Global Views

Weekly commentary on economic and financial market developments

June 1, 2012

2-8 Economics

A1-A11 Forecasts & Data

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Europe To Be The Main Attraction Again — But With Notable Sideshows

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A8.**

European markets will lead global influences again on four main counts. First, German releases could be the most important development in the eurozone as consensus expects each of factory orders, industrial production and exports to take a step backward from solid gains the prior month. If correct, then that would stoke renewed fears about the ability of the German economy to remain resilient in the face of heightened weakness in several of its key export markets including China, the rest of the eurozone, and the US (where the economy is running at stall speed excluding the auto sector). Second, seemingly daily polls out of Greece will whipsaw markets around right up until the results of the June 17th elections are announced. Third, consensus and markets expect the ECB to remain on hold, and likewise for the Bank of England. In the middle of these releases, Germany conducts a 5-year bond auction, but the fourth most important development could well be a planned Spanish auction on Thursday. Additional data risk will be posed by eurozone retail sales whereby next week's print could drive negative spending growth in year-over-year terms, eurozone GDP revisions, and French jobs.

Asian markets will be mostly focused upon two main risks. The most significant may be a further deceleration in Chinese CPI inflation on Friday June 8th in the evening (ET). That would add to room for stimulus, but likely only in terms of smaller scale and targeted measures as China keeps its powder dry for potential further risks emanating from the eurozone and the US 'fiscal cliff' into year-end. Australia will be just as much in focus as Canada next week, with an expected pause by the RBA on Tuesday, amid expectations for a soft Q1 GDP print that same day that would reinforce a dovish bias. Only three out of 28 forecasters expect an RBA cut. Australia then releases the May jobs report on Wednesday. Like Canada but less so, Australia is coming off two decent sized job gains so whether hiring patterns stick into more volatile global conditions this spring will be closely watched. Thursday then closes off Australia week with trade figures for April. Regional Asian markets may also be influenced by Q1 GDP revisions in Japan and South Korea, as the Bank of Korea is expected to extend the pause that has been in place throughout the past year.

This will be a big week for **Canada** watchers in that there are two major domestic risks that could swing market pricing beyond global influences, and other developments of less significance to markets but which nonetheless provide an evolving picture of the performance of the Canadian economy. Both of those risks are likely to be dovish to the Canada curve and CAD in our opinion. Our article on pages 3-5 gives our thoughts on things to watch in Tuesday's Bank of Canada statement. We expect the BoC to take a moderately more dovish approach, but the biggest risk is whether they repeat their commitment to raising rates without providing a hint at a timeline to their views. A fuller re-write of the April 17th statement will likely wait until the July 5th statement and MPR following Greek elections and when the BoC can revisit its quarterly forecasts and underlying domestic and foreign assumptions. Canada also releases job figures for May on Friday. We're looking for a flat employment report as recent gains are consolidated. Canada is coming off the strongest back-to-back monthly job gains since 1981 when 143,000 jobs were created in January and February of that year versus 140.5k in March and April of this year. It remains to be seen whether this is a temporary lift following weakness dating back to last Fall, or whether this is sustainable. Canada also releases housing starts for May and trade figures for April on Friday. Canada auctions 10-year notes on Wednesday.

US markets should face relatively few domestic market influences next week and will instead spend much of the week focused upon global factors. Data flow will be fairly light. Total factory orders are expected to come in roughly flat and in line with previously released durable goods orders, and the only new information here will be nondurable goods orders. ISM services should continue to demonstrate signs of a modest service sector expansion, but the pace has significantly diminished since February. The Fed's Beige Book should point to mixed regional economic conditions, with regional anecdotes of soft job markets combined with mildly more encouraging manufacturing and housing markets. Friday's April trade report will be used partly for revisions and how they may impact the third swing at US Q1 GDP, but should also start off Q2 on mildly firmer footings in nominal terms as lower oil prices begin to benefit the trade balance. Offsetting much of this via exports is likely to be softening growth in China and no growth in Europe on balance. Fed speak returns with a line up of six speakers, of whom only two vote this year (Lockhart and Williams), two get votes next year (Bullard, Evans), and two don't get a vote until 2014 (Fisher and Kocherlakota).

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June Bank of Canada Statement Likely To Be Mildly More Dovish

- **But bigger changes would likely wait for the next full Monetary Policy Report due out with the July statement.**

Next week's Bank of Canada rate statement is likely to provide a moderately more cautious tone than the hawkish twist that was provided in the last statement back on April 17th, but we expect the BoC to retain the loose rate guidance that "…some modest withdrawal of the present considerable monetary policy stimulus may become appropriate…the timing and degree of any such withdrawal will be weighed carefully against domestic and global economic developments." The BoC may claim that it didn't attach a specific timeline or a magnitude to its forecast as justification for a possibly more moderate stance next week, and that it carefully couched the guidance with loose probabilities by using terms like 'may', but the aggressive communication strategy surrounding the statement is what convinced markets that the BoC was priming the pump for near-term rate hikes and that is likely to be softened this go around. Indeed, the risk is obviously the complete removal of this sentence which would be uber-dovish, but we think inertia amidst uncertainty surrounding events such as the Greek elections on June 17th will likely delay a potentially bigger shift until the July MPR. Our forecast has consistently remained in favour of a BoC hold until mid-2013, and markets have now fully backed off rate hike expectations and veered toward cut risks that we'll return to in a moment (chart 1).

The world has changed again since the BoC's April 17th views. With this in mind, we now take a look at statement vulnerabilities, i.e. things that could be reversed in the statement on Tuesday compared to the last crack at it. The BoC has to take a moderate step backward in its hawkish rhetoric as opposed to risking being the only hawkish central bank in a week in which the ECB could well cut, and each of the BoE and RBA is likely to stand pat but with a dovish bias. Canada is special — solid banks, better overall government finances, excellent corporate balance sheets, resource riches, etc. — but not that special in our judgement, and certainly not an island given its reliance upon exports and capital market flows within a tumultuous global economy.

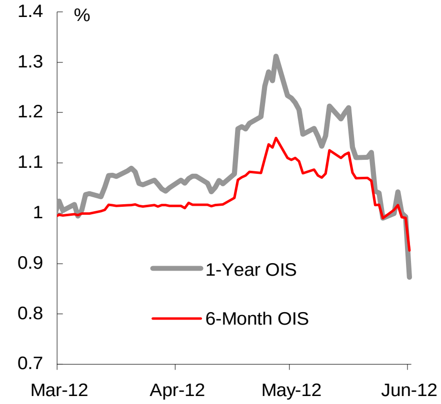
The following page shows the April BoC statement and highlights statement vulnerabilities. Given that the BoC went through a whole re-write on its bias in the April statement, we don't think it will do so again just yet, versus biding its time with relatively minor tweaking until at least the July MPR at which we would expect a material dovish shift in tone. With Greek elections after the statement, it would also pay the BoC to mask some of its bias shift. Here's a summary of key things that have changed since the April statement:

1. Geopolitical risk flared up again with Spanish banks, the Greek election on May 6th and the next one on June 17th. Thus, the remark that "the profile for global economic growth has improved" is at risk.

2. Canadian growth has disappointed into the new year and

Chart #1

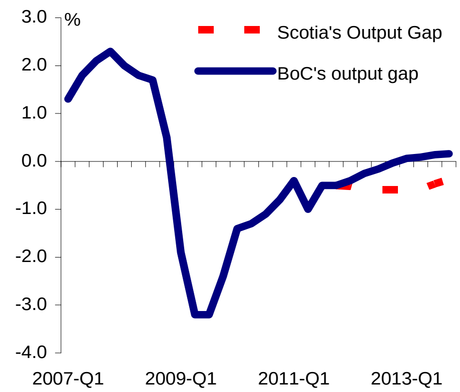
Canada OIS Pricing Moderate Easing



Source: Scotia Economics, Bloomberg

Chart #2

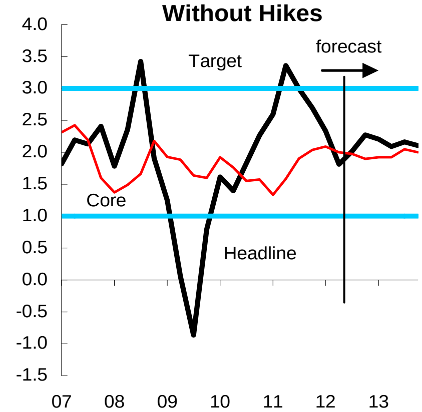
Comparing Output Gap Estimates



Source: BoC, Statscan, Scotia Economics

Chart #3

CPI Coming Back To Target Without Hikes



Source: Bloomberg, Scotia Economics.

