

It's All About the Timing

- The only substantive change to our forecast this month is to shift the timing of expected increases by the Federal Reserve, but leave the total amount of tightening unchanged. Incoming data continue to suggest that the US economy is expanding at a healthy clip and that inflationary pressures are on the rise. This suggests that the Federal Reserve will next raise its target rate in June rather than in the second half of the year. We remain of the view that the Fed will only raise rates by 50 basis points through year-end, with another increase expected in September. The rise in the Libor-OIS spread, remaining uncertainty on possible trade actions, and the increase in longer-term yields lead us to believe that the Fed will raise rates very gradually to address inflationary pressures.
- In Canada, we continue to forecast another 50 basis points of tightening by the Bank of Canada this year, with the next hike taking place in July. Market expectations are placing an increasingly large probability of the next move being on May 30, but we think this is premature given Governor Poloz's admitted desire to move rates very gradually.
- This forecast incorporates Statistics Canada's first round of provincial real GDP estimates for 2017. We have tweaked our provincial forecast to account for these data but the dynamics of projected output gains are largely as we laid out in our April [Global Outlook](#). While growth will decelerate sharply in most provinces, it will largely remain well above sustainable rates. Alberta and BC will remain the growth leaders this year and next.

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International	2000–16	2016	2017	2018f	2019f	2000–16	2016	2017	2018f	2019f
	Real GDP (annual % change)					Consumer Prices (y/y % change, year-end)				
World (based on purchasing power parity)	3.9	3.2	3.8	3.8	3.7					
Canada	2.1	1.4	3.0	2.2	2.1	1.9	1.4	1.8	2.4	2.3
United States	1.9	1.5	2.3	2.6	2.4	2.2	1.8	2.1	2.4	2.4
Mexico	2.2	2.9	2.0	2.3	2.8	4.4	3.4	6.8	4.1	3.8
United Kingdom	1.8	1.9	1.8	1.7	1.9	2.0	1.6	3.0	1.9	1.9
Eurozone	1.3	1.8	2.5	2.5	2.3	1.7	1.1	1.4	1.5	1.5
Germany	1.3	1.9	2.6	3.0	3.0	1.5	1.7	1.6	1.6	1.9
France	1.3	1.2	1.9	2.5	2.0	1.6	0.8	1.2	1.5	1.5
China	9.4	6.7	6.9	6.5	6.2	2.3	2.1	1.8	2.3	2.5
India	7.1	7.9	6.4	7.4	7.5	6.9	3.4	5.2	4.6	5.6
Japan	0.9	0.9	1.7	1.3	0.9	0.1	0.3	1.0	1.1	2.3
South Korea	4.2	2.9	3.1	2.8	2.8	2.6	1.3	1.5	2.1	2.5
Australia	3.0	2.6	2.3	2.6	2.5	2.8	1.5	1.9	2.2	2.6
Thailand	4.0	3.3	3.9	3.5	3.4	2.0	1.1	0.8	1.0	2.0
Brazil	2.6	-3.5	1.0	2.5	2.7	6.7	6.3	2.9	4.1	4.6
Colombia	4.1	2.1	1.8	2.5	3.5	5.1	5.7	4.1	3.3	3.4
Peru	5.1	3.9	2.5	3.3	3.7	2.8	3.2	1.4	2.0	2.5
Chile	4.0	1.2	1.5	3.6	3.9	3.4	2.7	2.3	2.7	3.0
Commodities										
	(annual average)									
WTI Oil (USD/bbl)	63	43	51	65	68					
Brent Oil (USD/bbl)	66	45	55	70	73					
WCS - WTI Discount* (USD/bbl)	-17	-14	-13	-22	-20					
Nymex Natural Gas (USD/mmbtu)	4.94	2.55	3.02	2.80	2.85					
Copper (USD/lb)	2.35	2.21	2.80	3.10	3.25					
Zinc (USD/lb)	0.81	0.95	1.31	1.60	1.60					
Nickel (USD/lb)	7.26	4.36	4.72	6.00	6.50					
Aluminium (USD/lb)	0.86	0.73	0.89	0.95	1.00					
Iron Ore (USD/tonne)	67	58	72	63	60					
Metallurgical Coal (USD/tonne)	127	114	187	182	160					
Gold, London PM Fix (USD/oz)	869	1,251	1,257	1,310	1,300					
* 2008-16 average.										
Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, IMF, Bloomberg.										

