Global Economics

February 1, 2016

Global Forecast Update

Diminished Expectations, Globally And In Canada

Global growth continues to slow despite relatively buoyant consumer spending and housing activity in many regions. China's relatively strong output growth remains on a decelerating path. A number of countries including the U.S., the U.K., and Canada are losing some momentum again. Activity in Japan and the euro zone remains modest, triggering additional easing in the former and the promise of even more in the latter. Deep recessions persist in Russia, Brazil and Venezuela, aggravating political and social strains. Commodity markets are still under pressure, with crude oil prices plumbing new cycle lows and deflating the performances of producing nations around the world. By most measures, the wind is still coming out of the sails of global trade and bulk shipping. Measures of risk aversion and financial market volatility have increased, keeping the U.S. dollar firm and pushing longer-term borrowing costs even lower. Equity prices around the world have turned lower, mirroring the synchronized downturn in corporate earnings, and intensifying concerns about Chinese growth and currency prospects.

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Sharply lower commodity prices — for energy in particular — are largely responsible for Canada's slumping economic performance. The country had leveraged its bountiful resources to take advantage of rapidly increasing international demand and higher prices. At its recent peak, the combined resource sectors represented about 10% of Canada's national output, but the tally jumped to 18% when resource-related activity in manufacturing, construction, and services nation-wide were included. And like virtually all of the globe's resource-centric nations, the protracted slide in virtually all commodity prices has severely undercut national income, both directly and indirectly through expanded domestic economic linkages. The lack of adequate pipeline infrastructure, both to the U.S. and to tidewater, has exacerbated the price discount experienced by domestic producers on already-low prices, although the tandem slide in the value of the Canadian dollar has provided some minor relief.

Canada's Mixed Export Performance

Merchandise Exports (2015ytd % chg)

	Volume	Value
Total	**3.4**	**(1.4)**
Total ex. Energy	2.3	9.7
Resources	4.9	(17.2)
Non-Resource	2.1	12.1
Energy	7.3	(34.9)
Consumer Goods	6.7	21.6
Industrial Machinery	6.0	11.1
Forest Products	5.6	7.7
Electronics	5.2	14.2
Chemicals	4.9	(0.8)
Aerospace	3.0	15.2
Metals & Minerals	1.4	1.7
Vehicles & Parts	0.6	15.7
Food	(3.2)	7.5

Source: Statistics Canada, Scotiabank Economics.

Canadian energy export volumes are rising, but the value of energy exports has plunged alongside the collapse in prices. Through the first eleven months of 2015, the value of energy exports averaged $85 billion, a 34% drop from the high-water mark of $129 billion set the year before. The importance of the energy sector is reflected in the magnitude of the adjustments underway. The $44 billion decrease in energy-related exports was more than the $32 billion increase in exports realized in the combined non-resource sectors which include the transportation, machinery, electronics, and consumer product categories. Although the trade surplus in energy products is estimated to have dropped by a third to about $55 billion, it was still large enough to offset about 42% of the accumulated deficits in virtually all of the non-resource segments.

The pervasive weakness in the resource sector — reinforced by the lingering global economic malaise and a more prolonged slump in commodity prices — is fundamentally reshaping the country's economic landscape to a lower and slower growth trajectory. Recessionary conditions have emerged in the key oil-producing provinces of Alberta, Saskatchewan and Newfoundland & Labrador. Corporate earnings have been slashed by the persistent and large slide in prices, forcing businesses to consolidate operations through extensive employment and investment cutbacks, and mergers and acquisitions. Just two years ago, investment in the large oil & gas sector

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amounted to roughly one-third of all business capital spending in Canada. Currently, capex in the oil & gas industry is expected to contract by about 25% this year on top of the outsized 40% decline witnessed in 2015.

The knock-down effects are spilling over to the broader national economy through the reduced demand for manufactured goods and services destined to the resource regions, as well as the fiscal deterioration in the balance sheets of all levels of government. The financial market ramifications are equally as important. The bellwether S&P/TSX stock market index has slid about 17% since its peak last spring, lopping an estimated $375 billion off of corporate valuations, and sending an increasing chill through investor and business confidence. The value of the Canadian dollar has slumped to a 13-year low of around US$0.71, an added benefit to export earnings but a further cost to imports of machinery & equipment, technology products, consumer goods and fresh produce.

Canadian real GDP likely recorded little if any growth in the last three months of 2015, underscoring the resource sector's outsized impact on the economy's performance. In view of the continuing economic and financial turbulence, and even lower energy prices, we expect that Canadian output growth will be modest at best in the first half of the year. Even with a turnaround as the year progresses — based upon expectations of stronger U.S. demand, renewed stabilization in commodity markets and increased fiscal stimulus — Canada's output growth will be hard pressed to average just 1.1% in 2016 — the weakest economic performance among the G7.

