

Global Forecast Update



Increased Traction

We have raised our above-consensus real GDP forecasts for 2010 in the NAFTA region. U.S. output growth is now forecast to rise 3.6% in 2010, up from our previous expectation of a 3.3% gain. The real GDP advance in Canada has been lifted to 3.0% this year, an increase of 0.3 percentage points. Mexico's output growth has been revised up to 4.0% for 2010, a jump of 0.6 percentage points from our prior update.

Internationally, we have made only minor upward adjustments to this year's real GDP outlook for Germany and the United Kingdom. Output gains in China and India — the globe's growth leaders — are expected to average 9.5% and 7.0% respectively in 2010, with the recent move towards restraining domestic credit conditions contributing to a modest deceleration in activity next year. In 2011, we anticipate that China's real GDP growth will average a still-strong 9.0%, with India's advance pegged at 6.5%.

A stronger first-half growth performance is evolving in the United States, building upon the improved year-end gain that we had anticipated. U.S. domestic activity is expected to get a bigger boost from increased consumer spending, in response to improving employment conditions, rising incomes, and a rebound in household wealth. We now expect U.S. business investment in machinery & equipment to add to growth in 2010. Industrial activity is forecast to gain momentum as the global inventory cycle kicks into a higher gear. Increased consumer spending and residential housing activity are driving the upward shift in Canadian growth prospects, while an accelerated pace of manufacturing and exports is behind the stronger rebound now expected in Mexico.

Despite a slightly better consumer spending profile, the U.S. economy is relying much less on households to generate the forward momentum. According to our forecast, U.S. consumer spending is expected to account for 1.5 percentage points of the average 3.1% real GDP gain anticipated this year and next, or just about 50% of the total. In the six-year cycle between 2002 and 2007, consumer spending accounted for 2.1 percentage points of the average 2.8% real GDP advance, or about 75% of the total. In contrast with the prior growth period, net exports will add to, not subtract from, growth.

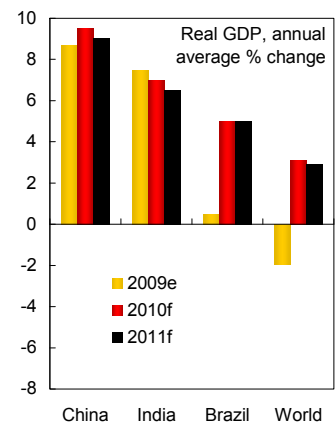
From a Canadian perspective, our forecast indicates that consumer spending should account for 1.7 percentage points of the expected 2.9% average output gain this year and next, or just under 60% of the total, and a larger share than south of the border. In contrast, net exports should continue to subtract from domestic growth — the result of longstanding competitive issues linked partly to a strong currency.

The cyclical forces of recovery are gaining traction, with an assist provided by a massive inventory restocking cycle and significant monetary and

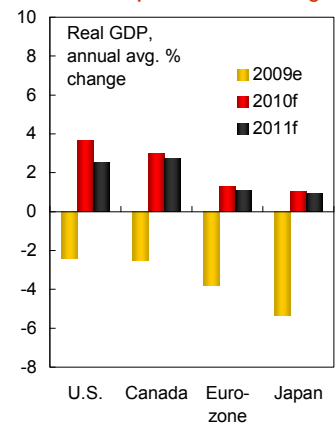
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Developing Economies Lead ...



... Developed Economies Lag



fiscal stimulus, both from the United States as well as abroad. Going forward, however, the U.S. economy's progress will continue to be restrained by the structural headwinds associated with reducing household debt, industrial consolidation and restructuring, a more restrained pace of credit expansion, and increasingly down the line, a rising tax burden. Accordingly, we continue to expect U.S. output growth to slow in 2011, with real GDP forecast to expand by an average of 2.6%.

Our views on interest rates remain unchanged. We continue to expect that the central banks in the United States, Canada, and the euro zone will begin the process of gradually normalizing short-term borrowing costs in the third quarter, with the U.K. and Japan following in the final quarter of 2010 and the first quarter of 2011, respectively. Look for the Fed and the Bank of Canada to raise their benchmark overnight rates a total of 2 percentage points to 2.25% by mid-2011, and then keep them on hold. A similar pattern, though smaller cumulative rate increases, is likely in Europe and Japan. With strengthening private sector credit demands expected to bump up against persistently large government borrowing requirements, U.S. and Canadian bond yields are at risk of moving up by roughly 1½ percentage points over the next twelve months.

