

# Global Forecast Update

## Global Outlook — The Long And The Short Of It

### Little Spring In The Global Economy

Global growth remains sub-par because the developed nations are unable to generate any sustained momentum. The U.K. and the euro zone outside of Germany and some of its northern neighbours have been enveloped by recession again, with many of the highly indebted countries being pressured by intensifying fiscal austerity and sharply higher joblessness, particularly for young workers. The disruptions to international trade and bank credit caused by the slump in European demand and the consolidation of many of its financial institutions are now rippling through the global economy.

The U.S. economy has regained some traction, but the pace of activity is very uneven. Increasing employment has helped reinforce consumer confidence and spending, and enhanced competitiveness has underpinned a revival in industrial output, especially on motor vehicles. Even so, the recent softening in hiring and decline in savings is again raising concerns over the durability of the improved performance. Canada continues to report moderate economic gains, led by buoyant resource activity, transportation-led gains in manufacturing, and ongoing service sector advances. However, net trade remains a soft spot. Japan is continuing its rebuilding efforts, but domestic growth is languishing alongside its aging and debt-averse population.

Most of the large developing nations have lost some of their earlier momentum as prior fiscal stimulus was unwound, monetary restraint to reduce excessive credit growth and inflationary pressures was increased, and more recently, the downturn in the euro zone resulted in reduced trade flows. The slowdown also reflects the ongoing implementation of important industry and labour market adjustments, in addition to the ongoing efforts to improve economic efficiencies through legislative, financial sector and currency reforms.

Nevertheless, the moderation in growth in some of the larger developing economies appears to be levelling off. Governments are focussed on rebalancing growth towards more domestically generated activity. Massive homebuilding activity in China and infrastructure upgrades in Brazil are helping to buoy job markets and support consumer spending. And in an increasing number of countries, including Brazil and India, officials have begun to lower interest rates with inflation pressures cresting.

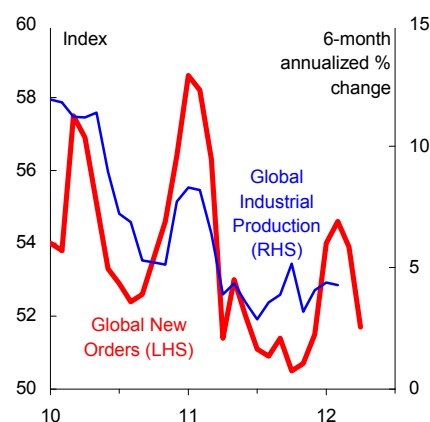
Recent manufacturing data highlight the unevenness of recovery. The April purchasing managers' indices (PMIs) rose in the U.S. and China, with increases also being recorded in Canada, India, and Russia, while South Korea and Taiwan remained in expansionary territory. However, production declines were evident in the countries experiencing more pronounced budgetary belt-tightening — the U.K. and throughout much of the euro zone, including Germany and France. The differential in the manufacturing PMIs between the expanding U.S. economy and the contracting euro zone is almost 9 points — the widest since the data were compiled in 1997.

The global economy has been unable to generate stronger and more importantly, sustainable growth, because the developed countries are experiencing their weakest recovery since the end of WWII. Deleveraging in most of the developed countries, along with the implementation of structural reforms in many of the developing nations, are keeping worldwide economic activity in the slow lane. Additional factors, including relatively high crude oil prices and recurring geopolitical strains, are adding to the uncertainty and weighing risks to the downside.

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### Global Orders & Production



Source: JP Morgan, CPB, Scotia Economics.



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The factors that exacerbated the downturn and restrained the recovery are structural and not cyclical, with most developed countries undergoing the simultaneous deleveraging of households, financial institutions, and governments — an unprecedented occurrence since the Great Depression. Global growth is projected to average around 4% in 2013-15, slightly better than the roughly 3¼% average advance expected in 2011 and 2012. The pace of worldwide activity is likely to start slow and gradually build momentum as the restraint from fiscal drag, household deleveraging, and chronic unemployment eventually lessens.

Progress is being made, with households, particularly in the U.S. and the U.K., reducing overextended balance sheets. Financial institutions are restructuring to boost profitability, though regulatory changes internationally will force them to beef up capital buffers that will impact lending activity. And governments, especially in the euro zone, are implementing meaningful fiscal cuts, with the increasing restraint reinforcing a lengthy period of sub-par economic growth that will probably extend beyond mid-decade.

