Global Forecast Update

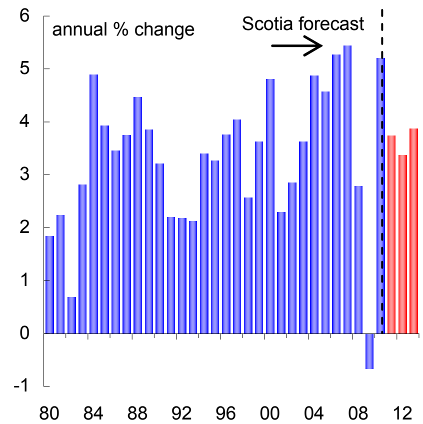
Low For Longer, And Longer, And …

Scotia Economics expects global growth to average 3.4% in 2012, with the performance differential between the generally weaker developed economies and the generally stronger developing economies continuing. The downward revision (0.2 percentage points) from our January 2012 forecast reflects the deepening recessions in the southern peripheral nations of the euro zone. Advances in the faster-growing emerging nations are being constrained by both the trade shocks rippling around the world and by prior tightening moves to contain domestic inflationary pressures. This is most notable in the Asia-Pacific region where growth forecasts for China, South Korea, and Australia have moved to a lower trajectory. India too has downshifted out of high gear, though this largely reflects past tightening moves to contain domestically generated inflationary pressures. A more moderate pace of rebuilding in Japan has also contributed to the reduced growth momentum internationally.

Index

There are still considerable downside risks to the outlook. The euro zone's festering sovereign debt problem is the primary concern. Although the ECB has extended an important financial lifeline to the region's ailing banking institutions, the delay in implementing the much-needed structural and fiscal reforms risks further contagion and financial market shocks — developments that would aggravate already unsustainable debt burdens in many of the affected countries, and aggravate existing economic strains. Another issue is the potential for a sharp reversal in historically low government bond yields, driven by increasing investor angst if the expected improvement in the quality of government balance sheets fails to materialize. A sharply rising debt burden would force many governments among the developed nations to implement more restraint that could eventually result in much weaker economic performances. The moderation in China's growth could also accelerate, with a bigger slide in exports triggering broader production and employment cuts that would undermine consumer spending, the country's buoyant real estate market, and the demand for commodities. As well, recurring geopolitical problems remain an important threat to global stability. Any disruption to the world's oil supply chain in the Middle or Far East could send gas pump prices sharply higher and global growth sharply lower.

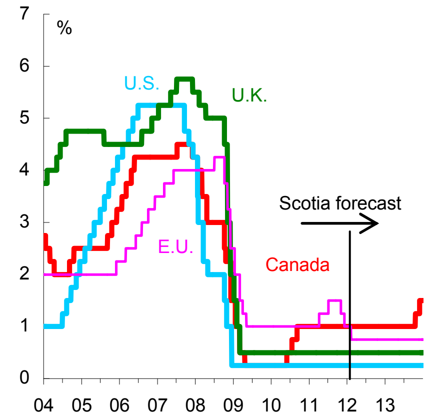
World GDP



Source: IMF, Scotia Economics.

Nonetheless, there are signs suggesting that the recent loss of economic momentum in a few key countries is subsiding. The German economy continues to move ahead, notwithstanding the increasing weakness through most of the euro zone, and the softening in its major export markets in Europe and abroad. While Germany's real GDP is expected to post a marginal 0.6% rise this year, domestic-generated activity is growing at a comparatively stronger pace. Structural adjustments over the past decade by business, labour, and government, alongside the trend to a weaker euro and borrowing costs, have improved the competitiveness of local manufacturers that specialize in value-added industrial exports. Auto shipments are still ramping up to meet the expanding demands of China. The country's unemployment rate fell to 6.7% in January, an all-time low in the post-unification period, providing much-needed support to consumer spending. (In contrast to most other developed economies, the jobless rate among youth has fallen as well.) Motor vehicle sales have remained resilient, posting a 9% year-over-year increase in 2011.

Central Bank Rates



Source: Bloomberg, Scotia Economics.