Commodity prices are expected to remain on the low side. Oversupply conditions continue to dominate the outlook for most commodity markets, and crude oil in particular, with increasing inflows from Iran and Iraq. There has been a multi-year build-up in the output capabilities of non-OPEC energy producers, led by U.S. shale and Canadian heavy oil producers. Implementing a much different strategy to maintain its 'swing-role' status as OPEC's dominant and low-cost producer, Saudi Arabia has expanded its oil output in a bid to undercut the financial viability of higher-cost producing companies and regions. And there will be little short-term relief with global production getting an added boost from Iran and other Middle Eastern and African countries in need of expanded revenues. Inventories of unsold crude are at a record on land and on the sea in tankers.

Although oil production in the U.S. is being reduced, even larger output cutbacks will be needed to rebalance the oil market. On the flipside, the demand for energy products is rising, led by strengthening in demand from India, China, and the United States. But the inflection point will likely occur later rather than sooner, and will require much stronger global economic growth to lift crude oil prices higher on a more sustained basis. There is always the risk that the myriad of geopolitical risk factors could lift prices, though more than likely they will add to the chronic volatility.

Under these circumstances, Canada faces a longer period of underperformance in many of the resource-centric regions in the west and the east. Consumer spending and housing activity across the country will add much less to overall growth in an environment of increasing consumer caution that is being reinforced by moderating employment gains, reduced pent-up demand for big-ticket items because of record home and car ownership rates, and rising household debt burdens. Nonetheless, expectations of a renewed strengthening in activity in the second half of the year and beyond relies upon two factors. First, the upcoming Federal Budget should provide a progressive and solid boost to output growth by ramping up social- and infrastructure-related expenditures. And second, an improvement in net exports' contribution to growth will be supported by an increase in U.S.-destined shipments and a decrease in higher-cost imports. Canadian export-focussed manufacturers and service providers throughout the central provinces and in B.C. are expected to benefit from the relative strength of U.S. domestic demand, the nation's highly integrated supply chains, and a highly competitive Canada/U.S. exchange rate.

U.S. manufacturing output has been steadily losing momentum since mid-2015, with the continuing decline in capital goods orders pointing to further underperformance. Some of the deceleration in U.S. industrial activity has been caused by the slowdown internationally, and the inventory liquidation underway. But some of the weakness suggests an increasing loss of U.S. market share attributable to the substitution of more competitively priced foreign-made products from Canada and other countries. Over the past year, energy has been Canada's top performer from a volume perspective, despite the collapse in prices and the value of energy shipments. Relatively solid export volume gains also have been recorded in consumer goods, industrial machinery, forest products, electronic equipment, chemical goods, and aerospace products, with the majority of these categories largely sensitive to the low-flying loonie.

The transition to a stronger growth trajectory in Canada requires a quicker rebalancing in the supply/demand conditions affecting most commodity prices, a faster and more synchronized global upturn in spending led by the U.S., and increased export penetration into the U.S. marketplace aided by a broader competitive revival. Domestically-focused fiscal stimulus will provide a much needed assist, though the competitive implications associated with running larger deficits for longer, if not addressed, could eventually erode the shorter-term benefits. Monetary policy is expected to retain its highly accommodative stance for the foreseeable future, weighing on the value of the Canadian dollar. Underlying inflation pressures are being constrained by unused capacity, notwithstanding the pass-through effects associated with a weaker currency.

International	2000-14	2015f	2016f	2017f
Real GDP		(annual % change)		
World (based on purchasing power parity)	3.9	3.1	3.2	3.6
Canada	2.2	1.2	1.1	2.5
United States	1.9	2.4	2.2	2.7
Mexico	2.3	2.5	2.5	3.5
United Kingdom	1.8	2.2	2.0	1.9
Euro zone	1.2	1.5	1.7	1.8
Germany	1.2	1.5	1.8	1.8
France	1.3	1.1	1.3	1.6
Italy	0.2	0.6	1.1	1.4
Spain	1.6	3.2	2.7	2.0
Russia	4.6	-3.8	-1.0	1.5
Turkey	4.3	3.7	3.4	3.6
China	9.7	6.9	6.4	6.2
India	7.0	7.3	7.6	7.5
Japan	0.9	0.7	1.1	0.8
South Korea	4.4	2.6	2.9	3.1
Indonesia	5.6	4.7	5.0	5.3
Australia	3.0	2.3	2.6	2.8
Thailand	4.2	2.7	3.2	3.3
Brazil	3.4	-3.7	-3.0	1.4
Colombia	4.3	3.2	2.9	3.2
Peru	5.4	3.0	3.5	4.4
Chile	4.3	2.1	1.9	2.9
Consumer Prices		(y/y % change, year-end)		
Canada	2.0	1.3	2.0	2.2
United States	2.3	0.2	2.2	2.3
Mexico	4.6	2.1	3.9	3.9
United Kingdom	2.2	0.2	0.9	1.5
Euro zone	1.9	0.2	0.6	1.6
Germany	1.6	0.3	0.9	1.7
France	1.7	0.2	0.8	1.5
Italy	2.1	0.1	0.8	1.4
Spain	2.5	0.0	0.4	1.4
Russia	11.4	12.9	8.5	7.0
Turkey	16.0	8.8	7.5	6.5
China	2.4	1.3	2.0	2.4
India	7.2	5.6	6.0	5.8
Japan	0.0	0.2	1.0	1.5
South Korea	2.8	1.3	2.1	2.5
Indonesia	6.2	3.4	5.0	4.8
Australia	2.9	1.7	2.5	2.3
Thailand	2.5	-0.9	1.0	2.0
Brazil	6.5	10.7	7.0	5.5
Colombia	5.0	6.8	5.0	3.5
Peru	2.7	4.4	3.6	3.3
Chile	3.3	4.4	3.3	2.9