The steady advance in global activity should be sustained by business investment, expanded production, and exports destined for the faster-paced growth regions. In many countries, meaningful corporate profit gains are helping to sustain capital spending, while new orders, industrial output and construction will continue to benefit from the massive infrastructure projects underway. Rising imports in most emerging and developing countries will be supported by local currency strength against most major currencies.

U.S. output growth should gradually improve by mid-decade. Renewed private sector demand will be led by consumer and business spending, and followed by a more pronounced rebound in residential activity in 2014 and 2015. Expanded energy investments will add to near-term activity and exports beyond mid-decade, while improving conditions internationally should help buoy U.S. net exports. Even so, the U.S. faces increasing fiscal restraint which will further drag on the pace of output growth.

Canada's economy should marginally outperform the U.S. over the medium term. Output growth will benefit from the rapid expansion and increased export capabilities of the nation's large commodity sector, though manufacturing and non-resource exports will be challenged by a strong currency expected to remain above parity with the greenback through mid-decade. However, consumer spending is likely to moderate as Canadians focus on reducing high household debt. Increasing fiscal restraint early in the forecast period will also contribute to keeping Canadian growth below that in the U.S. in 2013 and 2014. Thereafter, the pace of domestic activity will move back above the U.S., as fiscal restraint in America continues to address the federal deficit and debt burden.

Output in the major developing economies will continue to lead growth internationally. However, the pace of activity will be slower and not as uniform across regions as was the case in the prior decade, reflecting the reduced trade potential with the slower-paced developed nations, and the structural adjustments being implemented by many developing countries. In the Asia-Pacific region, fiscal fundamentals should remain supportive of growth, with large savings in most countries assisting the transition towards more domestically-driven activity. Favourable demographic trends also should continue to bolster domestic consumer markets, in addition to underpinning the export competitiveness of local producers. Most developing nations will continue to focus on the expanding infrastructure requirements, a strategy that should continue to underpin the demand for commodities, as well as for manufactured goods and services from abroad.

Latin American economies in the medium term are expected to receive support from elevated commodity prices, high foreign exchange reserves, and increased exchange rate flexibility. The countries should also benefit from strong investor demand for high-yield assets, as well as new investment opportunities in countries with comparatively stronger balance sheets, solid domestic savings, and more favourable demographic and earnings trends. The focus on politics will increase in the region with elections slated for Mexico and Venezuela this year, Chile in 2013, and Colombia and Brazil in 2014. Yet, government policies are encouraging macroeconomic stability and growth through initiatives that will help countries diversify from their commodity dependence, broaden their domestic capital markets, and expand their banking and credit capabilities.

With fiscal restraint dominating the policy agenda in most developed countries, monetary policy must remain broadly accommodative and supportive of growth. Central banks are expected to keep interest rates near ultra-low levels this year, with the potential for additional bond buying in some countries. In the absence of any material change to the Canadian outlook, the Bank of Canada is expected to become the first central bank among the developed nations to tighten policy, beginning in the second quarter of 2013. Slower growth and reduced price pressures have enabled central banks in a number of developing countries to ease credit conditions, though policymakers are expected to favour a gradual firming in interest rates — beginning in 2013 at the earliest — and currencies to restrain potential price pressures.

For a broader perspective on foreign exchange trends, please refer to our May 2012 *Foreign Exchange Outlook* at [http://www.gbm.scotiabank.com/English/bns\\_econ/fxout.pdf](http://www.gbm.scotiabank.com/English/bns_econ/fxout.pdf). ■