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particularly in terms of consumer spending. The BoC's forecast for 2.5% annualized GDP growth was dashed by a 1.9% reality that was even softer (0.9%) after excluding inventory effects. The BoC can longer state that geopolitical risks are the main source of uncertainty when the domestic consumer stalled out in a low rate environment.

3. Because growth has disappointed BoC expectations, Canada likely has a bigger output gap than the BoC estimated in April (chart 2).

4. Oil prices have moved sharply lower. WTI on April 17th stood at US$104 and now sits at US$ 83.58 per barrel, while Brent stood at US$118.7 and has fallen to US$100 range. Gasoline prices have also moved lower. They peaked at about C$1.35/Litre on April 7th and slipped marginally to about C$1.34 on statement day in April, but have since dropped to just under C$1.27/L and thus back to levels not seen since early March before the run-up. Thus, the combined effects ease up on headline inflation risk, and point to softened references to higher gasoline prices and "somewhat firmer than anticipated" inflation. Indeed, inflation is likely to wane into the summer (chart 3).

5. US job growth has further deteriorated as evidence by a total replay of what happened a year ago when nonfarm payrolls growth collapsed.

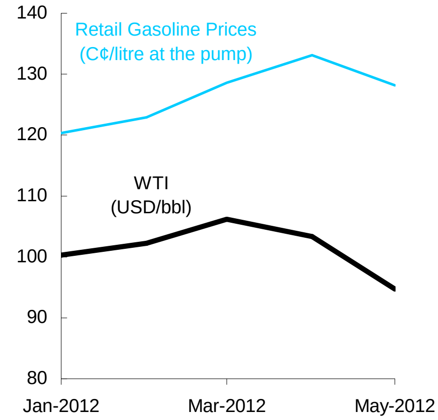
6. Financial conditions have weakened with the TSX 15% lower than the day before the last BoC statement and back to mid-December levels, and CAD has depreciated by about 5 cents against the USD since just before the statement and six cents since the peak in late April (chart 5).

7. Signs of cooling housing markets have gradually appeared through falling Teranet house prices that sample repeat home sales, and anecdotes of cancelled project openings in Toronto's condo market.

8. US GDP has been revised lower to 1.9% since the April statement, and thus the remark that "The profile for U.S. growth is slightly stronger" is at risk.

Chart #4

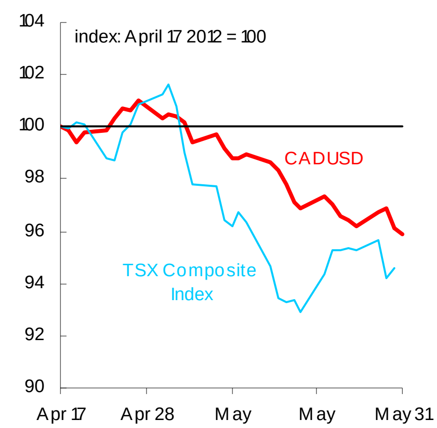
Oil & Gasoline Prices Have Fallen



Source: Bloomberg, Scotia Economics.

Chart #5

TSX Dives With CAD



Source: Bloomberg, Scotia Economics.

9. The BoC has had at best indirect references to China and its importance to the Canadian commodities complex at least from a pricing stand point. A more pointed reference to emerging downside risks to Chinese growth is possible and would soften the emerging markets reference in the last statement particularly as others such as Brazil witness growth risks.

Does this mean that we think that the BoC will ease the policy rate during H2 2012? That still seems highly unlikely partly given the BoC's ongoing concerns about leverage in the household sector. Indeed the only scenario in which a rate cut would seem plausible to us would be in response to a global funding crisis emanating from a worst-case scenario playing out in Europe. It's more reasonable to expect the BoC to soften its tone in the July MPR, slightly lowering its expectations for growth and inflation. That doesn't mean that markets won't overshoot, and a near-repeat of fall 2011 — when markets priced in rate cuts that the BoC did not undertake after the BoC released a dovish MPR — is a distinct possibility. We still believe, however, that policy rates will be stickier than market rates in the absence of a full liquidity freeze to world markets.

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Areas Of Vulnerability In The April 17th BoC Statement
(see bold highlights)

The Bank of Canada today announced that it is maintaining its target for the overnight rate at 1 per cent. The Bank Rate is correspondingly 1 1/4 per cent and the deposit rate is 3/4 per cent.

The profile for global economic growth has improved since the Bank released its January Monetary Policy Report (MPR). Europe is expected to emerge slowly from recession in the second half of 2012, although the risks around this outlook remain high. **The profile for U.S. growth is slightly stronger**, reflecting the balance of somewhat improved labour markets, financial conditions and confidence on the one hand, and emerging fiscal consolidation and ongoing household deleveraging on the other.

Economic activity in emerging-market economies is expected to moderate to a still-robust pace over the projection horizon, supported by an easing of macroeconomic policies. **Improved global economic prospects, supply disruptions and geopolitical risks have kept commodity prices elevated. In particular, the international price of oil has risen further and is now considerably higher than that received by Canadian producers.** If sustained, these oil price developments could dampen the improvement in economic momentum.

Overall, economic momentum in Canada is slightly firmer than the Bank had expected in January. The external headwinds facing Canada have abated somewhat, with the U.S. recovery more resilient and **financial conditions more supportive** than previously anticipated. As a result, **business and household confidence are improving faster than forecast in January. The Bank projects that private domestic demand will account for almost all of Canada's economic growth over the projection horizon**. Household spending is expected to remain high relative to GDP as households add to their debt burden, which remains the biggest domestic risk. Business investment is projected to remain robust, reflecting solid balance sheets, very favourable credit conditions, continuing strong terms of trade and heightened competitive pressures. The contribution of government spending to growth is expected to be quite modest over the projection horizon, in line with recent federal and provincial budgets. The recovery in net exports is likely to remain weak in light of modest external demand and ongoing competitiveness challenges, including the persistent strength of the Canadian dollar.

The Bank projects that **the economy will grow by 2.4 per cent in both 2012 and 2013 before moderating to 2.2 per cent in 2014**. The degree of economic slack has been somewhat smaller than the Bank had anticipated in January, and the economy is now expected to return to full capacity in the first half of 2013.

As a result of this reduced slack and higher gasoline prices, the profile for inflation is expected to be somewhat firmer than anticipated in January. After moderating this quarter, total CPI inflation is expected, along with core inflation, to be around 2 per cent over the balance of the projection horizon as the economy reaches its production potential, the growth of labour compensation remains moderate, and inflation expectations stay well-anchored.

Reflecting all of these factors, the Bank has decided to maintain the target for the overnight rate at 1 per cent. In light of the reduced slack in the economy and firmer underlying inflation, **some modest withdrawal of the present considerable monetary policy stimulus may become appropriate**, consistent with achieving the 2 per cent inflation target over the medium term. The timing and degree of any such withdrawal will be weighed carefully against domestic and global economic developments.

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Do Record-Low Treasury Yields Make QE3 Pointless?

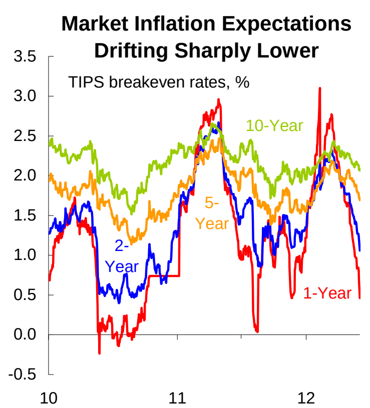
- **No, and the key lies in recalling how Chairman Ben Bernanke justified QE2's impact.**

A line of reasoning against additional Fed stimulus has posited that there is no point to offering additional bond purchases since it's next to impossible for the Fed to drive borrowing costs lower with Treasury yields sitting at their lowest levels ever. There is a fair point to be made here, but it gives short shrift to how Federal Reserve Chairman Ben Bernanke explained why, in his opinion, QE2 and QE1 worked. Recall the following remarks from his speech on February 3, 2011 titled "The Economic Outlook And Macroeconomic Policy":

"A wide range of market indicators supports the view that the Federal Reserve's securities purchases have been effective at easing financial conditions. For example, since August, when we announced our policy of reinvesting maturing securities and signaled we were considering more purchases, equity prices have risen significantly, volatility in the equity market has fallen, corporate bond spreads have narrowed, and inflation compensation as measured in the market for inflation-indexed securities has risen from low to more normal levels. Yields on 5- to 10-year Treasury securities initially declined markedly as markets priced in prospective Fed purchases; these yields subsequently rose, however, as investors became more optimistic about economic growth and as traders scaled back their expectations of future securities purchases. All of these developments are what one would expect to see when monetary policy becomes more accommodative, whether through conventional or less conventional means. Interestingly, these developments are also remarkably similar to those that occurred during the earlier episode of policy easing, notably in the months following our March 2009 announcement of a significant expansion in securities purchases. The fact that financial markets responded in very similar ways to each of these policy actions lends credence to the view that these actions had the expected effects on markets and are thereby providing significant support to job creation and the economy."

