Global Forecast Update

U.S.A. Versus R.O.W.

Contents

The global economy remains highly imbalanced. The U.S. economy is gradually moving to a higher and more sustainable growth trajectory that is driven by domestic demand. In contrast, much of the rest of the world's economies are moving to lower and less sustainable growth trajectories as a result of the reliance on external demand.

Global growth is still losing momentum, continuing the trend of recent years. This year's pace of activity is being pegged at 3.1%, down from 2014's sub-par 3.4%. This lacklustre performance is about a percentage point below the average 4% annual growth rate in the post-recession period, and 1½ percentage points below the average 4½% gain in the 2000-07 period when international activity was on a more synchronized and self-reinforcing upswing. Many emerging market and advanced economies are contributing to the slowdown. Aggregate demand remains weak, adding to chronic oversupply conditions in many sectors, and highlighted by the pervasive weakness in most commodity markets. Of concern, there is an insufficient growth buffer to insulate the world economy against unexpected economic downdrafts and deflationary tendencies, ongoing geopolitical risks, and recurring financial market volatility, especially if differential growth performances between the U.S. and the rest of the world lead to a more significant divergence in policy settings.

A number of growth-restraining factors globally have become self-reinforcing. Ongoing structural adjustments are highlighted by increasing demographic and productivity challenges. There is the perennial restraint associated with the rise in aggregate indebtedness. Increasing financial sector oversight has contributed to more cautious lending. A growing deflationary pulse in many countries has contributed to reduced spending and investment decisions. Repeated geopolitical events have undermined confidence and reinforced caution. Most commodity markets are being pressured by the significant consolidation around the world to reduce chronic overcapacity. And elevated financial market volatility only adds to the uncertainty and restrains business investment.

The U.S. economy is not a significant outperformer. Annual real GDP will likely only average around 2½% this year — in line with last year's advance — as it rides a rollercoaster pattern of quarterly output growth highlighted by the subdued 1.5% annualized increase in Q3 which followed a strong 3.9% annualized gain in the April-June period. However, the underlying strength in this uneven growth performance is the relatively solid and apparently sustainable pace of consumer spending and housing activity.

Combined, consumer spending and housing activity represent about 72% of the U.S. economy and have accounted for virtually all of output growth over the past year. This key support will be repeatedly put to the test since U.S. businesses have been reducing investments, largely in response to the cutbacks in energy-related expenditures, as well as the trimming of unwanted inventories. Stocks had built up earlier in the year due to the unexpected moderation in domestic activity, coupled with the sagging of exports owing to slower growth internationally and the added drag of a stronger greenback.

Many of the larger countries around the world — both advanced and emerging market economies — have been unable to generate consistently stronger momentum despite generally low borrowing costs and gasoline prices. Output growth in Japan likely expanded moderately in Q3 following the second quarter's decline in response to the slowdown in China and the continuing underperformance of Japanese consumers. Canada's third quarter real GDP should expand by an annualized 2½%, a rebound from the energy-depressed 0.7% annualized contraction in the first half of the year. Likewise, Mexico's economy is on track to recover to around a 3% annualized rate in the July-September period. Both countries are relying on relatively buoyant domestic spending and non-resource

Scotiabank Economics
Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: 416.866.6253 Fax: 416.866.2829
Email: scotia.economics@scotiabank.com

manufactured exports to their large U.S. neighbour to maintain historically modest forward momentum in the face of the continuing retrenchment in the commodity sectors, and energy markets in particular.

Weakness in construction and manufacturing has contributed to the slippage in the U.K. economy's performance, with output growth moderating to a 2% annualized rate in Q3 from the 2.8% rate in the prior three month period. The euro zone is stuck in very low gear, with improving domestic spending in a number of countries continuing to be offset by recurring debt strains and long-standing competitiveness problems. Even the region's consistently strong performer, Germany, is beset by reduced exports to the slower-growing emerging market economies, and the fallout in industrial activity surrounding the VW emissions scandal. Settling the large number of migrants will provide a boost, albeit temporary, to government spending.

China posted a slower, but still very solid rate of growth in the July-September period. The country's real GDP slipped marginally to a 6.9% year/year rate from the prior quarter's 7.0% increase (an estimated 7.2% annualized quarterly rate, unchanged from Q2), as the increased reliance on domestic spending and services helped to counter the continuing weakness in fixed asset investment, industrial activity, exports and imports, rail shipments and power utilization. However, in a number of other economically relevant countries in the region — South Korea and Australia, for example — exports destined to the large economies in Asia-Pacific and China in particular are still quite soft.

