Scotia

Downgrading Global Growth, Again

- Global growth will post a much slower 3.2% advance in 2012
- Restraints on global growth will work against the improvement in manufacturing that is benefiting from the revival of Japanese production of auto parts and technology equipment, and the left to consumer and business purchasing power from lower oil prices
- Downgrading of euro zone prospects will reduce euro zone growth to an average of only 0.3% in 2012
- The European Central Bank is expected to cut interest rates again
- With inflation projected to decelerate sharply in tandem with the downturn in output, the ECB is likely to cut interest rates by 50 bps in early 2012
- Stronger-than-expected data for Q3 has led us to lift our growth profile for the UK slightly to 0.8% in both years
- Revised down Thailand's GDP to 3.5% in 2012
- Brazil is witnessing an economic deceleration, high inflationary pressures and loose monetary policy stance
- Colombia, Chile, and Peru remain relatively more resilient on the back of strong local demand
- Mexico's economy is expected to decelerate in the coming months

Commodities

- Copper prices are expected to strengthen again next spring, copper inventories in China are modest and fabricators will need to restock after working down their inventories earlier this year

Global Forecast Update

Downgrading Global Growth, Again

The global economy is set to slow further in 2012, with output growth dragged down by an even weaker performance anticipated in the euro zone. We now expect that global growth will post a much slower 3.2% advance in 2012, more than half a percentage point lower than our previous forecast, following an estimated 3.8% gain this year. Weakness in the advanced economies continues to be counterbalanced by comparatively stronger and more sustainable growth trends in Asia-Pacific and Latin America.

Index

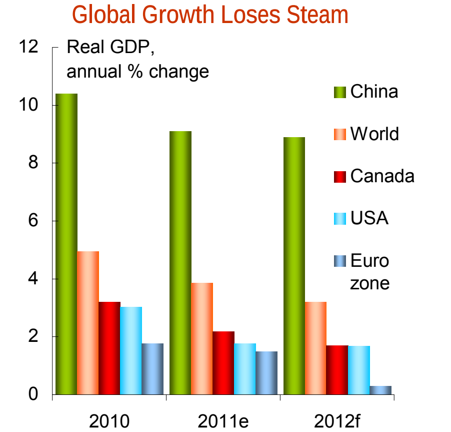
The intensifying structural adjustments being implemented by many of the highly-indebted European countries will increase the drag on activity both in the region and around the world through reduced trade. At the same time, the persistent fiscal woes and policy uncertainties in Europe and the United States are contributing to recurring volatility in financial markets, with negative implications for confidence and the pace of activity. These restraints on growth will effectively work against the improvement in manufacturing that is benefiting from the revival in Japanese production of auto parts and technology equipment, and the lift to consumer and business purchasing power from lower gasoline prices.

The downgrading of euro zone prospects reflects a number of fundamental factors. First, the broad agreements to redress the intensifying sovereign debt crisis will require governments to enact additional expenditure restraint and revenue enhancement measures designed to cap and eventually reverse fiscal and debt imbalances, with the extent of the retrenchment dependent upon the respective countries' current budgetary situation. Second, lending by the region's financial institutions will be constrained by the need to bolster capital and meet more stringent regulatory requirements. And third, household caution will increasingly be reinforced by the further rise in joblessness, increased public sector retrenchment and increased efforts to pare down personal debt. Combined, these adjustments are expected to reduce euro zone growth to an average of only 0.3% in 2012, a decline of 0.8 percentage points from our previous below-consensus forecast, after a paltry gain of 1.5% this year.

Increased fiscal austerity will deepen the recessions in the most financially troubled nations of southern Europe, most notably Greece and Portugal. The severity of the compression in other highly indebted countries, Ireland for example, will be comparatively less because significant adjustments have already been undertaken to put their domestic economic and financial conditions on a more solid footing. With the financial contagion spreading to the larger countries of Italy and Spain, increasing government cutbacks alongside further banking sector consolidation will aggravate the spreading weakness and virtually eliminate growth next year. Even the larger northern nations will face increasing economic headwinds, with private domestic restraint compounded by fiscal consolidation, and trade impacted by the slower pace of regional and international activity.

