



Weekly Trends

Highlights

The Week — A new year, but old worries. Investors are in a selling mood again, dragging stocks, commodities, and currencies lower. But even with the recent retrenchment, a solid economic rebound this year is gaining momentum around the world. Investors may be factoring in a more cautious outlook for 2011 given the structural headwinds confronting the global economy.

Canada — Canada's job market recovery continues with 43,000 newly hired in January.

United States — January nonfarm payrolls report disappoints.

Mexico — Expect less inflation and more growth.

Latin America — Chile's economic recovery starts to convince.

International — ECB and BoE leave interest rates on hold; quantitative easing suspended.

Industry — A new era for Ontario.

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New Releases

Economic Directions (February 2010)

Global Forecast Update (02/03)

Fiscal Pulse: Ontario Pre-Budget Submission (February 2010)

Auto News Flash (02/02)

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Forecasts

Economic Performance (annual % change unless otherwise indicated)

	2000-08	2009e	2010f	2011f	2000-08	2009e	2010f	2011f
		<u>Canada</u>				<u>United States</u>		
Real GDP	2.6	-2.5	3.0	2.8	2.4	-2.4	3.6	2.6
Consumer Prices	2.3	0.3	1.7	2.1	2.9	-0.3	2.6	2.4
Pre-tax Profits	7.7	-33.0	23.0	12.0	5.3	-5.2	18.0	10.9
Federal Budget Balance (\$bn)	8.4	-56.0	-46.0	-30.0	-197	-1413	-1490	-1220
Current Account Balance (\$bn)	21.0	-42.3	-34.8	-26.7	-601	-426	-498	-548
Merchandise Trade Balance (\$bn)	58.2	-5.0	1.0	8.0	-655	-513	-617	-691
Motor Vehicle Sales (000s)*	1,605	1,461	1,525	1,570	16.4	10.4	11.5	12.2
Motor Vehicle Production (000s)*	2,590	1,425	1,900	2,050	11.5	5.6	7.2	7.5
Housing Starts (000s)*	207	149	168	172	1.65	0.55	0.73	1.08
Employment	1.9	-1.6	1.0	1.6	0.7	-3.7	0.5	2.3
Jobs Created (000s)*	301	-272	162	279	0.89	-5.04	0.65	3.05
Unemployment Rate (%)	6.9	8.3	8.3	8.1	5.1	9.2	9.9	9.2
		<u>Mexico</u>				<u>Euro zone</u>		
Real GDP	2.8	-6.8	4.0	3.1	1.9	-3.8	1.3	1.1
Consumer Prices	5.1	3.6	5.3	4.2	2.2	0.9	1.3	1.8
		<u>Latin America (Excl. Mexico)</u>				<u>Asia</u>		
Real GDP	3.8	-0.3	3.6	3.7	5.2	1.3	4.9	4.7
Consumer Prices	8.1	7.1	7.9	4.7	1.6	0.0	1.7	2.0

*In the United States, millions.

Commodity Prices (US\$ annual average)

	2000-08	2009e	2010f	2011f
Pulp (tonne)	662	720	800	850
Newsprint (tonne)	574	560	563	650
Lumber (mfbm)	286	178	215	240
Copper (lb)	1.72	2.34	3.00	3.50
Zinc (lb)	0.73	0.75	0.95	1.05
Nickel (lb)	7.16	6.50	7.95	8.00
WTI Oil (bbl)	49.93	62	90	92
Nymex Natural Gas (US\$/mmbtu)	6.15	4.15	5.50	5.50
Wheat (tonne)	223	454	305	290

Financial Markets (end of period, % unless otherwise indicated)

	09Q4	10Q1f	10Q2f	10Q3f	10Q4f	11Q1f	11Q2f	11Q3f
CANADA								
3-month T-bill	0.31	0.30	0.75	1.05	1.75	2.10	2.30	2.25
5-year Canada	2.76	2.80	3.10	3.20	3.70	3.85	3.65	3.55
10-year Canada	3.61	3.65	3.85	4.10	4.50	4.80	4.60	4.55
UNITED STATES								
3-month T-bill (Yield)	0.08	0.30	0.65	1.00	1.75	2.10	2.30	2.25
5-year Treasury	2.68	2.70	3.00	3.10	3.60	3.75	3.60	3.55
10-year Treasury	3.84	3.85	4.15	4.40	4.80	5.10	4.90	4.85
CANADIAN-US SPREADS								
3-month T-bill	0.23	0.00	0.10	0.05	0.00	0.00	0.00	0.00
5-year	0.08	0.10	0.10	0.10	0.10	0.10	0.05	0.00
10-year	-0.23	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
Canadian Dollar (USD/CAD)	1.05	1.02	1.00	0.98	0.97	0.97	0.96	0.95
Canadian Dollar (CAD/USD)	0.95	0.98	1.00	1.02	1.03	1.03	1.04	1.05
Yen (USD/JPY)	93	90	88	87	87	89	90	91
Euro (EUR/USD)	1.43	1.42	1.45	1.47	1.44	1.43	1.43	1.41
Sterling (GBP/USD)	1.62	1.63	1.64	1.65	1.64	1.63	1.63	1.62
Mexican Peso (USD/MXN)	13.1	13.4	13.5	13.8	13.9	13.9	13.8	13.8