There also have been encouraging economic signs in the United States. A string of better-than-expected reports in the second half of 2011 enabled the U.S. economy to regain some of its lost traction. Real GDP averaged 2.3% in the July-December period, almost three times the pace of activity recorded in the first half of the year when a combination of domestic and foreign issues undermined the U.S. recovery's momentum. American shoppers returned to the malls on Black Friday, releasing some of their pent-up demand and savings, taking advantage of hefty discounts, and splurging on tech products. Renewed business hiring helped, as did the slower pace of fiscal retrenchment and layoffs among state & local governments. Production revved up as automakers rebuilt depleted inventories, and exports continued their steady gains. Solid profit gains spurred firms to invest more in productivity-enhancing machinery & equipment. The improving data reports were reinforced by solid auto sales in January totaling an annualized 14 million units, up from purchases of an annualized 13.6 million units in the final months of last year, and 12.7 million for all of 2011.

Around the world, production activity is again showing signs of turning higher. The composite purchasing managers' index of the world's leading manufacturing nations increased to 51.2 in January from 50.2 in December, signalling further expansion at the start of the year. The advance was led by a sharp increase in production in India which occurred after the central bank in December ended its aggressive period of monetary tightening. It was followed by reasonable gains in the United States, Australia, Germany, Poland, Turkey, and Brazil. China's manufacturing sector also edged higher last month and remained in expansion territory, but could begin to move even higher again if the improving conditions internationally are sustained. With motor vehicle sales continuing to climb at the turn of the year, assemblers in the United States, Canada and Mexico have announced higher first-quarter auto production targets that will add to growth.

While these indicators are encouraging, the global economy is still being challenged. Chronically high levels of debt and unemployment persist in the developed world, while emerging economies are focussed on developmental issues. There is an urgency to promote a faster and stronger rebalancing of growth between the 'savings-rich' countries and regions and those nations that are 'savings-poor'. However, bloated fiscal imbalances leave most policymakers with little if any flexibility to provide additional support for the expansion. It is up to monetary officials to continue to pursue very accommodative policies to promote the 'stronger-for-longer' growth needed to facilitate the restructuring underway.

Around the world, there has been a pronounced shift to more, not less, monetary accommodation. In the Pacific and Asian sub-continent regions, China and India have lowered their bank reserve requirements a notch. Thailand and Indonesia have cut rates twice (50bps and 75bps respectively), and Australia once (25bps) — following New Zealand's reduction (25bps) last March. In Latin America, Brazil has cut its rates four times (100bps), while Chile has trimmed its rate once (25bps). In Europe and Asia, the euro zone has cut rates twice (50bps), while Norway (50bps), Sweden (25bps), and Russia (25bps) have each lowered rates once. Canada, Mexico, Peru, and Switzerland have kept their benchmark interest rates on hold. Of note, only Colombia has gone against the grain, hiking its rates this month for the second time since November (50bps).

Other central banks are utilizing non-traditional measures to adjust borrowing costs lower. At the U.S. Fed's January meeting, the FOMC revealed that it would keep its benchmark funds rate at the already rock-bottom level of 0.25% through late 2014 to combat the downside risks to slow growth and low inflation. (If maintained, this timeline would represent an unprecedented 5-year period of uninterrupted ultra-low short-term interest rates.) Following last year's introduction of 'Operation Twist' (continuing until June 2012) which has contributed to the renewed decline in longer-term yields, the Fed also hinted that it could implement another round of non-traditional measures to keep longer-term borrowing costs at exceptionally low levels for longer if economic conditions warranted. (The U.S. 10-year Treasury bond is currently trading near a record low of 1.8%.) Investors also are expecting the Bank of England to introduce a third round of quantitative easing shortly.

By promoting ultra-low borrowing costs — either by cutting, or anchoring short-term interest rates and conducting operations to purchase longer-dated government securities — central banks are reinforcing the financial conditions that are very supportive of continuing growth. Lower rates have already spawned an unprecedented amount of refinancing activity that is sharply reducing the debt servicing burdens of households, businesses and governments alike. By unlocking additional cash flow, borrowers are able to facilitate faster balance sheet repair by paying down more debt. And they may also free up some funds to spend a bit more too.