This forecast takes into account the late-October agreement to address the significant euro zone problems, a plan that not only restructures Greece's sovereign debt, but also enlarges the European Financial Stability Facility and, importantly, assists in the recapitalizing of the beleaguered financial sector. But any delay in implementing the initiatives could substantially increase the downside risks to the outlook. With inflation set to unwind, the European Central Bank is expected to cut interest rates again following today's reduction as increasing fiscal retrenchment adds to the downward pressure on growth. Gradual progress towards stabilizing the euro zone's chronic debt problems should provide some support for the euro currency, particularly if it occurs against the backdrop of renewed concern over the lack of progress in resolving the United States' pressing budgetary issues.

Global Growth Loses Steam



Source: Scotia Economics

(For a perspective on foreign exchange trends, please refer to our November 2011 *Foreign Exchange Outlook* at http://www.scotiacapital.com/English/bns_econ/fxout.pdf.) ■

North America	2000-09	2010	2011f	2012f
	(annual % change)			
Canada				
Real GDP	2.1	3.2	2.2	1.7
Consumer Spending	3.2	3.3	1.8	1.8
Residential Investment	3.8	10.2	2.4	3.8
Business Investment	2.0	7.3	13.3	6.1
Government	3.5	4.7	1.8	-0.6
Exports	-0.7	6.4	4.3	5.7
Imports	2.1	13.1	7.1	4.4
Nominal GDP	4.5	6.3	5.0	3.0
GDP Deflator	2.4	2.9	2.8	1.2
Consumer Price Index	2.1	1.8	2.9	1.7
Core CPI	1.9	1.7	1.7	1.8
Pre-Tax Corporate Profits	3.0	21.2	8.5	4.0
Employment	1.6	1.4	1.6	0.9
thousands of jobs	241	231	280	164
thousands of jobs (Q4/Q4)	229	279	281	148
Unemployment Rate (%)	7.0	8.0	7.4	7.3
Current Account Balance (C$ bn.)	13.8	-50.9	-54.0	-52.3
per cent of GDP	1.2	-3.1	-3.2	-3.0
Merchandise Trade Balance (C$ bn.)	51.7	-9.0	-6.5	-4.0
Federal Budget Balance (C$ bn.)	2.0	-33	-30	-21
per cent of GDP	0.3	-2.1	-1.8	-1.2
Housing Starts (thousands)	201	190	190	180
Motor Vehicle Sales (thousands)	1,591	1,557	1,590	1,605
Motor Vehicle Production (thousands)	2,481	2,100	2,250	2,400
Industrial Production	-0.6	4.6	2.7	2.4
United States				
Real GDP	1.7	3.0	1.8	1.7
Consumer Spending	2.2	2.0	2.2	1.2
Residential Investment	-5.0	-4.3	-1.8	1.6
Business Investment	0.6	4.4	8.8	5.7
Government	2.1	0.7	-1.9	-0.7
Exports	3.2	11.3	6.7	4.9
Imports	2.5	12.5	4.9	2.5
Nominal GDP	4.1	4.2	4.0	3.5
GDP Deflator	2.4	1.1	2.2	1.8
Consumer Price Index	2.6	1.6	3.0	2.0
Core CPI	2.2	1.0	1.6	1.8
Pre-Tax Corporate Profits	4.8	32.2	8.1	5.5
Employment	0.1	-0.7	1.0	1.1
millions of jobs	0.18	-0.97	1.27	1.46
millions of jobs (Q4/Q4)	-0.09	0.70	1.45	1.64
Unemployment Rate (%)	5.5	9.6	9.0	8.9
Current Account Balance (US$ bn.)	-573	-471	-470	-480
per cent of GDP	-4.7	-3.2	-3.1	-3.1
Merchandise Trade Balance (US$ bn.)	-632	-646	-749	-766
Federal Budget Balance (US$ bn.)	-318	-1,294	-1,299	-1,240
per cent of GDP	-2.4	-8.9	-8.6	-7.9
Housing Starts (millions)	1.54	0.58	0.58	0.64
Motor Vehicle Sales (millions)	15.8	11.6	12.7	13.5
Motor Vehicle Production (millions)	10.9	7.7	8.3	9.1
Industrial Production	-0.3	5.3	3.9	2.9
Mexico				
Real GDP	1.7	5.4	3.7	2.9
Industrial Production	1.0	6.0	3.8	3.5
Consumer Price Index (year-end)	4.9	4.4	3.4	4.0
Current Account Balance (US$ bn.)	-10.4	-5.7	-15.0	-21.0
per cent of GDP	-1.3	-0.5	-1.3	-1.5