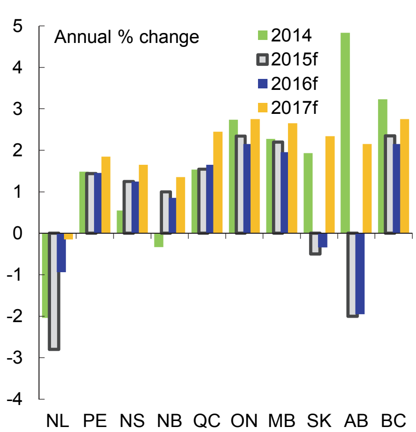
Forecast Changes

International

- Growth conditions in most financially integrated Latin American economies will improve over the next two years, yet the pace of real GDP expansion will be uneven. We maintain a relatively less favourable outlook for Chile in 2016, yet output growth will accelerate in all members of the Pacific Alliance in 2017. In Peru, containing inflation has emerged as a short-term issue of focus in contrast with disinflationary trends in place in both Mexico and Chile. A monetary tightening bias remains in place in most countries, influenced by expectations of U.S. Fed policy shifts and currency-linked inflationary pressures.
- We have lowered our South Korean real GDP growth forecasts given persistent export sector challenges, and expect output to expand by 2.9% and 3.1% in 2016 and 2017, respectively (prior forecasts: 3.2% and 3.5%). South Korea's economic momentum is being driven by domestic demand, which is supported by loose monetary conditions and fiscal stimulus. A gradually improving outlook in major advanced economies will provide some counterbalance to the struggling export sector through 2017.
- We have pushed back our call for the first Bank of England (BoE) interest rate hike from May to November 2016 due to the U.K.'s stubbornly low inflation, subdued wage gains, and prospects of increased uncertainty ahead of the likely summer EU referendum. This has prompted us to lower our sterling currency forecast. However, given that inflation is expected to be hard pressed to reach 1% y/y by the end of the year — well below the BoE's 2% target — and that wage growth is forecast to continue to trend beneath the BoE's 3% y/y comfort zone, the risk of an even later rate hike is possible. We have edged down our forecast for Russian real GDP growth to -1.0% this year due to lower oil prices and extended sanctions.