World trade values, that is, the combination of both exports and imports, have declined precipitously, dragged lower by the significant weakness in most commodity prices. This development is partially attributed to the ramping-up of supply capabilities in many countries around the world. However, world trade volumes have declined as well, led by slumping exports in response to the slowdown among many of the large emerging market economies, and China in particular. Further weakness in July and August has dragged the year/year growth rate in export volumes down to a meagre 1% from a recent high of almost 5% at the end of last year.

Moreover, a more substantive economic rebound doesn't appear imminent. Orders for capital goods outside of transportation equipment (and mainly commercial airliners) are still on the soft side in most regions of the world where the monthly purchasing managers' reports are reporting generally lacklustre economic conditions. Collectively, international bulk shipping companies have downgraded their forecasts for activity. An increasing number of companies across a variety of sectors are restructuring their operations to improve operational efficiencies and lower costs. And service sector activity, largely outside of China, appears to be losing some ground as well, since some of it is geared to supporting the underperforming manufacturing and commodity sectors.

The persistent economic strains through much of the world are putting increasing pressure on policymakers to adopt even more accommodative monetary and fiscal settings. China cut interest rates and bank reserve requirements again at the end of October, highlighting the concern over the country's weakening performance. Although the Bank of Japan refrained from easing again at their latest monetary policy meeting, extra fiscal stimulus looks to be forthcoming with the Japanese economy falling short of even modest growth expectations. The President of the European Central Bank has hinted at an expanded bond-buying program to combat growing deflationary pressures and persistent sub-par growth. In many underperforming countries, renewed currency weakness vis-à-vis the U.S. dollar is part of the adjustment process through which monetary policy is transmitted with interest rates at very low levels.

Besides a relatively few countries whose very weak and inflation-prone economies have necessitated tighter policies to offset capital flight, the fly in the ointment is the potential for the Fed's long-awaited rate hike. With the U.S. labour market continuing to tighten, U.S. monetary officials are increasingly concerned that it will eventually trigger some renewed wage and price gains, both largely absent so far. Although the Fed may begin to lift its overnight funds rate at its mid-December FOMC meeting, it has indicated that it will firm policy very gradually so as not to dampen U.S. growth prospects with inflation still on the soft side. Nevertheless, higher U.S. yields and a stronger greenback may well result in heightened financial market volatility internationally, a development which could reinforce the globe's continuing economic underperformance in the year ahead.

An even better U.S. economic performance awaits a stronger housing cycle, increased business investment, and improved international shipments — developments that may not materialize until later next year or until 2017. Canada should continue to piggyback on the momentum in U.S. domestic demand, with non-resource manufacturing and service exports getting an added boost from a more competitively valued Canadian dollar. The Canadian economy should also receive a boost from the increased spending provided by Ottawa's newly elected federal government, though the additional infrastructure expenditures promised are likely to have a greater impact in 2017. The impact of the new expenditures initiatives, however, will be lessened with upper income earners facing higher personal income taxes, and businesses likely facing higher environmental costs, both of which could reinforce a less buoyant trend in household and business spending. Accordingly, Canadian output growth should continue to gradually build some momentum, with a stronger growth cycle largely dependent upon a renewed upswing in commodity prices and resource-related investments, and the anticipated improvement in the U.S. economy's performance.

International

International	2000-14	2015f	2016f	2017f
Real GDP		(annual % change)		
World (based on purchasing power parity)	3.9	3.1	3.4	3.6
Canada	2.2	1.1	1.8	2.3
United States	1.9	2.4	2.5	2.7
Mexico	2.3	2.5	2.8	3.5
United Kingdom	1.9	2.5	2.2	2.0
Euro zone	1.2	1.5	1.7	1.8
Germany	1.2	1.6	1.8	1.8
France	1.3	1.0	1.3	1.6
Italy	0.2	0.7	1.1	1.4
Spain	1.7	3.0	2.5	2.2
Russia	4.6	-4.5	-0.5	1.5
Turkey	4.3	3.4	3.5	3.7
China	9.7	6.9	6.4	6.2
India	7.0	7.3	7.6	7.5
Japan	0.9	0.9	1.2	1.0
South Korea	4.4	2.6	3.2	3.5
Indonesia	5.6	4.8	5.0	5.5
Australia	3.0	2.3	2.6	2.8
Thailand	4.2	2.7	3.2	3.3
Brazil	3.3	-3.0	-1.5	1.8
Colombia	4.3	3.0	3.0	3.2
Peru	5.4	2.9	3.5	4.4
Chile	4.3	2.1	2.0	3.0
Consumer Prices		(y/y % change, year-end)		
Canada	2.0	1.6	2.2	2.1
United States	2.3	0.6	2.2	2.2
Mexico	4.6	3.3	4.6	3.9
United Kingdom	2.2	0.2	1.4	2.0
Euro zone	1.9	0.2	1.3	1.7
Germany	1.6	0.2	1.4	1.8
France	1.7	0.2	1.1	1.5
Italy	2.1	0.2	1.0	1.4
Spain	2.5	0.0	1.3	1.7
Russia	11.4	13.0	8.5	7.0
Turkey	16.0	7.5	6.8	6.0
China	2.4	1.8	2.1	2.4
India*	8.2	5.7	6.0	5.8
Japan	0.0	0.5	1.0	1.5
South Korea	2.8	1.2	2.1	2.5
Indonesia	6.2	3.7	5.0	4.8
Australia	2.9	1.9	2.5	2.3
Thailand	2.5	-0.1	1.7	2.3
Brazil	6.5	9.8	7.0	5.5
Colombia	5.0	4.5	3.5	3.0
Peru	2.7	4.0	3.5	3.0
Chile	3.3	4.2	2.9	3.1