Forecast Changes

Canada & United States

- We have edged up our forecast for Canadian GDP growth this year by 0.1 percentage point to 2.2%, reflecting slightly better-than-expected momentum heading into the fall, while leaving our estimate for 2012 unchanged at 1.7%. Increased consumer caution and softer export sales will keep growth in the slow lane for the time being, though continued solid business investment and resource-related activity are providing important support.
- Our forecast of U.S. GDP growth for 2011 and 2012 has been raised slightly — from 1.7% to 1.8% for 2011, and from 1.5% to 1.7% for 2012. The 2011 adjustment reflects the base effect created by the sharp slowdown in inventory accumulation in the third quarter and better-than-expected consumer spending data. The 2012 forecast incorporates very soft growth in the first half of the year, with fiscal restraint remaining a large drag.
- Facing slower growth, Ottawa and Washington have the benefit of better-than-forecast deficits for their respective fiscal years just ended. In the U.S., partial passage of the *American Jobs Act* is assumed; in Canada, Ottawa's existing commitments, such as its extended shipbuilding contract and multi-year corporate tax reform, are expected to anchor its economic support measures.

Mexico

- Mexico's economy is expected to decelerate in the coming months. The country's economic activity indicator suggests that Mexican output grew by 4.4% y/y in August, with industrial production rebounding on the back of increased activity in the auto and construction sectors. The recent depreciation of the Mexican peso against the U.S. dollar could provide a slight competitive boost. However, the U.S. economic deceleration will have a bigger impact on the Mexican economy, which we expect to intensify at the end of the year and through the first half of 2012.

International	2000-09	2010	2011f	2012f
Real GDP (annual % change)				
World (based on purchasing power parity)	3.6	5.1	3.8	3.2
United Kingdom	1.9	1.8	0.8	0.8
Euro zone	1.4	1.8	1.5	0.3
Germany	0.9	3.6	2.9	1.0
France	1.4	1.4	1.7	0.6
Italy	0.5	1.3	0.6	-0.2
Spain	2.6	-0.1	0.6	0.1
Japan	0.6	4.0	0.3	3.2
Australia	3.1	2.7	2.9	3.0
China	9.4	10.4	9.1	8.9
India	7.4	9.0	7.9	8.3
Korea	4.4	6.2	4.7	5.0
Thailand	4.1	7.8	3.0	3.5
Brazil	3.3	7.5	3.5	4.0
Chile	3.7	5.2	6.5	4.8
Peru	5.2	8.8	6.2	5.6
Consumer Prices (y/y % change, year-end)				
United Kingdom	1.9	3.7	4.5	2.1
Euro zone	2.0	2.2	2.6	1.5
Germany	1.7	1.9	2.4	1.5
France	1.9	2.0	2.4	1.3
Italy	2.3	2.1	3.6	1.3
Spain	3.0	2.9	2.6	1.4
Japan	-0.3	-0.4	1.1	1.3
Australia	3.2	2.7	2.8	2.5
China	2.0	4.6	5.0	4.5
India	22.5	32.2	7.5	6.0
Korea	3.1	3.5	3.7	3.3
Thailand	2.6	3.0	3.5	2.8
Brazil	6.7	5.9	6.5	6.0
Chile	3.5	1.4	3.5	3.3
Peru	2.5	2.1	3.8	2.7
Current Account Balance (% of GDP)				
United Kingdom	-2.2	-2.5	-2.0	-1.6
Euro zone	-0.2	-0.5	-0.4	-0.3
Germany	3.6	5.6	5.4	4.9
France	-0.4	-2.3	-2.3	-2.5
Italy	-1.5	-3.5	-3.6	-3.2
Spain	-5.9	-4.6	-3.4	-3.1
Japan	3.3	3.6	2.6	2.8
Australia	-4.7	-2.7	-2.9	-3.1
China	5.4	5.2	4.3	3.6
India	-0.6	-2.6	-2.8	-2.6
Korea	2.3	2.8	2.1	1.4
Thailand	3.3	4.2	3.6	3.2
Brazil	-0.7	-4.7	-2.4	-2.8
Chile	0.9	1.9	-0.5	-1.0
Peru	-0.7	-1.5	-2.5	-2.7