For a broader perspective on foreign exchange trends, please refer to our February 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	2.3	1.9	2.2
United States	1.8	1.7	2.0	2.2
Mexico	2.1	3.9	2.9	3.7
United Kingdom	2.0	0.9	0.7	1.8
Euro zone	1.4	1.6	-0.5	0.9
Germany	1.2	3.0	0.6	1.6
France	1.4	1.6	-0.2	0.9
Italy	0.7	0.4	-2.1	-0.4
Spain	0.3	0.7	-1.8	-0.2
Greece	2.4	-5.8	-4.0	-0.3
Portugal	0.9	-1.8	-3.3	-0.2
Ireland	3.1	1.0	-0.1	1.5
China	9.5	9.2	8.6	8.9
India	7.5	7.2	7.4	7.6
Japan	1.0	-0.4	2.2	1.7
Korea	4.6	3.6	3.9	4.2
Indonesia	5.2	6.5	6.3	6.0
Australia	3.1	2.1	3.8	3.3
Thailand	4.4	1.8	3.8	3.6
Brazil	3.7	2.8	3.8	4.5
Colombia	4.0	5.7	5.0	5.0
Peru	5.5	6.8	5.5	5.6
Chile	3.8	6.2	3.9	5.5
Consumer Prices		(y/y % change, year-end)		
Canada	2.1	2.7	1.9	2.1
United States	2.7	3.3	1.6	2.3
Mexico	4.9	3.6	4.1	4.1
United Kingdom	2.1	4.2	2.1	2.3
Euro zone	2.1	2.7	1.5	1.7
Germany	1.7	2.3	1.6	1.8
France	1.9	2.4	1.5	1.6
Italy	2.3	3.7	1.6	1.7
Spain	2.9	2.4	1.3	1.6
Greece	3.4	2.2	0.7	1.3
Portugal	2.5	3.5	2.0	1.5
Ireland	2.3	1.3	1.0	1.5
China	2.3	4.1	4.5	4.3
India	6.4	7.5	6.5	6.0
Japan	-0.3	-0.1	0.0	0.2
Korea	3.1	3.7	3.0	3.0
Indonesia	8.7	4.2	3.2	2.8
Australia	3.1	3.1	2.8	2.5
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

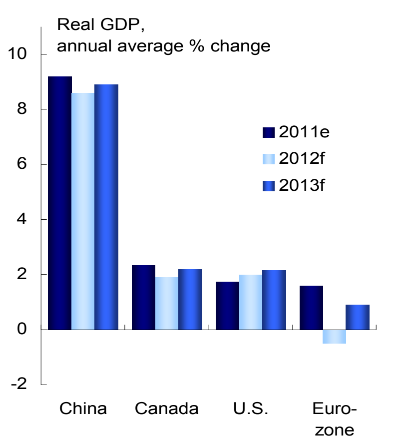
Forecast Changes

International

- We have revised down our expectation for China's growth for 2012 to 8.6%, from 8.9%, as the latest external trade readings point to subdued growth in shipments to Europe — an important market for the country's exports. Domestic demand, however, remains less affected, as is the case in other regional stalwarts like India and Indonesia. The stabilization in Chinese economic activity trickles down to the rest of the region, implying a less vigorous expansion in 2012, with normalizing conditions expected for 2013. Falling price pressures throughout the region will augment the number of central banks switching to growth-supportive monetary easing in coming quarters.
- The recession in the euro zone is now expected to be slightly deeper and more prolonged than previously anticipated, while the succeeding recovery is likely to be very weak. Increasingly severe fiscal consolidation, combined with retrenchment by consumers and businesses struggling with high unemployment and limited access to credit, will act to stifle domestic demand throughout the euro zone this year. The longer-term effects of fiscal adjustment and economic rebalancing will be visible in several member states for many years to come. Real GDP in the currency union is set to contract by about 0.5% in 2012, followed by an expansion of 0.9% in 2013. Regional disparities — including credit rating differentiation — will intensify, with Germany outperforming as Italy, Spain, and France sink into recession. We continue to anticipate additional monetary easing by the ECB, with another quarter-point reduction to bring the refinancing rate to 0.75%. Our projections for the U.K. economy are largely unchanged.

