

# Economic Directions

## Not So Fast Forward










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Financial markets have been buffeted in recent months by heightened investor anxiety over prospects for global growth, the sovereign debt crisis in Europe and the limited progress in bringing Washington's massive fiscal deficit under control. For debt- and deficit-heavy nations, the magnitude of the structural adjustments required for meaningful fiscal repair will dampen growth through mid-decade. The very high social costs and political risks associated with these very difficult fiscal decisions point to ongoing volatility in currency, equity and bond markets.

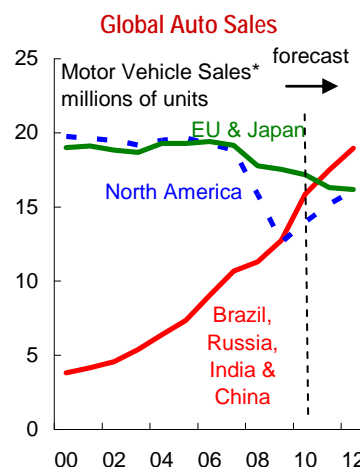
Output growth in 2012 will struggle to reach 2% in the U.S., even if interest rates remain near historic lows and fiscal retrenchment is postponed, which seems very likely given the high levels of unemployment, fragility of the housing sector and financial difficulties confronting state and local governments. While some European nations will eke out gains, overall growth will be non-existent in the eurozone as public sector retrenchment and private deleveraging push a number of distressed economies into — or deeper into — recession.

Economic momentum also has moderated in many emerging nations, though growth in 2012 should be close to 9% in China, 8% in India and 4% in Brazil. With the traditional developed nations stuck in the slow lane, emerging markets are accounting for over two-thirds of global growth and will likely continue to do so through the balance of the decade. *The Economist* magazine suggests that, by the end of the decade, China may surpass the U.S. as the world's largest economy.

Overall Canadian growth is likely to be similar to the U.S. in 2012, falling short of 2%. Domestic demand will be supported by resource sector mega-projects and public infrastructural investment. However, household spending gains will be dampened by a moderation in job creation and greater

	2000-10	11f	12f	13f
<b>Real GDP (annual % change)</b>				
<b>U.S.</b> 	1.8	1.8	1.8	2.2
<b>Canada</b> 	2.2	2.3	1.8	2.4
<b>Mexico</b> 	2.1	3.9	2.9	3.7
<b>Eurozone</b> 	1.4	1.6	0.0	1.3
<b>U.K.</b> 	1.9	0.8	0.8	1.8
<b>Japan</b> 	0.9	0.1	3.2	1.8
<b>China</b> 	9.5	9.1	8.9	8.5
<b>India</b> 	7.5	7.6	8.1	8.0
<b>Brazil</b> 	3.7	3.5	4.0	4.5

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



\* Incl. light trucks in N.A. Source: Ward's Automotive Reports, Scotia Economics.

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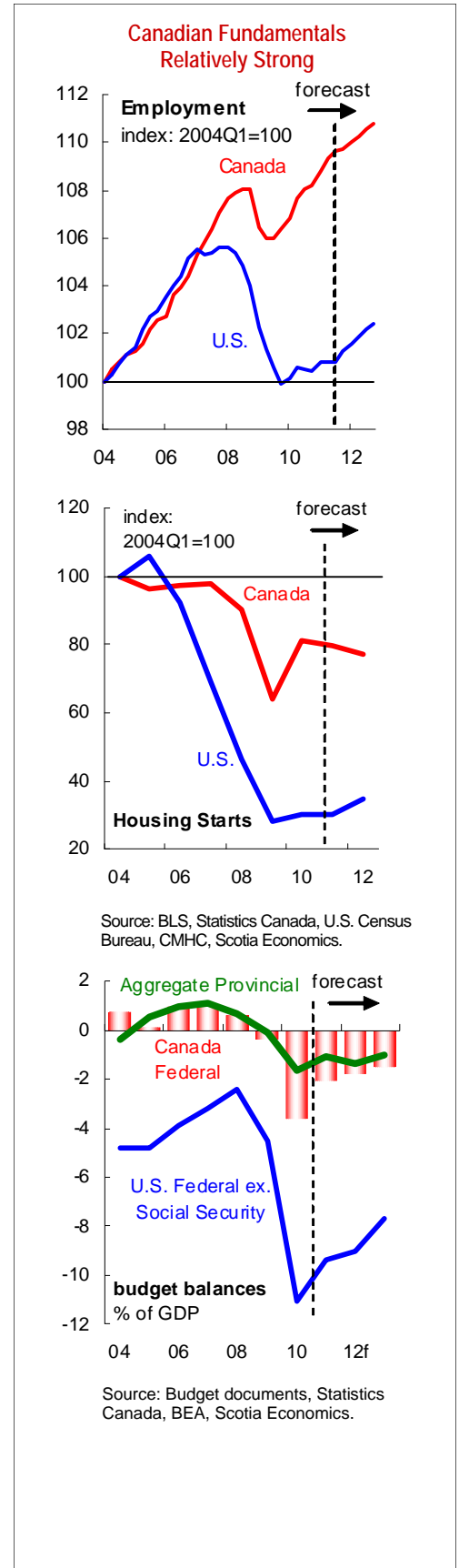
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caution in taking on additional consumer debt, now at record levels relative to disposable income. With home ownership at an all-time high, housing activity will subside. While the Bank of Canada is likely to hold its benchmark interest rates at current levels into 2013, keeping interest rates near generational lows, Canadian fiscal policy will be less stimulative as Ottawa and many provincial governments move to bring their budgets back towards balance.