## Global Forecast Update

International	2000-10	2011e	2012f	2013f
<b>Real GDP</b>	(annual % change)			
World (based on purchasing power parity)	3.7	4.0	3.4	3.9
Canada	2.2	2.5	2.1	2.2
United States	1.8	1.7	2.3	2.4
Mexico	2.1	3.9	3.6	3.7
United Kingdom	2.0	0.7	0.5	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	-1.8	-0.2
Spain	2.1	0.7	-1.9	-0.4
Greece	2.4	-6.9	-5.2	-1.0
Portugal	0.9	-1.5	-3.5	-0.5
Ireland	3.1	0.7	-0.1	1.5
China	9.5	9.3	8.4	8.9
India	7.6	10.0	7.0	7.4
Japan	0.9	-0.7	2.0	1.7
Korea	4.6	3.6	3.4	4.2
Indonesia	5.2	6.3	6.3	6.1
Australia	3.1	2.0	3.3	3.4
Thailand	4.4	5.7	5.0	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
<b>Consumer Prices</b>	(y/y % change, year-end)			
Canada	2.1	2.7	2.2	2.1
United States	2.7	3.3	2.4	2.2
Mexico	4.9	3.8	3.9	4.0
United Kingdom	2.1	4.2	2.8	2.7
Euro zone	2.1	2.7	2.2	1.9
Germany	1.7	2.3	2.3	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	4.0	4.4
India	6.4	7.7	6.5	6.8
Japan	-0.3	-0.2	0.1	0.3
Korea	3.1	4.8	3.3	3.0
Indonesia	8.7	3.8	3.7	3.0
Australia	3.1	3.1	2.5	2.8
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	3.4	4.4	3.6	3.2

## Forecast

## Changes

## International

- After a period of stabilization in the early part of the year, economic and financial indicators in the euro area and the U.K. have begun to show renewed weakness. Sovereign bond yields and credit default swaps in Portugal, Spain and Italy indicate an increased risk of additional credit distress in European markets. While first-quarter GDP will likely prove not quite as bad as previously anticipated, deteriorating survey indicators and gradually rising unemployment imply a shallower and more prolonged period of weakness. We continue to expect a contraction in the aggregate euro zone of 0.5% this year to be followed by a 0.9% expansion in 2013. However, we have underscored the divergence in growth trends between the periphery and the core by lowering the Spanish growth projections in 2012-13 and raising the expectation for France this year. As a result of a disappointing first-quarter performance in the U.K. (the economy contracted another 0.2% q/q following the 0.3% loss in the final quarter of 2011), we have revised lower our growth projection for 2012 to 0.5% from 0.9%. We have also raised our year-end inflation projections in the U.K. from 2.3% y/y to 2.8% in 2012 and from 2.5% to 2.7% in 2013.
- We have revised growth projections downwards in Asia's largest economies following data reported during the first quarter. For 2012, we are lowering GDP growth from 8.6% to 8.4% in China, from 2.2% to 2.0% in Japan and from 7.4% to 7.0% in India. China and India will experience a stronger expansion in 2013. Massive reconstruction efforts will boost Thailand's economic activity in 2012-13; therefore, we now estimate a 5% GDP growth rate in 2012. Stabilized energy prices on the back of Saudi Arabian intervention and relatively lower supply-disruption risk from Iran bodes well for Asian inflation prospects; however, accelerating demand could prompt monetary authorities to resume a tightening phase.

International	2000-10	2011e	2012f	2013f
<b>Current Account Balance</b> (% of GDP)				
Canada	0.8	-2.8	-2.1	-1.8
United States	-4.5	-3.1	-3.6	-3.6
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	-2.2	-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	2.7	3.0	2.4
India	-0.8	-1.6	-3.2	-2.9
Japan	3.3	2.1	2.3	2.4
Korea	2.3	2.4	2.0	1.8
Indonesia	2.3	0.2	0.9	1.2
Australia	-4.5	-2.2	-2.8	-3.2
Thailand	3.4	0.0	3.3	2.7
Brazil	-0.9	-2.2	-3.0	-4.0
Colombia	-1.6	-3.0	-2.7	-2.9
Peru	-0.8	-2.4	-2.5	-2.7
Chile	0.8	-1.5	-2.4	-1.5
<b>Commodities</b>				
	(annual average)			
WTI Oil (US\$/bbl)	54	95	105	105
Brent Oil (US\$/bbl)	52	111	120	120
Nymex Natural Gas (US\$/mmbtu)	5.81	4.03	2.50	2.75
Copper (US\$/lb)	1.93	4.00	3.85	3.70
Zinc (US\$/lb)	0.75	0.99	0.94	1.10
Nickel (US\$/lb)	7.36	10.38	8.50	8.00
Gold, London PM Fix (US\$/oz)	586	1,569	1,650	1,600
Pulp (US\$/tonne)	694	977	875	915
Newsprint (US\$/tonne)	575	640	650	670
Lumber (US\$/mfbm)	273	255	265	310