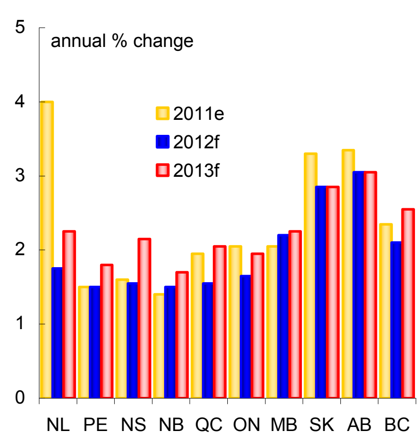
International	2000-10	2011e	2012f	2013f
Current Account Balance		(% of GDP)		
Canada	0.8	-3.0	-2.8	-2.3
United States	-4.5	-3.1	-3.0	-2.7
Mexico	-1.2	-1.1	-1.5	-1.7
United Kingdom	-2.2	-2.7	-1.7	-0.7
Euro zone	-0.2	-0.6	-0.4	-0.3
Germany	3.8	4.9	4.9	4.8
France	-0.6	-2.4	-2.2	-2.5
Italy	-1.7	-3.5	-3.0	-2.5
Spain	-5.7	-3.5	-3.2	-2.6
Greece	-8.7	-8.7	-6.8	-5.4
Portugal	-9.8	-8.0	-6.3	-5.1
Ireland	-2.1	0.3	0.8	1.2
China	5.3	3.8	3.0	2.3
India	-0.8	-3.3	-3.2	-2.6
Japan	3.3	2.2	2.2	2.3
Korea	2.3	2.3	2.0	1.8
Indonesia	2.3	1.3	0.9	1.2
Australia	-4.5	-2.9	-3.1	-2.7
Thailand	3.4	3.9	3.2	2.7
Brazil	-0.9	-2.3	-2.8	-2.8
Colombia	-1.6	-2.8	-2.5	-2.0
Peru	-0.7	-2.4	-2.5	-2.7
Chile	0.9	-0.7	-2.4	-1.5
Commodities				
		(annual average)		
WTI Oil (US$/bbl)	54	95	100	105
Brent Oil (US$/bbl)	52	111	110	110
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	3.25	4.00
Copper (US$/lb)	1.93	4.00	3.85	3.90
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$/oz)	586	1,569	1,750	1,650
Pulp (US$/tonne)	694	977	900	950
Newsprint (US$/tonne)	575	640	655	675
Lumber (US$/mfbm)	273	255	260	300

Global Growth



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

Provincial GDP



Source: Scotia Economics.

Forecast Changes

International

- Economic performance in Latin America has been uneven. The Brazilian and Chilean economies have shown signs of deceleration while Colombia and Peru maintain a solid pattern. We have revised slightly upward our 2011 GDP growth forecast for Colombia to 5.7%, while the rest remain unchanged. We expect different reactions from the monetary authorities; Brazil and Chile will continue to ease their reference rates, while Colombia will tighten its monetary stance and Peru will leave its policy rate unchanged.

Commodities

- Base metal prices have rallied significantly in early 2012. Improving sentiment, linked to more upbeat U.S. industrial indicators and the growing belief in a soft landing for China, have caused funds to shift from short to long positions. LME copper prices surged as high as US$3.91 per pound on January 27, before edging down to US$3.78 in early February. Prices were as low as US$3.08 at the height of concern over euro zone debt in early October.
- Gold prices have also strengthened to US$1,750 per ounce in the wake of the Fed's announcement that economic conditions will likely warrant keeping the Fed funds rate at ultra-low levels at least until late 2014. Hints at QE3 have been supportive.
- Natural gas prices have been revised down in view of more-than-ample U.S. supplies from new natural gas shales, despite some production curtailment of 'dry' gas wells. Winter temperatures in the U.S. Northeast and Midwest regions have been about 16% above the 30-year average, limiting normal winter heating demand. Brent oil remains high at US$111 per barrel in early February, with a large geopolitical risk premium linked to tightening sanctions on Iran.

