Global Economic Research

April 4, 2012

Global Forecast Update

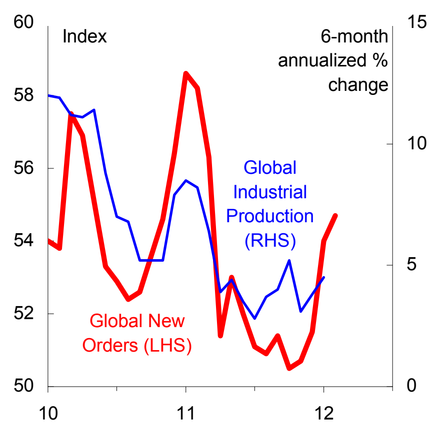
Global Growth Prospects Are Improving, Slowly

Index

The global economic expansion is closing in on its third anniversary, with renewed optimism that many of the factors that dampened activity last year have lost some, if not most, of their intensity. The improving sentiment — world stock prices have increased more than 20% since early October — reflects a global economy transitioning to a slightly stronger performance from a relatively low base.

For the time being, the global economy appears to be on a more solid footing, led by increased traction in the United States and increasing signs of stabilization in the developing nations. In many of the developed countries, continuing solid gains in corporate profits are helping to finance a broad-based pick-up in investment expenditures. New orders are on the rise internationally — a reflection of the significant construction projects underway — setting the stage for global industrial production to continue to move higher. Relatively buoyant job markets are helping to support consumer spending in many developing nations and rebalance growth towards greater domestic activity.

Global Orders & Production



Source: JP Morgan, CPB, Scotia Economics.

Nevertheless, the developed economies are still experiencing their weakest recoveries in more than 60 years. The United States is only posting about one-half of its average economic recovery gains. In Canada, it is roughly two-thirds. Among the larger developed countries, only Canada, Germany, and the United States have more than recouped the output lost during the relatively short but sharp recession, and not by much. A cumulative 7.4% rise in Canada's real output since the low established in the first half of 2009 has pushed the level of activity 3.3% above its pre-recession peak. For the United States, a 6.2% increase in real output has left activity only 0.8% above its former high-water mark, while Germany's almost 8% increase puts its real output just a fractional 0.5% above its prior peak. Even the developing nations have lost some of their earlier recovery momentum. This is a function of the winding down of the massive fiscal stimulus introduced to counter the global contraction, and the subsequent increased monetary restraint needed to reduce excessive credit growth and inflationary pressures. More recently it reflects the reduced trade flows associated with the economic and financial sector dislocations in the euro zone. Despite these challenging conditions, the performance differential between the faster-paced developing nations and the slower-paced developed countries will continue to remain historically wide, with the developing nations outpacing activity in the developed countries by at least a factor of two.

It will take considerably more time to resolve many of the problems that contributed to the severity of the downturn in a number of developed countries — real estate collapses, financial sector meltdowns, and unravelling debt burdens — because they are structural, not cyclical, in nature. Redressing these issues has not only required significant shorter-term budgetary fixes, but also a renewed focus on the longer-term adjustments needed to regain competitiveness. Key segments of these economies, led by households and now followed by governments, are actively restructuring and reducing extraordinarily high levels of indebtedness. In many countries outside of Canada and Australia, financial institutions are recapitalizing their weakened balance sheets.

While massive fiscal stimulus was required to kick-start the recovery, repeated doses of unprecedented monetary accommodation — ultra-low interest rates reinforced by central bank bond buying — have been needed to sustain an expansion constrained by the simultaneous deleveraging by many sectors and countries. Additional issues — recurring sovereign debt strains in the euro zone, natural disasters that have disrupted global manufacturing and supply chains, chronic weakness in many housing sectors, softening economic trends in the larger developing nations, and renewed increases in the price of crude oil — have reinforced the slower growth trajectory.

Nonetheless, some of the factors that dampened activity last year have dissipated. U.S. consumer and business confidence has moved consistently higher following the '11th hour' reprieve late last summer from the impending debt ceiling crisis, a development that has helped underpin a noticeable rebound in economic activity. Households have made meaningful progress in reducing debt which, along with increased business hiring, has enabled consumers to pick up the pace of spending, with motor vehicles and tech products the primary beneficiaries. A very mild winter may have accelerated some expenditure, but there is considerable pent-up demand for goods and services. With competitiveness bolstered by the lowest unit labour costs in the G7, continuing large profit gains have enabled businesses to expand their production and investments to meet improving domestic and international demand.