**Forecast Changes**

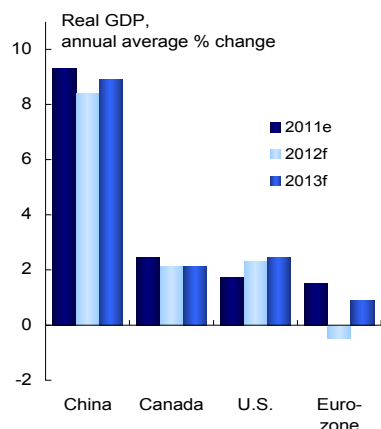
**International**

- In Latin America, monetary authorities remain concerned over a possible round of inflationary pressures due to still-elevated commodity prices. However, none of them have changed their policy stance. In Brazil, the authorities maintain a dovish bias, while in Chile, Peru and Colombia, the stance continues to be neutral. Solid economic performance in Colombia, Peru and Chile will be supported by strong local demand and high commodity prices.

**Commodities**

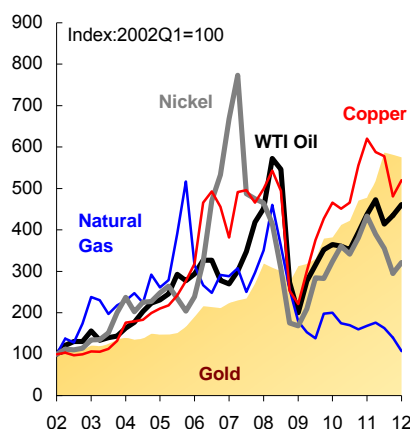
- Oil prices will remain historically high in coming months, boosted by the July 1 EU embargo on all Iranian oil and U.S. pressure on India and other importers to cut purchases. However, Saudi Arabia has stepped up its oil output to 10 mb/d in recent months, deliberately over-producing to calm oil markets. U.S. gasoline demand is edging down due to high prices and a shift to more fuel-efficient vehicles. Scheduled talks between Iran and UN Security Council members on Iran's uranium enrichment have also defused geopolitical risks, at least temporarily. As a result, we have moderately lowered the price forecast for both Brent and WTI oil in 2012-13.
- LME copper prices remain lucrative in early May at US\$3.74 per pound, despite some easing on concern over global growth. While China currently has ample inventories, mine production outages have kept world supply & demand conditions tight. Soybean, canola and corn prices remain strong amid robust Chinese orders.

**Global Growth**



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

**Commodity Price Trends**



Source: Bloomberg, Scotia Economics.

North America	2000-10	2011e	2012f	2013f
<b>Canada</b> (annual % change)				
Real GDP	2.2	2.5	2.1	2.2
Consumer Spending	3.2	2.2	2.0	2.2
Residential Investment	4.4	2.3	3.6	2.2
Business Investment	2.5	13.7	5.3	5.8
Government	3.6	0.5	-1.6	-0.8
Exports	0.0	4.4	5.4	5.2
Imports	3.0	6.5	3.4	4.2
Nominal GDP	4.7	5.8	4.3	3.9
GDP Deflator	2.5	3.3	2.0	1.8
Consumer Price Index	2.1	2.9	2.1	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	0.9	1.2
thousands of jobs	240	262	155	202
Unemployment Rate (%)	7.1	7.5	7.2	7.0
Current Account Balance (C\$ bn.)	7.9	-48.3	-38.1	-33.8
Merchandise Trade Balance (C\$ bn.)	46.2	1.4	16.5	22.0
Federal Budget Balance (C\$ bn.)	-1.2	-23.5	-20.0	-12.5
per cent of GDP	0.0	-1.4	-1.1	-0.7
Housing Starts (thousands)	200	194	194	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
<b>United States</b>				
Real GDP	1.8	1.7	2.3	2.4
Consumer Spending	2.2	2.2	2.3	2.5
Residential Investment	-4.9	-1.3	9.4	7.6
Business Investment	0.9	8.8	4.9	6.5
Government	2.0	-2.1	-1.7	-1.3
Exports	3.9	6.7	4.4	5.6
Imports	3.4	4.9	3.5	4.4
Nominal GDP	4.1	3.9	4.0	4.2
GDP Deflator	2.3	2.1	1.7	1.7
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	2.09	2.13
Unemployment Rate (%)	5.9	8.9	8.1	7.9
Current Account Balance (US\$ bn.)	-564	-473	-571	-596
Merchandise Trade Balance (US\$ bn.)	-633	-738	-812	-848
Federal Budget Balance (US\$ bn.)	-407	-1,300	-1,130	-960
per cent of GDP	-3.0	-8.6	-7.2	-5.9
Housing Starts (millions)	1.45	0.61	0.71	0.80
Motor Vehicle Sales (millions)	15.4	12.7	14.1	14.5
Motor Vehicle Production (millions)	10.6	8.6	10.0	10.5
Industrial Production	0.1	4.1	4.1	3.2
<b>Mexico</b>				
Real GDP	2.1	3.9	3.6	3.7
Consumer Price Index (year-end)	4.9	3.8	3.9	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	-4.5	-12.2
Industrial Production	1.4	3.8	3.9	4.4