North America	2000-10	2011e	2012f	2013f
Canada		(annual % change)		
Real GDP	2.2	2.3	1.9	2.2
Consumer Spending	3.2	1.9	1.8	2.1
Residential Investment	4.4	2.8	5.6	3.6
Business Investment	2.5	12.1	6.0	5.8
Government	3.6	1.2	-0.7	-1.0
Exports	0.0	4.3	4.1	4.9
Imports	3.0	6.4	2.8	3.9
Nominal GDP	4.7	5.4	3.3	3.9
GDP Deflator	2.5	3.0	1.4	1.7
Consumer Price Index	2.1	2.9	1.9	2.0
Core CPI	1.8	1.7	1.8	1.9
Pre-Tax Corporate Profits	4.6	12.0	3.5	7.0
Employment	1.5	1.5	0.8	1.1
thousands of jobs	240	262	133	196
Unemployment Rate (%)	7.1	7.5	7.4	7.2
Current Account Balance (C$ bn.)	7.9	-51.4	-49.0	-42.0
Merchandise Trade Balance (C$ bn.)	46.2	-1.2	3.4	11.5
Federal Budget Balance (C$ bn.)	-1.2	-29.0	-25.5	-16.5
per cent of GDP	0.0	-1.7	-1.4	-0.9
Housing Starts (thousands)	200	194	184	178
Motor Vehicle Sales (thousands)	1,588	1,590	1,605	1,615
Motor Vehicle Production (thousands)	2,447	2,075	2,270	2,350
Industrial Production	0.0	3.6	2.8	3.0
United States				
Real GDP	1.8	1.7	2.0	2.2
Consumer Spending	2.2	2.2	1.7	1.9
Residential Investment	-4.9	-1.4	5.5	6.2
Business Investment	0.9	8.6	6.1	5.9
Government	2.0	-2.1	-1.4	-1.2
Exports	3.9	6.8	4.0	4.6
Imports	3.4	5.0	2.1	2.3
Nominal GDP	4.1	3.9	3.4	3.7
GDP Deflator	2.3	2.1	1.4	1.5
Consumer Price Index	2.5	3.1	1.8	2.1
Core CPI	2.1	1.7	1.7	1.8
Pre-Tax Corporate Profits	7.0	8.1	4.8	6.0
Employment	0.1	1.0	1.2	1.4
millions of jobs	0.08	1.33	1.62	1.90
Unemployment Rate (%)	5.9	8.9	8.5	8.2
Current Account Balance (US$ bn.)	-564	-471	-472	-445
Merchandise Trade Balance (US$ bn.)	-633	-745	-757	-755
Federal Budget Balance (US$ bn.)	-407	-1,299	-1,150	-990
per cent of GDP	-3.0	-8.6	-7.4	-6.1
Housing Starts (millions)	1.45	0.61	0.70	0.79
Motor Vehicle Sales (millions)	15.4	12.7	13.5	14.2
Motor Vehicle Production (millions)	10.6	8.6	9.1	9.6
Industrial Production	0.2	4.1	3.0	3.2
Mexico				
Real GDP	2.1	3.9	2.9	3.7
Consumer Price Index (year-end)	4.9	3.6	4.1	4.1
Unemployment Rate (%)	3.7	5.5	4.7	4.4
Current Account Balance (US$ bn.)	-10.0	-13.2	-18.2	-18.2
Merchandise Trade Balance (US$ bn.)	-8.1	-1.0	-5.0	-13.3
Industrial Production	1.4	3.8	2.7	3.9

Forecast Changes

Canada & United States

- We have upgraded U.S. GDP growth from 1.8% to 2.0% for 2012 — on stronger consumer spending and labour market conditions — but left 2013 unchanged at 2.2%. The recovery is still expected to lose some momentum in 2012, pressured by spillover effects from Europe and ongoing deleveraging. Exports and business investment will remain the key growth leaders, forecast to contribute nearly two-thirds of overall GDP growth this year.
- Piggybacking on the better turn-of-the-year economic momentum in the United States, we have raised our forecast for Canadian growth this year by 0.1 percentage point to 1.9%. The continuing buoyancy in both housing activity and business investment are encouraging. Nonetheless, consumer caution, fiscal restraint and weak export markets are expected to keep the economy in the relative slow lane into 2013. GDP growth next year is now pegged at 2.2%, down from our prior forecast of 2.4%.
- A slightly narrower federal deficit is now forecast for Canada for fiscal 2011-12, mirroring more solid revenue growth for the first two-thirds of the fiscal year. In the U.S., with an assist from discretionary spending restraint and lower interest rates, projected federal deficits have been narrowed, despite the elevated policy uncertainty highlighted in the recent *Budget Outlook* from the Congressional Budget Office.