The Week | Past, Present & Prospects

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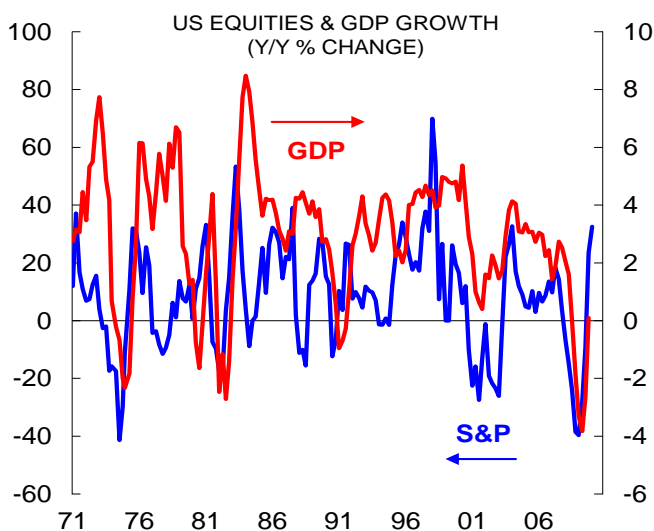
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Here We Go Again, Or Not

Investors have brought out their worry beads again and are in a selling mood. Around the world, stocks, commodities, and virtually all currencies are under increasing pressure. With this morning's downward tilt, the U.S. S&P index is down just under 100 points or around 8% from its recent high in mid-January 2010, with the benchmark Canadian index down 7%. From their early-year high-water marks, stocks have slumped by 9% in Brazil, 11% in India, 12% in Europe and 14% in Hong Kong. The price of crude oil and copper has slumped 15% and 19%, respectively. Like the other bouts of investor jitters that have occurred since markets began to turn around almost a year ago, the risk averse have increasingly put their monies into the perceived 'safe-haven' of U.S. government securities, with the greenback gaining roughly 5% against a basket of international currencies.

There have been a number of factors that have triggered this latest round of investor angst. First, sovereign risk concerns have intensified, with the escalating fiscal problems in Greece highlighting significant economic and financial strains in other euro zone partners. Second, efforts by authorities in the high-growth developing nations of China and India to rein in credit growth and emerging inflation pressures have



raised concerns over the economic stamina of the globe's growth locomotives. Third, proposals by the United States and some European nations that would increase regulatory oversight, boost capital, and increase taxes on financial institutions have raised concerns over the extent to which credit taps can be opened in support of growth. And fourth, while the economic recovery is unfolding, there is concern that the rebound in the developed countries may be on the light side, a development that would support the view that equity valuations are stretched.

Clearly, the renewed volatility and the speed of the market adjustments are noteworthy, though the S&P index is still a sizeable 56% above its March 2009 low. As the chart illustrates, U.S. stock prices — even accounting for the latest tumble — are still up over 30% from a year ago. There is considerable upside for the U.S. economy's performance, since output growth only edged back into positive territory in 2009Q4. In fact, every time there has been a 30% year-over-year increase in the S&P index over the past 40 years, U.S. real GDP has always recorded yearly advances in excess of 3½%, and has been accompanied by double-digit annual gains in corporate profits.

But we are in an uncertain period where a large number of structural adjustments — deleveraging, by households, businesses, and governments alike, restructuring and consolidation among financial and non-financial firms, and an eventual move to increased monetary and fiscal restraint — pose a significant challenge to longer-term economic and financial prospects. What the markets could be pointing to is that the longer-term trajectory for U.S. and global growth could be lower for longer. Scotia Economics' projects U.S. real GDP will average a below-consensus 2.6% in 2011 following an above-consensus average gain of 3.6% this year. For a more complete analysis of these trends, please refer to our *February 2010 Economic Directions* at http://www.scotiacapital.com/English/bns_econ/econdir.pdf and *February 3rd issue of Global Forecast Update* at http://www.scotiacapital.com/English/bns_econ/forecast.pdf. ■



Canada

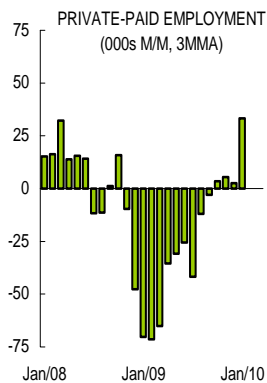
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Jobs Recovery Gains Momentum

The economic recovery continues to gather momentum. Nationally, 43,000 net new jobs were created in January, more than double expectations. The jobless rate dipped slightly to 8.3%, from 8.4% in December and a peak of 8.7% last August.



The details of the jobs report were somewhat less impressive, but still reasonably solid. All of the gains were part-time positions, but they were also all paid (as opposed to self-employed) and the vast majority were in the private sector. Full-time employment was steady in January, but has been trending higher over the past six months.

The recovery path has not been smooth. Employment changes have vacillated between sizeable declines and sizeable increases for five consecutive months.

Nonetheless, the underlying trend is clearly improving, with the three-month change in private sector payrolls showing its strongest reading in more than three years in January (see chart).

Forward-looking surveys of hiring intentions are generally positive, but also cautious. For the most part, domestic firms are becoming much more upbeat about sales and profit expectations. However, boosting machinery & equipment investments (primarily on computers, communications and other office equipment as opposed to industrial machinery) appears to have priority over adding new hires.

This is perhaps not surprising. Firms are taking advantage of the strength in the Canadian dollar, which lowers imported machinery & equipment costs, as well as capital tax reductions, in order to replace and upgrade depreciating physical assets — a crucial step in jumpstarting Canada's perennially weak productivity performance. At the same time, the fact that jobs were cut back far less aggressively than output over the course of the downturn suggest less need to bring in new workers to meet now rising production requirements.

