

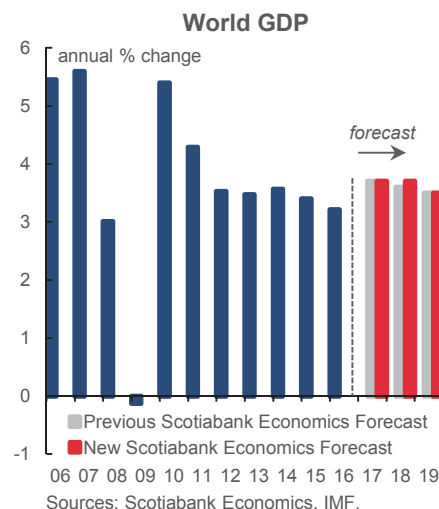
Recovery Remains on Track

- The synchronous global recovery remains robust, as all signs continue to point to strong and mutually beneficial growth. Indicators of investment activity remain, by and large, positive as do developments in the household sector. As a result, our forecasts remain essentially the same as we published last month. We believe that the very strong expansion in economic activity observed this year will continue into 2018. Though the flattening of the yield curve is being interpreted by some as a signal of weakening economic prospects in the United States, indicators remain strong. Moreover, the still massive balance sheets of the main central banks muddy the signals sent by changes in the yield curve.
- Our forecasts do not incorporate any impacts from the tax package currently being negotiated in the United States. We will update our forecast when there is more clarity on the final measures to be legislated. If the package does in fact lead to the significant increase in the US deficit currently estimated by a number of researchers, we may marginally increase our forecast for US growth in 2018 as well as our Federal Reserve rate call. If so, our current view is that this might pose an upside risk to our Canadian growth forecast, given that stronger growth in the US almost always leads to stronger growth in Canada.

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Chart 1



International	2000–16	2016	2017f	2018f	2019f	2000–16	2016	2017f	2018f	2019f
	Real GDP (annual % change)					Consumer Prices (y/y % change, year-end)				
World (based on purchasing power parity)	3.9	3.2	3.7	3.7	3.5					
Canada	2.1	1.4	3.0	2.2	1.5	1.9	1.4	1.7	1.9	2.2
United States	1.9	1.5	2.3	2.4	1.7	2.2	1.8	2.0	2.2	2.4
Mexico	2.4	2.3	2.4	2.7	3.1	4.4	3.4	6.6	4.3	3.8
United Kingdom	1.8	1.8	1.5	1.2	2.0	2.0	0.7	3.0	1.9	1.9
Euro zone	1.3	1.6	2.3	2.0	1.8	1.7	1.1	1.6	1.5	1.7
Germany	1.3	1.7	2.3	2.6	2.2	1.5	1.7	1.7	1.5	1.9
France	1.3	1.2	1.8	2.0	1.8	1.6	0.6	1.0	1.0	1.4
China	9.4	6.7	6.8	6.4	6.1	2.3	2.1	2.0	2.5	2.6
India	7.1	7.9	6.4	7.4	7.6	6.9	3.4	4.2	4.9	5.7
Japan	0.9	1.0	1.6	1.1	0.8	0.1	0.3	0.5	1.1	2.3
South Korea	4.2	2.8	3.2	2.8	3.0	2.6	1.3	1.6	2.3	2.5
Australia	2.9	2.5	2.4	2.7	2.5	2.8	1.5	1.9	2.2	2.6
Thailand	4.0	3.2	3.8	3.3	3.4	2.0	1.1	0.9	1.6	2.0
Brazil	2.6	-3.6	0.6	2.5	2.7	6.7	6.3	4.0	4.1	2.6
Colombia	4.0	2.0	1.6	2.5	3.1	5.1	5.7	4.2	3.5	3.0
Peru	5.1	4.0	2.5	3.7	4.2	2.8	3.2	1.6	2.5	2.6
Chile	4.1	1.6	1.4	2.8	3.2	3.4	2.7	1.9	2.9	3.0
Commodities	(annual average)									
WTI Oil (USD/bbl)	63	43	50	52	56					
Brent Oil (USD/bbl)	66	45	53	56	60					
Nymex Natural Gas (USD/mmbtu)	4.94	2.55	3.11	2.85	3.00					
Copper (USD/lb)	2.35	2.21	2.69	2.85	3.00					
Zinc (USD/lb)	0.81	0.95	1.28	1.50	1.60					
Nickel (USD/lb)	7.26	4.36	4.64	5.00	5.50					
Aluminium (USD/lb)	0.86	0.73	0.86	0.90	0.90					
Iron Ore (USD/tonne)	67	58	71	60	60					
Metallurgical Coal (USD/tonne)	127	114	206	150	130					
Gold, London PM Fix (USD/oz)	869	1,251	1,265	1,300	1,300					