With regard to currencies, we have adjusted our euro forecast to reflect its lower level, though we remain of the view that another bout of U.S. dollar weakness over the next year will give the euro a renewed boost. For a more in-depth view of currency markets, please refer to our recently updated *February 2010 Foreign Exchange Outlook* http://www.scotiacapital.com/English/bns_econ/fxout.pdf. ■

Contributions To Real GDP Growth

	United States				Canada			
	2008	2009e	2010f	2011f	2008	2009e	2010f	2011f
<i>(percentage point contribution)</i>								
Consumption	-0.2	-0.4	1.5	1.5	1.8	0.0	1.7	1.7
Housing	-1.0	-0.7	0.1	0.2	-0.2	-0.5	0.3	0.1
Government	0.6	0.4	0.7	0.2	1.1	1.0	1.4	0.4
Business Fixed Investment	0.2	-2.1	0.1	0.5	0.0	-2.2	0.0	0.7
Subtotal: Final Domestic Demand	-0.4	-2.8	2.3	2.4	2.7	-1.5	3.6	3.0
Exports	0.6	-1.2	1.4	1.0	-1.8	-5.1	2.1	2.0
Imports	-0.5	-2.3	1.3	0.9	0.4	-6.0	3.4	2.5
Subtotal: Net Exports	1.2	1.1	0.2	0.1	-2.2	0.9	-1.3	-0.4
Inventories	-0.3	-0.6	1.0	0.1	-0.2	-1.5	0.7	0.2
GDP	0.4	-2.4	3.6	2.6	0.4	-2.5	3.0	2.8

North America	2000-08	2009e	2010f	2011f
	(annual % change)			
Canada				
Real GDP	2.6	-2.5	3.0	2.8
Consumer Spending	3.5	0.1	2.7	2.7
Residential Construction	5.3	-8.4	4.7	2.6
Business Investment	4.6	-14.7	0.2	5.9
Government Spending	3.4	4.2	5.6	1.7
Exports	0.9	-13.9	6.4	6.0
Imports	3.9	-13.8	8.8	6.0
Nominal GDP	5.6	-4.5	5.2	4.8
GDP Deflator	2.9	-2.0	2.1	2.0
Consumer Price Index	2.3	0.3	1.7	2.1
Core CPI	1.9	1.8	1.6	2.0
Pre-Tax Corporate Profits	7.7	-33.0	23.0	12.0
Employment	1.9	-1.6	1.0	1.6
thousands of jobs	301	-272	162	279
thousands of jobs (Q4/Q4)	285	-253	232	291
Unemployment Rate (%)	6.9	8.3	8.3	8.1
Current Account Balance (C\$ bn.)	21.0	-42.3	-34.8	-26.7
per cent of GDP	1.7	-2.8	-2.2	-1.6
Merchandise Trade Balance (C\$ bn.)	58.2	-5.0	1.0	8.0
Federal Budget Balance (C\$ bn.)	8.4	-56	-46	-30
per cent of GDP	0.7	-3.7	-2.9	-1.8
Housing Starts (thousands)	207	149	168	172
Motor Vehicle Sales (thousands)	1,605	1,461	1,525	1,570
Motor Vehicle Production (thousands)	2,590	1,425	1,900	2,050
Industrial Production	0.6	-8.3	3.6	2.9
United States				
Real GDP	2.4	-2.4	3.6	2.6
Consumer Spending	2.8	-0.6	2.1	2.2
Residential Construction	-2.6	-20.4	4.7	5.8
Business Investment	3.0	-17.9	0.9	4.8
Government Spending	2.3	1.9	3.6	1.2
Exports	4.5	-9.9	12.7	8.3
Imports	4.3	-14.2	8.9	6.3
Nominal GDP	4.9	-1.3	4.7	4.4
GDP Deflator	2.5	1.2	1.0	1.8
Consumer Price Index	2.9	-0.3	2.6	2.4
Core CPI	2.2	1.7	1.5	2.2
Pre-Tax Corporate Profits	5.3	-5.2	18.0	10.9
Employment	0.7	-3.7	0.5	2.3
millions of jobs	0.89	-5.04	0.65	3.05
millions of jobs (Q4/Q4)	0.61	-4.76	3.04	2.71
Unemployment Rate (%)	5.1	9.2	9.9	9.2
Current Account Balance (US\$ bn.)	-601	-426	-498	-548
per cent of GDP	-4.9	-3.0	-3.3	-3.5
Merchandise Trade Balance (US\$ bn.)	-655	-513	-617	-691
Federal Budget Balance (US\$ bn.)	-197	-1,413	-1,490	-1,220
per cent of GDP	-1.5	-9.9	-10.0	-7.8
Housing Starts (millions)	1.65	0.55	0.73	1.08
Motor Vehicle Sales (millions)	16.4	10.4	11.5	12.2
Motor Vehicle Production (millions)	11.5	5.6	7.2	7.5
Industrial Production	1.0	-10.1	4.0	3.8
Mexico				
Real GDP	2.8	-6.8	4.0	3.1
Industrial Production	1.5	-7.9	4.7	3.5
Consumer Price Index (year-end)	5.1	3.6	5.3	4.2
Current Account Balance (US\$ bn.)	-11.4	-9.2	-14.3	-16.5
per cent of GDP	-1.6	-1.0	-1.4	-1.8