Mexico

- Recent monthly indicators in Mexico such as retail sales and the economic activity indicator illustrate a solid economic performance in 2011Q4. Therefore, we maintain our view that GDP expanded by 3.9% in 2011. The Mexican peso (MXN) gained 8% against the U.S. dollar in January, supported by solid domestic economic performance, higher risk appetite in financial markets and better-than-expected U.S. data. We now expect the currency to close 2012 at 13.1.

Provincial	2000-10	2011e	2012f	2013f	2000-10	2011e	2012f	2013f
	Real GDP (annual % change)				Budget Balances*, FY March 31 ($millions)			
Canada	2.2	2.3	1.9	2.2	3,149	-33,372	-29,000	-25,500
Newfoundland & Labrador	3.3	4.0	1.8	2.3	91	598	756	n.a.
Prince Edward Island	1.9	1.5	1.5	1.8	-30	-52	-73	n.a.
Nova Scotia	1.8	1.6	1.6	2.2	23	569	-365	n.a.
New Brunswick	2.0	1.4	1.5	1.7	-15	-633	-546	n.a.
Quebec	1.9	1.9	1.6	2.1	-1,259	-3,150	-3,800	n.a.
Ontario	1.9	2.0	1.7	2.0	-2,407	-14,011	-15,994	n.a.
Manitoba	2.3	2.0	2.2	2.3	239 **	-298	-989	n.a.
Saskatchewan	1.9	3.3	2.9	2.9	427	48	338	n.a.
Alberta	2.7	3.3	3.1	3.1	3,957	0	0	n.a.
British Columbia	2.5	2.3	2.1	2.6	615	-309	-3,091	n.a.

* Final result; FY12: Provinces' estimates. **FY04-FY10.

	2000-10	2011e	2012f	2013f	2000-10	2011e	2012f	2013f
	Employment (annual % change)				Unemployment Rate (annual average, %)			
Canada	1.5	1.5	0.8	1.1	7.1	7.5	7.4	7.2
Newfoundland & Labrador	0.8	2.7	1.2	1.0	15.2	12.6	12.0	11.6
Prince Edward Island	1.4	2.0	0.5	0.7	11.3	11.3	11.2	11.0
Nova Scotia	1.0	0.1	0.6	1.0	8.8	8.8	8.7	8.4
New Brunswick	0.8	-1.2	0.5	0.8	9.4	9.6	9.5	9.2
Quebec	1.5	1.0	0.6	0.9	8.3	7.8	7.9	7.8
Ontario	1.5	1.8	0.7	1.0	6.9	7.8	7.8	7.7
Manitoba	1.2	0.8	0.8	1.0	4.9	5.4	5.3	5.2
Saskatchewan	1.0	0.3	0.9	1.2	5.1	5.0	4.9	4.8
Alberta	2.5	3.8	2.2	1.7	4.8	5.5	4.7	4.4
British Columbia	1.6	0.8	0.9	1.2	6.7	7.5	7.3	7.3

	2000-10	2011e	2012f	2013f	2000-10	2011e	2012f	2013f
	Housing Starts (annual, thousands of units)				Motor Vehicle Sales (annual, thousands of units)			
Canada	200	194	184	178	1,587	1,590	1,605	1,615
Atlantic	12	13	11	11	114	120	120	121
Quebec	45	48	45	41	405	408	409	412
Ontario	73	68	64	62	604	589	593	595
Manitoba	4	6	5	5	44	47	48	48
Saskatchewan	4	7	6	6	41	50	51	51
Alberta	35	26	27	28	204	218	224	226
British Columbia	27	26	26	26	176	158	160	162