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

December 5, 2017

North America	2000–16	2016	2017f	2018f	2019f	2000–16	2016	2017f	2018f	2019f
	Canada (annual % change, unless noted)					United States (annual % change, unless noted)				
Real GDP	2.1	1.4	3.0	2.2	1.5	1.9	1.5	2.3	2.4	1.7
Consumer spending	2.9	2.3	3.6	2.5	1.7	2.4	2.7	2.7	2.6	2.1
Residential investment	3.7	3.4	2.4	-1.5	-1.2	-0.4	5.5	1.3	1.6	1.7
Business investment	2.2	-8.8	1.6	3.8	2.7	2.3	-0.6	4.6	4.0	2.2
Government	2.2	2.7	2.1	1.7	0.9	1.0	0.8	0.0	0.6	0.5
Exports	1.3	1.0	1.1	2.8	3.2	3.6	-0.3	3.1	2.6	2.7
Imports	2.9	-1.0	3.3	2.7	2.7	3.4	1.3	3.3	2.8	3.2
Nominal GDP	4.2	2.0	5.2	4.2	3.8	3.9	2.8	4.1	4.2	3.7
GDP deflator	2.1	0.6	2.1	2.0	2.2	2.0	1.3	1.7	1.7	1.9
Consumer price index (CPI)	1.9	1.4	1.6	1.8	2.1	2.2	1.3	2.1	2.1	2.3
CPI ex. food & energy	1.6	1.9	1.6	1.8	2.0	2.0	2.2	1.8	2.0	2.2
Pre-tax corporate profits	3.6	-1.9	20.0	5.0	1.0	5.5	-2.1	5.0	4.4	0.5
Employment	1.3	0.7	1.8	1.2	0.8	0.7	1.8	1.5	1.2	1.0
Unemployment rate (%)	7.1	7.0	6.4	6.1	6.1	6.2	4.9	4.4	4.1	4.1
Current account balance (CAD, USD bn)	-17.1	-65.4	-66.2	-64.4	-58.2	-507	-452	-467	-503	-553
Merchandise trade balance (CAD, USD bn)	25.1	-25.9	-24.2	-25.4	-22.3	-673	-753	-794	-838	-905
Federal budget balance* (FY, CAD, USD bn)	-2.8	-1.0	-17.8	-19.0	-18.0	-532	-586	-666	-675	-715
percent of GDP	-0.2	0.0	-0.9	-0.9	-0.8	-3.7	-3.1	-3.4	-3.3	-3.4
Housing starts (000s, mn)	199	198	216	202	192	1.27	1.18	1.20	1.25	1.30
Motor vehicle sales (000s, mn)	1,657	1,949	2,030	2,000	1,950	15.5	17.5	17.1	17.4	17.3
Industrial production	0.6	0.1	5.3	2.2	1.0	0.7	-1.2	1.5	2.0	1.1
Mexico (annual % change)										
Real GDP	2.4	2.3	2.4	2.7	3.1					
Consumer price index (year-end)	4.4	3.4	6.6	4.3	3.8					
Current account balance (USD bn)	-14.8	-27.9	-28.4	-33.3	-34.4					
Merchandise trade balance (USD bn)	-7.2	-13.1	-12.3	-12.8	-7.1					

Sources: Scotiabank Economics, Statistics Canada, CMHC, BEA, BLS, Bloomberg. * Finance Canada forecast for FY18 and FY19.

