



# Forecast Update

## Lower And Leaner For Longer

The downturn in global growth is gathering momentum, with virtually every region of the world in full-blown retrenchment mode. The developed world continues to be negatively impacted by sharply lower investor confidence, reduced consumer spending, and declining industrial production — developments that have been exacerbated by the deepening financial crunch.

The significant setback in the demand for goods & services, alongside the intensifying dislocations in trade finance, has triggered a synchronous reduction in economic activity throughout the developing world. Combined, the one-two punch has knocked the wind out of the sails of global growth, commodity prices, and financial assets.

Around the world, profitability has come under intensifying pressure in this much slower and more uncertain economic environment. Businesses are being forced to restructure, and in most cases, downsize their operations to clear out unintended inventory accumulation, reduce fixed costs, and eliminate excess capacity. The collapse in commodity prices has exacerbated the downturn in many resource-producing countries, Canada and Australia in particular, with many higher-cost development projects either being put on the backburner, or shelved.

Jobless rates are expected to ratchet significantly higher over the next year, even in the lower-cost emerging markets that are now feeling the backlash from reduced consumer and business spending throughout the developed world. Combined with the massive loss of wealth attributable to declining home and equity prices, the global economy has entered a period of collective consumer underperformance, especially in the United States and some other European countries where households are aggressively deleveraging. The self-reinforcing nature of the global downturn, magnified by the unprecedented disruption in credit flows, suggests a greater downside risk to growth through the first half of 2009, and a lengthy period of convalescence that should extend well into 2010.

With deflationary winds picking up speed, policymakers around the world, but increasingly in the developed nations, are aggressively cutting short-term borrowing costs. The United States has followed Japan's lead by effectively pushing their bellwether overnight rates close to 'zero'. To unclog the blockage in credit markets, the Federal Reserve will increasingly rely on non-conventional means to boost liquidity by buying government and mortgage-backed securities. After a substantial falloff in the pace of economic activity early in 2009, both China and India are expected to rebound as the year progresses, with pro-growth policy adjustments helping to support stronger domestic growth, increased multi-lateral trade flows, and higher commodity prices.

At the same time, most countries — both developed and developing — will be implementing sizeable fiscal stimulus to help cushion the downturn and help kick-start renewed growth. The combined policy initiatives are expected to help generate more broad-based economic momentum in 2010. Ramped-up government deficits in both the United States and Canada will support growth-leading public-sector expenditures over the next two years. Construction-related sectors will likely benefit from the global push to beef up infrastructure expenditures. Yet, many of the problems affecting the United States, as well as other countries around the globe, are more structural, rather than cyclical, in nature. Accordingly, business investment and residential construction will be slow to revive until excess supply is dramatically scaled back. And consumer spending will remain the weak link in the outlook, especially in the United States where the multi-year focus will be on reducing debt, saving more, and spending less.

### Scotia 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@scotiacapital.com](mailto:scotia_economics@scotiacapital.com)

This Report is prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital. While the information is from sources believed reliable, neither the information nor the forecast shall be taken as a representation for which The Bank of Nova Scotia or Scotia Capital Inc. or any of their employees incur any responsibility.