Commodities (annual average)				
WTI Oil (US$/bbl)	51	79	92	92
Brent Oil (US$/bbl)	50	80	112	112
Nymex Natural Gas (US$/mmbtu)	5.95	4.40	4.25	4.50
Copper (US$/lb)	1.78	3.42	4.00	4.00
Zinc (US$/lb)	0.73	0.98	0.99	0.99
Nickel (US$/lb)	7.11	9.89	10.50	9.00
Gold, London PM Fix (US$/oz)	522	1,225	1,565	1,675
Pulp (US$/tonne)	668	960	977	973
Newsprint (US$/tonne)	572	607	640	680
Lumber (US$/mfbm)	275	254	255	260

Forecast Changes

International

- We have revised lower our growth projections for the euro zone, given further deterioration in confidence, ongoing fiscal consolidation and banking sector deleveraging. We now anticipate the euro zone to grow by 1.5% in 2011 and 0.3% in 2012. Several member nations will see consecutive quarterly contractions in output, and the region overall is expected to experience a mild recession from late 2011 to mid-2012, followed by a gradual recovery. With inflation projected to decelerate sharply in tandem with the downturn in output, the ECB is likely to cut interest rates by 50 bps in early 2012. Stronger-than-expected data for the third quarter has led us to lift our growth profile for the U.K. slightly to 0.8% in both years.
- Slower Asian exports to Europe and the U.S. are being offset in part by solid shipments within the region, and to China and Japan in particular. Flooding in Thailand has revived supply-chain disruption concerns within the region, as electronics and automotive companies located in the country have been unable to meet export orders. We have revised down Thailand's GDP growth to 3.0% in 2011 and 3.5% in 2012. An expected continuation of the moderation in regional price pressures will augment the number of central banks switching to growth supportive monetary easing in coming quarters.
- Latin American economies are currently characterized by an uneven performance. On one side, Brazil is witnessing an economic deceleration, high inflationary pressures and loose monetary policy stance. Colombia, Chile and Peru, on the other hand, remain relatively more resilient on the back of strong local demand, healthy domestic credit conditions and currency competitiveness.

Commodities

- Commodity prices remain resilient. After an early-October selloff, oil, base metals and grains rallied back significantly after the euro ...

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Provincial	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
	Real GDP* (annual % change)				Budget Balances*, FY March 31 ($millions)			
Canada	2.1	3.2	2.2	1.7	9,024	-55,598	-33,372 *	-30,000
Newfoundland & Labrador	3.1	6.0	3.5	1.8	103	-33	485	59
Prince Edward Island	1.7	2.0	1.5	1.2	-26	-74	-52 *	-42
Nova Scotia	1.7	2.1	1.5	1.6	52	-269	569 *	-319
New Brunswick	1.8	3.3	1.4	1.2	56	-722	-633 *	-546
Quebec	1.8	2.7	1.8	1.4	-115	-3,174	-3,150 *	-3,800
Ontario	1.7	3.4	2.0	1.5	-722	-19,262	-14,011 *	-15,994
Manitoba	2.1	2.0	2.0	2.0	312 **	-200	-298 *	-438
Saskatchewan	1.6	4.4	3.1	2.9	426	425	48 *	361
Alberta	2.7	3.8	3.3	3.0	4,268	0	0 *	0
British Columbia	2.5	4.0	2.3	2.0	863	-1,864	-309 *	-2,778

* For 2010, Statistics Canada's preliminary estimates of GDP at basic prices by industry.