Quarterly Forecasts	2017		2018				2019			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Canada										
Real GDP (q/q ann. % change)	1.7	2.4	2.4	1.9	1.7	1.6	1.5	1.5	1.4	1.4
Real GDP (y/y % change)	3.0	3.0	2.7	2.1	2.1	1.9	1.7	1.6	1.5	1.4
Consumer prices (y/y % change)	1.4	1.7	1.7	1.8	1.8	1.9	2.1	2.1	2.2	2.2
CPI ex. food & energy (y/y % change)	1.4	1.6	1.6	1.7	1.8	1.9	2.0	2.0	2.0	2.0
Avg. of new core CPIs (y/y % change)	1.5	1.6	1.6	1.7	1.8	1.9	2.0	2.0	2.0	2.0
United States										
Real GDP (q/q ann. % change)	3.3	2.8	2.3	2.0	2.0	1.8	1.6	1.6	1.6	1.6
Real GDP (y/y % change)	2.3	2.6	2.9	2.6	2.3	2.0	1.9	1.8	1.7	1.6
Consumer prices (y/y % change)	2.0	2.0	1.9	2.2	2.2	2.2	2.2	2.3	2.4	2.4
CPI ex. food & energy (y/y % change)	1.7	1.8	1.8	2.1	2.1	2.2	2.2	2.2	2.3	2.3

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

Central Bank Rates	2017		2018				2019			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas	(% , end of period)									
Bank of Canada	1.00	1.00	1.00	1.25	1.50	1.50	1.75	2.00	2.25	2.25
US Federal Reserve (upper bound)	1.25	1.50	1.50	1.75	1.75	2.00	2.00	2.00	2.25	2.25
Bank of Mexico	7.00	7.25	7.50	7.50	7.50	7.50	7.25	7.00	6.75	6.75
Central Bank of Brazil	8.25	7.25	7.25	7.25	7.50	7.75	8.00	8.25	8.50	8.50
Bank of the Republic of Colombia	5.25	5.00	4.75	4.75	4.75	4.75	4.75	5.00	5.25	5.25
Central Reserve Bank of Peru	3.50	3.50	3.50	3.50	3.50	3.50	3.75	3.75	4.00	4.00
Central Bank of Chile	2.50	2.50	2.50	2.75	3.00	3.25	3.50	3.50	3.75	3.75
Europe										
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50
Bank of England	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50
Asia/Oceania										
Reserve Bank of Australia	1.50	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	-0.10
People's Bank of China	4.35	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	6.00	6.25	6.25	6.50	6.50
Bank of Korea	1.25	1.50	1.50	1.75	1.75	2.00	2.00	2.25	2.25	2.25
Bank of Thailand	1.50	1.50	1.50	1.75	1.75	2.00	2.00	2.00	2.25	2.25
Currencies and Interest Rates										
Americas	(end of period)									
Canadian Dollar (USDCAD)	1.25	1.28	1.28	1.27	1.26	1.25	1.25	1.22	1.22	1.25
Canadian Dollar (CADUSD)	0.80	0.78	0.78	0.79	0.79	0.80	0.80	0.82	0.82	0.80
Mexican Peso (USDMXN)	18.25	18.99	19.19	19.04	19.10	19.36	19.46	19.28	19.34	19.61
Brazilian Real (USDBRL)	3.16	3.35	3.45	3.50	3.55	3.60	3.55	3.55	3.50	3.50
Colombian Peso (USDCOP)	2,938	3,005	3,100	3,100	3,050	3,000	3,000	3,050	3,100	3,100
Peruvian Nuevo Sol (USDPEN)	3.27	3.22	3.20	3.19	3.17	3.18	3.19	3.15	3.16	3.13
Chilean Peso (USDCLP)	639	636	633	631	629	626	623	620	617	613
Europe										
Euro (EURUSD)	1.18	1.18	1.18	1.18	1.20	1.20	1.24	1.24	1.28	1.28
UK Pound (GBPUSD)	1.34	1.33	1.35	1.35	1.37	1.37	1.38	1.38	1.40	1.40
Asia/Oceania										
Japanese Yen (USDJPY)	113	112	114	114	115	115	118	118	120	120
Australian Dollar (AUDUSD)	0.78	0.79	0.79	0.79	0.80	0.80	0.81	0.81	0.82	0.82
Chinese Yuan (USDCNY)	6.65	6.60	6.55	6.55	6.50	6.50	6.45	6.45	6.40	6.40
Indian Rupee (USDINR)	65.3	65.0	64.5	64.5	64.0	64.0	63.5	63.5	63.0	63.0
South Korean Won (USDKRW)	1,145	1,120	1,100	1,100	1,080	1,080	1,060	1,060	1,040	1,040
Thai Baht (USDTHB)	33.3	32.5	32.2	32.2	32.0	32.0	31.5	31.5	31.0	31.0
Canada (Yields, %)										
3-month T-bill	1.00	0.90	1.00	1.25	1.50	1.60	1.80	2.10	2.35	2.40
2-year Canada	1.52	1.55	1.60	1.75	1.95	2.05	2.10	2.25	2.40	2.45
5-year Canada	1.75	1.75	1.85	1.95	2.05	2.20	2.30	2.40	2.50	2.60
10-year Canada	2.10	1.95	2.10	2.25	2.35	2.45	2.55	2.60	2.65	2.80
30-year Canada	2.48	2.25	2.35	2.50	2.75	2.90	3.00	3.10	3.15	3.20
United States (Yields, %)										
3-month T-bill	1.04	1.30	1.40	1.60	1.70	2.00	2.05	2.05	2.30	2.30
2-year Treasury	1.48	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.35	2.45
5-year Treasury	1.93	2.15	2.20	2.25	2.30	2.35	2.40	2.50	2.55	2.60
10-year Treasury	2.34	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.90	3.00
30-year Treasury	2.86	2.80	2.85	2.90	2.95	3.00	3.10	3.15	3.20	3.30