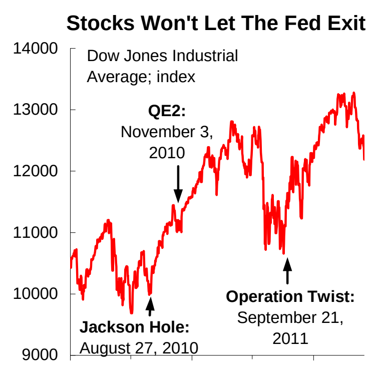
Judged through this context, it's clear that the Fed would not view the motivation for additional asset purchases solely in terms of pushing Treasury yields lower. Indeed, the Fed judged higher Treasury yields following QE efforts as a policy success that reflected averted deflation risk. Further, charts 1-3 showcase some of the factors that the Fed could point to this time around as justification for providing additional stimulus. As chart 1 demonstrates, market inflation expectations have drifted markedly lower since March. Thus, particularly if these trends push even further as we think they will, the Fed could argue that additional stimulus would be designed to ward off fatter tail downside risks to inflation either in the form of a too-sharp pace of disinflation or a return to outright deflation risk itself. Also, as chart 2 demonstrates, the recent equity correction would lend itself toward parallels in the lead-up to past rounds of Fed stimulus; the Fed leaned against corrections in order to attempt to improve market appetite. Third, corporate bond spreads have become very wide again such that corporations are not witnessing the flow-through effects of very low base yields. While strong safe haven flows into nominal Treasuries are distorting many ratios including TIPS breakevens, corporate bond spreads and equity indices, that's precisely the point that the Fed could make in justifying additional stimulus in favour of risk seeking and for reasons beyond the ones we laid out in our pieces "Reasons Why Additional Fed Stimulus Remains On The Table," pp.4-6, *Global Views*, April 27th 2012; "Fed's Published Rate Forecasts Could Be A Warm-Up To QE3," January 20th 2012; and "Would The Fed Be Captive To The Electoral Cycle?" pp.5-6, *Global Views*, May 11th 2012.

Chart #1



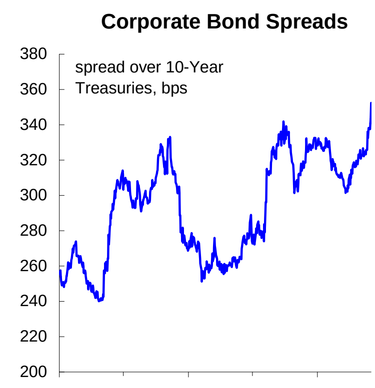
Source: Bloomberg, Scotia Economics.

Chart #2



Source: U.S. Federal Reserve, Bloomberg, Scotia Economics.

Chart #3



Source: Bloomberg, Scotia Economics.

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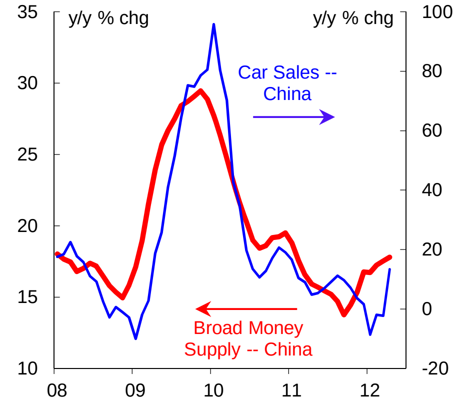
Car Sales To Accelerate In China

- **New government incentives and stimulative policies to drive gains.**

While the pace of economic growth has slowed in China this year, car sales have started to bounce back and should strengthen further in coming months alongside continuing employment gains, rising incomes, improved liquidity, as well as the recent introduction of new government subsidies for fuel-efficient models. In contrast, purchases of commercial vehicles, especially heavy trucks, will remain weak as China's economy continues to shift from investment-led growth towards stronger retail activity.

Money Supply Growth Leads Car Sales In China



Source: Scotia Economics.

China's automotive market is highly correlated with the macro-economic cycle and the level of interest rates. While headline GDP growth moderated to around 8% y/y in the opening months of 2012 from an average of 10% over the past decade, much of the slowdown reflects weaker investment spending. In contrast, employment and urban income growth show no signs of abating.

Other key drivers of passenger vehicle sales such as monetary policy have also become more stimulative in recent months. In particular, car sales in China closely track money supply growth. After tightening policy through most of last year to contain rising inflation, the monetary authorities began cutting reserve requirements for the banking system last December. As a result, broad money supply growth has picked up again. This acceleration has coincided with some improvement in car sales, which bottomed in January and advanced 13% y/y in April — the strongest gain since early 2011.

Car sales in China should also be supported by a recent government announcement of a RMB 6 billion (US$952 million) subsidy for purchases of fuel-efficient cars with engines of less than 1.6 litres. The last time China launched a similar program in 2009, annual sales soared by nearly 50%, driving past the U.S. to become the largest auto market in the world. The latest initiative is roughly half the size of the 2009 program and is expected to help boost car purchases to roughly 11 million this year — double the level prevailing in 2007 prior to the global financial crisis.

Global auto makers are also continuing to build new capacity in China, recognizing that the nation's auto industry is in its infancy. Vehicle penetration is only 58 per 1,000 people in China — less than one-tenth the level in the G7 nations. As a result, assembly capacity in China will expand by nearly 25% this year and a further double-digit increase is projected for 2013. European automakers are leading the expansion parade and will increase their capacity in China to 4.2 million units by 2013.

Commercial trucks and buses normally account for about one-quarter of the overall vehicle market (cars, trucks and buses) in China, and have slumped by nearly 30% so far this year due to a slowdown in investment spending and lower imports of key commodities such as iron ore. Looking ahead, heavy truck volumes will be challenged by the rebalancing of the Chinese economy away from investment spending, as many heavy trucks are used to transport iron ore and coal, sectors that benefit from strong investment activity. In addition, many heavy trucks compete directly with railways — a sector currently undergoing a massive expansion, and with lower transportation costs than heavy trucks.

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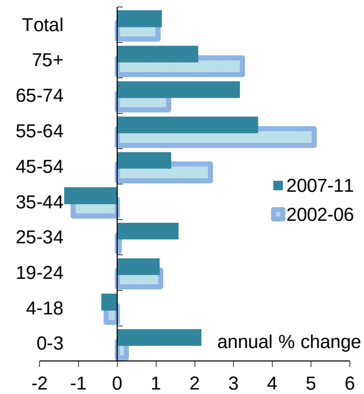
Canada's Census Details — Some Policy Implications

- **Trends among younger age groups stand out alongside the rising share of Seniors.**

The release this week of the *2011 Census* population data by age group affirmed Canada's aging population — a trend currently dominating a number of federal and provincial policy initiatives. From 2007 to 2011, the number of Seniors, age 65 and over, climbed by an average 2.7% annually, nearly 2½ times the 1.15% pace for all age groups *(top chart)*. While Seniors by 2011 accounted for a record 14.8% share of the national population, the variance by region is significant, from a 16½% share in Nova Scotia and New Brunswick and about 16% in Quebec and Newfoundland and Labrador to 11.1 % in Alberta and less than 10% across the Territories. The three Prairie provinces did not witness the jump in the number of Seniors relative to the prime working-age population of 25-64 that occurred in the other provinces *(middle chart)*.

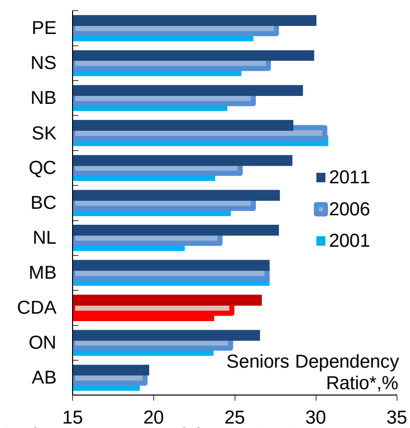
Youngest Age Group Expands Alongside Aging Baby Boomers



Source: 2011 Census, Statistics Canada.