Reduced global economic momentum will temper Canadian export gains, although resource producers will continue to enjoy relatively buoyant demand from China and other emerging markets. Manufacturers will continue to be challenged by the strong loonie and soft markets in Europe, and in the U.S. — still the destination of over 70% of Canadian exports. Growth in the manufacturing sector will increasingly come from small- and medium-size enterprises that are focussed on higher value-added domestic markets and new global markets. Trends in the auto industry underline the shift that is occurring in the manufacturing sector. Canada now produces nearly one million fewer vehicles than a decade ago and is getting a much smaller share of the auto sector's North American investment than over the past decade.

In today's challenging global environment, Canada remains one of the best places to work and do business. Unlike the U.S. and Europe, Canada has fully regained the jobs lost during the financial crisis and recession of 2008-9. The buoyancy in our housing and commercial real estate markets contrasts sharply with the depressed conditions evident in the U.S. and much of Europe. Ottawa plans to balance its budget deficit, now equivalent to 2% of GDP, by 2017, if not before. Despite a shortfall running around 8% of GDP, Washington has no plans to move decisively towards a more balanced fiscal setting. Canada's fiscal advantage is strategically important for longer-term growth and prosperity because it underpins an internationally competitive tax system. Our financial system, the strongest in the world, supports national growth at a time when banking problems in many developed countries have become an impediment to the revitalization of economic activity.



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<b>Forecasts as at December 1, 2011*</b>	<b>2000-10</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2000-10</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>
<b>Output and Inflation (annual % change)</b>	<b>Real GDP</b>				<b>Consumer Prices<sup>2</sup></b>			
World <sup>1</sup>	3.7	3.8	3.7	4.0				
Canada	2.2	2.3	1.8	2.4	2.1	3.0	1.8	2.0
United States	1.8	1.8	1.8	2.2	2.5	3.2	1.8	2.1
Mexico	2.1	3.9	2.9	3.7	4.9	3.6	4.0	4.1
United Kingdom	1.9	0.8	0.8	1.8	2.1	4.4	2.1	2.5
Euro zone	1.4	1.6	0.0	1.3	2.1	2.6	1.5	1.8
Japan	0.9	0.1	3.2	1.8	-0.3	0.2	0.4	0.5
Australia	3.1	2.1	4.2	3.3	3.1	3.0	2.8	2.5
China	9.5	9.1	8.9	8.5	2.3	5.0	4.5	4.3
India	7.5	7.6	8.1	8.0	6.4	8.1	6.5	6.0
Korea	4.6	3.8	4.3	4.5	3.1	3.7	3.3	3.0
Thailand	4.1	2.8	3.5	4.5	2.6	3.5	3.0	2.8
Brazil	3.7	3.5	4.0	4.5	6.6	6.5	5.7	5.0
Chile	3.8	6.5	4.7	5.8	3.3	3.5	2.8	3.8
Peru	5.5	6.9	5.5	5.6	2.4	4.8	3.5	2.5
<b>Central Bank Rates (% , end of period)</b>	<b>11Q4f</b>	<b>12Q1f</b>	<b>12Q2f</b>	<b>12Q3f</b>	<b>12Q4f</b>	<b>13Q1f</b>	<b>13Q2f</b>	<b>13Q3f</b>
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.50	2.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
European Central Bank	1.00	0.75	0.75	0.75	0.75	0.75	0.75	1.00
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25
Reserve Bank of Australia	4.50	4.25	4.25	4.25	4.25	4.25	4.50	4.50
<b>Exchange Rates (end of period)</b>								
Canadian Dollar (USDCAD)	1.04	1.02	1.01	0.99	0.98	0.98	0.97	0.97
Canadian Dollar (CADUSD)	0.96	0.98	0.99	1.01	1.02	1.02	1.03	1.03
Euro (EURUSD)	1.30	1.29	1.28	1.27	1.25	1.25	1.26	1.28
Sterling (GBPUSD)	1.55	1.56	1.59	1.62	1.63	1.65	1.66	1.67
Yen (USDJPY)	78	78	80	80	82	83	83	84
Australian Dollar (AUDUSD)	1.00	1.02	1.04	1.06	1.08	1.09	1.09	1.10
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.1	6.1	6.0	6.0	5.9
Mexican Peso (USDMXN)	13.5	13.5	13.2	13.0	13.0	13.1	13.2	13.3
Brazilian Real (USDBRL)	1.80	1.79	1.77	1.76	1.75	1.77	1.80	1.82
<b>Commodities (annual average)</b>	<b>2000-10</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>				
WTI Oil (US\$/bbl)	54	95	95	104				
Brent Oil (US\$/bbl)	52	111	108	110				
Nymex Natural Gas (US\$/mmbtu)	5.81	4.05	3.50	4.25				
Copper (US\$/lb)	1.93	4.00	4.00	3.50				
Zinc (US\$/lb)	0.75	0.99	0.99	1.10				
Nickel (US\$/lb)	7.36	10.35	9.00	8.00				
Gold, London PM Fix (US\$/oz)	586	1,565	1,675	1,600				
Pulp (US\$/tonne)	694	977	912	950				
Newsprint (US\$/tonne)	575	640	680	725				
Lumber (US\$/mfbm)	273	255	260	300				

<sup>1</sup> World GDP for 2000-10 are IMF PPP estimates; 2011-13f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.

<sup>2</sup> CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

\* See Scotia Economics 'Global Forecast Update' ([www.scotiacapital.com/English/bns\\_econ/forecast.pdf](http://www.scotiacapital.com/English/bns_econ/forecast.pdf)) for additional forecasts & commentary.