Canada has benefited from the turnaround south of the border, with auto & parts production and exports gearing up to meet the steadily increasing sales in the United States, and the continuing high level of purchases at home. Resource-related activity continues to buoy growth in the western provinces and on the east coast, a reflection of the large investment projects underway and the increased support from large government contracts, shipbuilding for example. These developments have provided some offset to the recent moderation in the pace of job creation, residential activity, and consumer spending outside of cars and light trucks. Even so, comparatively greater spending restraint introduced by the federal government and some provinces in their recent budgets, along with the ongoing drag on the export earnings of competitively challenged manufacturers, will leave Canada's economy a slight underperformer relative to the United States this year and next.

The euro zone economy remains quite weak, owing to the intensifying drag from the austerity-led downturns in the debt-heavy southern peripheral nations. However, confidence has been bolstered by a number of policy-related factors. The massive liquidity infusion by the ECB has significantly reduced the likelihood of a systemic banking failure in the region, while the latest bailout package has helped to contain Greece's massive debt burden. Financial 'firewalls' for the troubled region have been bolstered. And there has been movement on the part of the peripheral countries, in addition to Italy and Spain, to implement the tough budgetary measures as well as the structural economic and labour market reforms needed to bolster competitiveness. Germany remains a regional outperformer, with lower borrowing costs and a competitive currency helping to support business activity and exports, notwithstanding reduced regional trade. Increased construction should reinforce the country's historically low unemployment and underpin household wage and spending gains. Japan continues to rebuild from last year's multiple catastrophes, though the recovery has been slowed by the infrastructural deficiencies in the affected regions. Public policy has become increasingly supportive of growth, as is the competitive boost to trade provided by the weakening trend in the yen.

In the developed countries, monetary policy is expected to stay broadly accommodative in support of continuing growth. Short-term interest rates should remain close to historically-low levels to facilitate borrowing-to-buy and refinancing activity. A number of central banks, the Fed included, have maintained bond-buying programmes to keep longer-term interest rates at pro-growth levels, and would likely bolster their efforts if rising yields posed an increasing threat to credit-dependent activity.

Developing nations have already begun to loosen their monetary purse strings in support of renewed economic growth as domestic inflation pressures abate. The impact, however, varies from country to country as the transmission mechanisms are not as direct as in many developed countries. Nevertheless, the shift to reduced borrowing costs and reserve requirements will help to reinvigorate growth in countries such as China, where policy is focused on generating more domestic output gains — for example, through increased support for homebuilding. Thailand's strong rebuilding efforts following last year's devastating floods are bringing manufacturing activity back on line, with longer-term initiatives focussed on infrastructure upgrades. India will have to balance the risks of decelerating economic growth and a significant fiscal imbalance with the adverse impact from higher energy prices and persistent inflationary pressures. In Latin America, Brazil will continue to benefit from significant infrastructure expenditures. The real growth drivers, though, come from domestic demand and access to consumer credit, which should be bolstered by the renewed decline in interest rates. Economic prospects in Mexico are improving alongside the rebound in the United States and the rise in the price of crude oil, with attractive yield differentials providing investment opportunities for investment-grade sovereign debt portfolios.

In an environment of gradually improving economic prospects around the globe, longer-term borrowing costs are again biased higher, albeit gradually. Global inflation risks are moving to the upside, particularly with many economic and geo-politically sensitive commodity prices, crude oil in particular, edging higher. The bellwether U.S. 10-year Treasury bond yield is expected to trend higher, ending 2012 at 2.6% and 2013 at 3.75%. Canadian longer-term bond yields will continue to trade below U.S. rates, a reflection of this country's more favourable fiscal position and a currency expected to remain at parity with the greenback. However, the myriad of structural and growth-restraining economic and financial issues confronting the global economy — the ongoing deleveraging in both the private and public sectors, in addition to the increasing capital regulations affecting financial institutions — suggest that the global economy is unlikely to break free anytime soon from its moderate growth trajectory. For a broader perspective on foreign exchange trends, please refer to our April 2012 *Foreign Exchange Outlook* at http://www.gbm.scotiabank.com/English/bns_econ/fxout.pdf. ■