* Wholesale Price Index used prior to 2012.

Forecast Changes

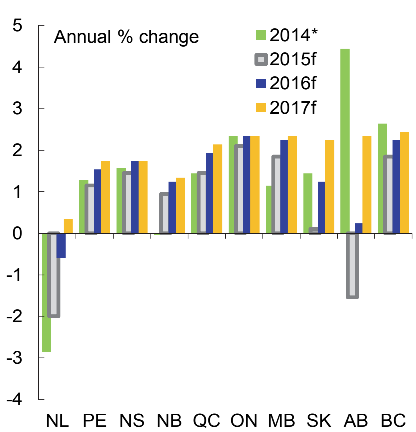
International

- We expect euro zone economic growth to strengthen modestly from 1.5% this year to 1.7% in 2016 and 1.8% in 2017. While growth in consumer spending and exports is forecast to ease slightly, we expect this to be counterbalanced by a pick-up in business investment, underpinned by rising sentiment, profitability, and capacity utilization amid highly accommodative monetary policy. Further support should come from the cautious recovery in residential and public investment. Meanwhile, government spending is expected to grow modestly over our forecast horizon. Nevertheless, efforts to reduce the euro zone's elevated debt burden, high private sector debt, high unemployment, and structural rigidities will continue to weigh on the outlook.
- The Brazilian political and economic crisis continues to dominate investor sentiment in Latin America. Persistent signs of weakness in leading activity and confidence indicators prompted, once again, a downward revision to our GDP growth forecast in Brazil for both 2015 and 2016 exacerbated by a prolonged fiscal adjustment in place. The adverse weather-related El Niño Southern Oscillation episode continues to affect economic activity in both Peru and Chile, prompting a downward revision to our GDP growth forecast for this year and next. At the same time, commodity-induced terms of trade shocks have caused abnormal inflationary pressures which prompted monetary authorities in Colombia, Peru and Chile to increase their reference rate, and we have adjusted our rate forecast accordingly.
- Real GDP expansion in China will continue to decelerate gradually; the centrally-planned economic model — which relies on heavy industry — is unable to maintain strong growth momentum while suffering from excess capacity. The economy is becoming more consumer-based and services-oriented as the engine for development is

… ***continued on the next page***

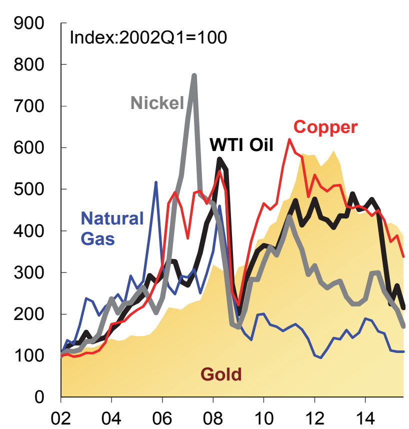
International	2000-14	2015f	2016f	2017f
Current Account Balance		(% of GDP)		
Canada	-0.2	-3.3	-2.5	-1.8
United States	-3.9	-2.5	-2.6	-2.8
Mexico	-1.5	-2.9	-2.9	-2.4
United Kingdom	-2.7	-4.8	-4.2	-4.0
Euro zone	0.1	2.5	2.3	2.0
Germany	4.3	8.1	7.5	7.3
France	-0.5	-0.7	-0.6	-0.4
Italy	-0.9	2.2	2.1	2.0
Spain	-4.6	1.0	0.8	0.6
Russia	5.4	5.0	4.5	3.5
Turkey	-4.5	-5.2	-5.1	-5.0
China	4.1	3.2	3.1	2.6
India	-1.5	-1.4	-1.6	-2.0
Japan	2.8	2.9	2.8	2.9
South Korea	2.4	7.9	7.4	6.7
Indonesia	1.1	-2.5	-2.2	-2.1
Australia	-4.4	-4.5	-4.6	-3.8
Thailand	2.6	6.5	5.8	4.3
Brazil	-1.7	-4.0	-3.3	-3.7
Colombia	-2.1	-6.4	-5.6	-4.8
Peru	-1.5	-3.9	-3.4	-2.4
Chile	0.2	-0.9	-1.2	-1.5
Commodities				
		(annual average)		
WTI Oil (US$/bbl)	65	49	45-50	55-60
Brent Oil (US$/bbl)	68	54	50-55	60-65
Nymex Natural Gas (US$/mmbtu)	5.25	2.70	2.70	3.00
Copper (US$/lb)	2.35	2.54	2.30	2.30
Zinc (US$/lb)	0.80	0.90	0.95-1.00	1.25
Nickel (US$/lb)	7.59	5.50	5.40	7.00
Gold, London PM Fix (US$/oz)	824	1,170	1,090	1,200
Pulp (US$/tonne)	745	970	975	1,000
Newsprint (US$/tonne)	587	539	520	550
Lumber (US$/mfbm)	280	280	340	350