# Forecast Update

<u>CANADA</u>	<u>2000-2005</u> (ann.avg.)	<u>2006</u>	<u>2007</u>	<u>2008f</u>	<u>2009f</u>	<u>2010f</u>
Real GDP (% change)	3.0	3.1	2.7	0.7	-1.2 ↓	1.9
Consumer Prices (% change)	2.4	2.0	2.1	2.4 ↓	0.9 ↓	1.6
Core CPI (% change)	1.8	1.9	2.1	1.6	1.3	1.6
Pre-Tax Profits (% change)	9.0	5.8	3.3	1.0	-15.0 ↓	7.0
Employment (% change)	1.9	1.9	2.3	1.6	-1.0 ↓	0.8
thousands of jobs created	294	314	380	270	-165 ↓	135
Unemployment Rate (%)	7.2	6.3	6.0	6.1	7.6 ↑	7.7
Current Account Balance (C\$ bn.)	24.2	20.2	13.6	18.0	-22.0 ↓	-18.0
per cent of GDP	2.0	1.4	0.9	1.1	-1.4 ↓	-1.1
Merchandise Trade Balance (C\$ bn.)	63.3	49.5	48.0	53.0	18.0 ↓	23.0
Federal Budget Balance (C\$ bn.)	9.7	13.8	9.6	-2.0 ↓	-13.5 ↓	-12.0
Housing Starts (thousands)	200	227	228	216	174 ↓	178
Motor Vehicle Sales (thousands)	1,590	1,614	1,654	1,660 ↓	1,475 ↓	1,530
WTI Oil (US\$/bbl)	35.2	66.2	72.3	100 ↓	55 ↓	70
Nymex Natural Gas (US\$/mmbtu)	5.40	6.99	7.12	8.90 ↓	6.25 ↓	7.00
Gold, London PM Fix (US\$/oz)	346	604	697	870	850 ↑	750
<u>UNITED STATES</u>						
Real GDP (% change)	2.5	2.8	2.0	1.2	-2.1 ↓	1.7
Consumer Prices (% change)	2.7	3.2	2.9	3.9 ↓	0.4 ↓	1.8
Core CPI (% change)	2.1	2.5	2.3	2.3	1.2 ↓	1.4
Pre-Tax Profits (% change)	9.3	15.2	-1.6	-9.0	-17.5 ↓	5.0
Employment (% change)	0.6	1.8	1.1	-0.1	-2.0	0.6
millions of jobs created	0.78	2.40	1.53	-0.17	-2.74	0.74
Unemployment Rate (%)	5.2	4.6	4.6	5.7	8.2	8.7
Current Account Balance (US\$ bn.)	-523	-788	-731	-700	-540 ↑	-540
per cent of GDP	-4.7	-6.0	-5.3	-4.9	-3.8 ↑	-3.7
Merchandise Trade Balance (US\$ bn.)	-563	-838	-819	-840	-675 ↑	-685
Federal Budget Balance (US\$ bn.)	-150	-248	-162	-455	-1,250 ↓	-1,100
Housing Starts (millions)	1.79	1.80	1.36	0.90 ↓	0.65 ↓	0.85
Motor Vehicle Sales (millions)	17.0	16.5	16.1	13.3	12.0 ↓	13.0
<u>MEXICO</u>						
Real GDP (% change)	2.6	4.9	3.2	1.7	-0.7	2.4
Consumer Prices (% change)	5.6	3.6	4.0	6.3 ↑	5.1 ↓	4.4
Current Account Balance (US\$ bn.)	-11.8	-2.2	-7.4	-18.5 ↑	-31.4 ↓	-34.0
per cent of GDP	-2.0	-0.3	-0.9	-1.7 ↑	-3.1 ↓	-3.1
<u>INTERNATIONAL</u>						
Real GDP (% change)						
Japan	1.6	2.4	2.0	0.0 ↓	-1.0 ↓	0.8
United Kingdom	2.6	2.9	3.1	0.7 ↓	-1.9 ↓	0.6
Euro Zone	1.9	2.9	2.6	0.9	-0.9	0.7
China	9.4	11.6	11.9	9.5	7.0 ↓	8.5
India	6.5	9.6	9.0	7.0	5.5 ↓	6.5
Brazil	2.9	3.4	5.4	5.3 ↑	1.5 ↓	2.0
Consumer Prices (% change)						
Japan	-0.5	0.2	0.1	1.5	0.4 ↓	0.0
United Kingdom	1.3	2.3	2.3	3.7	2.2	1.6
Euro Zone	2.2	2.2	2.1	3.2	1.2 ↓	1.4
China	1.2	1.5	4.8	6.2	1.4 ↓	1.5
India	4.0	5.8	4.8	9.9	6.0 ↓	5.5
Brazil	8.3	3.6	4.0	5.8	5.8 ↑	5.3



