per cent. The US Federal Reserve reduced its key lending rate to two per cent as the US housing market continued to weaken, with new home sales falling to the lowest level in ten years. In June, the median house price was down 6.1 per cent over this time last year.

The S&P 500 Canadian dollar posted a -3.60 per cent return during the second quarter. Six of the 10 US sectors had negative performances on the quarter. The best performing sectors were Energy and Utilities while the worst performing sectors were Financials and Industrials.

## Globally

Europe was home to some of the worst performing stock markets over the second quarter: Ireland down 17 per cent, Portugal down 16 per cent and Iceland down 12 per cent. Although India has been driving global growth and continues to be one of the fastest growing economies, the second quarter saw India's stock market decline by 14 per cent. Energy rich countries had the best performing stock markets this quarter with Brazil (up 7 per cent) and Russia (up 10 per cent) leading global stock markets. The concern over global inflation has countries such as Australia, Vietnam and the European Union raising interest rates.

## Final words

A disciplined and diversified approach to investing that's consistent with one's objectives should be a consideration when developing an investment strategy. This strategy should also reflect the risk characteristics of each investment option within a portfolio and one's overall risk tolerance. Great-West Life provides the tools and information needed to assist with these decisions. For information about specific investments available to your group retirement plan, visit [www.grsaccess.com](http://www.grsaccess.com).

Sincerely,



Robbin Dichter  
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