Forecast Changes

Canada & United States

- We have raised our forecast for real GDP growth in both Canada and the U.S. this year by 0.3 percentage points, to 3.0% and 3.6%, respectively, as resilient consumer spending and inventory rebuilding contribute to stronger turn of the year momentum. Strengthening North American auto sales combined with still-low inventories — 40% below a year earlier — continue to buoy motor vehicle production and overall industrial activity.
- We continue to expect a more moderate growth path to re-emerge later this year and into 2011 amid the unwinding of fiscal stimulus, moderately higher borrowing costs, reduced inventory adjustments and ongoing deleveraging by businesses and consumers. Our forecast for output growth for 2011 is little changed from our January *Update*, at 2.8% for Canada and 2.6% in the U.S.
- Our forecast of Canada's federal budget deficits is unchanged, but projected shortfalls for Washington are wider, reflecting the Budget initiatives and continuing revenue weakness.

Mexico

- We have lifted our 2010 forecast for GDP growth in Mexico to 4%, from our original 3.4% estimate. The upbeat U.S. and global industrial recovery has buoyed Mexican manufacturing activity and employment, while accommodative public policies continue to support construction and services. Tax increases and public sector price revisions have recently led to a reversion of the downward trend in inflation. However, the deemed temporary effects have so far been less severe than originally anticipated, prompting us to revise down slightly our 2010 inflation forecast.

International	2000-08	2009e	2010f	2011f
Real GDP (annual % change)				
World	3.3	-2.0	3.1	2.9
United Kingdom	2.4	-4.8	1.5	1.1
Euro zone	1.9	-3.8	1.3	1.1
Germany	1.4	-5.0	1.6	1.1
France	1.9	-2.1	1.6	1.5
Italy	1.1	-4.6	0.7	0.4
Japan	1.4	-5.3	1.0	0.9
Australia	3.2	0.8	2.8	3.0
China	10.1	8.7	9.5	9.0
India	7.3	7.5	7.0	6.5
Korea	4.9	0.2	4.0	4.5
Brazil	3.3	0.5	5.0	5.0
Chile	4.2	-1.5	5.0	5.0
Peru	5.6	1.4	4.2	6.0
Consumer Prices (y/y % change, year-end)				
United Kingdom	2.1	2.9	1.8	2.0
Euro zone	2.2	0.9	1.3	1.8
Germany	1.8	0.8	1.3	1.7
France	2.0	1.0	1.5	2.0
Italy	2.5	1.1	1.7	2.0
Japan	-0.1	-1.7	0.3	0.5
Australia	3.3	2.1	2.5	3.0
China	2.1	1.9	3.0	2.5
India	5.3	8.0	6.0	5.5
Korea	3.2	2.8	2.5	3.0
Brazil	6.9	4.3	4.8	5.0
Chile	4.0	-1.4	2.8	3.0
Peru	2.7	0.3	3.0	3.0
Current Account Balance (% of GDP)				
United Kingdom	-2.1	-1.1	-1.2	-1.6
Euro zone	0.2	-0.6	-0.6	-0.8
Germany	3.8	2.9	4.0	3.4
France	0.1	-1.5	-1.8	-2.0
Italy	-1.5	-2.3	-2.5	-2.8
Japan	3.3	2.5	3.0	3.1
Australia	-4.9	-2.6	-3.9	-4.6
China	5.5	6.6	5.3	4.0
India	-0.4	-1.6	-2.3	-2.3
Korea	1.5	5.1	2.0	0.4
Brazil	-0.8	-1.2	-2.3	-1.8
Chile	0.5	-1.9	0.5	1.4
Peru	-0.7	0.9	0.5	-0.2
Commodities (annual average)				
WTI Oil (US\$/bbl)	49.93	61.78	90	92
Nymex Natural Gas (US\$/mmbtu)	6.15	4.15	5.50	5.50
Copper (US\$/lb)	1.72	2.34	3.00	3.50
Zinc (US\$/lb)	0.73	0.75	0.95	1.05
Nickel (US\$/lb)	7.16	6.50	7.95	8.00
Gold, London PM Fix (US\$/oz)	472	973	1,100	1,000
Pulp (US\$/tonne)	662	720	800	850
Newsprint (US\$/tonne)	574	560	563	650
Lumber (US\$/mfbm)	286	178	215	240