# Forecast Update

<u>CANADA</u>	<u>08Q3</u>	<u>08Q4f</u>	<u>09Q1f</u>	<u>09Q2f</u>	<u>09Q3f</u>	<u>09Q4f</u>	<u>10Q1f</u>	<u>10Q2f</u>	<u>10Q3f</u>	<u>10Q4f</u>
BoC Overnight Target Rate	3.00	<b>1.50</b> ↓	<b>0.50</b> ↓	<b>0.50</b> ↓	<b>0.50</b> ↓	<b>0.50</b> ↓	0.50	0.75	1.25	1.75
Prime Rate	4.75	<b>3.25</b> ↓	<b>2.25</b> ↓	<b>2.25</b> ↓	<b>2.25</b> ↓	<b>2.25</b> ↓	2.25	2.50	3.00	3.50
3-month T-bill	1.92	<b>0.80</b> ↓	<b>0.35</b> ↓	<b>0.40</b> ↓	<b>0.45</b> ↓	<b>0.45</b> ↓	0.60	0.90	1.65	2.15
2-year Canada	2.77	<b>1.25</b> ↓	<b>1.00</b> ↓	<b>1.15</b> ↓	<b>1.35</b> ↓	<b>1.60</b> ↓	1.70	1.85	2.15	2.50
5-year Canada	3.15	<b>1.90</b> ↓	<b>1.70</b> ↓	<b>1.80</b> ↓	<b>2.00</b> ↓	<b>2.15</b> ↓	2.30	2.50	2.90	3.15
10-year Canada	3.75	<b>2.90</b> ↓	<b>2.70</b> ↓	<b>2.80</b> ↓	<b>2.90</b> ↓	<b>3.00</b> ↓	3.15	3.25	3.40	3.60
30-year Canada	4.23	<b>3.60</b> ↓	<b>3.35</b> ↓	<b>3.50</b> ↓	<b>3.55</b> ↓	<b>3.65</b> ↓	3.80	3.95	4.05	4.25
<i>Real GDP (q/q, ann. % change)</i>	1.3	-2.0	<b>-4.0</b> ↓	<b>-1.5</b> ↓	2.0	1.0	2.0	2.5	3.0	3.0
<i>Real GDP (y/y, % change)</i>	0.5	-0.2	<b>-1.1</b> ↓	<b>-1.6</b> ↓	<b>-1.4</b> ↓	<b>-0.6</b> ↓	0.9	1.9	2.1	2.6
<i>Consumer Prices (y/y, % change)</i>	3.4	<b>2.2</b> ↓	<b>2.0</b> ↓	<b>0.6</b> ↓	<b>0.0</b> ↓	<b>1.2</b> ↓	1.3	1.5	1.7	2.0
<i>Core CPI (y/y % change)</i>	1.7	1.8	1.6	1.3	1.2	1.2	1.4	1.5	1.6	1.7
<u>UNITED STATES</u>										
Fed Funds Target Rate	2.00	<b>0.25</b> ↓	<b>0.25</b> ↓	<b>0.25</b> ↓	<b>0.25</b> ↓	<b>0.25</b> ↓	0.25	0.25	0.75	1.25
Prime Rate	5.00	<b>3.25</b> ↓	<b>3.25</b> ↓	<b>3.25</b> ↓	<b>3.25</b> ↓	<b>3.25</b> ↓	3.25	3.25	3.75	4.25
3-month T-bill	1.03	<b>0.05</b> ↓	<b>0.10</b> ↓	<b>0.15</b> ↓	<b>0.20</b> ↓	<b>0.20</b> ↓	0.25	0.35	1.00	1.65
2-year Treasury	1.96	<b>0.50</b> ↓	<b>0.55</b> ↓	<b>0.65</b> ↓	<b>0.75</b> ↓	<b>0.90</b> ↓	1.05	1.15	1.40	1.80
5-year Treasury	2.98	<b>1.25</b> ↓	<b>1.40</b> ↓	<b>1.75</b> ↓	<b>1.95</b> ↓	<b>2.10</b> ↓	2.25	2.45	2.75	3.00
10-year Treasury	3.83	<b>2.20</b> ↓	<b>2.00</b> ↓	<b>2.15</b> ↓	<b>2.30</b> ↓	<b>2.40</b> ↓	2.55	2.65	2.80	3.00