* Final result; other FY11-FY12 data: Provinces' estimates.
** FY04-FY09.

	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
	Employment (annual % change)				Unemployment Rate (annual average, %)			
Canada	1.6	1.4	1.6	0.9	7.0	8.0	7.4	7.3
Newfoundland and Labrador	0.5	3.3	2.9	0.9	15.3	14.4	12.6	12.2
Prince Edward Island	1.3	2.9	1.4	0.5	11.3	11.2	11.3	11.2
Nova Scotia	1.1	0.2	-0.1	0.7	8.8	9.3	9.3	8.9
New Brunswick	1.0	-0.9	-1.3	0.5	9.4	9.3	9.5	9.4
Quebec	1.5	1.7	1.4	0.7	8.3	8.0	7.6	7.6
Ontario	1.4	1.7	1.8	0.8	6.8	8.7	7.8	7.8
Manitoba	1.2	1.9	0.8	0.9	4.8	5.4	5.4	5.2
Saskatchewan	1.0	0.9	0.3	1.1	5.0	5.2	5.0	4.6
Alberta	2.8	-0.4	3.3	1.8	4.6	6.5	5.4	5.1
British Columbia	1.6	1.7	0.8	0.8	6.6	7.6	7.6	7.5
	Housing Starts (annual, thousands of units)				Motor Vehicle Sales (annual, thousands of units)			
Canada	201	190	190	180	1,591	1,557	1,590	1,605
Atlantic	12	13	12	11	113	122	123	124
Quebec	44	51	49	44	404	414	417	420
Ontario	74	60	68	62	607	576	586	592
Manitoba	4	6	5	5	44	44	46	46
Saskatchewan	4	6	6	6	40	46	48	49
Alberta	35	27	24	27	205	200	213	215
British Columbia	27	26	26	25	178	155	157	159

Forecast Changes

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Commodities

- … zone summit of October 26, at which a broad plan to place euro zone finances on a better footing was agreed. While copper prices have eased back in recent days alongside renewed uncertainties over Greece, prices at US$3.59 per pound remain quite lucrative for mining companies, yielding a 59% profit margin over average world breakeven costs. While demand in China may be quiet over the balance of 2011, copper prices are expected to strengthen again next spring. Copper inventories in China are modest and fabricators will need to restock after working down their inventories earlier this year.

Provincial

- Nova Scotia will see some initial benefits of the $25 billion portion of the recently-awarded federal shipbuilding contract in 2012. For British Columbia, receipt of the $8 billion portion of the contract also should contribute to the province's economic resilience over the next year. Across Canada, the employment and output spurred by this contract are expected to build progressively through much of the decade.
- Auto production rebounded strongly in Q3, boosting Ontario's growth. Output in the motor vehicle sector in Q4, however, will be dampened due to flooding at supplier plants in Thailand.
- Upcoming mid-year provincial *Budget* updates are expected to respond to the somewhat softer, uncertain, economic outlook emerging. Quebec expects the fiscal impact of its lower real GDP forecast for 2011 and 2012 to be offset by federal HST transition assistance, savings on its debt service and higher mining receipts.

