

Global Economies Likely to Avoid Double Dip: Scotiabank 2011 Outlook for Global Economies, Markets and Currencies

TORONTO, December 7, 2010 – Global economies are likely to avoid a double-dip recession, according to Scotiabank Chief Economist Warren Jestin, co-author of *Another Year of Recuperation and Repair*, a comprehensive forecast unveiled today at Scotiabank's 2011-2012 Economic and Market Outlook Conference (EMOC).

“Global economic activity has decelerated in recent months, with next year's growth in North America, Europe and Japan likely to fall short of the average pace set in 2010,” said Mr. Jestin. “The severe financial strains confronting some debt-heavy European nations and the U.S. probably won't trigger a double dip. However, the lengthy process of bringing outsized fiscal deficits under control, withdrawing unprecedented monetary stimulus and restructuring the global financial system will impede growth prospects in many countries through mid-decade.”

ScotiaMcLeod Equity Trading Director Fred Ketchen moderated EMOC presentations by Mr. Jestin, Vincent Delisle, Director of Portfolio Strategy, Scotia Capital and Camilla Sutton, Chief Currency Strategist, Scotiabank, who shared outlooks on what 2011 and 2012 will bring for the global economy, capital markets and currencies.

Highlights of Mr. Jestin's presentation include:

- Canadian output growth is expected to fall below 2.5 per cent in 2011 as domestic demand softens and fiscal repair gets under way. The U.S. won't do much better, even with the infusion of additional monetary stimulus and delays in addressing massive fiscal imbalances. Although some improvement is expected in 2012, another year of sub-3 per cent growth is likely in both nations as interest rates begin to rise and fiscal retrenchment gathers force.
- In contrast, China is expected to grow by 9.5 per cent, followed by India (8.5 per cent) and Brazil (5.5 per cent). These and other emerging powerhouses have become crucial sources of global locomotion, with their impact on foreign exchange and on commodity and capital markets escalating alongside their financial resources.
- Canadian activity also will be tempered in 2011 as the federal and provincial governments curtail fiscal stimulus and step up restraint to reestablish more balanced budget positions by mid-decade.

“A sub-par recovery in developed economies, the U.S.'s excessive monetary stimulus campaign, China's tightening bias and Europe's debt problems explain recent market volatility,” added Mr. Delisle. “As we head into calendar 2011, these items should continue to challenge investor sentiment and trigger sporadic shifts in the risk-on/risk off mentality.”

Highlights of Mr. Delisle's presentation include:

- The global recovery is expected to continue in 2011 and world GDP growth should hover near 4 per cent (4.8 per cent in 2010). In developed economies, a

slower pace of growth is unlikely to stem inflation fears, but sustained price pressures in Emerging markets (China, India, Brazil) could trigger further tightening measures.

- The outlook for equities is positive and we expect the S&P500 trade in the 1,100-1,300 range in 2011. However, investor sentiment will remain vulnerable to myriad challenges and a tactical approach should add value again in 2011.
- From an asset mix perspective, we reiterate our equity over bond preference for 2011. However, the magnitude of our equity overweight recommendation for 2011 is reduced to 58 per cent (was 65 per cent in 2009 and 68 per cent in 2010).

“As we move into 2011, the global economy, financial sector and monetary authorities are balancing on a tightrope,” said Ms. Sutton. “The path that lies ahead for Europe is of prime concern, but so too is the strength of the global recovery and US monetary policy. The risks have increased, which will likely encourage investors to pay increasing attention to currency risk.”

Highlights of Ms. Sutton’s presentation include:

- Europe continues to crumble under the weight of its escalating debt crisis. As this has moved from a sovereign debt issue to a major crisis of confidence, it has become increasingly difficult to quantify and forecast the snowball effect. Our base case remains that Europe has the resources it needs to move through the crisis. Accordingly, we expect the EUR to maintain a slow appreciating trend in 2011 and 2012.
- The USD is likely to resume a slowly depreciatory trend. Its fiscal position is weak and, worse, there is only a limited plan in place to improve it. There is significant risk that problems in Europe escalate causing the USD to appreciate; however, this for us is a major risk to pay close attention to. Our base case is that by the close of 2011 and 2012 we will have a weaker USD than we do today.
- Relatively strong fundamentals, an important commodity base, widening interest rate spreads, a broadly weaker USD and an enviable sovereign position should leave Canada as an attractive base for international investment flows. However, bouts of risk aversion and political resistance to a materially stronger CAD dampen the outlook. Accordingly, we expect CAD to maintain an appreciating trend, but that the pace will be relatively slow and interrupted by periods of weakness.

A replay of the conference call is available by calling 1-800-408-3053 (local: 905-694-9451) and entering passcode 6420042. A copy of the report and presentation can be found on the Scotia Economics page at: www.scotiabank.com.

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