With the baby boom generation, born between1946 and 1965, broaching retirement across Canada, the strongest growth among the five-year age groups was reported for the 60-64 age group, at 5.2% annually. In the shadow of the baby boom bulge is the weak growth in the number of individuals age 35 to 49, averaging –0.7% annually from 2007 to 2011. For pension plans, the challenge of increasing longevity is mirrored in the strong growth of the age cohort 85 years and over, with the number of centenarians surging by more than 50% over the past decade. Relative to the other G8 nations, an encouraging footnote is Canada's claim to the largest population gain over the half decade to 2011 and, with the exception of Russia, the highest share of residents 15-64 in 2011.

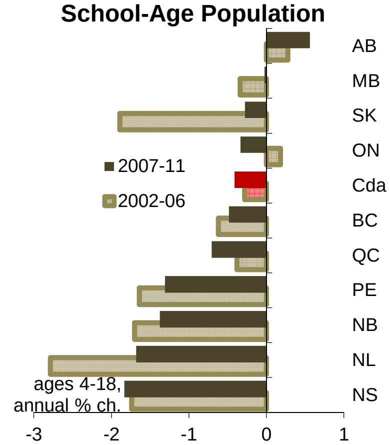
Expanding Seniors Cohort Relative to Population 25-64



* Seniors 65+ versus adults age 25-64. Source: 2011 Census, Statistics Canada.

As Canadian governments grapple with rising program costs for Seniors, the 0.4% decline in the number of individuals age 4-18 over the past decade, apart from Alberta, has facilitated education reforms such as smaller class sizes *(bottom chart)*. In British Columbia, for example, K-12 outlays per child are estimated to climb 15½% over the five years to FY12, as its 4-18 age group contracted. Thus moderate education expenditure restraint, even with the recent pick-up in births, is still expected to leave K-12 spending per child historically elevated. Over the next decade, universities and colleges will face soft growth in the 19-24 age group, together with intensifying skills shortages across a range of occupations. As an Atlantic Canada study[1] indicates, the baby boom generation drove the demand for university and college educations, enhanced the funding for post-secondary expansion and supplied the human resources for the post-secondary sector. Going forward, post-secondary institutions are already supplementing traditional services with alternative education and research delivery models, with funding options a major focus.

School-Age Population



Source: 2011 Census, Statistics Canada.

[1] Juanita Spencer, *Nova Scotia Universities — Constrain or Release?* (Atlantic Institute for Market Studies).

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Key Data Preview

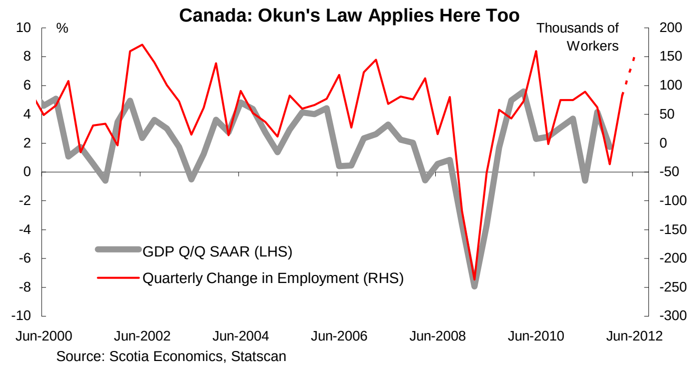
CANADA

The **Labour Force Survey** for May will be released on June 8 and Scotia is expecting jobs growth to moderate significantly, falling to 5k with the unemployment rate holding at 7.3%. Without question, Canadian employment gains have been one of the bright spots in an otherwise dreary start to Q2 2012. Total labor force employment increased by 140.5k jobs in two months: 82k jobs were added in March and the gain was followed with a near repeat performance when 58k jobs were added in April. Those types of serial large job gains are almost without precedent: the 58.2k job gain in April was the strongest ever follow-up to a preceding very strong job gain in our entire database (the cumulative 140.5k jobs was the second highest in our database which runs through 1976 — there was a 2-month job gain of 143.3k in Jan/Feb 1982) . Should we expect more of the same in May? One way of thinking of it is that if Canada were to have trend job growth of 20k jobs, the trailing 3-month total would rise to 160k. Canada has only added 160k+ jobs during a 3-month period 11 times, and all 11 of those periods occurred during years of strong economic growth (see table). In fact, while it's hard to draw any implications for the pace of labour market gains from monthly GDP data, when looked at on a quarterly basis, jobs and economic growth follow one another rather closely in a relationship of correlation known as 'Okun's Law' (see chart). The implication is that it is unlikely that Canada will have another strong job gain. That would put the quarterly level of employment essentially at a record level during a period when economic growth has been fairly slow (indeed, Q1 2012 GDP came in at 1.9%). We don't anticipate that the Canadian labor market is about to break any records during Q2 2012. Yes, Canada is special, with a stronger financial sector, resource riches, and a growing population. Still, it's improbable that Canada's labour market is operating at boom levels while the rest of the world is confronting deep challenges — and the GDP of the U.S., is growing at roughly 2%. A muted job gain of 5k during the month of May would still bring the quarterly figure to a respectable 145 — still in the top 20 for any 3-month period post-1970.

Canada: Outsized 3-Month Job Gains

Final Month of 3-Month Job Gain Period	3-Month Job Gain
Mar-2002	159.6
Jun-2010	159.8
Jul-1997	160.3
Dec-1987	161.4
Aug-1997	161.7
May-2006	162.2
Feb-2007	164
Jun-2002	170.7
May-2002	172.9
Aug-1983	174.1
Aug-2002	191.4
May-12	***????***

Source: Statscan, Scotia Economics



Source: Scotia Economics, Statscan

Canadian housing starts data are due out on June 8. Housing starts have been tracking at extremely high levels over the past two months (244k in April, 214k in March compared to a post-2008 average of 178k and an average of 193k during 2011). The rapid growth has been almost entirely on the back of unprecedentedly high amounts of condominium starts, mainly centered on Ontario and at that on the GTA. While we expect this pattern to moderate significantly in the back half of 2012 as developers reduce their project backlog and wait to see the fashion in which their current projects are absorbed by the marketplace, the large backlog of building permits suggests that the strong gains will continue at least for another couple of months. We're anticipating an elevated level of 220k starts at an annualized rate during the month of May. Finally, Canada's international merchandise trade numbers for April will be released on June 8, and we're anticipating that the trade balance will fall to $0.

UNITED STATES

The US trade balance for April will be released on June 8 and Scotia expects that the trade balance will narrow to –49.6bn due to lower WTI prices, although some export prices (principally agricultural commodities) suffered as well. While the deficit should narrow somewhat in this data release, US trade data will get more interesting in subsequent months, when lower Brent Crude prices and the higher USD both conspire to rein in the costs of US imports. This trend should start in May.

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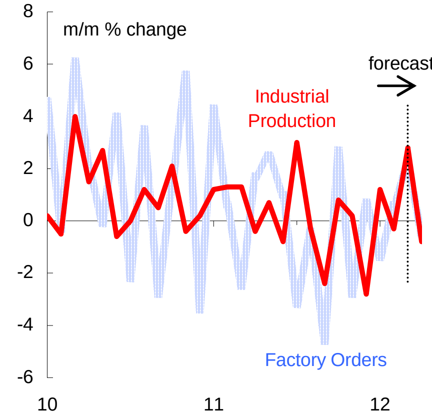
EUROPE

Among the highlights on the European data calendar next week are German factory orders (Tuesday) and industrial production (Wednesday). Both indicators surprised on the upside in March, advancing 2.2% and 2.8%, respectively, over the prior month. The outturn in industrial production was driven by a spike in construction activity, while the bounce in factory orders was underpinned by demand from outside of the depressed euro area. We expect both indicators to have fallen back on base effects in April, as persistence in these monthly variables is weak. Factory orders likely dropped by around half a percent in April, and industrial production should record a slightly larger decline of around 0.8% m/m.

German Manufacturing

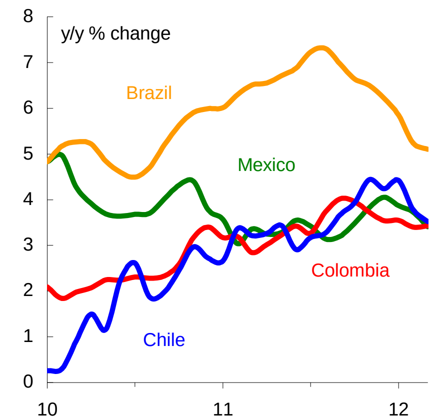


Source: Bloomberg, Scotia Economics.