Forecast Changes

Provinces

- Atlantic Canada entered 2012 on solid footing, with all provinces in the region showing an improving labour market climate in 2011Q4.
- Increased auto production and private sector services hiring bolstered Ontario's economy in the final months of 2011. Assemblies will climb to a 5-year high in the opening months of 2012, continuing to provide significant support.
  In Quebec, a ramp-up in the aerospace sector is still anticipated later in 2012.
- Alberta's labour market has heated up, with stronger employment growth now forecast for 2012 at more than double the national pace. In several sectors, labour shortages and cost pressures are surfacing. Exports of oil, wood products and minerals should continue to sustain the region's outperformance, though Western Canada remains sensitive to global growth prospects.
- We have raised our forecast for Canadian housing starts in a number of provinces in light of the consistent strength in construction and permit demand, and expectations that ultra-low borrowing costs will persist even longer than previously anticipated. Nationally, starts are now expected to total 184,000 and 178,000 units, respectively, in 2012 and 2013.
- The provincial economies are expected to be affected by the roll-out of Ottawa's second strategic spending review from fiscal 2012-13 (FY13) to FY15. Provincial government estimates for FY12 indicate an aggregate reported deficit just wider than $23½ billion. This represents sizeable slippage from FY11, in part due to one-time events, but some improvement is likely in the eventual final results.

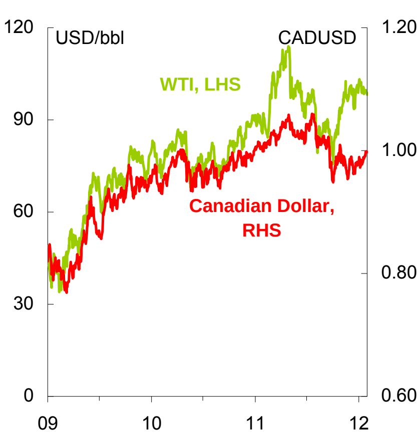
Quarterly Forecasts	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
Canada									
Real GDP (q/q, ann. % change)	1.8	1.7	1.7	1.9	2.1	2.3	2.3	2.5	2.6
Real GDP (y/y, % change)	2.1	1.6	2.2	1.8	1.8	2.0	2.1	2.3	2.4
Consumer Prices (y/y, % change)	2.7	2.2	1.6	1.7	1.9	1.9	1.9	2.1	2.1
Core CPI (y/y % change)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

Financial Markets

Central Bank Rates	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
				(%, end of period)					
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	10.50	10.00	9.50	9.50	9.50	10.00	10.00	10.50	10.50
Bank of the Republic of Colombia	4.75	5.00	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	4.50	4.50	4.50	4.75	5.25	5.50	5.75	6.00
Europe									
European Central Bank	1.00	0.75	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	0.85	0.85	0.85	0.95	1.05	1.10	1.25	1.55
2-year Canada	0.97	0.95	0.95	1.00	1.15	1.35	1.55	1.75	2.00
5-year Canada	1.27	1.25	1.25	1.35	1.50	1.65	1.90	2.20	2.60
10-year Canada	1.93	1.95	1.95	1.95	2.05	2.15	2.35	2.60	2.95
30-year Canada	2.54	2.50	2.50	2.55	2.55	2.65	2.85	3.20	3.60
United States									
3-month T-bill	0.05	0.05	0.05	0.05	0.10	0.10	0.15	0.15	0.20
2-year Treasury	0.21	0.20	0.20	0.25	0.30	0.40	0.50	0.55	0.60
5-year Treasury	0.73	0.65	0.70	0.80	0.95	1.15	1.40	1.75	2.15
10-year Treasury	1.83	1.85	1.85	1.90	2.00	2.15	2.35	2.65	3.00
30-year Treasury	2.98	2.95	2.95	3.00	3.00	3.10	3.35	3.70	4.10
Canada-U.S. Spreads									
3-month T-bill	0.81	0.80	0.80	0.80	0.85	0.95	0.95	1.10	1.35
2-year	0.76	0.75	0.75	0.75	0.85	0.95	1.05	1.20	1.40
5-year	0.54	0.60	0.55	0.55	0.55	0.50	0.50	0.45	0.45
10-year	0.10	0.10	0.10	0.05	0.05	0.00	0.00	-0.05	-0.05
30-year	-0.44	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50