Forecast Changes

International

- Monetary policy tightening is beginning to take shape in Asia, characterized by cautious — and modest — increases in interest rates (China) alongside higher bank reserve requirements (China and India). Other central banks across the region have signalled their intention of shifting to a less accommodative stance relatively soon — with the important exception of Japan, which is still trapped in a deflationary cycle. The Reserve Bank of Australia has already raised its benchmark rate three times, but opted for a pause following its February 2nd board meeting.
- Economic growth has resumed in the United Kingdom, but the uptick is still minimal; in contrast, inflation is escalating rapidly, though this trend will likely prove temporary. The euro zone will continue to be characterized by slow growth and low inflation even as some of the peripheral members scramble to put into place credible fiscal retrenchment policies.

Commodities

- After surging in early January, commodity prices pulled back mid-month, as China and India shifted monetary policy towards tightening. Concern over President Obama's proposed restrictions on U.S. commercial bank 'proprietary' trading in financial & commodity markets also took a toll. However, prices have rallied back strongly, following the release of a better-than-expected U.S. ISM Manufacturing Index reading for January, indicating a big jump in U.S. manufacturing production and a rising backlog of orders. Restocking of raw materials and manufactured goods across the G7, as well as in the United States, should underpin prices in the first half of 2010, even if base metal demand growth moderates in China.
- LME copper prices at US\$3.11 per pound in early February remain quite lucrative, though prices have pulled back significantly from a near-term peak of US\$3.49 in mid-January.

Provincial	2000-08	2009e	2010f	2011f	2000-08	2009e	2010f	2011f
	<u>Real GDP</u> (annual % change)				<u>Budget Balance, FY March 31*</u> (\$millions)			
Canada	2.6	-2.5	3.0	2.8	10,666	-5,755	-56,000	-46,000
Newfoundland & Labrador	4.6	-3.9	3.1	3.0	-149	2,350	-443	n.a.
Prince Edward Island	1.9	-1.2	2.2	2.1	-25	-33	-85	n.a.
Nova Scotia	2.0	-1.4	2.3	2.2	60	20	-525	n.a.
New Brunswick	2.0	-1.3	2.1	2.3	79	-192	-754	-749
Quebec	2.1	-1.7	2.7	2.4	-128	0	-4,695	n.a.
Ontario	2.4	-3.4	3.1	2.5	-90	-6,409	-24,716	n.a.
Manitoba	2.4	-0.8	2.8	2.6	n.a.	470	-592	n.a.
Saskatchewan	2.3	-1.5	3.0	3.3	207	2,389	425	n.a.
Alberta	3.5	-2.6	3.2	3.5	4,837	0	0	n.a.
British Columbia	2.9	-2.5	3.3	3.1	660	78	-2,775	n.a.
	<u>Employment</u> (annual % change)				<u>Unemployment Rate</u> (annual average, %)			
Canada	1.9	-1.6	1.0	1.6	6.9	8.3	8.3	8.1
Newfoundland and Labrador	1.0	-2.5	0.9	1.6	15.4	15.5	15.5	15.1
Prince Edward Island	1.7	-1.1	0.6	1.1	11.3	12.0	12.2	12.0
Nova Scotia	1.3	-0.1	0.8	1.1	8.7	9.2	9.2	8.9
New Brunswick	1.3	0.1	0.7	1.2	9.6	8.9	8.9	8.7
Quebec	1.7	-1.0	0.8	1.4	8.3	8.5	8.6	8.5
Ontario	1.9	-2.4	1.0	1.5	6.5	9.0	9.0	8.8
Manitoba	1.3	0.0	1.0	1.4	4.8	5.2	5.1	5.0
Saskatchewan	0.9	1.5	1.1	1.8	5.1	4.8	4.7	4.5
Alberta	3.0	-1.3	1.3	2.0	4.3	6.6	6.5	6.3
British Columbia	2.2	-2.4	1.2	1.6	6.4	7.6	7.8	7.6
	<u>Housing Starts</u> (annual, thousands of units)				<u>Motor Vehicle Sales</u> (annual, thousands of units)			
Canada	207	149	168	172	1,605	1,461	1,525	1,570
Atlantic	12	11	11	11	113	115	119	121
Quebec	44	43	43	43	405	390	402	416
Ontario	77	50	58	60	615	535	557	572
Manitoba	4	4	5	5	44	43	45	46
Saskatchewan	4	4	5	5	40	44	46	48
Alberta	37	20	24	25	207	184	198	205
British Columbia	29	16	22	23	181	150	158	162