Provincial GDP



* 2014 data are preliminary GDP by industry estimates.
Source: Statistics Canada, Scotiabank Economics.

Commodity Price Trends



Source: Bloomberg, Scotiabank Economics.

Forecast Changes

… continued from previous page

International

changing and new industries are replacing old. Accordingly, we expect that China's real GDP growth will slow from 6.9% in 2015 to 6.4% and 6.2% in 2016 and 2017, respectively.

Commodities

- Scotiabank's Commodity Price Index remains near a decade low. However, tightening supplies will likely lift prices by late 2016-17, even if global growth remains lacklustre. U.S. shale oil production is expected to drop at least 600,000 b/d by next spring amid a 62% y/y decline in oil-targetted drilling activity. WTI oil prices should climb over US$55 in 2017, with the bulk of U.S. shale plays requiring US$50-55 to yield a 9% internal rate of return over mid-cycle costs; only a few plays are economic at the US$45 mark. While most plays yield adequate returns at US$60 — suggesting a recovery in U.S. shale production at this level — international oil prices should move above US$60 late decade, given the lagged impact of this year's massive US$200 bn drop in global capital spending on exploration & development.
- Base metal prices will also start to rally by 2017-18. The 'refined' zinc market is already in a supply-side 'deficit', with zinc 'concentrates' also now moving into deficit due to mine depletion at Century and Lisheen in 2015H2. Further mine development deferrals and recently announced mine cutbacks (500,000 tonnes) by Glencore will cut inventories and boost prices in 2016-17. While the wave of new copper mine development — which has gradually pulled down prices in recent years — will not peak until 2017, market conditions will tighten late decade, with prices climbing back over US$3.00 per pound.
- Gold prices will be checked by Fed monetary policy tightening over the next twelve months. However, prices will likely rally by 2017, as world mine production drops and investors recognize tightening physical supplies.