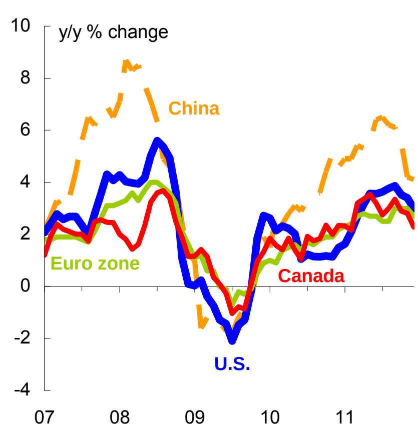
Financial Markets	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
Exchange Rates					(end of period)				
Americas									
Canadian Dollar (USDCAD)	1.02	1.02	1.01	0.99	0.98	0.98	0.97	0.97	0.96
Canadian Dollar (CADUSD)	0.98	0.98	0.99	1.01	1.02	1.02	1.03	1.03	1.04
Mexican Peso (USDMXN)	13.9	13.5	13.3	13.2	13.1	13.2	13.1	13.2	13.4
Brazilian Real (USDBRL)	1.87	1.75	1.75	1.75	1.75	1.77	1.80	1.82	1.85
Colombian Peso (USDCOP)	1939	1821	1837	1854	1870	1877	1885	1892	1900
Peruvian Nuevo Sol (USDPEN)	2.70	2.70	2.66	2.66	2.63	2.64	2.60	2.60	2.57
Chilean Peso (USDCLP)	520	507	502	498	495	496	499	502	505
Canadian Dollar Cross Rates									
Euro (EURCAD)	1.32	1.32	1.29	1.26	1.23	1.23	1.22	1.24	1.24
U.K. Pound (GBPCAD)	1.59	1.59	1.61	1.60	1.60	1.62	1.61	1.62	1.61
Japanese Yen (CADJPY)	75	76	79	81	84	85	86	87	88
Australian Dollar (AUDCAD)	1.04	1.07	1.08	1.07	1.07	1.08	1.07	1.08	1.08
Mexican Peso (CADMXN)	13.6	13.3	13.2	13.3	13.3	13.4	13.5	13.6	13.9
Europe									
Euro (EURUSD)	1.30	1.29	1.28	1.27	1.25	1.25	1.26	1.28	1.29
U.K. Pound (GBPUSD)	1.55	1.56	1.59	1.62	1.63	1.65	1.66	1.67	1.68
Swiss Franc (USDCHF)	0.94	0.96	0.97	0.98	0.99	1.00	0.99	0.98	0.97
Swedish Krona (USDSEK)	6.89	6.84	6.91	6.97	7.04	6.92	6.81	6.70	6.59
Norwegian Krone (USDNOK)	5.98	5.76	5.60	5.45	5.30	5.22	5.15	5.07	5.00
Asia/Oceania									
Japanese Yen (USDJPY)	77	78	80	80	82	83	83	84	84
Australian Dollar (AUDUSD)	1.02	1.05	1.07	1.08	1.09	1.10	1.10	1.11	1.12
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.1	6.1	6.0	6.0	5.9	5.8
Indian Rupee (USDINR)	53.1	49.5	49.6	49.6	49.7	49.3	48.8	48.4	48.0
Korean Won (USDKRW)	1152	1115	1103	1092	1080	1066	1052	1038	1025
Indonesian Rupiah (USDIDR)	9.07	8.95	8.88	8.82	8.75	8.65	8.55	8.45	8.35
Thai Baht (USDTHB)	31.6	30.8	30.5	30.3	30.0	29.8	29.5	29.3	29.1

WTI Oil & Canadian Dollar



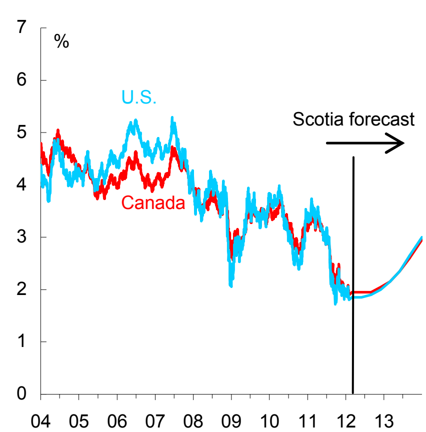
Source: Bloomberg.

Global Inflation



Source: Scotia Economics, Bloomberg.

10-Year Yields



Source: Bloomberg, Scotia Economics.

Scotia Economics

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