LATIN AMERICA

Inflation data for Mexico, Colombia, Chile and Brazil will be released next week. In all of these countries, annual headline inflation has been slowing down since the beginning of the year; however, in some of these economies the pace of deceleration has stabilized. In Chile, Brazil and Colombia, inflation has slowed down its pace of contraction and has shown some signs of entering a stabilization process. Nevertheless, this still needs to be confirmed in the coming months. On the other hand, Mexican inflation decreased by 32 basis points from 3.73% y/y in March to 3.41% y/y in April, the biggest year-over-year contraction in the last 12 months.

Inflation in Latin America



Source: Bloomberg.

ASIA

Evident signs of economic slowdown are supporting price stabilization dynamics in China. The recently reported Purchasing Managers' Index evidenced further economic contraction, which may pave the way for an imminent set of stimulus measures on both the fiscal and monetary fronts. Fortunately, price pressures seem to be very well contained. We do estimate that consumer price inflation in May will show a further decline on a year-over-year basis, slightly above 3%. A more benign inflation context may trigger further interest rate cuts and reserve requirements in the months to come. All this is happening at the time when the renminbi is showing signs of sustained weakness versus the US dollar.

Key Indicators for the week of June 4 - 8

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06/04	10:00	Factory Orders (m/m)	APR	0.1	0.2	-1.9
CA	06/05	08:30	Building Permits (m/m)	APR	--	--	4.7
CA	06/05	09:00	**BoC Interest Rate Announcement (%)**	JUN 5	**1.00**	**1.00**	**1.00**
US	06/05	10:00	ISM Non-Manufacturing Composite	MAY	53.5	53.5	53.5
US	06/06	07:00	MBA Mortgage Applications (w/w)	JUN 1	--	--	-1.3
US	06/06	08:30	Productivity (q/q a.r.)	1Q F	--	-0.7	-0.5
US	06/06	08:30	Unit Labor Costs (q/q a.r.)	1Q F	--	2.2	2.0
US	06/07	08:30	Continuing Claims (000s)	MAY 26	3250	3238	3242
US	06/07	08:30	Initial Jobless Claims (000s)	JUN 2	380	380	383
MX	06/07	09:00	Bi-Weekly Core CPI (% change)	MAY 31	--	--	0.1
MX	06/07	09:00	Bi-Weekly CPI (% change)	MAY 31	--	--	-0.5
MX	06/07	09:00	Consumer Prices (m/m)	MAY	-0.27	-0.3	-0.3
MX	06/07	09:00	Consumer Prices (y/y)	MAY	3.9	3.8	3.4
MX	06/07	09:00	Consumer Prices Core (m/m)	MAY	0.25	0.3	0.2
US	06/07	15:00	Consumer Credit ($ bn m/m)	APR	--	10.0	21.4
CA	06/08	08:15	Housing Starts (000s a.r.)	MAY	220.0	216.5	244.8
CA	06/08	08:30	Employment (000s m/m)	MAY	5.0	5.0	58.2
CA	06/08	08:30	Merchandise Trade Balance (C$ bn)	APR	0.00	0.03	0.35
CA	06/08	08:30	Productivity (q/q a.r.)	1Q	--	0.3	0.7
CA	06/08	08:30	Unemployment Rate (%)	MAY	7.3	7.3	7.3
US	06/08	08:30	Trade Balance ($ bn)	APR	-49.6	-49.5	-51.8
MX	06/08	10:00	**Overnight Rate (%)**	JUN 8	**4.50**	**4.50**	**4.50**
US	06/08	10:00	Wholesale Inventories (m/m)	APR	--	0.5	0.3

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
EC	06/04	05:00	PPI (m/m)	APR	--	0.2	0.5
IT	06/05	03:45	Services PMI	MAY	--	42.0	42.3
FR	06/05	03:50	Services PMI	MAY F	45.2	45.2	45.2
GE	06/05	03:55	Services PMI	MAY F	52.2	52.2	52.2
EC	06/05	05:00	Retail Trade (m/m)	APR	--	-0.1	0.3
GE	06/05	06:00	Factory Orders (m/m)	APR	-0.5	-1.1	2.2
SP	06/06	03:00	Industrial Output NSA (y/y)	APR	--	--	-10.4
UK	06/06	04:30	PMI Construction	MAY	--	54.5	55.8
EC	06/06	05:00	GDP (q/q)	1Q P	0.0	0.0	0.0
GE	06/06	06:00	Industrial Production (m/m)	APR	-0.8	-1.0	2.8
EC	06/06	07:45	**ECB Announces Interest Rates (%)**	JUN 6	**0.75**	**1.00**	**1.00**
UK	06/07	04:30	Official Reserves (£ bn)	MAY	--	--	447
UK	06/07	04:30	Services PMI	MAY	--	52.4	53.3
UK	06/07	07:00	BoE Asset Purchase Target (£ bn)	JUN	--	325	325
UK	06/07	07:00	**BoE Policy Announcement (%)**	JUN 7	**0.50**	**0.50**	**0.50**
GE	06/08	02:00	Current Account (€ bn)	APR	--	11.0	19.8
GE	06/08	02:00	Trade Balance (€ bn)	APR	--	13.0	17.4
FR	06/08	02:45	Central Government Balance (€ bn)	APR	--	--	-29.4
FR	06/08	02:45	Trade Balance (€ mn)	APR	--	-5500	-5721
IT	06/08	04:00	Industrial Production (y/y)	APR	--	-7.2	-5.8
UK	06/08	04:30	PPI Input (m/m)	MAY	-1.0	-1.6	-1.5
UK	06/08	04:30	PPI Output (m/m)	MAY	-0.3	0.1	0.7

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Key Indicators for the week of June 4 - 8

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
AU	06/04	21:30	Current Account (AUD mn)	1Q	--	-14650	-8374
AU	06/05	00:30	**RBA Cash Target Rate (%)**	JUN 5	**3.75**	**3.50**	**3.75**
AU	06/05	21:30	GDP (q/q)	1Q	--	0.5	0.4
MA	06/06	00:01	Exports (y/y)	APR	--	1.6	-0.1
MA	06/06	00:01	Imports (y/y)	APR	--	6.0	1.6
MA	06/06	00:01	Trade Balance (MYR bn)	APR	--	9.6	10.5
AU	06/06	21:30	Employment (000s)	MAY	--	0.0	15.5
AU	06/06	21:30	Unemployment Rate (%)	MAY	--	5.1	4.9
JN	06/07	01:00	Coincident Index CI	APR P	--	96.5	96.7
JN	06/07	01:00	Leading Index CI	APR P	--	95.1	96.4
JN	06/07	01:00	New Composite Leading Economic Index	APR P	--	95.1	96.4
TA	06/07	04:00	Exports (%)	MAY	--	-5.5	-6.4
TA	06/07	04:00	Imports (%)	MAY	--	-5.2	2.1
TA	06/07	04:00	Trade Balance (US$ bn)	MAY	--	1.0	0.7
JN	06/07	19:50	Bank Lending (y/y)	MAY	--	--	0.3
JN	06/07	19:50	Current Account (¥ bn)	APR	--	440.8	1589.4
JN	06/07	19:50	GDP (q/q)	1Q F	--	1.1	1.0
JN	06/07	19:50	GDP Deflator (y/y)	1Q F	--	-1.2	-1.2
JN	06/07	19:50	Trade Balance (¥ bn)	APR	--	-450.7	4.2
SK	06/07	21:00	**BoK Base Rate (%)**	JUN 8	**3.25**	**3.25**	**3.25**
AU	06/07	21:30	Home Loans (%)	APR	--	0.0	0.3
AU	06/07	21:30	Trade Balance (AUD mn)	APR	--	-900	-1587
JN	06/08	07:59	Eco Watchers Survey (current)	MAY	--	--	50.9
JN	06/08	07:59	Eco Watchers Survey (outlook)	MAY	--	--	50.9
CH	06/08	21:30	CPI (y/y)	MAY	--	3.2	3.4
CH	06/08	21:30	PPI (y/y)	MAY	--	-1.2	-0.7

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CL	06/05	08:30	Economic Activity Index SA (m/m)	APR	--	--	0.9
CL	06/05	08:30	Economic Activity Index NSA (y/y)	APR	--	4.8	5.2
CO	06/05	20:00	Consumer Price Index (m/m)	MAY	--	0.2	0.1
CO	06/05	20:00	Consumer Price Index (y/y)	MAY	--	3.3	3.4
BZ	06/06	08:00	IBGE Inflation IPCA (m/m)	MAY	--	0.4	0.6
BZ	06/06	08:00	IBGE Inflation IPCA (y/y)	MAY	--	5.1	5.1
PE	06/07	19:00	**Reference Rate (%)**	JUN	**4.25**	**4.25**	**4.25**
CL	06/08	08:00	CPI (m/m)	MAY	--	0.2	0.1
CL	06/08	08:00	CPI (y/y)	MAY	--	3.3	3.5