North America

Canada	2000-14	2015f	2016f	2017f
		(annual % change)		
Real GDP	2.2	1.1	1.8	2.3
Consumer Spending	2.9	2.0	2.1	2.0
Residential Investment	3.8	3.3	-0.4	-1.2
Business Investment	3.4	-7.5	-0.4	3.6
Government	2.5	0.8	0.8	1.6
Exports	1.1	2.6	4.0	4.6
Imports	3.2	1.0	2.2	3.3
Nominal GDP	4.6	0.7	3.5	4.5
GDP Deflator	2.3	-0.4	1.6	2.2
Consumer Price Index	2.0	1.2	1.9	2.2
Core CPI	1.8	2.2	2.1	2.1
Pre-Tax Corporate Profits	5.3	-10.0	7.0	8.5
Employment	1.4	0.8	0.8	1.0
thousands of jobs	227	146	143	173
Unemployment Rate (%)	7.1	6.9	6.9	6.8
Current Account Balance (C$ bn.)	-8.8	-65.2	-50.7	-37.7
Merchandise Trade Balance (C$ bn.)	31.9	-22.6	-11.0	-0.5
Federal Budget Balance (C$ bn.)	-4.1	-2.0	-11.0	-12.0
per cent of GDP	-0.3	-0.1	-0.5	-0.6
Housing Starts (thousands)	199	190	180	175
Motor Vehicle Sales (thousands)	1,622	1,870	1,870	1,860
Motor Vehicle Production (thousands)	2,419	2,271	2,330	2,380
Industrial Production	0.7	-1.0	2.1	2.3
United States				
Real GDP	1.9	2.4	2.5	2.7
Consumer Spending	2.3	3.2	3.1	3.0
Residential Investment	-1.7	8.4	7.5	6.7
Business Investment	2.4	3.0	3.4	4.6
Government	1.0	0.7	0.7	0.5
Exports	4.0	1.5	3.2	4.4
Imports	3.4	5.2	4.5	5.4
Nominal GDP	4.0	3.5	4.3	4.7
GDP Deflator	2.1	1.0	1.7	2.0
Consumer Price Index	2.4	0.2	1.7	2.3
Core CPI	2.0	1.8	2.0	2.2
Pre-Tax Corporate Profits	6.3	1.0	5.0	5.5
Employment	0.5	2.1	1.6	1.4
millions of jobs	0.65	2.87	2.23	2.08
Unemployment Rate (%)	6.4	5.3	4.9	4.7
Current Account Balance (US$ bn.)	-526	-453	-493	-543
Merchandise Trade Balance (US$ bn.)	-661	-764	-818	-884
Federal Budget Balance (US$ bn.)	-535	-439	-465	-490
per cent of GDP	-3.9	-2.4	-2.5	-2.5
Housing Starts (millions)	1.29	1.12	1.30	1.40
Motor Vehicle Sales (millions)	15.2	17.2	17.6	18.0
Motor Vehicle Production (millions)	10.5	12.1	12.3	12.5
Industrial Production	0.9	1.6	2.5	2.7
Mexico				
Real GDP	2.3	2.5	2.8	3.5
Consumer Price Index (year-end)	4.6	3.3	4.6	3.9
Current Account Balance (US$ bn.)	-14.5	-33.4	-35.0	-31.7
Merchandise Trade Balance (US$ bn.)	-6.3	-13.3	-11.1	-5.7

Forecast Changes

Canada & United States

- We have edged up our forecast for Canadian GDP growth this year from 1.0% to 1.1% to reflect the slightly better tone in a number of recent data reports, most notably the pickup in export volumes. Strengthening net exports and increased infrastructure investment alongside relatively cautious spending by consumers and businesses underpin our forecast for moderate output growth in 2016 and 2017 of 1.8% and 2.3%, respectively.
- We have edged down our forecast for U.S. GDP growth in 2015 from 2.5% to 2.4% in light of the weaker-than-expected third-quarter performance. However, we continue to anticipate a gradual improving trend in overall activity, with pent-up consumer and housing demand and reduced fiscal restraint offsetting the ongoing drag from net exports. For 2016 and 2017, U.S. output growth is pegged at 2.6% and 2.7%, respectively.
- As the sequester is eased with offsets through fiscal 2017, the anticipated gradual trend towards wider U.S. federal deficits mirrors some slowing in revenue growth. For Canada's new government, projecting deficits alongside stimulus for fiscal 2016-17 to fiscal 2018-19, prioritizing a broad platform will likely be a challenge.

Mexico

- The Mexican economic outlook remains tied to cyclical recovery dynamics and employment conditions in the United States. Therefore, we still expect Banco de Mexico to align its monetary policy decisions to the direction to be established by the U.S. Federal Reserve in 2016. Following a period of relative stability in U.S. dollar trading activity, we have adjusted our end-year currency forecast to reflect a stronger than previously anticipated Mexican peso.

Provincial	2000-14	2014	2015f	2016f	2017f	2000-14	2014	2015f	2016f	2017f
	Real GDP* (annual % change)					Budget Balances, FY March 31 ($millions)				
Canada	2.2	2.4	1.1	1.8	2.3	-3,238	-5,150	1,911 *	-2,000	-11,000
Newfoundland & Labrador	2.7	-2.9	-2.0	-0.6	0.3	130	-389	-924	-1,093	n.a.
Prince Edward Island	1.8	1.3	1.2	1.5	1.7	-40	-46	-20	-20	n.a.
Nova Scotia	1.5	1.6	1.5	1.7	1.7	-24	-677	-144 *	-123	n.a.
New Brunswick	1.2	0.0	1.0	1.2	1.2	-130	-600	-389 *	-471	n.a.
Quebec	1.8	1.4	1.5	1.9	2.1	-968	-2,824	-2,350	0	n.a.
Ontario	2.0	2.3	2.1	2.3	2.3	-4,876	-10,453	-10,315 *	-8,512	n.a.
Manitoba	2.3	1.1	1.9	2.2	2.3	-53 **	-522	-452 *	-422	n.a.
Saskatchewan	2.4	1.4	0.1	1.2	2.2	450 **	589	62 *	-292	n.a.
Alberta	3.4	4.4	-1.5	0.2	2.3	1,809 **	-302	1,115 *	-6,118	n.a.
British Columbia	2.6	2.6	1.9	2.2	2.4	195	327	1,683 *	277	n.a.