International	2000-10	2011e	2012f	2013f
Real GDP		(annual % change)		
World (based on purchasing power parity)	3.7	3.7	3.4	3.9
Canada	2.2	2.5	2.0	2.2
United States	1.8	1.7	2.3	2.4
Mexico	2.1	3.9	3.2	3.7
United Kingdom	2.0	0.7	0.9	1.8
Euro zone	1.4	1.5	-0.5	0.9
Germany	1.2	3.1	0.6	1.6
France	1.4	1.7	-0.1	0.9
Italy	0.7	0.4	-1.9	-0.3
Spain	2.1	0.7	-1.8	-0.3
Greece	2.4	-6.9	-5.0	-0.8
Portugal	0.9	-1.5	-3.5	-0.5
Ireland	3.1	0.7	-0.1	1.5
China	9.5	9.2	8.6	8.9
India	7.6	7.2	7.4	7.6
Japan	0.9	-0.9	2.2	1.7
Korea	4.6	3.6	3.4	4.2
Indonesia	5.2	6.5	6.3	6.1
Australia	3.1	2.1	3.8	3.3
Thailand	4.4	0.1	3.8	4.5
Brazil	3.7	2.7	3.5	4.5
Colombia	4.0	5.9	5.0	5.0
Peru	5.5	6.8	5.5	5.6
Chile	4.6	6.1	5.0	5.9
Consumer Prices		(y/y % change, year-end)		
Canada	2.1	2.7	2.1	2.1
United States	2.7	3.3	2.4	2.1
Mexico	4.9	3.6	4.0	4.0
United Kingdom	2.1	4.2	2.3	2.5
Euro zone	2.1	2.7	2.2	1.9
Germany	1.7	2.3	2.2	2.1
France	1.9	2.7	2.1	1.9
Italy	2.3	3.7	2.5	1.8
Spain	2.9	2.4	2.2	1.7
Greece	3.4	2.2	1.2	0.5
Portugal	2.5	3.5	2.2	1.6
Ireland	2.3	1.4	1.1	1.6
China	2.3	4.1	4.5	4.3
India	6.4	7.7	5.5	5.0
Japan	-0.3	-0.1	0.0	0.2
Korea	3.1	3.7	3.3	3.0
Indonesia	8.7	4.2	3.2	3.0
Australia	3.1	3.1	2.9	2.7
Thailand	2.7	3.5	3.0	2.8
Brazil	6.6	6.5	5.5	5.0
Colombia	5.8	3.7	3.3	3.0
Peru	2.4	4.7	3.0	2.5
Chile	3.3	3.3	2.8	3.5

Forecast Changes

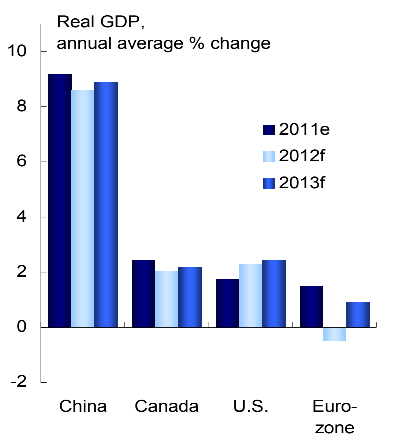
International

- Recent liquidity injections from the European Central Bank (ECB) have helped stabilize financial market conditions in the region. Sovereign bond yields in Italy, Spain, Ireland and Portugal have eased since late 2011, though Portugal's soaring credit default swaps highlight the potential for a distressed credit event in the future. As expected, much of Europe has moved into recession as governments implement varying degrees of restraint. While we made no further changes to euro zone GDP growth, we lowered our growth expectation for the U.K. in 2012 to 0.9% from 1.0%. Our inflation projections have been raised across the board given higher energy and food prices, and the impact of fiscal consolidation measures in several countries. We now expect year-end inflation rates of 2.2% y/y in the euro area and 2.3% in the U.K., up from 1.8% and 2.2%, respectively. The euro area unemployment rate rose again in February, reaching a new currency union high of 10.8%. Even with some further erosion in economic fundamentals, the EUR has been trading in a very stable trading range since the beginning of the year as debt restructuring and refinancing activity runs its course.
- Rebuilding efforts in Japan and Thailand are well underway, and providing a solid boost to growth with the help of aggressive monetary and fiscal policy actions. The Chinese economy will expand at a still strong 8.6% rate in 2012 and accelerate to 8.9% in 2013. Ample room for policy manoeuvring remains, with supportive fiscal actions to be accompanied by future monetary easing. Although the Indian economy is decelerating, we maintain a more bullish view about growth prospects. A wild card in the outlook is the direction of oil prices and supply disruption risks in the Middle East. South Korea's economy will expand by 3.4% in 2012, boosted by export performance.

