

Foundation for Growth Remains Solid

- The global recovery remains on firm footing, despite the very recent rise in stock market volatility. In fact, the correction in equity markets has been triggered by indications that activity in the US remains strong, as demonstrated by stronger-than-expected wage gains. Indications that wage pressures in the US are on the rise are giving greater confidence to forecasts of tighter monetary policy there, leading to a re-assessment of the risk/reward trade-off between equities and debt. In this sense, recent developments are a reminder that markets don't always rise, and that investors should internalize a broad set of risks as they consider the outlook.
- There are no material changes to our forecast this month. Incoming data are largely confirming our views for the global economy and for the major central banks.

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International	2000–16	2016	2017e	2018f	2019f	2000–16	2016	2017e	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	3.8	3.6					
Canada	2.1	1.4	2.9	2.3	1.7	1.9	1.4	1.8	2.0	2.2
United States	1.9	1.5	2.3	2.5	1.8	2.2	1.8	2.1	2.2	2.4
Mexico	2.2	2.9	2.1	2.4	2.8	4.4	3.4	6.8	4.3	3.8
United Kingdom	1.8	1.9	1.8	1.7	1.9	2.0	1.6	3.0	1.9	1.9
Euro zone	1.3	1.8	2.4	2.7	2.5	1.7	1.1	1.5	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	2.5	2.6
India	7.1	7.9	6.3	7.4	7.5	6.9	3.4	5.2	4.6	5.7
Japan	0.9	0.9	1.8	1.4	0.9	0.1	0.3	1.0	1.1	2.3
South Korea	4.2	2.8	3.1	2.5	3.0	2.6	1.3	1.5	2.3	2.5
Australia	3.0	2.6	2.4	2.7	2.5	2.8	1.5	1.9	2.2	2.6
Thailand	4.0	3.2	3.8	3.5	3.4	2.0	1.1	0.8	1.7	2.1
Brazil	2.6	-3.5	0.6	2.5	2.7	6.7	6.3	2.9	4.1	2.6
Colombia	4.1	2.0	1.7	2.5	3.5	5.1	5.7	4.1	3.3	3.1
Peru	5.1	3.9	2.5	3.7	4.2	2.8	3.2	1.4	2.0	2.5
Chile	4.1	1.6	1.6	3.1	3.7	3.3	2.7	2.3	2.8	3.0
Commodities	(annual average)									
WTI Oil (USD/bbl)	63	43	51	57	60					
Brent Oil (USD/bbl)	66	45	55	62	65					
Nymex Natural Gas (USD/mmbtu)	4.94	2.55	3.02	2.95	2.95					
Copper (USD/lb)	2.35	2.21	2.80	3.05	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	60	60					
Metallurgical Coal (USD/tonne)	127	114	187	170	150					
Gold, London PM Fix (USD/oz)	869	1,251	1,257	1,300	1,300					

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

North America	2000–16	2016	2017e	2018f	2019f	2000–16	2016	2017e	2018f	2019f
	Canada (annual % change, unless noted)					United States (annual % change, unless noted)				
Real GDP	2.1	1.4	2.9	2.3	1.7	1.9	1.5	2.3	2.5	1.8
Consumer spending	2.9	2.3	3.6	2.9	1.9	2.4	2.7	2.7	2.7	2.1
Residential investment	3.7	3.4	2.8	-0.4	-0.9	-0.4	5.5	1.7	2.7	1.7
Business investment	2.2	-8.8	1.7	4.1	2.6	2.3	-0.6	4.7	4.8	2.5
Government	2.2	2.7	2.1	1.8	1.0	1.0	0.8	0.1	0.7	0.4
Exports	1.3	1.0	0.9	2.1	3.2	3.6	-0.3	3.4	3.4	2.7
Imports	2.9	-1.0	3.4	2.9	2.7	3.4	1.3	3.9	4.7	3.2
Nominal GDP	4.2	2.0	5.1	4.3	4.0	3.9	2.8	4.1	4.5	3.8
GDP deflator	2.1	0.6	2.1	2.0	2.3	2.0	1.3	1.8	2.0	2.0
Consumer price index (CPI)	1.9	1.4	1.6	1.9	2.1	2.2	1.3	2.1	2.3	2.3
CPI ex. food & energy	1.6	1.9	1.6	1.8	2.0	2.0	2.2	1.8	2.1	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	1.9	1.5	0.8	0.7	1.8	1.6	1.3	1.0
Unemployment rate (%)	7.1	7.0	6.3	5.9	5.9	6.2	4.9	4.4	4.0	4.0
Current account balance (CAD, USD bn)	-17.1	-65.4	-68.2	-72.3	-66.2	-507	-452	-455	-501	-552
Merchandise trade balance (CAD, USD bn)	25.1	-25.9	-26.2	-33.3	-30.3	-673	-753	-809	-892	-962
Federal budget balance* (FY, CAD, USD bn)	-2.8	-1.0	-17.8	-16.8	-14.8	-532	-586	-666	-825	-935
percent of GDP	-0.2	0.0	-0.9	-0.8	-0.7	-3.7	-3.1	-3.4	-4.1	-4.4
Housing starts (000s, mn)	199	198	220	206	196	1.27	1.18	1.21	1.25	1.30
Motor vehicle sales (000s, mn)	1,657	1,949	2,038	2,000	1,950	15.5	17.5	17.1	17.4	17.3
Industrial production	0.6	0.1	5.3	2.1	1.0	0.7	-1.2	2.0	2.9	1.1
Mexico (annual % change)										
Real GDP	2.2	2.9	2.1	2.4	2.8					
Consumer price index (year-end)	4.4	3.4	6.8	4.3	3.8					
Current account balance (USD bn)	-14.6	-22.7	-25.8	-31.1	-35.7					
Merchandise trade balance (USD bn)	-7.2	-13.1	-10.9	-10.5	-15.3					