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Review

Building Permits — Building permits were up 2.4% m/m in December, following a 3.2% retreat the previous month. Residential permits were down 0.1% m/m, while non-residential permits were up 6.8% thanks to a 29.2% m/m increase in commercial permits. Toronto and Calgary made up the majority of the increase in commercial permits. Toronto's non-residential permits were up 65.6% m/m, while Calgary's permits jumped over 250% from November. For Canada as a whole, the other non-residential sectors, industrial and government, were down 19.0% and 21.9% m/m, respectively. Permit issuance has increased in four of the last five months, but unlike December, the previous month's figures rose on the back of strong residential permits. B.C. and P.E.I. led the way in residential permits, with P.E.I. increasing by 40.8% m/m, and B.C. by 22.8% m/m. Newfoundland and Quebec were the only other provinces to post a gain.

Preview

Housing Starts (02/08)

Merchandise Trade Balance (02/10)

New Housing Price Index (02/11)

New Motor Vehicle Sales (02/12)

We are anticipating a modest pace of employment growth (averaging 20,000 per month) in 2010, not quite enough to fully recoup the jobs lost during the recession. Meanwhile, the return of previously discouraged workers back to the labour market will likely keep the unemployment rate from dipping below 8%. Our pick for job-growth leading industries in 2010: information technology, financial, real estate & insurance, professional & business services (e.g. legal, accounting), personal & household services, health care, construction trades, energy sector and environmental technologies. ■



United States

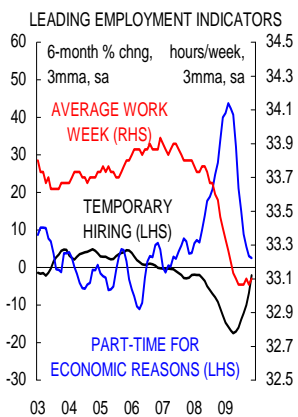
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A Disappointing Payrolls Report

At first glance, this morning's release of the highly-anticipated BLS Employment Situation report was an unexpected disappointment. To name a few surprises: the workforce continued to contract (-20,000) — market consensus was calling for a 20,000 gain — the unemployment rate plunged 0.3 percentage points to 9.7% and the construction sector shed 75,000 jobs. So what did happen?



Every January, the BLS revises the entire history of U.S. employment. The benchmark revision for 2009 revealed that the labour market contracted by 8.4 million since January 2008, nearly 1.2 million more than had been originally estimated. Though this is a sizeable adjustment, revisions tend to be greater during economically volatile periods.

The Employment Situation report comprises of two surveys: 1) the Current Employment Statistics survey (CES), commonly referred to as the Establishment or Payrolls survey, and 2) the Current Population survey (CPS), also known as the Household survey. Both studies estimate monthly changes in employment. While the headline — which comes from the payrolls survey — did disappoint directionally, the magnitude of the contraction continued to point to further stabilization in the labour market. Leading indicators, too, foreshadow encouraging developments in the months ahead.

The household survey is better equipped to catch turning points — leading changes in payroll survey on average by a quarter — due to its ability to track changes in the number of self-employed. These individuals account for about 10% of the overall workforce, and their number tends to increase as labour market conditions begin to weaken. In January, the household survey showed a workforce expansion of 541,000, the most since November 2007, prior to the onset of the recession (as defined by the NBER). Since the

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Review

Personal Income & Expenditures — Personal income grew for a sixth consecutive month in December, by 0.4% m/m, while consumption rose 0.2% m/m, marking the third consecutive monthly increase. December also marks the first month in 2009 where personal income was positive on a y/y basis, coming in at 0.5% y/y. The first eleven months of 2009 represent the only time personal income has ever been down on a yearly basis, since the metric began in 1959. Over the 50 years that monthly personal income has been tracked, the average y/y increase is over 7%, showing that while income growth is occurring, it is far from its normal, prerecession levels.

ISM Indices — Both the manufacturing and non-manufacturing indices began 2010 on a positive trend, increasing on a m/m basis, and starting the year above 50 — which indicates that both sectors are expanding. The manufacturing index rose to 58.4 in January from 54.9 on the strength of the production and employment components of the index, while the non-manufacturing index crept up to 50.5 from 49.8, below consensus expectations of a rise to 51.

Preview

Wholesale Trade (02/09)

Trade Balance, Treasury Statement (02/10)

Retail Sales, Business Inventories (02/11)

unemployment rate is estimated using household survey data, this explains why the unemployment rate unexpectedly declined to 9.7% in January, from 10% in the previous month.

Turning to individual industries, the 75,000 contraction in the construction sector was the largest since June. This winter has been unseasonably cold throughout the United States. As a result, the standard seasonal adjustment factors may not be fully controlling for weather-related influences. That said, manufacturing, mining & logging, retail trade, professional & business services and education & healthcare all registered gains, supporting the view of further stabilization in the labour market. ■



Mexico

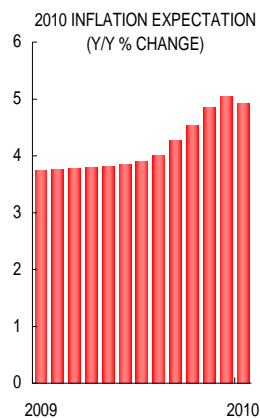
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Expect Less Inflation & More Growth

Market expectations for 2010 inflation in Mexico came down in January. In December, inflation for this year was forecasted to reach 5%; a rate of 4.9% is now expected by market analysts according to the central bank monthly survey. Although the fall is minimal, this came as a surprise given that, as we have reported previously, yearly inflation has recently picked up, reversing the downward trend evident during the second half of 2009.