International	2000-10	2011e	2012f	2013f
Current Account Balance		(% of GDP)		
Canada	0.8	-2.8	-2.0	-1.7
United States	-4.5	-3.1	-3.1	-3.1
Mexico	-1.2	-0.7	-1.1	-1.6
United Kingdom	-2.2	-1.9	-1.7	-1.3
Euro zone	-0.2	-0.3	-0.4	-0.2
Germany	3.8	5.5	5.0	4.8
France	-0.1	-2.3	-2.2	-2.3
Italy	-1.7	-3.1	-2.8	-2.2
Spain	-5.9	-3.4	-2.9	-2.2
Greece	-8.7	-9.8	-7.5	-6.6
Portugal	-9.8	-6.4	-6.5	-5.2
Ireland	-2.1	0.1	0.8	1.2
China	5.3	3.8	3.0	2.3
India	-0.8	-3.3	-3.1	-2.7
Japan	3.3	2.2	2.2	2.4
Korea	2.3	2.3	2.0	1.8
Indonesia	2.3	1.2	0.9	1.2
Australia	-4.5	-2.9	-3.1	-2.7
Thailand	3.4	3.9	3.3	2.7
Brazil	-0.9	-2.2	-3.0	-4.0
Colombia	-1.6	-2.8	-2.5	-2.0
Peru	-0.8	-2.4	-2.5	-2.7
Chile	0.8	-0.7	-2.4	-1.5

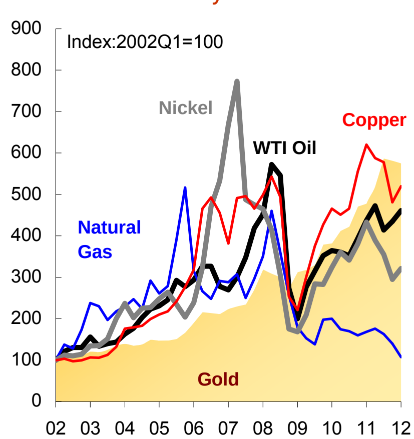
Commodities				
		(annual average)		
WTI Oil (US$/bbl)	54	95	110	115
Brent Oil (US$/bbl)	52	111	125	125
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.90	3.50
Copper (US$/lb)	1.93	4.00	3.90	3.80
Zinc (US$/lb)	0.75	0.99	0.94	1.10
Nickel (US$/lb)	7.36	10.38	9.00	8.00
Gold, London PM Fix (US$/oz)	586	1,569	1,750	1,700
Pulp (US$/tonne)	694	977	915	975
Newsprint (US$/tonne)	575	640	655	670
Lumber (US$/mfbm)	273	255	265	310

Global Growth



Source: Scotia Economics. Bloomberg, BEA, Statistics Canada, Eurostat.

Commodity Price Trends



Source: Bloomberg, Scotia Economics.

Forecast Changes

International

- The core Latin American economies are systemically well prepared to respond to adverse external shocks that have repeatedly affected the global economy. However, they are not immune to the risk of disorderly currency adjustments and liquidity constraints caused by volatility in global financial markets. The recent weakening of the Brazilian real in response to more aggressive monetary easing, further restrictions to capital inflows, and signs of Chinese economic weakness are examples of such vulnerability. Central bank intervention through traditional and unconventional measures has intensified. Persistently high oil prices will negatively affect energy-importing nations. Brazil and Chile eased monetary conditions, whereas Colombia has chosen the opposite path.

Commodities

- There is concern over the drag of high oil prices on a still fragile world economy. Saudi Arabia has stepped up oil output to 10 mb/d (the highest in three decades), and is ready to produce at full capability (12.5 mb/d) if needed to calm oil markets. There has also been talk of a 'strategic stock release' by the U.S., the U.K. and France to ease gasoline prices ahead of several elections. However, the decline in oil prices has been quite modest. While OPEC (Saudi Arabia) is currently producing about 1.2 mb/d over the 'call' for its crude, sanctions (especially by the EU) are likely to cut Iranian supplies by 0.8-1.0 mb/d by July.
- LME copper prices rose to US$3.89 per pound in early April, boosted by a better-than-expected PMI release for China in March. CBOT soybean prices have surged to US$14.21 per bushel in early April, spilling over into canola. Drought in Brazil, Paraguay and Argentina (earlier in the crop year) will cut the world soybean harvest in the face of brisk sales to China. The USDA expects U.S. farmers to favour corn over soybeans in their planting this spring. Strong fertilizer application should steady potash prices, under pressure coming into 2012.