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Global Auctions for the week of June 4 - 8

North America

Country	Date	Time	Indicator
US	06/04	11:30	U.S. to Sell 3-Month Bills
US	06/04	11:30	U.S. to Sell 6-Month Bills
CA	06/05	10:30	Canada to Sell CAD6.45 Bln 98-Day Bills
CA	06/05	10:30	Canada to Sell CAD2.4 Bln 182-Day Bills
CA	06/05	10:30	Canada to Sell CAD2.4 Bln 364-Day Bills
US	06/05	11:30	U.S. to Sell 4-Week Bills
CA	06/06	12:00	Canada to Sell 10-Year Notes

Europe

Country	Date	Time	Indicator
NE	06/04	05:00	Netherlands to Sell Up to EUR2 Bln 86-Day Bills
NE	06/04	05:00	Netherlands to Sell Up to EUR2 Bln 204-Day Bills
FR	06/04	09:00	France to Sell Bills (BTF)
BE	06/05	05:30	Belgium to Sell Bills
SZ	06/05	05:30	Switzerland to Sell 3-month Bills
DE	06/06	04:30	Denmark to Sell Bonds
GE	06/06	05:30	Germany to Sell Add'l EU5 Bln 5-Year Notes
PO	06/06	05:30	Portugal to Sell 196-Day Bills
PO	06/06	05:30	Portugal to Sell 378-Day Bills
SP	06/07	04:30	Spain to Sell Bonds
FR	06/07	05:00	France to Sell Bonds (OAT)
SW	06/07	05:10	Sweden to Sell Bills
UK	06/08	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Indicator
JN	06/04	23:45	Japan to Sell 10-Year Bonds
CH	06/05	22:30	China to Sell CNY30 Bln 7-Year Bonds (1210)
JN	06/05	23:35	Japan to Sell 6-Month Bills
JN	06/06	23:35	Japan to Sell 3-Month Bills
JN	06/06	23:45	Japan to Sell 30-Year Bonds

Source: Bloomberg, Scotia Economics.

Events for the week of June 4 - 8

North America

Country	Date	Time	Indicator
US	06/03	14:00	Fed's Kocherlakota Speaks on Economic Theory in Minneapolis
US	06/05	07:00	Fed's Fisher Speaks in Fife, Scotland
CA	06/05	09:00	Bank of Canada Rate
US	06/05	14:15	Fed's Bullard to Speak on Housing in St. Louis
US	06/05	19:15	Chicago Fed's Evans to Speak to Money Marketeers in New York
US	06/06	08:15	Fed's Lockhart Speaks on Economy in Fort Lauderdale, Florida
US	06/06	10:00	Senate Banking Committee hearing on Financial Stability
US	06/06	14:00	Fed Releases Beige Book Economic Survey
US	06/06	15:30	Fed's Williams Speaks on the Economy in Bellevue, Washington
US	06/06	19:00	Fed's Yellen Speaks on Economic Outlook in Boston
US	06/07	10:00	Fed's Bernanke Testifies to U.S. Lawmakers on Economic Outlook
US	06/07	12:10	Fed's Lockhart Speaks on U.S. Economy in Georgia
US	06/07	13:15	Fed's Kocherlakota Speaks in Minneapolis
US	06/07	15:30	Fed's Fisher Speaks on Renminbi at La Jolla, California
US	06/07	15:30	Fed Holds Open Board Meeting on Capital Rules
US	06/08		Fed's Kocherlakota Speaks on Economic Theory in Ann Arbor, MI
MX	06/08	10:00	Overnight Rate

Europe

Country	Date	Time	Indicator
UK	JUN 2-5		Queen Elizabeth II's Diamond Jubilee
EC	JUN 3-4		EU-Russia Summit in St. Petersburg June 3-4
EC	06/04	09:30	ECB Calls for Bids in 7-Day Main Refinancing Tender
EC	06/04	09:30	ECB Announces Bond Purchases
GE	06/04		Merkel Hosts Talks With Fellow Coalition Party Leaders
EC	06/05	05:15	ECB Announces Allotment in 7-Day Main Refinancing Tender
EC	06/05	07:00	ECB Announces Allotment in 7-Day Term Deposits
EC	06/06	07:45	ECB Announces Interest Rates
EC	06/06		ECB Meeting, Frankfurt
EC	06/06		European Commission, Protecting the EU's Financial Interests
UK	06/07	07:00	Bank of England Monetary Policy Committee Decision
UK	06/07	07:00	BOE Asset Purchase Target
EC	06/07	11:00	EU's Van Rompuy Speaks at Friends of Europe
AS	06/08	04:00	ECB's Nowotny Speaks in Vienna

Source: Bloomberg, Scotia Economics.

Events for the week of June 4 - 8

Asia Pacific

Country	Date	Time	Indicator
NZ	06/03		Banks, Markets, Government Offices Closed for Queens Birthday
NZ	06/04	22:00	Treasury Publishes Monthly Economic Indicators
AU	06/05	00:30	RBA Cash Target
AU	06/07	22:15	RBA's Stevens Gives Speech to Chamber of Commerce in Adelaide

Latin America

Country	Date	Time	Indicator
CL	06/06		Latin American Leaders Hold Summit in Chile
PE	06/07	19:00	Reference Rate
BZ	06/08	07:30	COPOM Monetary Policy Meeting Minutes
CL	06/08	09:00	Chile Central Bank Hosts Seminar on Risk

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	June 5, 2012	1.00	1.00
Federal Reserve – Federal Funds Target Rate	0.25	June 20, 2012	0.25	--
Banco de México – Overnight Rate	4.50	June 8, 2012	4.50	4.50

Fed: Key U.S. economic data have deteriorated significantly over the past week. Q1 2012 US GDP was revised lower to 1.9% q/q SAAR from 2.2% q/q SAAR on the first pass. May non-farm payrolls came in at 69k and April payrolls were revised lower to 77k while the unemployment rate ticked up to 8.2%. Both labor and output growth are now trending lower than the Fed's latest staff economic projections imply. These developments materially increase the likelihood that the Fed will engage in additional easing in H2 2012. BoC: The BoC will make a monetary policy announcement on June 5. Scotia expects the BoC to slightly soften the hawkish tone that was in its April 17 statement. Since April 17, the global economic situation has deteriorated, Q1 2012 GDP showed that the economy grew at 1.9% SAAR with consumption growth slowing markedly, oil prices have fallen, etc. We expect the BoC to revise its growth projections lower in the July MPR.

Banxico: The central bank of Mexico will likely maintain the monetary policy rate unchanged at 4.50% at its next meeting on June 8th. The last announcement had a high impact on both the currency and the short-term interest rates due to the non-materialized expectations of a rate cut. We anticipate that next week's announcement will have less impact on local price assets and expectations. So far, Mexican economic performance remains solid and both inflation and inflation expectations (year-end) decelerated in the latest survey. Additionally, recent weakness in the Mexican peso against the USD and higher currency volatility suggest that Banco de Mexico will avoid any surprises and will likely remain on hold.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.00	June 6, 2012	0.75	1.00
Bank of England – Bank Rate	0.50	June 7, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	June 14, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	July 31, 2012	8.00	8.00
Hungarian National Bank – Base Rate	7.00	June 26, 2012	7.00	7.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	June 21, 2012	5.75	--
Sweden Riksbank – Repo Rate	1.50	July 4, 2012	1.50	--

We expect that the European Central Bank (ECB) will reduce the refinancing rate by 25 basis points (bps) on June 6th to bring the rate to a record low of 0.75%. The ECB cut rates twice in late 2011, followed by the execution of two long-term refinancing operations (LTROs) to inject liquidity into the European banking system. These measures effected a degree of stabilization in financial markets in the opening months of 2012 but, with new doubts arising related to Greece in the last several weeks, market confidence has again collapsed, marked by a rush to safe haven assets and a widening in credit spreads. Moreover, with the drop in commodity prices inflation has finally begun to moderate, falling to 2.4% y/y in May (2.1% in Germany). Finally, growth prospects for most of the euro zone remain patently weak as indicated by falling consumer confidence and business survey indicators. If not next week, pressure on the ECB will mount for a cut at either the July or August meetings.
No changes to the Bank of England's (BoE) monetary policy mix are anticipated at the next meeting on June 7th. Though inflation has begun to ease (dropping from 3.5% y/y to 3.0% in April), the still-high level remains a threat to the economic recovery. At the last meeting, the Monetary Policy Committee voted 8-1 against expanding the quantitative easing program, while the minutes showed that the bank is open to boosting asset purchases if external conditions deteriorate substantially.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	June 15, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.75	June 5, 2012	3.75	3.50
Reserve Bank of New Zealand – Cash Rate	2.50	June 13, 2012	2.50	2.50
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	June 18, 2012	8.00	--
Bank of Korea – Bank Rate	3.25	June 7, 2012	3.25	3.25
Bank of Thailand – Repo Rate	3.00	June 13, 2012	3.00	--
Bank Indonesia – Reference Interest Rate	5.75	June 12, 2012	5.75	--