As the monetary authorities have recently explained, the supply-side based pickup in price pressures is not yet a concern, given that it is perceived as a one-time effect that will dissipate within twelve months. Implicitly, this justifies the decision by the monetary board of the Banco de Mexico on January 15th to leave the benchmark bank funding rate on hold at 4.5%. Given the absence of a pickup in inflation expectations, we anticipate the central bank to maintain current monetary conditions at least during the first-half of 2010.

Inflation for the month of January will be published this coming Tuesday. A good guess as to how the monthly price figure will come out is always given in Mexico by the by-weekly publication of the Consumer Price Index. This inter-monthly gauge of price pressures is an inheritance from the years of high-flying inflation. Yearly inflation for the first two weeks of January came out at 4.2% y/y, underpinned by the increase in the value added tax and other excise tax increases, and the upward correction in government administered prices, namely, fuel and gas. Annual inflation reached 3.6% in 2009. So, it is clear that next Tuesday's monthly measure will reveal a rising annual rate of price growth.

Expectations for economic activity also picked up in the monthly central bank survey. Market analysts now forecast the economy to expand by 3.3% in 2010, up from the 3.1% of the previous survey.

Developing Americas

Activity In Chile Picking Up Steam

Economic activity picked up in November to a 1.2% monthly pace, the fastest since June of 2008. The acceleration in the rate of monthly expansion was underpinned mainly by the previously released 3.2% monthly rise in industrial output. The latter index has increased during five of the six months to November.

The rise in output within the Chilean industrial sector reflects not only the pickup in copper related activity — where demand for exports from China has played a key part — but also gains in the manufacturing sector. Indeed, although copper exports increased at an average 22% quarter-over-quarter rate during 2009, non-copper industrial exports achieved a very reasonable 4.5% q/q expansion.

The Chilean economy is relatively open to international trade as net-exports (exports minus imports) account for 13% of yearly GDP. However, the local economy is experiencing a recovery as well, as retail sales activity has improved in recent months. Real retail sales increased at a 10% q/q rate in the final three months of last year, after increasing at an average 3% rate in the previous two quarters.

The rise in consumer spending has been underpinned by improving labour market indicators. The number of employed people has increased without interruption since April 2009, with the unemployment rate adopting a downward trend in the second-half of last year and reaching 8.6% in the final quarter of 2009 (latest figure).

We expect the Chilean economy to continue to pick up steam as the year unfolds on the back of an enhanced outlook for domestic activity and improving prospects for the demand for commodities.

Having foreseen the quickening of the economic recovery, we were already anticipating a significant rise in activity in Mexico. On the basis of a perceived more solid rebound in activity in the U.S., we have raised this week our expectation for this year's growth in Mexico to 4%. ■

Europe & Asia / Oceania

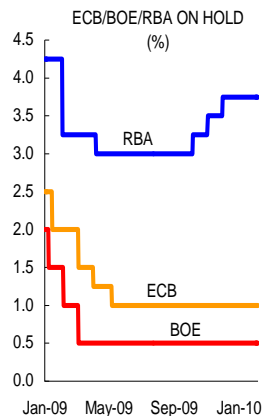
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ECB & BoE Leave Interest Rates On Hold; Quantitative Easing Suspended

The February 4th decisions by the European Central Bank (ECB) and the Bank of England (BoE) to leave their administered interest rates unchanged at 1.0% and 0.5%, respectively, took no one by surprise. There is still ample excess economic capacity in both the euro zone and the U.K., credit flows to the private sector remain subdued — at best — and financial markets are coming under fresh strain as a result of concerns regarding fiscal sustainability.



In announcing the Governing Council's decision, ECB President Jean-Claude Trichet noted that the policymakers anticipated "moderate" economic growth in 2010 and that inflationary pressures would remain "low" over the medium term. Trichet also encouraged the banks to ensure availability of credit to the non-financial private sector "especially for those enterprises that do not have recourse to market-based financing". To this end, he offered reassurance that the ECB would "continue our enhanced credit support to

the banking system". The Governing Council will revisit the issue of the phasing out of extraordinary liquidity measures next month.

As Trichet noted, inflationary pressures in the euro zone remain muted. The 'flash' estimate for the January year-on-year increase in the headline consumer price index was a modest 1.0%. Only a moderate upward creep on a month-on-month basis is evident further up the distribution chain: the rate of increase in the producer price index has averaged 0.2% in the three months through December, leaving the end-2009 PPI 2.9% below the December 2008 level. Nevertheless, low inflation has not been offering any significant boost to consumer spending across the region. Retail sales have been moving sideways in recent months, closing off 2009 with no change (on a month-to-month basis); this left sales below the year-earlier level for a nineteenth consecutive month. While consumer sentiment

Temporary Pause In Australia's Monetary Tightening Cycle

The Reserve Bank of Australia's (RBA) monetary policy tightening bias remains in place. Nevertheless, the central bank surprised the markets (and us) by opting to leave its benchmark interest rate unchanged at 3.75% following the February 2nd board meeting despite recent data showing a sharp acceleration in house prices through year-end. In announcing the decision, Governor Glenn Stevens noted that there was still only "limited" information about the impact of previous rate increases (though data for the post-October period have been generally positive), providing some basis for a pause, but that further adjustments would likely be required "if economic conditions evolve broadly as expected". The RBA remains upbeat regarding the economic outlook, anticipating an acceleration in economic activity through 2010 even as interest rates move higher, but appears equally confident that monetary tightening will prove successful in containing inflationary pressures, with the headline inflation rate slipping back from 3.0% y/y in mid-year to 2.5% by the fourth quarter (the mid-point of the official inflation target).

has been slowly improving, the lack of job creation has put a significant crimp on income growth, with adverse implications for consumer spending power.