North America	2000-10	2011e	2012f	2013f
Canada		(annual % change)		
Real GDP	2.2	2.5	2.0	2.2
Consumer Spending	3.2	2.2	2.0	2.1
Residential Investment	4.4	2.3	3.8	2.4
Business Investment	2.5	13.7	5.1	5.4
Government	3.6	0.5	-1.4	-0.8
Exports	0.0	4.4	5.8	5.1
Imports	3.0	6.5	3.5	4.1
Nominal GDP	4.7	5.8	4.2	3.9
GDP Deflator	2.5	3.3	2.1	1.7
Consumer Price Index	2.1	2.9	2.0	2.1
Core CPI	1.8	1.7	1.9	1.9
Pre-Tax Corporate Profits	4.6	15.0	7.5	8.0
Employment	1.5	1.5	0.7	1.1
thousands of jobs	240	262	116	196
Unemployment Rate (%)	7.1	7.5	7.4	7.2
Current Account Balance (C$ bn.)	7.9	-48.3	-36.5	-32.0
Merchandise Trade Balance (C$ bn.)	46.2	1.4	18.0	23.8
Federal Budget Balance (C$ bn.)	-1.2	-24.9	-21.1	-10.2
per cent of GDP	0.0	-1.4	-1.2	-0.5
Housing Starts (thousands)	200	194	190	180
Motor Vehicle Sales (thousands)	1,588	1,590	1,640	1,650
Motor Vehicle Production (thousands)	2,447	2,135	2,500	2,625
Industrial Production	0.0	3.5	2.8	3.1
United States				
Real GDP	1.8	1.7	2.3	2.4
Consumer Spending	2.2	2.2	2.0	2.4
Residential Investment	-4.9	-1.3	7.8	6.8
Business Investment	0.9	8.8	6.0	6.4
Government	2.0	-2.1	-1.2	-1.2
Exports	3.9	6.7	4.2	5.6
Imports	3.4	4.9	3.2	4.4
Nominal GDP	4.1	3.9	4.3	4.3
GDP Deflator	2.3	2.1	1.9	1.8
Consumer Price Index	2.5	3.1	2.6	2.2
Core CPI	2.1	1.7	2.0	1.8
Pre-Tax Corporate Profits	7.0	7.9	6.0	7.5
Employment	0.1	1.2	1.6	1.6
millions of jobs	0.08	1.50	2.15	2.15
Unemployment Rate (%)	5.9	8.9	8.1	7.9
Current Account Balance (US$ bn.)	-564	-464	-491	-502
Merchandise Trade Balance (US$ bn.)	-633	-740	-774	-807
Federal Budget Balance (US$ bn.)	-407	-1,300	-1,130	-960
per cent of GDP	-3.0	-8.6	-7.2	-5.8
Housing Starts (millions)	1.45	0.61	0.71	0.80
Motor Vehicle Sales (millions)	15.4	12.7	14.0	14.5
Motor Vehicle Production (millions)	10.6	8.6	10.0	10.5
Industrial Production	0.2	4.2	3.6	3.2
Mexico				
Real GDP	2.1	3.9	3.2	3.7
Consumer Price Index (year-end)	4.9	3.6	4.0	4.0
Unemployment Rate (%)	3.7	5.5	4.7	4.4
Current Account Balance (US$ bn.)	-9.7	-8.8	-13.6	-21.9
Merchandise Trade Balance (US$ bn.)	-8.1	-1.0	-5.0	-12.0
Industrial Production	1.4	3.8	3.3	3.9

Forecast Changes

Canada & United States

- Our forecast for Canadian output growth in 2012-13 is largely unchanged from our March *Update*, with the economy expected to advance around 2.0% this year and 2.2% next. Improving U.S. activity is supporting a pickup in industrial production and exports, while high commodity prices are buoying resource activity and investment. At the same time, slowing job growth, high consumer debt levels and public sector restraint are expected to keep housing and consumer spending on a more moderate trajectory.
- U.S. GDP growth forecasts for both 2012 and 2013 have been revised up to 2.3% from 2.1% and to 2.4% from 2.2%, respectively. Stronger hiring activity and improved domestic prospects continue to boost confidence. However, a lack of fiscal clarity poses a downside risk. The inflation outlook remains muted, although higher oil prices will boost headline inflation in the first half of the year.
- Canada's federal government, with a major assist from low interest rates and its second strategic spending review, now forecasts virtually balanced books by fiscal 2014-15 (FY15). Canada's federal net debt, currently below 34% of GDP, is forecast by March 2017 to return to the prior March 2009 low of less than 29% of GDP. In the U.S., a further factor clouding federal and state fiscal prospects is the Supreme Court's decision on the constitutionality of the President's health care restructuring, likely to be delivered in June.