The Reserve Bank of Australia (RBA) reduced the cash rate by 100 basis points (bps) between November and May, including a 50 bps cut at the last meeting. We do not foresee any further loosening in the near term. The recent depreciation of the AUD (9% since early March) will likely lift price pressures in the coming quarters, in addition to the boost from the upcoming introduction of a carbon tax. Inflation dropped from 3.1% y/y to 1.6% in the first quarter. Another rate cut later in the year is possible if consumer demand weakens further in the context of fiscal tightening and commercial bank lending conditions remain restrictive. With inflation lingering at 2.5% y/y in the March-May period, and economic performance maintaining its moderate recovery but showing some signs of deceleration (exports and PMI), we maintain our view that the central bank of Korea will keep its reference rate unchanged at 3.25%. Additionally, amid global financial volatility and uncertainty regarding the European sovereign debt situation, it is highly expected that the central bank will maintain its current monetary policy stance.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.50	July 11, 2012	8.50	--
Banco Central de Chile – Overnight Rate	5.00	June 14, 2012	5.00	5.00
Banco de la República de Colombia – Lending Rate	5.25	June 29, 2012	5.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	June 7, 2012	4.25	4.25

We expect the central bank of Peru to maintain its monetary policy rate unchanged at 4.25% at its next meeting on June 7th. Headline inflation decreased slightly from 4.23% y/y in March to 4.08% in April and continues to be - for the tenth consecutive month - above the central bank's tolerance range. Additionally, inflation expectations for year-end increased to 3.0% y/y from the previous estimate of 2.8%, which together with a solid economic performance, prevents the central bank from changing its neutral monetary policy stance.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	July 19, 2012	5.50	--

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Forecasts as at May 4, 2012*	2000-10	2011	2012f	2013f	2000-10	2011	2012f	2013f
Output and Inflation (annual % change)		**Real GDP**				**Consumer Prices[2]**		
World[1]	3.7	4.0	3.4	3.9				
Canada	2.2	2.5	2.1	2.2	2.1	2.9	2.1	2.1
United States	1.8	1.7	2.3	2.4	2.5	3.1	2.6	2.2
Mexico	2.1	3.9	3.6	3.7	4.9	3.8	3.9	4.0
United Kingdom	2.0	0.7	0.5	1.8	2.1	4.2	2.8	2.7
Euro Zone	1.4	1.5	-0.5	0.9	2.1	2.7	2.2	1.9
Japan	0.9	-0.7	2.0	1.7	-0.3	-0.2	0.1	0.3
Australia	3.1	2.0	3.3	3.4	3.1	3.1	2.5	2.8
China	9.5	9.3	8.4	8.9	2.3	4.1	4.0	4.4
India	7.6	10.0	7.0	7.4	6.4	7.7	6.5	6.8
South Korea	4.6	3.6	3.4	4.2	3.1	4.8	3.3	3.0
Thailand	4.4	5.7	5.0	4.5	2.7	3.5	3.0	2.8
Brazil	3.7	2.7	3.5	4.5	6.6	6.5	5.5	5.0
Chile	4.6	6.1	5.0	5.9	3.4	4.4	3.6	3.2
Peru	5.5	6.8	5.5	5.6	2.4	4.7	3.0	2.5

Central Bank Rates (%, end of period)	12Q1	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.75	3.75	3.75	3.75	3.75	3.75	4.00	4.00
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.00	0.99	0.98	0.97	0.97	0.97	0.96
Canadian Dollar (CADUSD)	1.00	1.00	1.01	1.02	1.03	1.03	1.03	1.04
Euro (EURUSD)	1.33	1.29	1.27	1.25	1.25	1.26	1.28	1.29
Sterling (GBPUSD)	1.60	1.60	1.62	1.63	1.65	1.66	1.67	1.68
Yen (USDJPY)	83	82	83	85	86	86	87	87
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.10	1.10	1.11	1.11
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.2	6.2	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.8	12.8	13.0	13.1	13.2	13.1	13.1	13.3
Brazilian Real (USDBRL)	1.83	1.80	1.83	1.85	1.83	1.85	1.86	1.90

Commodities (annual average)	2000-10	2011	2012f	2013f
WTI Oil (US$/bbl)	54	95	105	105
Brent Oil (US$/bbl)	52	111	120	120
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.50	2.75
Copper (US$/lb)	1.93	4.00	3.85	3.70
Zinc (US$/lb)	0.75	0.99	0.94	1.10
Nickel (US$/lb)	7.36	10.38	8.50	8.00
Gold, London PM Fix (US$/oz)	586	1,569	1,650	1,600
Pulp (US$/tonne)	694	977	875	915
Newsprint (US$/tonne)	575	640	650	670
Lumber (US$/mfbm)	273	255	265	310

[1] World GDP for 2000-10 are IMF PPP estimates; 2011-13f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.

[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

* See Scotia Economics 'Global Forecast Update' (http://www.gbm.scotiabank.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

Canada

Canada	2011	11Q4	12Q1	Latest
Real GDP (annual rates)	2.4	1.9	1.9	
Current Acc. Bal. (C$B, ar)	-48.4	-38.7	-41.1	
Merch. Trade Bal. (C$B, ar)	2.3	14.9	10.5	4.2 (Mar)
Industrial Production	3.5	3.0	1.0	0.0 (Mar)
Housing Starts (000s)	193	199	207	245 (Apr)
Employment	1.6	1.2	0.9	1.5 (Apr)
Unemployment Rate (%)	7.5	7.5	7.4	7.3 (Apr)
Retail Sales	4.1	4.2	4.3	4.1 (Mar)
Auto Sales (000s)	1588	1603		1707 (Feb)
CPI	2.9	2.7	2.3	2.0 (Apr)
IPPI	4.6	3.9	1.7	-0.4 (Apr)
Pre-tax Corp. Profits	15.4	13.7	5.4	

Mexico

Mexico	2011	11Q4	12Q1	Latest
Real GDP	3.9	3.9	4.6	
Current Acc. Bal. (US$B, ar)	-9.0	-7.5	-0.2	
Merch. Trade Bal. (US$B, ar)	-1.5	-2.9	7.1	6.7 (Apr)
Industrial Production	4.0	3.5	4.5	3.1 (Mar)
CPI	3.4	3.5	3.9	3.4 (Apr)

Chile

Chile	2011	11Q4	12Q1	Latest
Real GDP	6.0	4.5	5.6	
Current Acc. Bal. (US$B, ar)	0.0	-5.1	-1.4	
Merch. Trade Bal. (US$B, ar)	10.0	9.4	11.1	12.6 (Apr)
Industrial Production	6.9	2.1	3.9	2.6 (Apr)
CPI	3.3	4.0	4.1	3.5 (Apr)

Germany

Germany	2011	11Q4	12Q1	Latest
Real GDP	3.1	2.0	1.2	
Current Acc. Bal. (US$B, ar)	204.1	256.1	215.1	312.9 (Mar)
Merch. Trade Bal. (US$B, ar)	216.1	220.7	223.1	216.5 (Mar)
Industrial Production	8.0	3.5	1.0	1.5 (Mar)
Unemployment Rate (%)	7.1	6.9	6.8	6.7 (May)
CPI	2.3	2.3	2.2	4.2 (May)

Euro Zone

Euro Zone	2011	11Q4	12Q1	Latest
Real GDP	1.5	0.7	0.0	
Current Acc. Bal. (US$B, ar)	-4	183	-43	119 (Mar)
Merch. Trade Bal. (US$B, ar)	6.4	76.9	9.7	138.5 (Mar)
Industrial Production	3.6	-0.1	-1.6	-2.0 (Mar)
Unemployment Rate (%)	10.1	10.5	10.8	11.0 (Apr)
CPI	2.7	2.9	2.7	2.6 (Apr)