North America	2000–16	2016	2017	2018f	2019f	2000–16	2016	2017	2018f	2019f
	Canada					United States				
	(annual % change, unless noted)					(annual % change, unless noted)				
Real GDP	2.1	1.4	3.0	2.2	2.1	1.9	1.5	2.3	2.6	2.4
Consumer spending	2.9	2.3	3.4	2.5	2.0	2.4	2.7	2.8	2.4	2.4
Residential investment	3.7	3.4	3.0	1.2	0.4	-0.4	5.5	1.8	2.1	2.1
Business investment	2.2	-8.8	2.5	4.1	2.5	2.3	-0.6	4.7	5.2	2.9
Government	2.2	2.7	2.5	2.4	1.5	1.0	0.8	0.1	2.1	2.2
Exports	1.3	1.0	1.0	1.6	3.6	3.6	-0.3	3.4	3.9	2.5
Imports	2.9	-1.0	3.6	3.0	2.5	3.4	1.3	4.0	4.6	3.2
Nominal GDP	4.2	2.0	5.3	4.8	4.5	3.9	2.8	4.1	4.8	4.8
GDP deflator	2.1	0.6	2.3	2.6	2.4	2.0	1.3	1.8	2.1	2.4
Consumer price index (CPI)	1.9	1.4	1.6	2.3	2.4	2.2	1.3	2.1	2.4	2.4
CPI ex. food & energy	1.6	1.9	1.6	2.0	2.2	2.0	2.2	1.8	2.2	2.4
Pre-tax corporate profits	3.6	-1.9	20.2	6.0	1.0	5.5	-2.1	4.4	2.7	0.5
Employment	1.3	0.7	1.9	1.3	1.0	0.7	1.8	1.6	1.4	1.1
Unemployment rate (%)	7.1	7.0	6.3	5.8	5.7	6.2	4.9	4.4	4.0	3.9
Current account balance (CAD, USD bn)	-17.1	-65.4	-63.9	-58.6	-47.6	-507	-452	-466	-572	-632
Merchandise trade balance (CAD, USD bn)	25.1	-25.9	-23.9	-23.8	-16.0	-673	-753	-811	-925	-1001
Federal budget balance* (FY, CAD, USD bn)	-2.8	-1.0	-17.8	-19.4	-15.1	-150	-585	-665	-812	-990
percent of GDP	-0.2	0.0	-0.9	-0.9	-0.7	-1.0	-3.1	-3.4	-4.0	-4.6
Housing starts (000s, mn)	199	198	220	208	196	1.27	1.17	1.20	1.27	1.30
Motor vehicle sales (000s, mn)	1,657	1,949	2,041	2,000	1,950	15.5	17.5	17.1	17.4	17.3
Industrial production	0.6	0.1	5.1	2.2	1.0	0.6	-2.0	1.6	3.5	1.5
	Mexico									
	(annual % change)									
Real GDP	2.2	2.9	2.0	2.3	2.8					
Consumer price index (year-end)	4.4	3.4	6.8	4.1	3.8					
Current account balance (USD bn)	-14.6	-22.8	-18.8	-27.4	-29.9					
Merchandise trade balance (USD bn)	-7.2	-13.1	-10.9	-17.8	-19.3					

Sources: Scotiabank Economics, Statistics Canada, CMHC, BEA, BLS, Bloomberg. * Canada federal deficit ex risk adjustment of \$3.0bn for FY19.

Quarterly Forecasts	2017		2018				2019			
Canada	Q3	Q4	Q1e	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Real GDP (q/q ann. % change)	1.5	1.7	1.7	2.6	2.4	2.4	2.2	1.9	1.6	1.6
Real GDP (y/y % change)	3.0	2.9	2.3	1.9	2.1	2.3	2.4	2.2	2.0	1.8
Consumer prices (y/y % change)	1.4	1.8	2.1	2.3	2.4	2.4	2.4	2.4	2.3	2.3
Avg. of new core CPIs (y/y % change)	1.5	1.7	1.9	2.0	2.1	2.2	2.2	2.2	2.3	2.3
United States										
Real GDP (q/q ann. % change)	3.2	2.9	2.3	2.5	2.5	2.4	2.4	2.3	2.2	2.2
Real GDP (y/y % change)	2.3	2.6	2.9	2.7	2.6	2.4	2.5	2.4	2.3	2.2
Consumer prices (y/y % change)	2.0	2.1	2.3	2.4	2.4	2.4	2.4	2.4	2.5	2.4
CPI ex. food & energy (y/y % change)	1.7	1.7	1.9	2.2	2.3	2.3	2.3	2.3	2.4	2.4
Core PCE deflator (y/y % change)	1.4	1.5	1.7	1.9	2.0	2.1	2.1	2.2	2.2	2.2

Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, Bloomberg.