* 2014 data are preliminary estimates of GDP by industry at basic prices.

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

	2000-14	2014	2015f	2016f	2017f	2000-14	2014	2015f	2016f	2017f
	Employment (annual % change)					Unemployment Rate (annual average, %)				
Canada	1.4	0.6	0.8	0.8	1.0	7.1	6.9	6.9	6.9	6.8
Newfoundland & Labrador	1.1	-1.7	-1.0	-0.7	-0.2	14.4	11.9	12.7	13.0	12.9
Prince Edward Island	1.4	-0.1	-1.1	0.6	0.6	11.2	10.6	10.8	10.6	10.5
Nova Scotia	0.7	-1.1	0.4	0.6	0.7	8.9	9.0	8.7	8.5	8.3
New Brunswick	0.6	-0.2	-0.8	0.4	0.4	9.6	9.9	10.2	10.0	9.8
Quebec	1.3	0.0	1.0	0.8	0.9	8.1	7.7	7.7	7.6	7.5
Ontario	1.3	0.8	0.8	1.0	1.0	7.2	7.3	6.7	6.7	6.6
Manitoba	1.0	0.1	1.7	0.8	0.9	5.0	5.4	5.4	5.2	5.0
Saskatchewan	1.3	1.0	0.4	0.3	0.7	4.9	3.8	4.9	5.1	4.9
Alberta	2.6	2.2	1.0	0.0	0.8	4.8	4.7	5.9	6.2	5.9
British Columbia	1.2	0.6	0.8	0.9	1.1	6.7	6.1	6.0	6.0	5.9

	2000-14	2014	2015f	2016f	2017f	2000-14	2014	2015f	2016f	2017f
	Housing Starts (annual, thousands of units)					Motor Vehicle Sales (annual, thousands of units)				
Canada	199	189	190	180	175	1,622	1,851	1,870	1,870	1,860
Atlantic	12	8	8	8	8	118	137	137	135	133
Quebec	44	39	36	37	36	408	420	433	435	432
Ontario	71	59	66	61	59	615	719	737	741	736
Manitoba	5	6	6	6	6	46	56	56	56	55
Saskatchewan	5	8	5	6	6	44	56	54	53	52
Alberta	34	41	38	32	30	215	269	250	245	247
British Columbia	27	28	31	30	30	176	194	203	205	205

Forecast Changes

Provinces

- In 2017, real GDP growth is expected to remain solid in Central Canada, Manitoba, and British Columbia, assisted by continued softness in the Canadian dollar. The rebound in Alberta, Saskatchewan, and Newfoundland and Labrador is expected to continue, but at a muted pace relative to prior corrections.
- Trends in major metropolitan office vacancy rates are mixed to date this year, with Toronto's rates near record lows, Vancouver's edging higher and Montreal's in the double-digits. Though Calgary's office vacancy rates have more than doubled to 12.2% over the past six quarters to Q3 2015, vacancies are expected to drift higher this winter, while Edmonton's rate, stable at 7½% through Q3 2015, is likely to shift higher moving into 2016.
- International motor vehicle & parts and consumer goods export receipts from Quebec and Ontario swelled 23% y/y in August. This helped to offset continued declines in national energy export sales, and propelled national y/y total export receipts growth above a year earlier for the first time since February.
- New vehicle sales in Canada have consistently climbed to record highs since 2013. However, purchases are expected to be largely flat next year and begin to soften in 2017, as replacement demand begins to wane and the growth in the number of potential buyers levels off.
- The infrastructure boost from Canada's newly elected federal government is expected to gain momentum into calendar 2017, with Ottawa's equal focus on public transit, social capital such as affordable housing and "green" projects supporting provincial and municipal capital plans. Other stepped-up federal assistance includes a commitment for a new Health Accord.

Quarterly Forecasts

Canada	2015 Q3f	2015 Q4f	2016 Q1f	2016 Q2f	2016 Q3f	2016 Q4f	2017 Q1f	2017 Q2f	2017 Q3f	2017 Q4f
Real GDP (q/q, ann. % change)	2.5	1.5	1.8	1.9	2.3	2.4	2.3	2.3	2.3	2.3
Real GDP (y/y, % change)	0.8	0.6	1.3	1.9	1.9	2.1	2.2	2.3	2.3	2.3
Consumer Prices (y/y, % change)	1.2	1.6	1.8	1.8	1.9	2.2	2.3	2.2	2.2	2.1
Core CPI (y/y % change)	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
United States										
Real GDP (q/q, ann. % change)	1.5	2.5	2.6	2.6	2.7	2.7	2.8	2.7	2.6	2.4
Real GDP (y/y, % change)	2.0	2.1	2.6	2.3	2.6	2.7	2.7	2.7	2.7	2.6
Consumer Prices (y/y, % change)	0.1	0.6	1.4	1.4	1.8	2.2	2.4	2.3	2.2	2.2
Core CPI (y/y % change)	1.8	1.9	1.9	1.9	2.0	2.1	2.1	2.1	2.2	2.2