Sources: Scotiabank Economics, Statistics Canada, CMHC, BEA, BLS, Bloomberg. * Canada federal deficit ex risk adjustment of \$1.5bn & \$3.0bn for FY18 & FY19.

Quarterly Forecasts	2017		2018				2019			
	Q3	Q4e	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Canada										
Real GDP (q/q ann. % change)	1.7	2.0	2.6	2.2	1.9	1.9	1.6	1.6	1.5	1.5
Real GDP (y/y % change)	3.0	2.9	2.6	2.1	2.2	2.2	1.9	1.8	1.7	1.6
Consumer prices (y/y % change)	1.4	1.8	1.8	1.9	2.0	2.0	2.1	2.1	2.2	2.2
Avg. of new core CPIs (y/y % change)	1.5	1.7	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.0
United States										
Real GDP (q/q ann. % change)	3.2	2.6	2.6	2.2	2.1	1.9	1.6	1.6	1.6	1.6
Real GDP (y/y % change)	2.3	2.5	2.8	2.6	2.4	2.2	1.9	1.8	1.7	1.6
Consumer prices (y/y % change)	2.0	2.1	2.1	2.4	2.4	2.2	2.2	2.3	2.4	2.4
CPI ex. food & energy (y/y % change)	1.7	1.7	1.8	2.1	2.2	2.2	2.2	2.2	2.3	2.3