## Forecast

## Changes

## Canada &amp; United States

- We have left our forecast for U.S. growth unchanged from our April *Update*. Recent reports, including durable good orders and employment, have been on the softer side, suggesting a continued high level of caution on the part of both businesses and consumers. Nonetheless, there appears to be enough underlying momentum, including in exports and retail sales, to sustain the recovery.
- Canadian economic data have also mildly disappointed recently, though the late winter/early spring slowdown reflects in part temporary factors, including mine shutdowns and unseasonable weather. We expect output growth to average just over 2% this year and next, with strength in business investment and resource-related activity tempered by fiscal restraint, a more cautious consumer and moderating housing activity.
- For fiscal 2011-12 (FY12), data for the first eleven months suggest a narrower Canadian federal deficit than the \$24.9 billion March *Budget* projection, with a further improvement in FY13 reflecting Ottawa's ongoing program of expenditure restraint. For the U.S. federal deficit, adjustments are expected to soften the sequestration and tax hikes currently legislated for 2013.

## Mexico

- Strong domestic economic dynamics and healthy U.S. demand have enhanced the Mexican economic outlook in the first months of the year. We believe that these factors will continue to support activity. We are revising our 2012 GDP growth forecast from 3.2% to 3.6%. We maintain our 2013 forecast at 3.7%. Additionally, inflation has been decelerating at a faster pace, leading us to expect a lower year-end inflation rate of 3.9% (previously 4.0%).

## Global Forecast Update

Provincial	2000-10	2011e	2012f	2013f	2000-10	2011	2012f	2013f
	<u>Real GDP*</u> (annual % change)				<u>Budget Balances*, FY March 31</u> (\$millions)			
<b>Canada</b>	2.2	2.5	2.1	2.2	3,149	-33,372	-23,500	-20,000
Newfoundland & Labrador	3.3	2.8	1.6	2.8	91	598	776	-258
Prince Edward Island	1.9	1.1	1.5	1.6	-30	-52	-79	-75
Nova Scotia	1.8	0.3	1.6	2.2	23	569	-261	-211
New Brunswick	2.0	0.1	1.5	1.6	-15	-633	-471	-183
Quebec	1.9	1.7	1.6	2.0	-1,259	-3,150	-3,300	-1,500
Ontario	1.9	2.0	1.8	1.9	-2,407	-14,011	-15,000	-14,800
Manitoba	2.3	1.1	2.2	2.2	239 **	-298	-1,120	-460
Saskatchewan	1.9	4.8	2.8	3.0	427	48	353	47
Alberta	2.7	5.2	3.2	3.0	3,957	0	0	0
British Columbia	2.5	2.9	2.2	2.5	615	-309	-2,497	-968
	<u>Employment</u> (annual % change)				<u>Unemployment Rate</u> (annual average, %)			
<b>Canada</b>	1.5	1.5	0.9	1.1	7.1	7.5	7.2	7.0
Newfoundland & Labrador	0.8	2.7	0.8	1.0	15.2	12.6	12.8	12.4
Prince Edward Island	1.4	2.0	1.0	0.6	11.3	11.3	11.2	10.9
Nova Scotia	1.0	0.1	0.8	1.0	8.8	8.8	8.3	7.9
New Brunswick	0.8	-1.2	0.3	0.8	9.4	9.6	9.7	9.5
Quebec	1.5	1.0	0.2	1.0	8.3	7.8	8.0	7.8
Ontario	1.5	1.8	0.7	1.0	6.9	7.8	7.6	7.5
Manitoba	1.2	0.8	0.7	0.9	4.9	5.4	5.2	5.0
Saskatchewan	1.0	0.3	1.0	1.3	5.1	5.0	4.8	4.6
Alberta	2.5	3.8	2.5	1.8	4.8	5.5	4.9	4.6
British Columbia	1.6	0.8	1.2	1.2	6.7	7.5	6.8	6.6
	<u>Housing Starts</u> (annual, thousands of units)				<u>Motor Vehicle Sales</u> (annual, thousands of units)			
<b>Canada</b>	200	194	194	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	68	62	604	589	607	610
Manitoba	4	6	6	5	44	47	49	49
Saskatchewan	4	7	8	7	41	50	52	53
Alberta	35	26	30	28	204	218	229	231
British Columbia	27	26	27	26	176	158	164	165

\*For 2011, preliminary provincial GDP by industry.