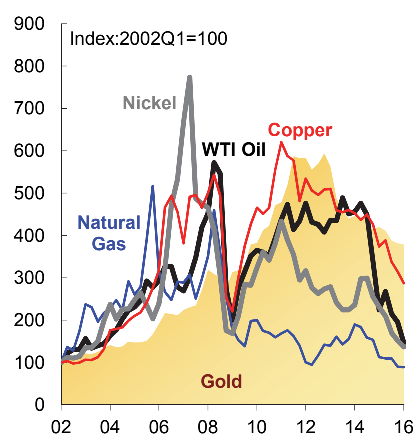
International	2000-14	2015f	2016f	2017f
Current Account Balance		(% of GDP)		
Canada	-0.3	-3.4	-2.7	-1.9
United States	-3.9	-2.7	-2.8	-2.8
Mexico	-1.4	-2.9	-2.9	-2.5
United Kingdom	-2.7	-4.5	-4.1	-4.0
Euro zone	0.1	3.1	2.8	2.5
Germany	4.3	8.3	7.9	7.6
France	-0.5	-0.5	-0.4	-0.4
Italy	-0.9	1.9	1.8	1.7
Spain	-4.6	1.4	1.3	1.3
Russia	5.4	5.2	4.5	3.5
Turkey	-4.5	-5.2	-5.1	-5.0
China	4.1	3.3	3.1	2.6
India	-1.4	-1.0	-1.2	-1.5
Japan	2.8	3.2	3.2	3.3
South Korea	2.4	8.0	8.0	7.4
Indonesia	1.1	-2.3	-2.1	-2.0
Australia	-4.4	-4.2	-4.4	-3.8
Thailand	2.5	7.8	7.3	5.9
Brazil	-1.7	-3.8	-2.3	-2.1
Colombia	-2.1	-6.3	-5.9	-5.4
Peru	-1.5	-4.0	-4.0	-2.6
Chile	0.2	-1.4	-2.8	-3.5
Commodities				
		(annual average)		
WTI Oil (US$/bbl)	65	49	35-40	40-45
Brent Oil (US$/bbl)	68	54	35-40	40-45
Nymex Natural Gas (US$/mmbtu)	5.25	2.63	2.37	2.62
Copper (US$/lb)	2.35	2.50	2.12	2.30
Zinc (US$/lb)	0.80	0.88	0.80	1.25
Nickel (US$/lb)	7.59	5.37	4.25	6.00
Gold, London PM Fix (US$/oz)	824	1,160	1,100	1,200
Pulp (US$/tonne)	745	972	920	925
Newsprint (US$/tonne)	587	538	538	550
Lumber (US$/mfbm)	280	277	300	340

Provincial GDP



Source: Statistics Canada, Scotiabank Economics.

Commodity Price Trends



Source: Bloomberg, Scotiabank Economics.

Forecast Changes

Commodities

- Scotiabank's Commodity Price Index ended 2015 on a weak note, dropping -4.9% m/m in December and -21.3% below the April 2009 bottom during the last recession. Prices moved even lower in the opening weeks of 2016 alongside a wave of negative sentiment — linked mostly to concern over the outlook for China and its ability to reform its financial markets, but also deep unease over the destabilizing impact of low oil prices on global business investment. However, risk appetite returned and commodity prices rallied later in January following suggestions from the ECB that additional policy stimulus will be forthcoming, and Japan's adoption of negative interest rates.
- WTI oil prices climbed further in late January to US$33.62 on two developments: 1) the removal of sanctions on Iran on January 16 (already discounted in the price); and 2) talk of an emergency meeting between OPEC and Russia, with a suggested 5% cut by all producers. While actual production cuts seem doubtful and Iran will not participate, recognition by Russia of the merits of taking a more coordinated approach to oil production has lifted sentiment. Russian output edged up in 2015, contrary to expectations. Russia is among the world's three top producers (including Saudi Arabia and the United States).
- Oil prices will remain low and choppy until signs of a significant global output drop emerge, bringing excessive supply down in line with demand — made difficult by the production ambitions of OPEC countries such as Iraq and Iran. A withdrawal of capital from U.S. shale development may finally yield a significant U.S. output cut in 2016.
- Oil production in Canada edged up in 2015 (by roughly 100,000 b/d) and will likely climb in 2016 and 2017 with the ramp-up of projects already under construction. However, new oil sands projects are being delayed and conventional oil output may decline.