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

Central Bank Rates	2017		2018				2019			
	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
Americas	(%, end of period)									
Bank of Canada	1.00	1.25	1.50	1.50	1.75	2.00	2.25	2.25	2.50	
US Federal Reserve (upper bound)	1.50	1.75	1.75	2.00	2.25	2.25	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	6.75	6.50	6.50	6.75	7.00	7.50	8.00	8.50	
Bank of the Republic of Colombia	4.75	4.50	4.50	4.50	4.50	4.75	5.00	5.00	5.00	
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	2.75	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	0.25	0.25	0.50	
Bank of England	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	1.75	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	1.75	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	2.25	2.25	
Currencies and Interest Rates										
Americas	(end of period)									
Canadian Dollar (USDCAD)	1.26	1.28	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	18.89	19.13	19.19	19.48	19.58	19.40	19.45	19.73	
Brazilian Real (USDBRL)	3.31	3.10	3.15	3.25	3.25	3.30	3.30	3.35	3.35	
Colombian Peso (USDCOP)	2,986	2,800	2,900	2,900	2,900	2,950	2,950	3,000	3,050	
Peruvian Nuevo Sol (USDPEN)	3.24	3.22	3.19	3.20	3.18	3.18	3.14	3.15	3.12	
Chilean Peso (USDCLP)	615	601	602	604	605	602	600	597	595	
Europe										
Euro (EURUSD)	1.20	1.18	1.18	1.20	1.20	1.24	1.24	1.28	1.28	
UK Pound (GBPUSD)	1.35	1.35	1.35	1.37	1.37	1.38	1.38	1.40	1.40	
Asia/Oceania										
Japanese Yen (USDJPY)	113	114	114	115	115	118	118	120	120	
Australian Dollar (AUDUSD)	0.78	0.79	0.79	0.80	0.80	0.81	0.81	0.82	0.82	
Chinese Yuan (USDCNY)	6.51	6.40	6.40	6.30	6.30	6.20	6.20	6.10	6.10	
Indian Rupee (USDINR)	63.9	63.0	63.0	62.0	62.0	61.0	61.0	60.0	60.0	
South Korean Won (USDKRW)	1,067	1,060	1,060	1,040	1,040	1,030	1,030	1,020	1,020	
Thai Baht (USDTHB)	32.6	32.2	32.2	32.0	32.0	31.5	31.5	31.0	31.0	
Canada (Yields, %)										
3-month T-bill	1.06	1.30	1.55	1.55	1.80	2.05	2.30	2.30	2.50	
2-year Canada	1.69	1.90	2.05	2.20	2.30	2.40	2.50	2.55	2.65	
5-year Canada	1.87	2.15	2.25	2.30	2.45	2.55	2.60	2.65	2.75	
10-year Canada	2.05	2.40	2.45	2.50	2.60	2.65	2.70	2.75	2.85	
30-year Canada	2.27	2.50	2.65	2.75	2.90	3.00	3.10	3.15	3.10	
United States (Yields, %)										
3-month T-bill	1.38	1.80	1.85	2.05	2.30	2.30	2.55	2.60	2.80	
2-year Treasury	1.88	2.20	2.30	2.50	2.60	2.70	2.75	2.85	2.90	
5-year Treasury	2.21	2.60	2.65	2.70	2.75	2.85	2.90	3.00	3.05	
10-year Treasury	2.40	2.85	2.90	2.95	3.00	3.05	3.10	3.15	3.20	
30-year Treasury	2.74	3.15	3.20	3.25	3.25	3.30	3.30	3.35	3.35	

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	
2017e	2.9	-1.5	1.8	1.6	1.4	2.7	2.9	2.3	1.9	4.2	3.5	
2018f	2.3	0.1	1.5	1.1	1.1	2.0	2.3	2.0	2.1	2.5	2.5	
2019f	1.7	0.7	1.1	0.8	0.5	1.5	1.8	1.5	1.7	1.9	1.8	
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	5.2	2.6	3.6	3.2	3.0	3.8	5.0	4.0	4.9	7.6	5.6	
2018f	4.3	3.0	3.2	2.8	2.7	3.6	4.5	3.7	4.1	4.9	4.6	
2019f	4.0	4.0	2.9	2.6	2.2	3.3	4.0	3.3	4.2	5.0	4.0	
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	1.5	-0.8	0.6	0.4	0.3	1.5	1.6	0.8	0.5	1.5	1.7	
2019f	0.8	-0.4	0.4	0.2	0.1	0.7	1.0	0.5	0.6	1.0	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	
2017	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1	
2018f	5.9	14.9	9.7	8.1	7.9	5.6	5.6	5.3	6.0	7.3	4.9	
2019f	5.9	15.0	9.6	8.0	7.8	5.6	5.6	5.2	5.9	7.2	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	
2017e	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44	
2018f	206	1.3	0.9	3.8	2.1	41	75	6.5	5.0	29	41	
2019f	196	1.4	0.8	3.8	2.1	38	71	6.2	4.9	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	
2017e	2,038	33	8	59	43	450	845	62	56	248	234	
2018f	2,000	32	8	58	41	442	820	61	56	251	231	
2019f	1,950	30	8	56	40	431	790	60	56	253	226	
Budget Balances, Fiscal Year Ending March 31 (CAD mn)												
2000–16*	-2,803	-93	-38	-30	-153	-755	-5,115	-142	360	1,064	319	
2016	-987	-2,206	-13	-13	-261	0	-3,515	-839	-675	-6,442	811	
2017	-17,770	-1,148	-1	150	-119	0	-991	-764	-1,354	-10,784	2,737	
2018f**	-16,800	-852	1	139	-115	0	0	-827	-679	-10,314	190	
2019f	-14,800	n/a	n/a	n/a	-189	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 & FY19: Budget documents. Federal FY18-FY19: Scotiabank Economics forecast ex risk adjustment of \$1.5bn and \$3.0bn for FY18 & FY19, respectively.

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