30-year Treasury	4.31	<b>2.80</b> ↓	<b>2.60</b> ↓	<b>2.70</b> ↓	<b>2.85</b> ↓	<b>3.00</b> ↓	3.15	3.30	3.45	3.60
<i>Real GDP (q/q, ann. % change)</i>	-0.5	-4.5	<b>-5.0</b> ↓	-2.0	<b>1.5</b> ↓	1.0	2.0	2.5	2.5	3.0
<i>Real GDP (y/y, % change)</i>	0.7	-0.4	<b>-1.8</b> ↓	<b>-3.0</b> ↓	<b>-2.5</b> ↓	<b>-1.1</b> ↓	0.6	1.8	2.0	2.5
<i>Consumer Prices (y/y, % change)</i>	5.3	<b>2.0</b> ↓	<b>1.0</b> ↓	<b>0.2</b> ↓	<b>-1.0</b> ↓	<b>1.4</b> ↑	1.7	1.8	1.8	1.8
<i>Core CPI (y/y % change)</i>	2.5	<b>2.0</b> ↓	<b>1.6</b> ↓	<b>1.4</b> ↓	<b>0.9</b> ↓	<b>1.1</b> ↓	1.2	1.3	1.4	1.6
<u>SPREADS</u>										
Target Rate	1.00	1.25	<b>0.25</b> ↓	<b>0.25</b> ↓	<b>0.25</b> ↓	<b>0.25</b> ↓	0.25	0.50	0.50	0.50
3-month T-bill	0.89	<b>0.75</b> ↓	<b>0.25</b> ↓	<b>0.25</b> ↓	<b>0.25</b> ↓	<b>0.25</b> ↓	0.35	0.55	0.65	0.50
2-year	0.81	<b>0.75</b> ↑	<b>0.45</b> ↑	<b>0.50</b> ↑	<b>0.60</b> ↑	<b>0.70</b> ↑	0.65	0.70	0.75	0.70
5-year	0.17	<b>0.65</b> ↑	<b>0.30</b> ↓	<b>0.05</b> ↓	<b>0.05</b> ↓	<b>0.05</b> ↓	0.05	0.05	0.15	0.15
10-year	-0.08	0.70	<b>0.70</b> ↑	0.65	<b>0.60</b> ↓	<b>0.60</b> ↑	0.60	0.60	0.60	0.60
30-year	-0.08	<b>0.80</b> ↑	<b>0.75</b> ↑	<b>0.80</b> ↑	<b>0.70</b> ↑	<b>0.65</b> ↑	0.65	0.65	0.60	0.65
<u>EXCHANGE RATES</u>										
Canadian Dollar (USD/CAD)	1.06	<b>1.20</b> ↓	<b>1.29</b> ↑	<b>1.39</b> ↑	<b>1.33</b> ↑	<b>1.28</b> ↑	1.23	1.19	1.15	1.11
Canadian Dollar (CAD/USD)	0.94	<b>0.83</b> ↑	<b>0.78</b> ↓	<b>0.72</b> ↓	<b>0.75</b> ↓	<b>0.78</b> ↓	0.81	0.84	0.87	0.90
Yen (USD/JPY)	106	<b>88</b> ↓	<b>84</b> ↓	80	81	82	83	83	84.2	85.0
Euro (EUR/USD)	1.41	<b>1.42</b> ↑	<b>1.37</b> ↑	<b>1.32</b> ↑	<b>1.36</b> ↑	<b>1.40</b> ↑	1.41	1.44	1.47	1.50
Euro (EUR/GBP)	0.79	<b>0.93</b> ↑	<b>0.94</b> ↑	<b>0.94</b> ↑	<b>0.94</b> ↑	<b>0.93</b> ↑	0.91	0.90	0.89	0.88
Sterling (GBP/USD)	1.78	<b>1.52</b> ↓	<b>1.46</b> ↑	<b>1.40</b> ↑	1.45	<b>1.50</b> ↓	1.55	1.60	1.65	1.70
Australian Dollar (AUD/USD)	0.79	<b>0.70</b> ↑	<b>0.64</b> ↑	0.59	<b>0.61</b> ↓	<b>0.62</b> ↓	0.64	0.66	0.68	0.70
Mexican Peso (USD/MXN)	10.9	13.0	13.1	13.2	13.2	13.3	13.3	13.3	13.4	13.4
Chinese Yuan (USD/CNY)	6.9	6.8	<b>6.8</b> ↑	<b>6.8</b> ↑	<b>6.7</b> ↑	<b>6.7</b> ↑	6.6	6.5	6.4	6.3