Financial Markets

Central Bank Rates

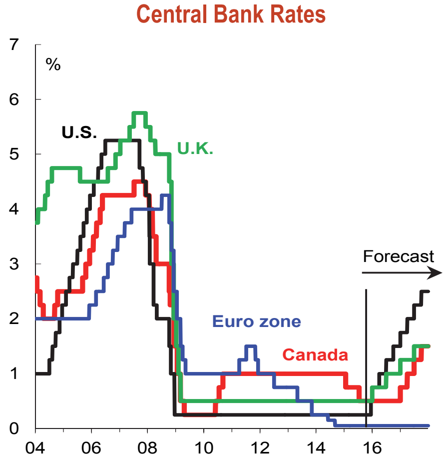
(%, end of period)

Americas	2015 Q3f	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	0.75	1.00	1.25	1.50
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	3.50	4.00	4.25	4.50	4.75	5.00	5.25	5.50	5.50
Central Bank of Brazil	14.25	14.25	14.25	14.25	13.75	13.25	12.75	12.25	11.75	12.00
Bank of the Republic of Colombia	4.75	5.25	5.25	5.25	5.25	5.00	5.00	4.75	4.75	4.50
Central Reserve Bank of Peru	3.50	3.50	3.75	3.75	3.75	3.75	3.75	4.00	4.00	4.00
Central Bank of Chile	3.00	3.25	3.50	3.75	3.75	3.75	3.75	3.75	4.00	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	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
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	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
People's Bank of China	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.60	4.60	4.85
Reserve Bank of India	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	7.00	7.00
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	1.25	1.25	1.25	1.25	1.25	1.50	1.75	2.00	2.25
Canada										
3-month T-bill	0.44	0.50	0.50	0.50	0.50	0.60	0.85	1.15	1.40	1.65
2-year Canada	0.52	0.75	0.85	1.10	1.30	1.60	1.90	2.20	2.45	2.75
5-year Canada	0.80	1.10	1.30	1.55	1.85	2.10	2.35	2.70	2.85	3.20
10-year Canada	1.43	1.75	2.00	2.05	2.15	2.35	2.65	2.95	3.15	3.40
30-year Canada	2.20	2.40	2.65	2.65	2.70	2.80	3.10	3.30	3.55	3.75
United States										
3-month T-bill	-0.02	0.55	0.90	1.15	1.40	1.65	1.90	2.15	2.40	2.65
2-year Treasury	0.63	1.15	1.60	2.00	2.30	2.50	2.75	3.00	3.15	3.35
5-year Treasury	1.36	1.75	2.15	2.30	2.45	2.60	2.85	3.15	3.30	3.50
10-year Treasury	2.04	2.35	2.55	2.65	2.75	2.85	3.05	3.30	3.45	3.65
30-year Treasury	2.85	3.10	3.20	3.25	3.30	3.35	3.55	3.70	3.95	4.15
Canada-U.S. Spreads										
3-month T-bill	0.46	-0.05	-0.40	-0.65	-0.90	-1.05	-1.05	-1.00	-1.00	-1.00
2-year	-0.11	-0.40	-0.75	-0.90	-1.00	-0.90	-0.85	-0.80	-0.70	-0.60
5-year	-0.56	-0.65	-0.85	-0.75	-0.60	-0.50	-0.50	-0.45	-0.45	-0.30
10-year	-0.61	-0.60	-0.55	-0.60	-0.60	-0.50	-0.40	-0.35	-0.30	-0.25
30-year	-0.65	-0.70	-0.55	-0.60	-0.60	-0.55	-0.45	-0.40	-0.40	-0.40