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	
2017f	3.0	-1.5	1.8	1.6	1.4	2.7	3.0	2.4	1.9	4.2	3.5	
2018f	2.2	0.1	1.5	1.2	1.1	1.9	2.3	2.0	2.0	2.3	2.5	
2019f	1.5	0.7	1.1	0.8	0.5	1.5	1.7	1.5	1.6	1.7	1.7	
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	
2017f	5.2	2.5	3.7	3.2	3.0	3.8	5.2	4.2	5.0	7.8	5.7	
2018f	4.2	3.0	3.2	2.8	2.8	3.6	4.5	3.7	4.0	4.8	4.6	
2019f	3.8	3.8	2.9	2.4	2.1	3.2	3.8	3.3	4.0	4.7	3.8	
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	
2017f	1.8	-3.8	2.9	0.5	0.4	2.1	1.7	1.6	-0.1	0.9	3.6	
2018f	1.2	-0.9	0.4	0.3	0.2	1.1	1.2	0.8	0.5	1.0	1.6	
2019f	0.8	-0.4	0.4	0.2	0.1	0.8	0.9	0.5	0.6	0.9	1.1	
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	
2017f	6.4	14.8	9.8	8.3	8.1	6.1	6.0	5.4	6.2	7.9	5.2	
2018f	6.1	15.1	9.6	8.0	8.0	5.9	5.8	5.2	6.0	7.6	5.0	
2019f	6.1	15.1	9.6	7.9	7.9	5.8	5.8	5.1	5.9	7.5	4.9	
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	
2017f	216	1.3	1.0	4.3	2.2	44	80	7.4	5.1	29	42	
2018f	202	1.2	0.8	4.0	2.1	40	74	6.7	5.0	28	40	
2019f	192	1.3	0.8	3.8	1.9	38	71	6.2	4.9	28	36	
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	
2017f	2,030	34	8	58	42	450	845	60	55	248	230	
2018f	2,000	32	8	57	41	444	825	59	56	251	227	
2019f	1,950	30	7	56	40	433	795	58	56	253	222	
Budget Balances, Fiscal Year Ending March 31 (CAD mn)												
2000–16*	-2,803	-93	-38	-30	-153	-821	-5,115	-142	360	1,064	319	
2016	-987	-2,206	-13	-13	-261	2,191	-3,515	-839	-675	-6,442	811	
2017	-17,770	-1,148	-1	150	-119	2,361	-991	-764	-1,354	-10,784	2,737	
2018**	-19,000	-852	1	132	-135	0	0	-840	-679	-10,314	190	
2019**	-18,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	

Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents. * MB:FY04–FY16; AB:FY05–FY16; SK:FY15–FY18f: ex. accrual adjustment for pension expense.

** Provinces' FY18: Budget documents.

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