# Provincial Forecast Update



	<u>2000-07</u>	<u>2008f</u>	<u>2009f</u>	<u>2010f</u>	<u>2000-07</u>	<u>2008f</u>	<u>2009f</u>	<u>2010f</u>
	<u>Real GDP</u> (annual % change)				<u>Budget Balance, FY March 31*</u> (\$millions)			
<b>Canada</b>	<b>3.0</b>	<b>0.7</b>	<b>-1.2</b>	<b>1.9</b>	<b>10,799</b>	<b>9,597</b>	<b>-2,000</b>	<b>-13,500</b>
Newfoundland and Labrador	4.8	1.4	0.4	2.5	-347	1,377	1,266	n.a.
Prince Edward Island	2.1	0.6	-0.5	1.2	-28	-11	-49	n.a.
Nova Scotia	2.2	1.0	-0.2	1.9	15	419	355	n.a.
New Brunswick	2.2	1.0	-0.1	2.0	77	87	-285	n.a.
Quebec	2.2	0.5	-1.1	1.8	-144	0	0	n.a.
Ontario	2.7	-0.2	-2.0	1.6	-176	600	-500	n.a.
Manitoba	2.5	1.8	-0.2	1.8	n.a.	576	96	n.a.
Saskatchewan	1.9	3.0	0.6	2.4	153	641	2,318	n.a.
Alberta	4.2	1.7	-0.3	2.2	4,869	4,581	2,003	n.a.
British Columbia	3.2	1.5	-0.4	2.6	769	2,886	450	n.a.

\* FY09 forecasts: provincial governments.

	<u>Employment</u> (annual % change)				<u>Unemployment Rate</u> (annual average, %)			
<b>Canada</b>	<b>2.0</b>	<b>1.6</b>	<b>-1.0</b>	<b>0.8</b>	<b>6.9</b>	<b>6.1</b>	<b>7.6</b>	<b>7.7</b>
Newfoundland and Labrador	1.0	1.7	0.2	1.3	15.7	13.1	13.7	13.6
Prince Edward Island	1.8	1.4	-0.3	0.5	11.3	10.7	11.4	11.4
Nova Scotia	1.3	1.3	-0.1	0.8	8.8	7.7	8.5	8.5
New Brunswick	1.4	1.0	-0.1	1.0	9.7	8.6	9.5	9.4
Quebec	1.8	0.8	-1.0	0.7	8.4	7.3	8.8	9.0
Ontario	2.0	1.5	-1.8	0.5	6.5	6.5	8.5	8.6
Manitoba	1.2	1.7	0.1	0.9	4.9	4.2	5.2	5.3
Saskatchewan	0.8	1.9	0.8	1.5	5.2	4.2	5.0	4.8
Alberta	3.0	2.8	-0.2	1.2	4.4	3.4	4.6	4.5
British Columbia	2.3	2.3	-0.3	1.5	6.7	4.5	5.6	5.4

	<u>Housing Starts</u> (annual, thousands of units)				<u>Motor Vehicle Sales</u> (annual, thousands of units)			
<b>Canada</b>	<b>207</b>	<b>214</b>	<b>170</b>	<b>175</b>	<b>1,600</b>	<b>1,660</b>	<b>1,475</b>	<b>1,530</b>
Atlantic	12	12	10	10	111	129	116	120
Quebec	44	48	41	41	402	428	375	390
Ontario	77	75	60	61	619	581	506	524
Manitoba	4	6	5	5	44	47	42	43
Saskatchewan	4	7	5	5	39	48	47	49
Alberta	38	30	22	25	204	245	220	228
British Columbia	28	36	27	28	181	182	169	176