North America	2000-14	2015f	2016f	2017f
Canada		(annual % change)		
Real GDP	2.2	1.2	1.1	2.5
Consumer Spending	3.0	1.9	1.5	1.8
Residential Investment	3.8	3.5	-0.2	-1.0
Business Investment	3.4	-7.5	-5.1	3.3
Government	2.3	1.3	1.0	2.7
Exports	1.2	3.0	2.3	4.3
Imports	3.2	0.4	-0.3	2.7
Nominal GDP	4.6	0.8	1.7	4.8
GDP Deflator	2.3	-0.4	0.6	2.3
Consumer Price Index	2.0	1.1	1.7	2.2
Core CPI	1.8	2.2	2.0	2.1
Pre-Tax Corporate Profits	5.3	-17.0	-4.0	7.0
Employment	1.4	0.8	0.7	0.9
thousands of jobs	227	147	119	159
Unemployment Rate (%)	7.1	6.9	7.2	7.1
Current Account Balance (C$ bn.)	-10.0	-68.0	-55.6	-40.9
Merchandise Trade Balance (C$ bn.)	31.8	-24.1	-13.4	-1.5
Federal Budget Balance (C$ bn.)	-4.1	-2.5	-30 to -35	-20 to -25
per cent of GDP	-0.3	-0.1	-1.5 to -1.7	-0.9 to -1.2
Housing Starts (thousands)	199	196	184	176
Motor Vehicle Sales (thousands)	1,622	1,898	1,900	1,890
Motor Vehicle Production (thousands)	2,419	2,271	2,330	2,380
Industrial Production	0.7	-2.2	-0.5	2.3
United States				
Real GDP	1.9	2.4	2.2	2.7
Consumer Spending	2.3	3.1	2.8	3.0
Residential Investment	-1.6	6.6	8.1	6.7
Business Investment	2.3	4.4	2.5	4.6
Government	1.1	-1.0	1.0	0.8
Exports	4.0	1.1	2.1	4.4
Imports	3.4	5.0	3.9	5.4
Nominal GDP	4.0	3.4	3.8	4.8
GDP Deflator	2.1	1.0	1.6	2.0
Consumer Price Index	2.4	0.1	1.5	2.3
Core CPI	2.0	1.8	2.1	2.3
Pre-Tax Corporate Profits	6.3	-2.2	0.0	5.0
Employment	0.5	2.1	1.7	1.4
millions of jobs	0.65	2.94	2.40	2.08
Unemployment Rate (%)	6.4	5.3	4.8	4.7
Current Account Balance (US$ bn.)	-526	-476	-514	-548
Merchandise Trade Balance (US$ bn.)	-661	-761	-795	-855
Federal Budget Balance (US$ bn.)	-535	-439	-485	-515
per cent of GDP	-3.9	-2.4	-2.6	-2.6
Housing Starts (millions)	1.29	1.11	1.26	1.38
Motor Vehicle Sales (millions)	15.2	17.4	17.7	18.0
Motor Vehicle Production (millions)	10.5	12.1	12.3	12.5
Industrial Production	0.9	1.3	1.2	2.5
Mexico				
Real GDP	2.3	2.5	2.5	3.5
Consumer Price Index (year-end)	4.6	2.1	3.9	3.9
Current Account Balance (US$ bn.)	-14.2	-32.4	-31.2	-31.9
Merchandise Trade Balance (US$ bn.)	-6.3	-14.5	-11.4	-12.9

Forecast Changes

Canada & United States

- We have cut our forecast for Canadian GDP growth in 2016 from 1.6% to 1.1%. We now expect output to have stalled in the final quarter of 2015, and anticipate a more muted recovery in the first half of 2016, as slumping oil prices lead to further energy sector cutbacks and temper employment, confidence and household spending. A firmer recovery is expected to take hold later in the year and in 2017 on the back of improving export activity and increased fiscal stimulus.
- We have trimmed our forecast for U.S. growth this year from 2.5% to 2.2%. The downward revision primarily reflects the carry-over from a weaker-than-expected performance in the final months of last year. While the strong U.S. dollar and sluggish global demand are restraining manufacturing production and investment, the consumer and housing sectors remain well supported by a robust job market, rising household incomes and ongoing pent-up demand.
- Significant Canadian federal stimulus is assumed over the four quarters to mid-2017 to support near-term growth and strengthen Canada's longer-term economic prospects. Projected U.S. federal deficits are presented excluding a significant timing adjustment at the end of fiscal 2016. Contributing to our forecast of slightly wider U.S. federal deficits are the array of tax credits made permanent or extended to 2019.

Mexico

- We have adjusted our Mexican real GDP growth forecast downward to 2.5% (from 2.8%) for the current year on the back of renewed evidence of soft manufacturing and oil production activity. At the same time, we have updated our currency outlook to reflect a weakening peso in response to the intensified financial market stress present in January 2016.

Provincial

	2000-14	2015f	2016f	2017f	2000-14	2015f	2016f	2017f
	Real GDP (annual % change)				**Budget Balances*, FY March 31 ($millions)**			
Canada	2.2	1.2	1.1	2.5	-3,238	1,911	-2,500	-30,000 to -35,000
Newfoundland & Labrador	2.8	-2.8	-0.9	-0.2	130	-986	-1,963	n.a.
Prince Edward Island	1.8	1.4	1.5	1.8	-40	-20	-33	n.a.
Nova Scotia	1.4	1.3	1.3	1.6	-24	-144	-241	n.a.
New Brunswick	1.2	1.0	0.9	1.3	-130	-389	-453	n.a.
Quebec	1.8	1.5	1.7	2.4	-968	-1,143	0	n.a.
Ontario	1.9	2.3	2.2	2.7	-4,876	-10,314	-7,524	n.a.
Manitoba	2.4	2.2	2.0	2.6	-53 **	-452	-550	n.a.
Saskatchewan	2.3	-0.5	-0.3	2.3	450 **	62	-262	n.a.
Alberta	3.5	-2.0	-1.9	2.1	1,809 **	1,115	-6,118	n.a.
British Columbia	2.6	2.3	2.2	2.7	195	1,683	265	n.a.

* FY15 & FY16: Provinces' estimates.
** MB:FY04-FY14; AB:FY05-FY14;
SK:FY16 ex pension accrual adjustment.