\*FY12f & FY13f: provincial government estimates. \*\*FY04-FY10.

## Forecast Changes

## Provinces

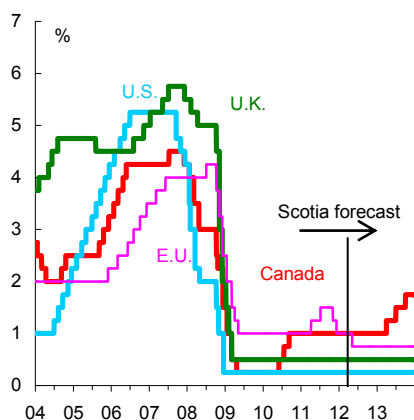
- Recently released GDP estimates highlight the marked divergence in economic performance between Canada's resource-rich provinces in the West and their more manufacturing-heavy counterparts in Central and Eastern Canada. Real GDP growth averaged roughly 5% in Saskatchewan and Alberta in 2011, double the national advance. We expect this regional output gap will remain wide in 2012-13 given profitable prices for many key commodities versus the dampening impact of Canadian dollar strength and relatively moderate U.S. demand.
- Strong resource activity, growing employment opportunities and rising wages are again attracting sizeable population inflows into Alberta. The province lured over 19,000 residents from other regions of the country last year, the most since 2006, a trend that is underpinning continued outperformance across goods and service industries, including retail and housing. Saskatchewan was the only other province to report a net inflow in 2011, albeit attracting a more modest 1,000 inter-provincial migrants.
- This spring's provincial *Budgets* estimate a \$21½ billion aggregate deficit for fiscal 2011-12 (FY12) — a \$2.2 billion improvement from the mid-year updates, but wider than the FY11 shortfall of \$17.2 billion. For FY13, the Provinces project an \$18.4 billion aggregate deficit.
- This fiscal year, only Saskatchewan, for both its core government and consolidated reports, anticipates a surplus. For FY14, British Columbia, Alberta, Quebec and Nova Scotia have reaffirmed their deficit elimination plans. Newfoundland and Labrador, after robust positive budget balances in FY11 and FY12, expects a return to black ink in FY15. Also in FY15, Manitoba, New Brunswick and PEI are aiming for balanced books, followed by Ontario in FY18. Expenditure restraint in several provinces, such as Ontario, will add to the real per capita program spending declines planned by Ottawa.

## Global Forecast Update

Quarterly Forecasts	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
<b>Canada</b>									
Real GDP (q/q, ann. % change)	1.8	2.6	1.6	1.9	2.0	2.2	2.2	2.5	2.5
Real GDP (y/y, % change)	2.2	2.0	2.5	2.0	2.1	1.9	2.1	2.2	2.3
Consumer Prices (y/y, % change)	2.7	2.3	1.7	1.9	2.2	2.1	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
<b>United States</b>									
Real GDP (q/q, ann. % change)	3.0	2.2	2.2	2.6	2.6	2.2	2.4	2.5	2.6
Real GDP (y/y, % change)	1.6	2.1	2.3	2.5	2.4	2.4	2.5	2.4	2.5
Consumer Prices (y/y, % change)	3.3	2.8	2.7	2.5	2.4	2.3	2.2	2.1	2.2
Core CPI (y/y % change)	2.2	2.2	2.1	1.9	1.9	1.8	1.8	1.8	1.8
<b>Financial Markets</b>									
<b>Central Bank Rates</b> (% end of period)									
<b>Americas</b>									
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75
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	4.75	5.00	5.00	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
<b>Europe</b>									
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
<b>Asia/Oceania</b>									
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	3.75	3.75	3.75	3.75	3.75	3.75	4.00	4.00
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	3.25	3.25	3.25	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	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25
<b>Canada</b>									
3-month T-bill	0.86	0.91	0.95	0.95	0.95	1.15	1.40	1.70	1.70
2-year Canada	0.97	1.20	1.20	1.25	1.35	1.50	1.65	1.85	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
<b>United States</b>									
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	0.25	0.50	0.60	0.70	0.85	1.00
5-year Treasury	0.73	1.04	0.90	0.95	1.35	1.50	1.70	1.95	2.50
10-year Treasury	1.83	2.21	2.00	2.05	2.60	2.75	3.00	3.25	3.75
30-year Treasury	2.98	3.34	3.20	3.25	3.75	3.90	4.00	4.20	4.85
<b>Canada-U.S. Spreads</b>									
3-month T-bill	0.81	0.85	0.90	0.90	0.85	1.05	1.25	1.50	1.50
2-year	0.76	0.87	0.95	1.00	0.85	0.90	0.95	1.00	1.00
5-year	0.54	0.53	0.60	0.70	0.60	0.55	0.55	0.45	0.35
10-year	0.10	0.00	-0.05	-0.05	-0.20	-0.15	-0.15	-0.15	-0.25
30-year	-0.44	-0.68	-0.70	-0.60	-0.85	-0.80	-0.70	-0.65	-0.75