Japan

Japan	2011	11Q4	12Q1	Latest
Real GDP	-0.7	-0.5	2.6	
Current Acc. Bal. (US$B, ar)	119.2	48.0	114.5	231.4 (Mar)
Merch. Trade Bal. (US$B, ar)	-33.6	-76.2	-71.2	-70.7 (Apr)
Industrial Production	-2.3	0.0	2.7	13.4 (Apr)
Unemployment Rate (%)	4.6	4.5	4.5	4.6 (Apr)
CPI	-0.3	-0.3	0.3	0.5 (Apr)

China

China	2011	11Q4	12Q1	Latest
Real GDP	10.4	8.9		
Current Acc. Bal. (US$B, ar)	201.7			
Merch. Trade Bal. (US$B, ar)	155.0	193.0	3.5	221.1 (Apr)
Industrial Production	12.8	12.8	9.3	9.3 (Apr)
CPI	4.1	4.1	3.6	3.4 (Apr)

United States

United States	2011	11Q4	12Q1	Latest
Real GDP (annual rates)	1.7	3.0	1.9	
Current Acc. Bal. (US$B, ar)	-473	-496		
Merch. Trade Bal. (US$B, ar)	-738	-745	-784	-811 (Mar)
Industrial Production	4.1	4.0	3.9	5.1 (Apr)
Housing Starts (millions)	0.61	0.68	0.71	0.72 (Apr)
Employment	1.1	1.3	1.6	2.1 (May)
Unemployment Rate (%)	9.0	8.7	8.3	8.2 (May)
Retail Sales	8.2	7.5	6.5	6.1 (Apr)
Auto Sales (millions)	12.7	13.4	14.5	14.4 (Apr)
CPI	3.2	3.3	2.8	2.3 (Apr)
PPI	6.0	5.4	3.4	1.9 (Apr)
Pre-tax Corp. Profits	4.2	9.3	14.8	

Brazil

Brazil	2011	11Q4	12Q1	Latest
Real GDP	2.5	1.2	0.6	
Current Acc. Bal. (US$B, ar)	-52.5	-63.2	-48.3	
Merch. Trade Bal. (US$B, ar)	29.8	27.0	9.7	10.6 (Apr)
Industrial Production	0.4	-1.7	-3.2	-2.7 (Apr)
CPI	6.8	6.7		6.6 (Jan)

Italy

Italy	2011	11Q4	12Q1	Latest
Real GDP	0.5	-0.4	-1.3	
Current Acc. Bal. (US$B, ar)	-0.07	-0.03	-0.08	-0.04 (Mar)
Merch. Trade Bal. (US$B, ar)	-34.2	-8.3	-17.5	32.7 (Mar)
Industrial Production	0.2	-3.1	-5.2	-5.5 (Mar)
CPI	2.8	3.3	3.4	3.4 (Apr)

France

France	2011	11Q4	12Q1	Latest
Real GDP	1.7	1.2	0.3	
Current Acc. Bal. (US$B, ar)	-60.1	-58.2	-53.2	-54.7 (Mar)
Merch. Trade Bal. (US$B, ar)	-51.0	-45.9	-53.2	-52.0 (Mar)
Industrial Production	2.5	0.5	-1.4	-0.9 (Mar)
Unemployment Rate (%)	9.7	9.8	10.1	10.2 (Apr)
CPI	2.1	2.4	2.3	2.1 (Apr)

United Kingdom

United Kingdom	2011	11Q4	12Q1	Latest
Real GDP	0.7	0.5	-0.1	
Current Acc. Bal. (US$B, ar)	-46.4	-45.4		
Merch. Trade Bal. (US$B, ar)	-159.8	-152.5	-157.4	-162.5 (Mar)
Industrial Production	-1.2	-3.0	-3.0	-2.6 (Mar)
Unemployment Rate (%)	8.1	8.4		8.2 (Feb)
CPI	4.5	4.7	3.5	3.0 (Apr)

Australia

Australia	2011	11Q4	12Q1	Latest
Real GDP	2.0	2.3		
Current Acc. Bal. (US$B, ar)	-33.0	-38.0		
Merch. Trade Bal. (US$B, ar)	35.8	29.3	2.7	2.4 (Mar)
Industrial Production	-0.1	2.1		
Unemployment Rate (%)	5.1	5.2	5.2	4.9 (Apr)
CPI	3.4	3.1	1.6	

South Korea

South Korea	2011	11Q4	12Q1	Latest
Real GDP	3.6	3.3	2.8	
Current Acc. Bal. (US$B, ar)	26.5	46.0	10.2	21.3 (Apr)
Merch. Trade Bal. (US$B, ar)	30.8	36.6	6.0	28.8 (May)
Industrial Production	6.9	5.2	2.9	2.8 (Apr)
CPI	4.0	4.0	3.0	6.6 (May)

All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	11Q4	12Q1	May/25	Jun/01*	United States	11Q4	12Q1	May/25	Jun/01*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.80	0.91	0.96	0.91	3-mo. T-bill	0.01	0.07	0.08	0.06
10-yr Gov't Bond	1.94	2.11	1.81	1.63	10-yr Gov't Bond	1.88	2.21	1.74	1.46
30-yr Gov't Bond	2.49	2.66	2.36	2.23	30-yr Gov't Bond	2.89	3.34	2.84	2.55
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	65.7	69.2	69.4	(Apr)	FX Reserves (US$B)	136.9	138.0	141.4	(Apr)
Germany					**France**				
3-mo. Interbank	1.35	0.71	0.60	0.59	3-mo. T-bill	-0.06	0.07	0.07	0.08
10-yr Gov't Bond	1.83	1.79	1.37	1.17	10-yr Gov't Bond	3.15	2.89	2.52	2.24
FX Reserves (US$B)	66.9	67.9	68.9	(Apr)	FX Reserves (US$B)	48.6	49.2	50.2	(Apr)
Euro Zone					**United Kingdom**				
Refinancing Rate	1.00	1.00	1.00	1.00	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.63	0.39	0.32	0.33	3-mo. T-bill	0.37	0.37	0.37	0.38
FX Reserves (US$B)	316.7	319.9	325.5	(Apr)	10-yr Gov't Bond	1.98	2.20	1.75	1.53
					FX Reserves (US$B)	79.3	82.4	84.3	(Apr)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.25	4.25	3.75	3.75
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	3.67	3.98	3.17	2.84
10-yr Gov't Bond	0.99	0.99	0.89	0.82	FX Reserves (US$B)	42.8	47.7	45.6	(Apr)
FX Reserves (US$B)	1258.2	1247.8	1248.9	(Apr)					

Exchange Rates (end of period)

USDCAD	1.02	1.00	1.03	1.04	¥/US$	76.91	82.87	79.68	78.16
CADUSD	0.98	1.00	0.97	0.96	US¢/Australian$	1.02	1.03	0.98	0.97
GBPUSD	1.554	1.601	1.567	1.536	Chinese Yuan/US$	6.30	6.30	6.34	6.37
EURUSD	1.296	1.334	1.252	1.238	South Korean Won/US$	1152	1133	1185	1178
JPYEUR	1.00	0.90	1.00	1.03	Mexican Peso/US$	13.936	12.811	14.029	14.420
USDCHF	0.94	0.90	0.96	0.97	Brazilian Real/US$	1.867	1.827	1.987	2.036

Equity Markets (index, end of period)

United States (DJIA)	12218	13212	12455	12170	U.K. (FT100)	5572	5768	5352	5262
United States (S&P500)	1258	1408	1318	1285	Germany (Dax)	5898	6947	6340	6041
Canada (S&P/TSX)	11955	12392	11576	11351	France (CAC40)	3160	3424	3048	2945
Mexico (Bolsa)	37078	39521	37486	37519	Japan (Nikkei)	8455	10084	8580	8440
Brazil (Bovespa)	56754	64511	54463	53937	Hong Kong (Hang Seng)	18434	20556	18713	18558
Italy (BCI)	806	859	726	715	South Korea (Composite)	1826	2014	1824	1835

Commodity Prices (end of period)

Pulp (US$/tonne)	890	870	900	900	Copper (US$/lb)	3.43	3.85	3.49	3.34
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.83	0.91	0.86	0.84
Lumber (US$/mfbm)	261	266	309	309	Gold (US$/oz)	1531.00	1662.50	1569.50	1606.00
WTI Oil (US$/bbl)	98.83	103.02	90.86	83.07	Silver (US$/oz)	28.18	32.43	28.24	27.38
Natural Gas (US$/mmbtu)	2.99	2.13	2.57	2.32	CRB (index)	305.30	308.46	281.95	269.08

** Latest observation taken at time of writing.*
Source: Bloomberg, Scotia Economics.

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