	2000-14	2015f	2016f	2017f	2000-14	2015f	2016f	2017f
	Employment (annual % change)				**Unemployment Rate (annual average, %)**			
Canada	1.4	0.8	0.7	0.9	7.1	6.9	7.2	7.1
Newfoundland & Labrador	1.1	-1.0	-0.4	-0.3	14.4	12.8	13.3	13.6
Prince Edward Island	1.4	-1.1	0.5	0.5	11.2	10.4	10.5	10.4
Nova Scotia	0.7	0.1	0.5	0.4	8.9	8.6	8.6	8.5
New Brunswick	0.6	-0.6	0.2	0.4	9.6	9.8	10.1	10.1
Quebec	1.3	0.9	0.7	1.0	8.1	7.6	7.7	7.6
Ontario	1.3	0.7	1.0	1.2	7.2	6.8	6.8	6.7
Manitoba	1.0	1.5	0.6	0.9	5.0	5.6	5.7	5.6
Saskatchewan	1.3	0.5	0.0	0.4	4.9	5.0	6.1	5.9
Alberta	2.6	1.2	-0.6	0.4	4.8	6.0	7.3	7.3
British Columbia	1.2	1.2	1.1	1.3	6.7	6.2	6.3	6.2

	2000-14	2015f	2016f	2017f	2000-14	2015f	2016f	2017f
	Housing Starts (annual, thousands of units)				**Motor Vehicle Sales (annual, thousands of units)**			
Canada	199	196	184	176	1,622	1,898	1,900	1,890
Atlantic	12	8	8	8	118	140	138	135
Quebec	44	38	38	37	408	444	450	447
Ontario	71	70	69	65	615	761	772	766
Manitoba	5	6	6	6	46	56	56	56
Saskatchewan	5	5	4	4	44	54	53	54
Alberta	35	37	26	24	215	236	220	222
British Columbia	27	31	32	31	176	207	211	210

Forecast Changes

Provinces

- With our revised outlook for lower oil prices, projected real GDP growth for the three major oil-producing provinces is reduced over the next two years. However, the assumed introduction of significant federal fiscal stimulus from mid-2016 to mid-2017, in part to assist these jurisdictions, is expected to mitigate their downturns.
- For the other seven provinces, whose growth is slightly weaker-than-anticipated entering 2016, the federal stimulus is expected to support the expansion of non-resource-related goods and services production.
- While our national housing starts forecast remains unchanged for 2016 and 2017, a more pronounced shift in activity towards British Columbia and Ontario is anticipated. Dampening housing activity in Alberta and Saskatchewan through 2017 is our forecast of reduced population inflows to each province and the greater weakness now anticipated in resale market conditions.
- Canadian auto sales climbed a stronger-than-expected 3% last year to a record high 1.90 million units. We expect volumes to be largely flat this year, as diverging trends between the industrial heartland and commodity-producing regions balance each other out. Solid employment growth in the export-reliant manufacturing provinces of Central Canada, B.C. and Nova Scotia will lift auto purchases in these markets. However, similar to our housing market outlook, weak economic fundamentals are expected to pressure sales volumes in other regions.
- As Alberta, Saskatchewan and Newfoundland and Labrador prepare their 2016 *Budgets,* they are grappling with unexpected red ink. The other seven Provinces are expected to work towards their respective targets to stabilize, and in several instances, reduce their net debt relative to GDP.

Quarterly Forecasts

Canada	2015 Q3	2015 Q4f	2016 Q1f	2016 Q2f	2016 Q3f	2016 Q4f	2017 Q1f	2017 Q2f	2017 Q3f	2017 Q4f
Real GDP (q/q, ann. % change)	2.3	0.0	0.5	1.2	2.3	2.5	2.7	2.7	2.3	2.3
Real GDP (y/y, % change)	1.2	0.4	0.7	1.0	1.0	1.6	2.2	2.5	2.6	2.5
Consumer Prices (y/y, % change)	1.2	1.3	1.6	1.4	1.8	2.0	2.1	2.2	2.2	2.2
Core CPI (y/y % change)	2.2	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.0	2.0
United States										
Real GDP (q/q, ann. % change)	2.0	0.7	2.2	2.6	2.8	2.8	2.9	2.7	2.6	2.5
Real GDP (y/y, % change)	2.1	1.8	2.2	1.9	2.1	2.6	2.8	2.8	2.7	2.7
Consumer Prices (y/y, % change)	0.1	0.2	1.0	1.1	1.4	2.2	2.4	2.2	2.3	2.3
Core CPI (y/y % change)	1.8	2.0	2.1	2.1	2.2	2.2	2.2	2.2	2.3	2.3