Financial Markets

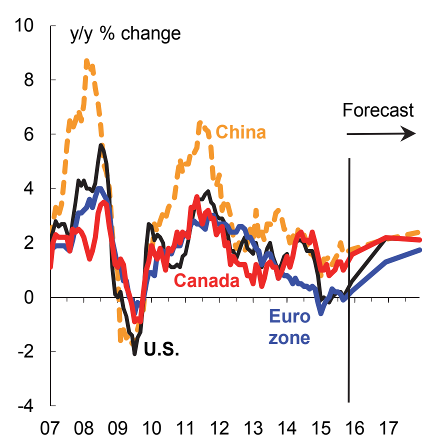
Exchange Rates	2015 Q3	2015 Q4f	2016 Q1f	2016 Q2f	2016 Q3f	2016 Q4f	2017 Q1f	2017 Q2f	2017 Q3f	2017 Q4f
Americas					(end of period)					
Canadian Dollar (USDCAD)	1.33	1.37	1.37	1.38	1.39	1.39	1.35	1.33	1.30	1.26
Canadian Dollar (CADUSD)	0.75	0.73	0.73	0.72	0.72	0.72	0.74	0.75	0.77	0.79
Mexican Peso (USDMXN)	16.92	17.17	17.02	16.70	16.60	16.68	16.72	16.55	16.60	16.81
Brazilian Real (USDBRL)	3.95	4.00	4.15	4.20	4.15	4.25	4.25	4.30	4.35	4.40
Colombian Peso (USDCOP)	3087	3050	3100	3150	3175	3200	3200	3225	3200	3225
Peruvian Nuevo Sol (USDPEN)	3.23	3.27	3.32	3.36	3.36	3.35	3.35	3.38	3.38	3.40
Chilean Peso (USDCLP)	696	706	704	704	705	706	702	702	701	700
Canadian Dollar Cross Rates										
Euro (EURCAD)	1.49	1.44	1.44	1.38	1.32	1.32	1.32	1.33	1.39	1.41
U.K. Pound (GBPCAD)	2.01	2.07	2.07	2.06	2.02	2.00	1.98	1.98	1.98	2.02
Japanese Yen (CADJPY)	90	91	93	93	94	94	99	102	105	109
Australian Dollar (AUDCAD)	0.93	0.96	0.96	0.94	0.90	0.90	0.92	0.93	0.94	0.91
Mexican Peso (CADMXN)	12.71	12.53	12.43	12.10	11.94	12.00	12.39	12.45	12.77	13.34
Europe										
Euro (EURUSD)	1.12	1.05	1.05	1.00	0.95	0.95	0.98	1.00	1.07	1.12
U.K. Pound (GBPUSD)	1.51	1.51	1.51	1.49	1.45	1.44	1.47	1.49	1.52	1.60
Swiss Franc (USDCHF)	0.97	1.03	1.03	1.09	1.16	1.16	1.12	1.10	1.03	0.98
Swedish Krona (USDSEK)	8.37	8.60	8.60	9.15	9.50	9.50	9.20	9.00	8.40	8.00
Norwegian Krone (USDNOK)	8.52	8.30	8.80	8.90	9.20	9.00	8.70	8.50	8.25	7.80
Russian Ruble (USDRUB)	65.4	69.0	68.0	65.0	63.0	60.0	58.0	56.0	55.0	53.0
Turkish Lira (USDTRY)	3.03	2.95	3.00	3.02	3.05	3.00	2.95	2.90	2.85	2.80
Asia/Oceania										
Japanese Yen (USDJPY)	120	125	128	129	130	131	133	135	137	137
Australian Dollar (AUDUSD)	0.70	0.70	0.70	0.68	0.65	0.65	0.68	0.70	0.72	0.72
Chinese Yuan (USDCNY)	6.36	6.60	6.65	6.70	6.75	6.80	6.80	6.80	6.80	6.80
Indian Rupee (USDINR)	65.6	67.0	67.3	67.5	67.8	68.0	68.3	68.5	68.8	69.0
South Korean Won (USDKRW)	1185	1210	1214	1218	1221	1225	1229	1233	1236	1240
Indonesian Rupiah (USDIDR)	14653	14300	14375	14450	14525	14600	14650	14700	14750	14800
Thai Baht (USDTHB)	36.4	36.5	36.8	37.0	37.3	37.5	37.6	37.8	37.9	38.0

Central Bank Rates



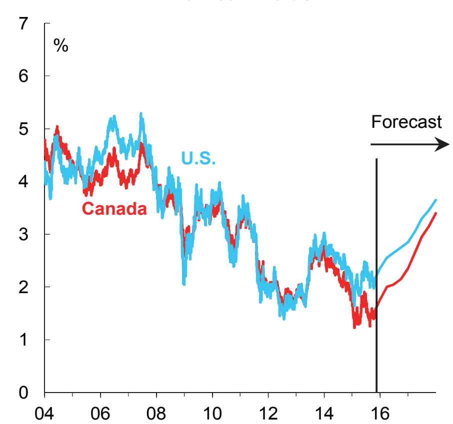
Source: Bloomberg, Scotiabank Economics.

Global Inflation



Source: Bloomberg, Scotiabank Economics.

10-Year Yields



Source: Bloomberg, Scotiabank Economics.