Central Bank Rates	2017		2018			2019			
	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas	(%, end of period)								
Bank of Canada	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.25	2.50
US Federal Reserve (upper bound)	1.50	1.75	2.00	2.25	2.25	2.50	2.50	2.50	2.75
Bank of Mexico	7.25	7.50	7.50	7.50	7.75	7.75	7.50	7.25	7.00
Central Bank of Brazil	7.00	6.50	6.50	6.50	7.00	7.50	8.00	8.50	8.75
Bank of the Republic of Colombia	4.75	4.50	4.25	4.25	4.50	4.75	5.00	5.25	5.25
Central Reserve Bank of Peru	3.25	2.75	2.75	2.75	2.75	3.00	3.00	3.25	3.25
Central Bank of Chile	2.50	2.50	2.50	2.75	3.00	3.25	3.25	3.50	3.50
Europe									
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50
Bank of England	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25
Asia/Oceania									
Reserve Bank of Australia	1.50	1.50	1.50	1.50	1.75	1.75	2.00	2.00	2.25
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
People's Bank of China	4.35	4.35	4.35	4.35	4.35	4.60	4.60	4.85	4.85
Reserve Bank of India	6.00	6.00	6.00	6.00	6.00	6.25	6.25	6.50	6.50
Bank of Korea	1.50	1.50	1.50	1.75	2.00	2.00	2.25	2.25	2.25
Bank of Thailand	1.50	1.50	1.50	1.50	1.75	1.75	2.00	2.00	2.25
Currencies and Interest Rates									
Americas	(end of period)								
Canadian dollar (USDCAD)	1.26	1.29	1.27	1.26	1.25	1.25	1.22	1.22	1.25
Canadian dollar (CADUSD)	0.80	0.78	0.79	0.79	0.80	0.80	0.82	0.82	0.80
Mexican peso (USDMXN)	19.66	18.18	19.07	19.17	19.48	19.59	19.42	19.47	19.75
Brazilian real (USDBRL)	3.31	3.31	3.60	3.65	3.70	3.70	3.65	3.64	3.63
Colombian peso (USDCOP)	2,986	2,794	2,900	2,900	2,950	2,950	3,000	3,000	3,050
Peruvian sol (USDPEN)	3.24	3.23	3.19	3.20	3.18	3.18	3.14	3.15	3.12
Chilean peso (USDCLP)	615	604	608	602	595	592	589	587	584
Europe									
Euro (EURUSD)	1.20	1.23	1.25	1.28	1.30	1.30	1.33	1.35	1.35
UK pound (GBPUSD)	1.35	1.40	1.40	1.42	1.47	1.48	1.48	1.50	1.50
Asia/Oceania									
Japanese yen (USDJPY)	113	106	108	110	110	110	110	108	105
Australian dollar (AUDUSD)	0.78	0.77	0.79	0.80	0.80	0.81	0.81	0.82	0.82
Chinese yuan (USDCNY)	6.51	6.28	6.30	6.30	6.30	6.20	6.20	6.10	6.10
Indian rupee (USDINR)	63.9	65.2	65.5	65.0	65.0	64.5	64.5	64.0	64.0
South Korean won (USDKRW)	1,067	1,064	1,060	1,040	1,040	1,030	1,030	1,020	1,020
Thai baht (USDTHB)	32.6	31.2	31.0	31.0	31.0	30.5	30.5	30.0	30.0
Canada (Yields, %)									
3-month T-bill	1.06	1.15	1.40	1.55	1.80	2.05	2.30	2.30	2.50
2-year Canada	1.69	1.78	2.05	2.15	2.30	2.40	2.50	2.55	2.60
5-year Canada	1.87	1.97	2.25	2.35	2.45	2.55	2.60	2.65	2.70
10-year Canada	2.05	2.09	2.40	2.50	2.55	2.60	2.65	2.70	2.75
30-year Canada	2.27	2.23	2.45	2.60	2.70	2.80	2.85	2.90	2.95
United States (Yields, %)									
3-month T-bill	1.38	1.70	2.05	2.30	2.30	2.55	2.55	2.60	2.80
2-year Treasury	1.88	2.27	2.55	2.60	2.70	2.80	2.95	3.00	3.05
5-year Treasury	2.21	2.56	2.75	2.85	2.90	2.95	3.00	3.10	3.15
10-year Treasury	2.40	2.74	2.95	3.00	3.05	3.05	3.10	3.15	3.25
30-year Treasury	2.74	2.97	3.10	3.15	3.20	3.25	3.30	3.35	3.40

Sources: Scotiabank Economics, Bloomberg.