Inflation prospects in the United Kingdom are less favourable than in the euro zone — at least in the near-term. Nevertheless, the Monetary Policy Committee (MPC) sees no need to abandon its accommodative stance even though the headline consumer price inflation rate is already almost a full percentage point above the official medium-term target of 2% y/y — and is trending higher. In addition to holding the Bank Rate at 0.5%, the MPC also opted to make no further change to its asset purchase programme, electing to hold the limit at £200 billion, though the MPC also conceded that "credit conditions are likely to remain restrictive". Even in the U.K., however, there are signs of a mild reactivation in credit flows, as net lending to individuals increased by £1.2 billion in December, the biggest advance in eight months. The improvement was entirely a result of a small uptick (£52 million) in net consumer credit — following five successive monthly declines. ■



Industry & Commodity

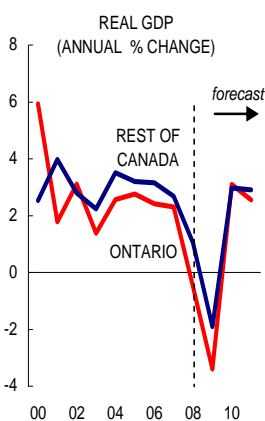
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Ontario's Changing Economic Fortunes

Ontario is benefitting from the global economic recovery, with real GDP expected to grow by just over 3% this year, recouping the majority of output lost during the recession. As in many other jurisdictions in North America and abroad, government fiscal stimulus, historically low interest rates and inventory restocking are playing pivotal roles in resuscitating activity in the province.



Growth is likely to moderate by year-end, however, as governments move to contain budget deficits and reduced monetary stimulus triggers a gradual rise in interest rates. Lingering strains on U.S. household balance sheets, more cautious lending practices and the lengthy convalescence in the U.S. housing industry will temper growth in the U.S., which accounts for four-fifths of Ontario's international sales. The net result — provincial growth is likely to slip to 2½% in 2011. The province will be hard-pressed to match the growth trends in

resource-rich regions unless it successfully improves its competitive fundamentals and diversifies its export base to take advantage of opportunities outside of the United States.

Although retail sales were down 3% in 2009, consumer spending conditions began to improve considerably by the end of the year. The pickup in sales is expected to continue through 2010, supported by rising employment, which has stabilized faster than during the prior two cyclical recoveries of the 1990s and 1980s. Nevertheless, provincial employment will probably not regain levels achieved before the recession began until later in 2011, leaving the provincial jobless rate near 9% next year. Provincial output and employment growth after 2010 will probably lag national trends, continuing a pattern evident for most of the past decade. Similarly, Ontario's lead in personal disposable income per capita two decades ago has dissipated, with further downside risk if the province experiences a relatively lengthy and lethargic economic recovery.

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CUVs Buoy North American Auto Sales

Canadian car & light truck purchases remained above a year earlier for the second consecutive month in January. However, we estimate that seasonally adjusted sales softened to an annualized 1.45 million units in January, down from a full-year 2009 total of 1.46 million, and an average of 1.55 million during the July to October period. Much of the weakness was driven by double-digit declines at Toyota and Honda. The fall-off at Toyota reflects the sales suspension of eight models in the final week of January. Meanwhile, the decline at Honda is due to the company's lower incentives than its competitors.

North American automakers posted y/y gains in the 5-6% range in January, mainly due to a 35% surge in sales of their crossovers. This lifted the overall market share of North American brands to 47.0% — the highest level of the past year.

U.S. auto sales also advanced 6% above a year earlier, climbing to an annualized 10.8 million units, up from a full-year 2009 total of 10.4 million. As in Canada, North American automakers outperformed, with both Ford and General Motors posting double-digit gains — led by their popular crossovers.

As a result, inventories of GM's popular Canadian-made crossovers — the Equinox and Terrain — fell to only 12 days' supply, suggesting that autoworkers at the CAMI plant in Ingersoll will be putting in significant overtime.

Despite these considerable challenges, Ontario's large and diversified economy has great strength. Its world-class financial sector stands to benefit in a global environment of increased regulation and reform, with the potential to generate a broad range of spin-off activity for business and professional services. The information-technology sector has shown considerable resilience during the downturn and should remain a growth leader over the next decade. The province's highly educated labour force also has allowed the development of centres of excellence in areas such as medical services and research. All of these sectors will play a key role in Ontario's transition towards a more service-oriented, higher value-added, and less cyclical economy. ■