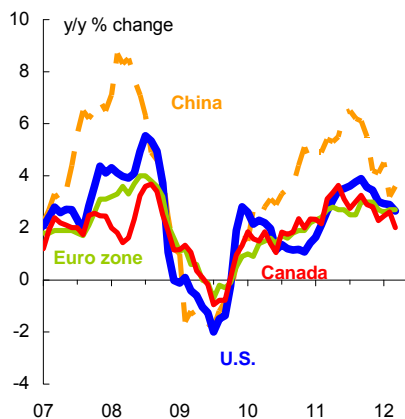
Financial Markets	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
<b>Exchange Rates</b> (end of period)									
<b>Americas</b>									
Canadian Dollar (USDCAD)	1.02	1.00	1.00	0.99	0.98	0.97	0.97	0.97	0.96
Canadian Dollar (CADUSD)	0.98	1.00	1.00	1.01	1.02	1.03	1.03	1.03	1.04
Mexican Peso (USDMXN)	13.9	12.8	12.8	13.0	13.1	13.2	13.1	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
<b>Canadian Dollar Cross Rates</b>									
Euro (EURCAD)	1.32	1.33	1.29	1.26	1.23	1.21	1.22	1.24	1.24
U.K. Pound (GBPCAD)	1.59	1.60	1.60	1.60	1.60	1.60	1.61	1.62	1.61
Japanese Yen (CADJPY)	75	83	82	84	87	89	89	90	91
Australian Dollar (AUDCAD)	1.04	1.03	1.07	1.07	1.07	1.07	1.07	1.08	1.07
Mexican Peso (CADMXN)	13.6	12.8	12.8	13.1	13.4	13.6	13.5	13.5	13.9
<b>Europe</b>									
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
<b>Asia/Oceania</b>									
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	6.3	6.2	6.2	6.2	6.1	6.1	6.1
Indian Rupee (USDINR)	53.1	50.9	52.8	52.9	53.0	53.0	52.3	51.5	51.0
Korean Won (USDKRW)	1152	1133	1123	1111	1100	1100	1087	1074	1065
Indonesian Rupiah (USDIDR)	9.07	9.15	9.13	9.07	9.00	9.00	8.93	8.85	8.80
Thai Baht (USDTHB)	31.6	30.8	30.5	30.3	30.0	30.0	29.8	29.6	29.5

Central Bank Rates



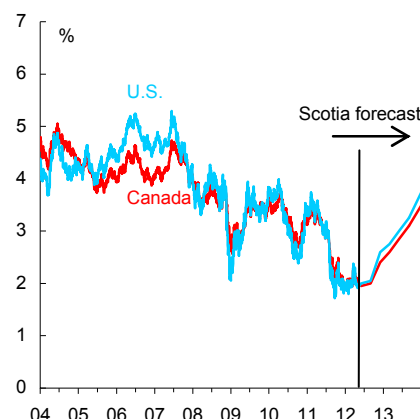
Source: Bloomberg, Scotia Economics.

Global Inflation



Source: Bloomberg, Scotia Economics.

10-Year Yields



Source: Bloomberg, Scotia Economics.

**Scotia Economics**

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