The Provinces		(annual % change except where noted)										
	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	
Real GDP												
2000–16	2.1	2.5	1.7	1.3	1.2	1.7	2.0	2.3	2.0	2.7	2.8	
2016	1.4	1.9	2.3	0.8	1.2	1.4	2.6	2.2	-0.5	-3.7	3.5	
2017*	3.0	2.1	3.2	1.2	1.9	3.1	2.8	2.9	2.9	4.9	3.9	
2018f	2.2	0.5	1.8	1.4	1.1	2.1	2.1	2.0	1.8	2.5	2.6	
2019f	2.1	1.4	1.6	1.0	0.9	1.9	2.0	1.8	2.0	2.4	2.4	
Nominal GDP												
2000–16	4.2	5.6	4.2	3.4	3.3	3.6	3.8	4.4	5.3	5.9	4.5	
2016	2.0	2.6	4.0	2.8	3.6	2.7	4.3	2.3	-4.0	-4.9	4.8	
2017e	5.3	5.5	4.7	3.1	3.2	4.5	4.9	4.3	5.4	8.0	5.9	
2018f	4.8	3.9	3.8	3.4	2.8	4.3	4.6	4.3	4.5	5.8	5.1	
2019f	4.5	3.9	3.7	2.9	2.7	4.1	4.4	4.0	4.3	5.3	4.8	
Employment												
2000–16	1.3	0.8	1.0	0.6	0.4	1.3	1.3	0.9	1.1	2.3	1.4	
2016	0.7	-1.5	-2.3	-0.4	-0.1	0.9	1.1	-0.4	-0.9	-1.6	3.2	
2017	1.9	-3.7	3.1	0.6	0.4	2.2	1.8	1.7	-0.2	1.0	3.7	
2018f	1.3	-0.8	1.6	0.5	0.3	1.5	1.5	0.7	0.3	1.6	1.6	
2019f	1.0	-0.5	0.8	0.3	0.1	0.8	1.0	0.6	0.6	1.1	1.2	
Unemployment Rate (%)												
2000–16	7.1	14.3	11.2	8.8	9.6	8.0	7.1	5.1	5.0	5.1	6.6	
2016	7.0	13.4	10.7	8.3	9.5	7.1	6.5	6.1	6.3	8.1	6.0	
2017	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1	
2018f	5.8	14.8	9.9	8.2	8.0	5.5	5.5	5.3	5.8	7.0	4.8	
2019f	5.7	14.7	10.0	8.0	8.0	5.4	5.4	5.2	5.7	6.9	4.8	
Housing Starts (units, 000s)												
2000–16	199	2.6	0.7	4.3	3.5	44	71	5.1	5.2	34	28	
2016	198	1.4	0.6	3.8	1.8	39	75	5.3	4.8	25	42	
2017	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44	
2018f	208	1.3	0.9	3.8	2.1	42	77	6.3	5.0	28	42	
2019f	196	1.3	0.8	3.8	2.1	38	71	6.3	5.0	30	38	
Motor Vehicle Sales (units, 000s)												
2000–16	1,657	29	6	48	38	413	635	47	45	216	180	
2016	1,949	33	9	54	44	458	807	55	51	220	218	
2017	2,041	33	9	59	42	453	847	62	56	245	235	
2018f	2,000	32	8	58	40	445	821	61	56	248	231	
2019f	1,950	30	8	56	39	434	791	60	56	250	226	
Budget Balances, Fiscal Year Ending March 31 (CAD mn)												
2000–16**	-2,803	-93	-38	-30	-153	-768	-5,115	-142	307	1,064	319	
2016	-987	-2,206	-13	-13	-261	2,191	-3,515	-839	-1,520	-6,442	811	
2017	-17,770	-1,148	-1	150	-119	2,361	-991	-764	-1,218	-10,784	2,737	
2018***	-19,400	-812	1	134	-115	850	642	-726	-595	-9,066	151	
2019***	-15,100	-683	1	29	-189	0	-6,704	-521	-365	-8,802	219	

Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents. * Real GDP by industry, basic prices. ** MB:FY04–FY16; AB:FY05–FY16. *** Federal & Provinces' FY18 & FY19: Budget documents. Federal FY19: ex risk adjustment of \$3.0bn.

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