Market Metrics

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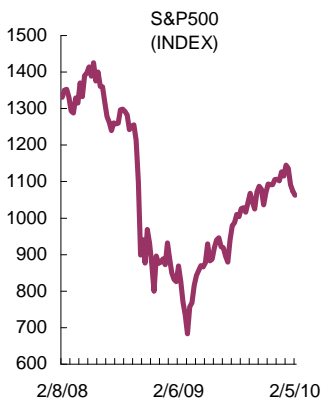
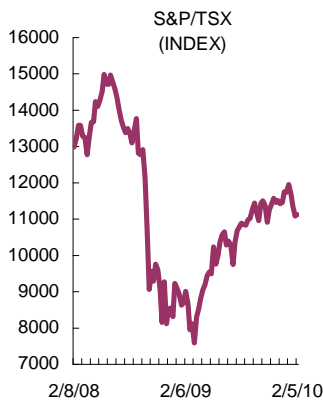
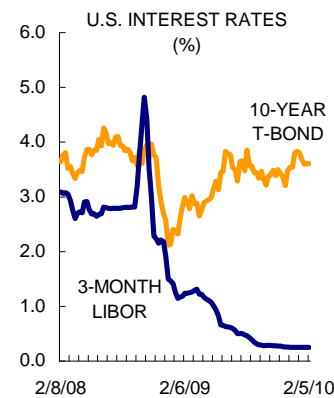
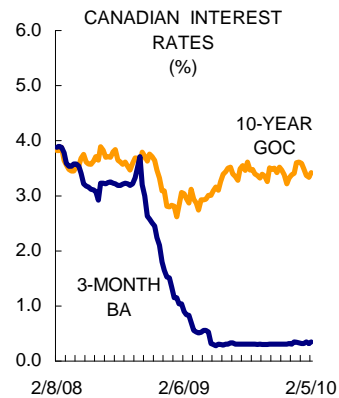
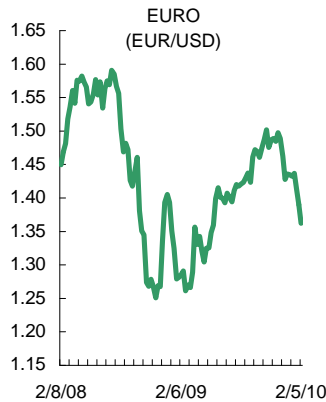
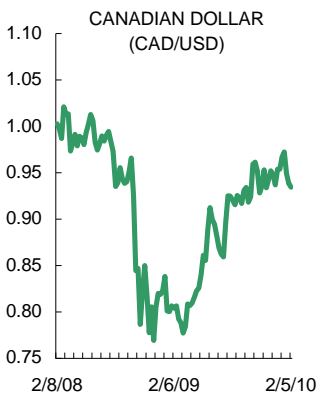
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Highlights

Markets & Monetary Policy — Central banks in Australia, the euro zone, Norway and the United Kingdom held policy meetings this week. The Reserve Bank of Australia's (RBA) decision to leave its cash target rate unchanged at 3.75% took financial markets by surprise. Leading the tightening cycle, the RBA increased its key rate three times (75 bps) between October and December. The accompanying statement presented four reasons for the pause: 1) limited information about the impact of earlier rate hikes, 2) the ramifications of mortgage rates climbing close to 1% above the official cash rate, 3) inflation is expected to be in line with the target and 4) international events, such as China beginning to scale back some of its stimulus measures. As expected, the Bank of England (BoE), the European Central Bank (ECB) and the Norges Bank (NB) left their overnight rates unchanged. The BoE halted its quantitative easing program, the ECB continued to outline exit strategies, while the NB officials indicated that interest rates will likely rise gradually after March 24.

In eastern Europe, central banks continue to ease monetary policy to revive economic growth, which relies heavily on exports and foreign credit. Romania's central bank — the Banca Nationala a Romaniei (BNR) — delivered an interest rate cut of 50 bps to 7.0%, its second in 2010. This week, Fitch raised Romania's outlook to stable, on the IMF's recommendation to resume disbursements, the adoption of the 2010 budget, tame inflationary pressures and improving investor sentiment.

The U.S. corporate-earnings season is well underway. So far, about 60% of companies have published their fourth-quarter results, and the number of companies whose profits beat market expectations is among the highest on record. Over the past year, firms have been operating more cost efficiently, which has in turn pushed productivity, profit margins and cash reserves higher. As business confidence returns, companies will start reinvesting excess cash, and, thus, help boost the labour market and the real economy.

Note: Latest observation taken at time of writing.

Highlights

Fiscal Policy — A Canada-U.S. announcement confirms access for Canadian suppliers to state and local public works projects under the *American Recovery and Reinvestment Act* while the Provinces and Territories open their procurement markets to U.S. firms. Under the WTO Agreement on Government Procurement, Canada and the U.S. will offer permanent market access to each other at the sub-federal level, with negotiations promised for broader procurement arrangements to strengthen North American supply chains.