Mexico

- We have revised our 2012 real GDP growth for Mexico to 3.2% from 3.06% to reflect the better economic dynamics at the start of the year. January's IGAE numbers showed a solid gain in key industrial sectors (automotive and construction), reflecting improved U.S. demand, and services, which indicates that domestic consumption is rebounding. In line with this performance, we are revising our 2012 industrial production forecast from 2.7% y/y to 3.3% y/y.

Provincial	2000-10	2011e	2012f	2013f	2000-10	2011	2012f	2013f
	Real GDP (annual % change)				Budget Balances*, FY March 31 ($millions)			
Canada	2.2	2.5	2.0	2.2	3,149	-33,372	-24,900	-21,100
Newfoundland & Labrador	3.3	4.0	1.8	2.1	91	598	756	n.a.
Prince Edward Island	1.9	1.5	1.5	1.6	-30	-52	-73	n.a.
Nova Scotia	1.8	1.6	1.6	2.2	23	569	-261	-211
New Brunswick	2.0	1.3	1.5	1.6	-15	-633	-471	-183
Quebec	1.9	1.9	1.6	2.0	-1,259	-3,150	-3,300	-1,500
Ontario	1.9	2.1	1.8	1.9	-2,407	-14,011	-15,283	-15,153
Manitoba	2.3	2.1	2.2	2.2	239 **	-298	-989	n.a.
Saskatchewan	1.9	4.0	2.8	3.0	427	48	353	47
Alberta	2.7	3.7	3.1	3.0	3,957	0	0	0
British Columbia	2.5	2.5	2.2	2.5	615	-309	-2,497	-968

* FY12f & FY13f: Provincial & federal government estimates. **FY04-FY10.

	2000-10	2011e	2012f	2013f	2000-10	2011	2012f	2013f
	Employment (annual % change)				Unemployment Rate (annual average, %)			
Canada	1.5	1.5	0.7	1.1	7.1	7.5	7.4	7.2
Newfoundland & Labrador	0.8	2.7	0.8	1.0	15.2	12.6	12.5	12.1
Prince Edward Island	1.4	2.0	0.8	0.6	11.3	11.3	11.2	11.0
Nova Scotia	1.0	0.1	0.6	1.0	8.8	8.8	8.5	8.2
New Brunswick	0.8	-1.2	0.5	0.8	9.4	9.6	9.5	9.2
Quebec	1.5	1.0	0.3	1.0	8.3	7.8	8.1	7.9
Ontario	1.5	1.8	0.5	1.0	6.9	7.8	7.9	7.7
Manitoba	1.2	0.8	0.7	1.0	4.9	5.4	5.4	5.3
Saskatchewan	1.0	0.3	1.0	1.3	5.1	5.0	4.9	4.7
Alberta	2.5	3.8	2.0	1.7	4.8	5.5	4.9	4.8
British Columbia	1.6	0.8	1.0	1.2	6.7	7.5	7.1	6.9

	2000-10	2011e	2012f	2013f	2000-10	2011	2012f	2013f
	Housing Starts (annual, thousands of units)				Motor Vehicle Sales (annual, thousands of units)			
Canada	200	194	190	180	1,587	1,589	1,640	1,650
Atlantic	12	13	11	11	114	119	121	122
Quebec	45	48	44	41	405	408	418	420
Ontario	73	68	66	62	604	589	607	610
Manitoba	4	6	6	5	44	47	49	49
Saskatchewan	4	7	7	7	41	50	52	53
Alberta	35	26	28	28	204	218	229	231
British Columbia	27	26	28	26	176	158	164	165

Forecast Changes

Provinces

- The auto sector — accounting for one-quarter of overall manufacturing activity in Ontario — continues to ramp up, bolstered by the strongest North American auto market since early 2008. A major engine manufacturer will add a third shift in southwestern Ontario in May, while the second-largest auto manufacturer in the province will increase assemblies in early 2013.
- We have edged up our forecast for Canadian housing starts to 190,000 units this year and 180,000 units for 2013. Mild winter conditions in much of the country have facilitated homebuilding activity in recent months, potentially pulling forward some ground-breaking plans from the spring. Nonetheless, permit demand continues to signal strong underlying construction intentions, led by new multi-unit projects in Ontario and across-the-board gains in Canada's three Western-most provinces.
- In Central Canada and the Maritime Provinces, fiscal restraint to meet deficit reduction commitments will add to the federal program spending declines on a real per capita basis. Provincial efforts to manage employee compensation are resulting in contentious negotiations across Canada. Looking to their longer-term fiscal sustainability, a number of Provinces, alongside Ottawa, are broaching adjustments to future pension plan benefits, while leaving benefits already earned intact.