Financial Markets

Central Bank Rates

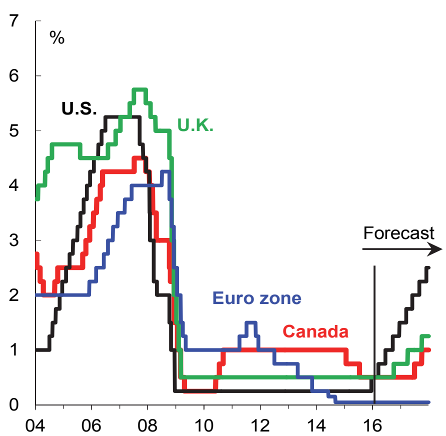
(%, end of period)

Americas	2015 Q3	2015 Q4f	2016 Q1f	2016 Q2f	2016 Q3f	2016 Q4f	2017 Q1f	2017 Q2f	2017 Q3f	2017 Q4f
Bank of Canada	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
U.S. Federal Reserve	0.25	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.25	2.50
Bank of Mexico	3.00	3.25	3.75	4.00	4.25	4.50	5.00	5.25	5.50	5.50
Central Bank of Brazil	14.25	14.25	14.50	14.50	14.75	14.75	14.75	14.25	14.00	13.75
Bank of the Republic of Colombia	4.75	5.75	6.00	6.00	6.00	6.00	5.75	5.50	5.25	5.00
Central Reserve Bank of Peru	3.50	3.75	4.25	4.50	4.50	4.50	4.25	4.25	4.25	4.25
Central Bank of Chile	3.00	3.50	3.50	3.75	3.75	3.75	3.75	4.00	4.25	4.25
Europe										
European Central Bank	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Bank of England	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25
Swiss National Bank	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
Asia/Oceania										
Reserve Bank of Australia	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
People's Bank of China	4.60	4.35	4.10	4.10	4.10	4.10	4.10	4.10	4.35	4.35
Reserve Bank of India	6.75	6.75	6.50	6.50	6.50	6.50	6.50	6.50	6.75	6.75
Bank of Korea	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.25	2.50
Bank Indonesia	7.50	7.50	7.25	7.25	7.00	7.00	7.00	7.00	7.00	7.00
Bank of Thailand	1.50	1.50	1.25	1.25	1.25	1.25	1.25	1.50	1.75	2.00
Canada										
3-month T-bill	0.44	0.51	0.50	0.50	0.50	0.50	0.50	0.55	0.85	1.10
2-year Canada	0.52	0.48	0.50	0.65	0.75	0.90	1.10	1.25	1.50	1.80
5-year Canada	0.80	0.73	0.80	0.95	1.10	1.30	1.50	1.85	2.00	2.20
10-year Canada	1.43	1.39	1.35	1.40	1.55	1.70	1.90	2.15	2.30	2.50
30-year Canada	2.20	2.15	2.10	2.20	2.30	2.35	2.50	2.60	2.70	2.95
United States										
3-month T-bill	-0.02	0.16	0.25	0.60	1.00	1.40	1.70	2.05	2.30	2.50
2-year Treasury	0.63	1.05	1.05	1.35	1.75	2.05	2.30	2.55	2.80	3.00
5-year Treasury	1.36	1.76	1.70	1.95	2.20	2.35	2.60	2.85	3.00	3.15
10-year Treasury	2.04	2.27	2.10	2.25	2.35	2.50	2.75	3.00	3.15	3.35
30-year Treasury	2.85	3.02	2.85	3.00	3.10	3.20	3.35	3.45	3.55	3.75
Canada-U.S. Spreads										
3-month T-bill	0.46	0.35	0.25	-0.10	-0.50	-0.90	-1.20	-1.50	-1.45	-1.40
2-year	-0.11	-0.57	-0.55	-0.70	-1.00	-1.15	-1.20	-1.30	-1.30	-1.20
5-year	-0.56	-1.03	-0.90	-1.00	-1.10	-1.05	-1.10	-1.00	-1.00	-0.95
10-year	-0.61	-0.88	-0.75	-0.85	-0.80	-0.80	-0.85	-0.85	-0.85	-0.85
30-year	-0.65	-0.87	-0.75	-0.80	-0.80	-0.85	-0.85	-0.85	-0.85	-0.80

