

Economic review

Fourth quarter 2011

The economy

The global economy continues its slow and uneven recovery under the shadow of a European debt crisis. There have been some positive improvements in North America economic output, as well as better than expected corporate profitability. All that is missing is resumption in overall investor and consumer confidence.

Index	Three months	One year Dec. 31, 2011
S&P/TSX	3.60%	(8.71%)
S&P 500 (C\$)	8.74%	4.51%
MSCI EAFE (C\$)	0.55%	(9.66%)
DEX Universe bond TR	2.09%	9.67%

Canada

This quarter the employment conditions in Canada continued to be relatively strong. Currently, the unemployment rate is 7.5 per cent. The Bank of Canada has left its overnight rate at one per cent. The Canadian dollar was stronger during the quarter, rising 2.2 per cent and finishing below parity at US\$0.9833. The Canadian dollar was more robust due to the strength of oil prices and slightly less concern over the European market. The price of oil ended December at C\$98 a barrel and was up 15.3 per cent during this quarter. Housing prices continue to be strong, with price increases registering from coast to coast. Despite a fair number of positive indicators, global economic concerns continue to restrain economic confidence.

The DEX universe bond index posted a 2.09 per cent return during the fourth quarter, while the S&P/TSX composite index returned 3.6 per cent. In the quarter, 8 out of 10 sectors performed positively. The top two sectors were health care and industrials, while the weakest were information technology and materials.

The S&P 500 (C\$) index posted an 8.74 per cent return during the fourth quarter. All 10 sectors had a positive term; the top performing sectors were energy and industrials, while the telecom services and utilities sectors were the weakest.

United States

The U.S. economy is beginning to demonstrate signs of strength. The employment situation has improved with the latest unemployment rate dropping significantly to 8.5 per cent. The improvement in private sector employment, particularly in the manufacturing and transportation sectors, is a positive sign for the overall health of the U.S. economy.

The U.S. is entering an election year, with campaigning on the way for the Republican party's Presidential nominee. Election years are typically strong years for the financial markets, as pro-growth economic

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policies are typically put in place to try and gain favour with the electorate.

Global

The debt crisis in Europe continues to be an issue and affects the movements in the financial markets. The increase in volatility in the financial markets during 2011 was partly attributable to the intense scrutiny of the Euro zone and the region's ability to come to agreement on bailouts and other collective measures to establish financial system stability.

The relatively healthy German export-oriented economy, which has largely benefited from the weakness of the Euro, has slowed as its economic output declined in the fourth quarter. This is a concrete indication of Europe's economic weakness.

The Chinese economy, another strong export-oriented economy, is showing further evidence of slowing. China's fourth quarter gross domestic product growth rate was 8.9 per cent, which is its slowest rate of growth since 2009. The Chinese economy has been viewed as the engine of global growth and with its economy slowing down, it appears that global economic growth will continue, but at a slower rate than investors have grown accustomed to.

Final words

As a disciplined and diversified approach to investing, plan members should complete the *Investment personality questionnaire* and use the *Retirement Planning Tool on GRS Access*. Their portfolio should reflect the risk-characteristics of each investment option as well as their own overall risk tolerance. Great-West Life provides the tools and information to help plan members achieve their retirement and savings goals.

For information about specific investments available in your group retirement plan, visit *GRS Access* at www.grsaccess.com.

Sincerely,



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Great-West Life