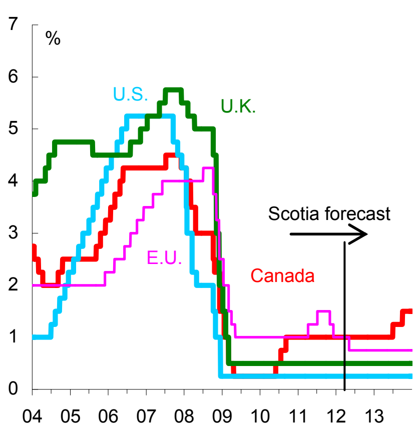
Quarterly Forecasts	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
Canada									
Real GDP (q/q, ann. % change)	1.8	2.2	1.6	1.8	2.0	2.3	2.4	2.5	2.5
Real GDP (y/y, % change)	2.2	1.9	2.4	1.9	1.9	1.9	2.1	2.3	2.4
Consumer Prices (y/y, % change)	2.7	2.3	1.6	1.8	2.1	2.0	2.0	2.2	2.1
Core CPI (y/y % change)	2.0	2.1	1.9	1.9	1.8	1.8	1.8	2.0	2.0
United States									
Real GDP (q/q, ann. % change)	3.0	2.1	2.2	2.5	2.5	2.2	2.5	2.6	2.8
Real GDP (y/y, % change)	1.6	2.1	2.3	2.4	2.3	2.3	2.4	2.5	2.5
Consumer Prices (y/y, % change)	3.3	2.8	2.6	2.5	2.4	2.3	2.2	2.1	2.1
Core CPI (y/y % change)	2.2	2.2	2.0	1.9	1.8	1.8	1.8	1.7	1.7

Financial Markets

Central Bank Rates (%, end of period)	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
Americas									
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50
U.S. Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Bank of Mexico	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	5.25
Central Bank of Brazil	11.00	9.75	9.00	9.00	9.00	9.50	10.00	10.50	10.50
Bank of the Republic of Colombia	4.75	5.25	5.50	5.50	5.50	5.25	5.00	5.00	5.00
Central Reserve Bank of Peru	4.25	4.25	4.25	4.25	4.25	3.75	3.75	3.75	3.75
Central Bank of Chile	5.25	5.00	5.00	5.00	5.25	5.50	5.75	6.00	6.25
Europe									
European Central Bank	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Asia/Oceania									
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50	4.50
People's Bank of China	6.56	6.56	6.56	6.31	6.31	6.10	6.10	6.10	6.10
Reserve Bank of India	8.50	8.25	8.00	7.50	7.00	6.75	6.75	6.50	6.50
Bank of Korea	3.25	3.25	3.00	3.00	3.00	3.25	3.25	3.50	3.50
Bank Indonesia	6.00	6.00	6.00	5.75	5.75	6.00	6.00	6.25	6.25
Bank of Thailand	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.25	3.25
Canada									
3-month T-bill	0.86	0.91	0.95	0.95	0.95	1.05	1.10	1.40	1.70
2-year Canada	0.97	1.20	1.15	1.20	1.35	1.45	1.55	1.75	2.00
5-year Canada	1.27	1.57	1.50	1.65	1.95	2.05	2.25	2.40	2.85
10-year Canada	1.93	2.21	1.95	2.00	2.40	2.60	2.85	3.10	3.50
30-year Canada	2.54	2.66	2.50	2.65	2.90	3.10	3.30	3.55	4.10
United States									
3-month T-bill	0.05	0.07	0.05	0.05	0.10	0.10	0.15	0.20	0.20
2-year Treasury	0.21	0.33	0.25	0.40	0.50	0.60	0.70	0.85	1.00
5-year Treasury	0.73	1.04	0.90	1.10	1.35	1.50	1.70	1.95	2.50
10-year Treasury	1.83	2.21	2.00	2.20	2.60	2.75	3.00	3.25	3.75
30-year Treasury	2.98	3.34	3.20	3.40	3.75	3.90	4.00	4.20	4.85
Canada-U.S. Spreads									
3-month T-bill	0.81	0.85	0.90	0.90	0.85	0.95	0.95	1.20	1.50
2-year	0.76	0.87	0.90	0.80	0.85	0.85	0.85	0.90	1.00
5-year	0.54	0.53	0.60	0.55	0.60	0.55	0.55	0.45	0.35
10-year	0.10	0.00	-0.05	-0.20	-0.20	-0.15	-0.15	-0.15	-0.25
30-year	-0.44	-0.68	-0.70	-0.75	-0.85	-0.80	-0.70	-0.65	-0.75