Financial Markets

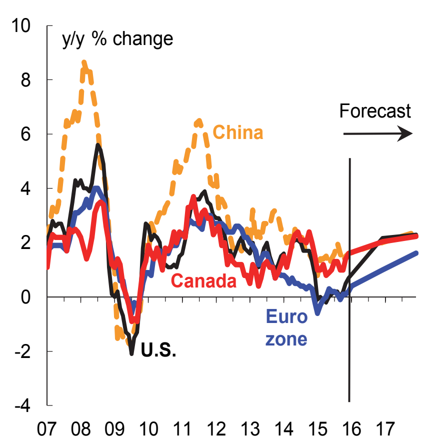
Exchange Rates	2015 Q3	2015 Q4	2016 Q1f	2016 Q2f	2016 Q3f	2016 Q4f	2017 Q1f	2017 Q2f	2017 Q3f	2017 Q4f
Americas					(end of period)					
Canadian Dollar (USDCAD)	1.33	1.38	1.37	1.38	1.39	1.39	1.35	1.33	1.30	1.26
Canadian Dollar (CADUSD)	0.75	0.72	0.73	0.72	0.72	0.72	0.74	0.75	0.77	0.79
Mexican Peso (USDMXN)	16.92	17.21	17.99	17.54	17.62	17.90	17.73	17.47	17.38	17.22
Brazilian Real (USDBRL)	3.95	3.96	4.15	4.20	4.15	4.30	4.35	4.40	4.45	4.50
Colombian Peso (USDCOP)	3087	3175	3350	3500	3450	3400	3400	3400	3350	3350
Peruvian Nuevo Sol (USDPEN)	3.23	3.41	3.55	3.56	3.56	3.55	3.57	3.52	3.55	3.52
Chilean Peso (USDCLP)	696	709	723	723	720	718	714	714	714	714
Canadian Dollar Cross Rates										
Euro (EURCAD)	1.49	1.50	1.44	1.38	1.32	1.32	1.32	1.33	1.39	1.41
U.K. Pound (GBPCAD)	2.01	2.04	1.85	1.86	1.95	1.95	1.96	1.93	1.95	1.89
Japanese Yen (CADJPY)	90	87	93	93	94	94	99	102	105	109
Australian Dollar (AUDCAD)	0.93	1.01	0.96	0.94	0.90	0.90	0.92	0.93	0.94	0.91
Mexican Peso (CADMXN)	12.71	12.43	13.13	12.71	12.68	12.88	13.13	13.14	13.37	13.67
Europe										
Euro (EURUSD)	1.12	1.09	1.05	1.00	0.95	0.95	0.98	1.00	1.07	1.12
U.K. Pound (GBPUSD)	1.51	1.47	1.35	1.35	1.40	1.40	1.45	1.45	1.50	1.50
Swiss Franc (USDCHF)	0.97	1.00	1.03	1.09	1.16	1.16	1.12	1.10	1.03	0.98
Swedish Krona (USDSEK)	8.37	8.44	8.60	9.15	9.50	9.50	9.20	9.00	8.40	8.00
Norwegian Krone (USDNOK)	8.52	8.84	8.80	8.90	9.20	9.00	8.70	8.50	8.25	7.80
Russian Ruble (USDRUB)	65.4	72.5	71.0	71.5	70.5	69.0	68.5	67.0	66.0	65.0
Turkish Lira (USDTRY)	3.03	2.92	3.10	3.15	3.10	3.05	3.00	2.95	2.90	2.85
Asia/Oceania										
Japanese Yen (USDJPY)	120	120	128	129	130	131	133	135	137	137
Australian Dollar (AUDUSD)	0.70	0.73	0.70	0.68	0.65	0.65	0.68	0.70	0.72	0.72
Chinese Yuan (USDCNY)	6.36	6.49	6.60	6.60	6.65	6.70	6.70	6.70	6.65	6.65
Indian Rupee (USDINR)	65.6	66.2	67.3	67.5	67.8	68.0	67.9	67.8	67.6	67.6
South Korean Won (USDKRW)	1185	1175	1210	1215	1220	1225	1222	1220	1218	1218
Indonesian Rupiah (USDIDR)	14653	13788	14375	14450	14525	14600	14580	14550	14530	14530
Thai Baht (USDTHB)	36.4	36.0	37.0	37.2	37.5	37.7	37.6	37.5	37.4	37.4

Central Bank Rates



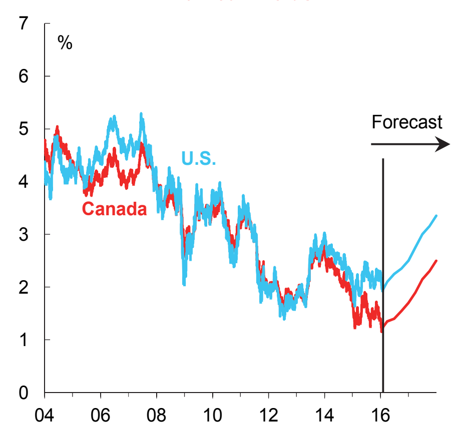
Source: Bloomberg, Scotiabank Economics.

Global Inflation



Source: Bloomberg, Scotiabank Economics.

10-Year Yields



Source: Bloomberg, Scotiabank Economics.