Economic Tables

Canada	2008	09Q2	09Q3	Latest	United States	2008	09Q2	09Q3	Latest
Real GDP (annual rates)	0.4	-3.1	0.4		Real GDP (annual rates)	0.4	-0.7	2.2	5.7 (Q4)
Current Acc. Bal. (C\$B, ar)	8.1	-47.8	-52.5		Current Acc. Bal. (US\$B, ar)	-706	-392	-432	
Merch. Trade Bal. (C\$B, ar)	46.9	-5.9	-14.8	-4.1 (Nov)	Merch. Trade Bal. (US\$B, ar)	-840	-462	-529	-581 (Nov)
Industrial Production	-4.2	-12.0	-13.3	-9.0 (Nov)	Industrial Production	-2.2	-13.5	-9.1	-2.4 (Dec)
Housing Starts (000s)	213	131	150	178 (Dec)	Housing Starts (millions)	0.90	0.54	0.59	0.56 (Dec)
Employment	1.5	-1.8	-1.9	0.0 (Jan)	Employment	-0.6	-4.6	-4.9	-3.0 (Jan)
Unemployment Rate (%)	6.2	8.4	8.5	8.3 (Jan)	Unemployment Rate (%)	5.8	9.3	9.6	9.7 (Jan)
Retail Sales	3.4	-5.0	-3.7	1.2 (Nov)	Retail Sales	-1.3	-10.7	-7.4	5.9 (Dec)
Auto Sales (000s)	1641	1422	1538	1419 (Nov)	Auto Sales (millions)	13.2	9.6	11.5	10.8 (Jan)
CPI	2.4	0.1	-0.9	1.3 (Dec)	CPI	3.8	-1.2	-1.6	2.7 (Dec)
IPPI	4.3	-4.1	-6.6	-0.8 (Dec)	PPI	6.3	-4.3	-5.4	4.4 (Dec)
Pre-tax Corp. Profits	5.7	-42.9	-42.0		Pre-tax Corp. Profits	-17.6	-16.1	-5.2	
Mexico					Brazil				
Real GDP	1.3	-10.1	-6.2		Real GDP	4.8	-1.3	-1.1	
Current Acc. Bal. (US\$B, ar)	-15.9	3.4	-7.6		Current Acc. Bal. (US\$B, ar)	-28.2	-9.0	-19.7	
Merch. Trade Bal. (US\$B, ar)	-17.3	3.1	-12.6	-3.0 (Dec)	Merch. Trade Bal. (US\$B, ar)	25.0	44.0	29.3	-2.0 (Jan)
Industrial Production	-0.7	-11.5	-6.6	-1.0 (Nov)	Industrial Production	2.9	-11.3	-8.6	18.1 (Dec)
CPI	5.1	6.0	5.1	3.6 (Dec)	CPI	5.5	5.5	4.7	3.3 (Dec)
Argentina					Italy				
Real GDP	6.8	-0.8	-0.3		Real GDP	-1.0	-5.9	-4.6	
Current Acc. Bal. (US\$B, ar)	7.1	18.6	4.5		Current Acc. Bal. (US\$B, ar)	-0.08	-0.07	-0.04	-0.08 (Nov)
Merch. Trade Bal. (US\$B, ar)	12.6	25.2	13.6	15.0 (Dec)	Merch. Trade Bal. (US\$B, ar)	-16.6	1.4	10.0	-14.1 (Nov)
Industrial Production	0.6	-8.5	-5.1	9.0 (Nov)	Industrial Production	-3.4	-22.9	-15.9	-9.1 (Nov)
CPI	-3.0	-39.6	-34.3	7.7 (Dec)	CPI	3.3	0.8	0.2	1.2 (Dec)
Germany					France				
Real GDP	1.0	-5.8	-4.8		Real GDP	0.4	-3.0	-2.5	
Current Acc. Bal. (US\$B, ar)	243.6	131.2	144.6	323.4 (Nov)	Current Acc. Bal. (US\$B, ar)	-64.0	-77.1	-26.2	-128.2 (Nov)
Merch. Trade Bal. (US\$B, ar)	261.1	171.1	188.5	303.7 (Nov)	Merch. Trade Bal. (US\$B, ar)	-37.0	-29.6	-19.2	-35.0 (Dec)
Industrial Production	0.0	-19.2	-15.5	-6.7 (Dec)	Industrial Production	-2.9	-16.0	-11.9	-2.9 (Nov)
Unemployment Rate (%)	7.8	8.3	8.2	8.2 (Jan)	Unemployment Rate (%)	7.9	9.3	9.6	10.0 (Dec)
CPI	2.6	0.3	-0.2	0.8 (Jan)	CPI	2.8	-0.2	-0.4	0.9 (Dec)
Euro Zone					United Kingdom				
Real GDP	0.5	-4.8	-4.0		Real GDP	0.5	-5.8	-5.1	
Current Acc. Bal. (US\$B, ar)	-89.4	-118	-15	2 (Nov)	Current Acc. Bal. (US\$B, ar)	-39.7	-21.0	-24.4	
Merch. Trade Bal. (US\$B, ar)	-0.9	71.4	75.8	121.0 (Nov)	Merch. Trade Bal. (US\$B, ar)	-173.4	-122.2	-129.1	-135.1 (Nov)
Industrial Production	-1.8	-18.2	-15.0	-7.4 (Nov)	Industrial Production	-3.1	-11.9	-10.8	-6.0 (Nov)
Unemployment Rate (%)	7.5	9.3	9.6	10.0 (Dec)	Unemployment Rate (%)	5.7	7.8	7.8	7.9 (Oct)
CPI	3.3	0.2	-0.4	0.9 (Dec)	CPI	3.6	2.1	1.5	2.8 (Dec)
Japan					Australia				
Real GDP	-1.2	-6.0	-4.7		Real GDP	2.3	0.6	0.6	
Current Acc. Bal. (US\$B, ar)	157.0	134.0	175.3	148.4 (Nov)	Current Acc. Bal. (US\$B, ar)	-47.6	-36.3	-59.5	
Merch. Trade Bal. (US\$B, ar)	21.1	33.3	42.9	69.7 (Dec)	Merch. Trade Bal. (US\$B, ar)	-4.6	2.7	-11.7	-14.5 (Dec)
Industrial Production	-3.4	-27.6	-19.7	5.4 (Dec)	Industrial Production	2.9	-4.8	-3.8	
Unemployment Rate (%)	4.0	5.2	5.5	5.1 (Dec)	Unemployment Rate (%)	4.2	5.7	5.8	5.5 (Dec)
CPI	1.4	-1.0	-2.2	-1.7 (Dec)	CPI	4.4	1.5	1.3	
China					South Korea				
Real GDP	9.6	7.9	9.1		Real GDP	2.2	-2.2	0.9	
Current Acc. Bal. (US\$B, ar)	426.1				Current Acc. Bal. (US\$B, ar)	-5.8	52.4	41.6	18.3 (Dec)
Merch. Trade Bal. (US\$B, ar)	296.2	135.7	154.5	221.2 (Dec)	Merch. Trade Bal. (US\$B, ar)	-13.3	68.5	42.5	-5.6 (Jan)
Industrial Production	5.7	10.7	13.9	18.5 (Dec)	Industrial Production	3.0	-6.4	2.4	34.9 (Dec)
CPI	1.2	-1.7	-0.8	1.9 (Dec)	CPI	4.7	2.8	2.0	3.1 (Jan)