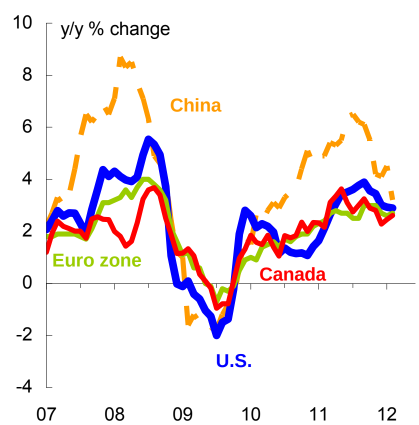
Financial Markets	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
Exchange Rates				(end of period)					
Americas									
Canadian Dollar (USDCAD)	1.02	1.00	1.00	0.99	0.98	0.98	0.97	0.97	0.96
Canadian Dollar (CADUSD)	0.98	1.00	1.00	1.01	1.02	1.02	1.03	1.03	1.04
Mexican Peso (USDMXN)	13.9	12.8	12.8	13.0	13.1	13.1	13.0	13.1	13.3
Brazilian Real (USDBRL)	1.87	1.83	1.80	1.83	1.85	1.83	1.85	1.86	1.90
Colombian Peso (USDCOP)	1939	1789	1791	1810	1830	1847	1864	1882	1890
Peruvian Nuevo Sol (USDPEN)	2.70	2.67	2.66	2.66	2.63	2.62	2.62	2.61	2.57
Chilean Peso (USDCLP)	520	488	493	494	492	493	496	499	502
Canadian Dollar Cross Rates									
Euro (EURCAD)	1.32	1.33	1.29	1.26	1.23	1.23	1.22	1.24	1.24
U.K. Pound (GBPCAD)	1.59	1.60	1.60	1.60	1.60	1.62	1.61	1.62	1.61
Japanese Yen (CADJPY)	75	83	82	84	87	88	89	90	91
Australian Dollar (AUDCAD)	1.04	1.03	1.07	1.07	1.07	1.08	1.07	1.08	1.07
Mexican Peso (CADMXN)	13.6	12.8	12.8	13.1	13.3	13.4	13.4	13.5	13.9
Europe									
Euro (EURUSD)	1.30	1.33	1.29	1.27	1.25	1.25	1.26	1.28	1.29
U.K. Pound (GBPUSD)	1.55	1.60	1.60	1.62	1.63	1.65	1.66	1.67	1.68
Swiss Franc (USDCHF)	0.94	0.90	0.96	0.98	0.99	1.00	0.99	0.98	0.97
Swedish Krona (USDSEK)	6.88	6.61	6.82	6.89	6.96	6.92	6.83	6.68	6.59
Norwegian Krone (USDNOK)	5.98	5.69	5.50	5.35	5.30	5.22	5.15	5.08	5.00
Asia/Oceania									
Japanese Yen (USDJPY)	77	83	82	83	85	86	86	87	87
Australian Dollar (AUDUSD)	1.02	1.03	1.07	1.08	1.09	1.10	1.10	1.11	1.11
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.2	6.1	6.1	6.0	5.9	5.9
Indian Rupee (USDINR)	53.1	50.9	50.5	50.1	49.7	49.5	48.9	48.4	48.0
Korean Won (USDKRW)	1152	1133	1115	1098	1080	1074	1056	1037	1025
Indonesian Rupiah (USDIDR)	9.07	9.15	9.01	8.88	8.75	8.71	8.57	8.44	8.35
Thai Baht (USDTHB)	31.6	30.8	30.6	30.3	30.0	29.9	29.6	29.3	29.1

Central Bank Rates



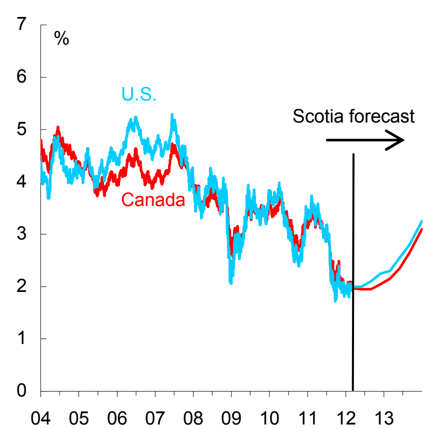
Source: Bloomberg, Scotia Economics.

Global Inflation



Source: Bloomberg, Scotia Economics.

10-Year Yields



Source: Bloomberg, Scotia Economics.

Scotia Economics

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