Financial Markets	10Q4	11Q1	11Q2	11Q3	11Q4f	12Q1f	12Q2f	12Q3f	12Q4f
					(%, end of period)				
Canada									
BoC Overnight Target Rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
3-month T-bill	1.05	0.96	0.90	0.82	0.85	0.90	0.90	0.95	1.10
2-year Canada	1.68	1.83	1.59	0.89	1.00	1.10	1.10	1.35	1.80
5-year Canada	2.42	2.78	2.33	1.40	1.50	1.70	1.80	2.10	2.40
10-year Canada	3.12	3.35	3.11	2.16	2.10	2.20	2.40	2.65	2.90
30-year Canada	3.53	3.76	3.55	2.77	2.70	2.75	3.00	3.20	3.40
Real GDP (q/q, ann. % change)	3.1	3.6	-0.4	2.0	1.5	1.5	2.0	2.4	2.4
Real GDP (y/y, % change)	3.3	2.9	2.2	2.1	1.7	1.1	1.8	1.8	2.1
Consumer Prices (y/y, % change)	2.3	2.6	3.4	3.0	2.7	2.1	1.5	1.6	1.7
Core CPI (y/y % change)	1.6	1.3	1.6	1.9	2.0	1.9	1.8	1.8	1.7
United States									
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-month T-bill	0.12	0.09	0.01	0.02	0.00	0.05	0.05	0.10	0.15
2-year Treasury	0.59	0.82	0.46	0.24	0.30	0.40	0.70	0.90	1.10
5-year Treasury	2.00	2.28	1.76	0.95	1.00	1.20	1.35	1.55	1.70
10-year Treasury	3.29	3.47	3.16	1.92	1.80	1.90	2.20	2.60	3.00
30-year Treasury	4.33	4.51	4.37	2.91	2.90	2.95	3.15	3.60	4.00
Real GDP (q/q, ann. % change)	2.3	0.4	1.3	2.5	2.3	1.5	1.2	1.4	1.9
Real GDP (y/y, % change)	3.1	2.2	1.6	1.6	1.6	1.9	1.9	1.6	1.5
Consumer Prices (y/y, % change)	1.2	2.2	3.3	3.8	2.9	2.2	1.8	1.8	2.2
Core CPI (y/y % change)	0.6	1.1	1.5	1.9	1.8	1.8	1.7	1.7	1.8
Spreads									
Target Rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
3-month T-bill	0.93	0.87	0.89	0.80	0.85	0.85	0.85	0.85	0.95
2-year	1.09	1.01	1.13	0.65	0.70	0.70	0.40	0.45	0.70
5-year	0.42	0.50	0.57	0.45	0.50	0.50	0.45	0.55	0.70
10-year	-0.17	-0.12	-0.05	0.24	0.30	0.30	0.20	0.05	-0.10
30-year	-0.80	-0.75	-0.82	-0.14	-0.20	-0.20	-0.15	-0.40	-0.60
Central Bank Rates									
European Central Bank	1.00	1.00	1.25	1.50	1.25	1.00	1.00	1.00	1.00
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.25	0.25	0.25	0.00	0.00	0.00	0.00	0.25	0.25
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	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Exchange Rates									
Canadian Dollar (USDCAD)	1.00	0.97	0.96	1.05	1.02	1.00	0.99	0.98	0.98
Canadian Dollar (CADUSD)	1.00	1.03	1.04	0.95	0.99	1.00	1.01	1.02	1.02
Euro (EURUSD)	1.34	1.42	1.45	1.34	1.40	1.42	1.42	1.40	1.40
Euro (EURGBP)	0.86	0.88	0.90	0.86	0.88	0.88	0.88	0.86	0.85
Sterling (GBPUSD)	1.56	1.60	1.61	1.56	1.60	1.61	1.62	1.63	1.64
Yen (USDJPY)	81	83	81	77	80	82	83	84	85
Australian Dollar (AUDUSD)	1.02	1.03	1.07	0.97	1.00	1.02	1.04	1.06	1.08
Chinese Yuan (USDCNY)	6.6	6.5	6.5	6.4	6.3	6.3	6.2	6.1	6.1
Mexican Peso (USDMXN)	12.3	11.9	11.7	13.9	12.9	12.9	12.7	12.7	12.7
Brazilian Real (USDBRL)	1.66	1.63	1.56	1.88	1.80	1.79	1.77	1.76	1.75

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