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

Financial Tables

Interest Rates (% , end of period)

Canada	09Q3	09Q4	Jan/29	Feb/05*	United States	09Q3	09Q4	Jan/29	Feb/05*
BoC Overnight Rate	0.25	0.25	0.25	0.25	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.31	0.34	0.22	0.16	3-mo. T-bill	0.11	0.05	0.07	0.08
10-yr Gov't Bond	3.31	3.61	3.35	3.36	10-yr Gov't Bond	3.31	3.84	3.58	3.58
30-yr Gov't Bond	3.84	4.08	3.95	4.00	30-yr Gov't Bond	4.05	4.64	4.49	4.53
Prime	2.25	2.25	2.25	2.25	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	58.1	54.0	54.0	(Dec)	FX Reserves (US\$B)	123.3	119.7	119.7	(Dec)
Germany					France				
3-mo. Interbank	0.65	0.60	0.50	0.50	3-mo. T-bill	0.36	0.36	0.28	0.27
10-yr Gov't Bond	3.22	3.39	3.20	3.12	10-yr Gov't Bond	3.54	3.59	3.46	3.48
FX Reserves (US\$B)	61.3	59.9	59.9	(Dec)	FX Reserves (US\$B)	45.2	46.2	46.2	(Dec)
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	0.53	0.41	0.34	0.32	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	285.2	282.3	282.3	(Dec)	10-yr Gov't Bond	3.59	4.02	3.91	3.88
					FX Reserves (US\$B)	57.5	55.3	55.3	(Dec)
Japan					Australia				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	3.00	3.75	3.75	3.75
3-mo. Libor	0.29	0.22	0.19	0.19	10-yr Gov't Bond	5.36	5.64	5.38	5.39
10-yr Gov't Bond	1.30	1.30	1.33	1.37	FX Reserves (US\$B)	40.5	39.0	39.0	(Dec)
FX Reserves (US\$B)	1030.8	1022.2	1022.2	(Dec)					

Exchange Rates (end of period)

USD/CAD	93.51	95.06	93.43	93.26	¥/US\$	89.70	93.02	90.27	89.31
CAD/USD	1.07	1.05	1.07	1.07	US\$/Australian\$	88.28	89.77	88.38	86.28
GBP/USD	1.598	1.617	1.599	1.563	Chinese Yuan/US\$	6.83	6.83	6.83	6.83
EUR/USD	1.464	1.432	1.386	1.362	South Korean Won/US\$	1178	1164	1162	1169
JPY/EUR	0.76	0.75	0.80	0.82	Mexican Peso/US\$	13.512	13.091	13.095	13.182
CHF/USD	1.04	1.04	1.06	1.08	Brazilian Real/US\$	1.767	1.745	1.895	1.883

Equity Markets (index, end of period)

United States (DJIA)	9712	10428	10067	9963	U.K. (FT100)	5134	5413	5189	5061
United States (S&P500)	1057	1115	1074	1059	Germany (Dax)	5675	5957	5609	5434
Canada (S&P/TSX)	11395	11746	11094	11078	France (CAC40)	3795	3936	3739	3564
Mexico (Bolsa)	29232	32120	30811	30090	Japan (Nikkei)	10133	10546	10198	10057
Brazil (Bovespa)	61518	68588	65402	62266	Hong Kong (Hang Seng)	20955	21873	20122	19665
Italy (BCI)	1144	1138	1085	1044	South Korea (Composite)	1673	1683	1602	1567

Commodity Prices (end of period)

Pulp (US\$/tonne)	770	830	830	830	Copper (US\$/lb)	2.78	3.33	3.11	2.83
Newsprint (US\$/tonne)	445	530	530	530	Zinc (US\$/lb)	0.87	1.17	0.96	0.90
Lumber (US\$/mfbm)	188	203	248	285	Gold (US\$/oz)	995.75	1087.50	1078.50	1058.00
WTI Oil (US\$/bbl)	70.61	79.36	72.89	70.85	Silver (US\$/oz)	16.45	16.99	16.29	15.17
Natural Gas (US\$/mmbtu)	4.84	5.57	5.13	5.54	CRB (index)	259.39	283.38	265.59	258.88

* Note: Latest observation taken at time of writing.