* FY09-FY11 prov. balances: government estimates.

Forecast Changes

Provincial

- We have revised upwards our growth forecast for most provinces for 2010. Central Canada is benefitting from the resurgence of North American industrial activity, with the auto sector offering a renewed boost to Ontario. Growth in Central Canada is projected to moderate in 2011, as fiscal stimulus winds down and global inventory restocking slows.
- Alberta and British Columbia are expected to lead Canada in growth this year. In Alberta, an additional \$8 billion of oil sands investment has been announced over the past month, while drilling forecasts in Saskatchewan and British Columbia have become increasingly optimistic. Early data show tourism activity in British Columbia has picked up significantly ahead of the Olympics, indicating that a strong Canadian dollar is not deterring international interest.
- Strengthening commodity prices spurred Alberta and Newfoundland and Labrador in their mid-year updates to narrow their projected budget deficits for fiscal 2009-10, foreshadowing stronger resource receipts for several Provinces in the upcoming spring Budgets.

Financial Markets	09Q4e	10Q1f	10Q2f	10Q3f	10Q4f	11Q1f	11Q2f	11Q3f	11Q4f
(% , end of period)									
Canada									
BoC Overnight Target Rate	0.25	0.25	0.25	0.75	1.25	1.75	2.25	2.25	2.25
3-month T-bill	0.31	0.30	0.75	1.05	1.75	2.10	2.30	2.25	2.25
2-year Canada	1.47	1.55	1.75	2.10	2.70	2.70	2.60	2.50	2.45
5-year Canada	2.76	2.80	3.10	3.20	3.70	3.85	3.65	3.55	3.45
10-year Canada	3.61	3.65	3.85	4.10	4.50	4.80	4.60	4.55	4.50
30-year Canada	4.08	4.20	4.50	4.60	4.90	5.20	5.00	4.95	4.90
Real GDP (q/q, ann. % change)	4.2	4.5	3.8	3.0	2.8	2.7	2.6	2.5	2.5
Real GDP (y/y, % change)	-1.2	1.4	3.2	3.9	3.5	3.1	2.8	2.6	2.6
Consumer Prices (y/y, % change)	0.8	1.5	1.5	1.9	2.0	2.0	2.0	2.1	2.3
Core CPI (y/y % change)	1.6	1.5	1.5	1.7	1.7	1.9	1.9	2.0	2.1
United States									
Fed Funds Target Rate	0.25	0.25	0.25	0.75	1.25	1.75	2.25	2.25	2.25
3-month T-bill	0.08	0.30	0.65	1.00	1.75	2.10	2.30	2.25	2.25
2-year Treasury	1.14	1.20	1.50	2.00	2.70	2.70	2.60	2.50	2.45
5-year Treasury	2.68	2.70	3.00	3.10	3.60	3.75	3.60	3.55	3.50
10-year Treasury	3.84	3.85	4.15	4.40	4.80	5.10	4.90	4.85	4.80
30-year Treasury	4.64	4.70	5.00	5.10	5.40	5.70	5.50	5.45	5.40
Real GDP (q/q, ann. % change)	5.7	4.4	3.8	3.3	2.5	2.4	2.3	2.1	2.1
Real GDP (y/y, % change)	0.1	2.9	4.0	4.3	3.4	3.0	2.6	2.3	2.3
Consumer Prices (y/y, % change)	1.5	2.7	2.9	2.5	2.2	2.1	2.2	2.5	2.7
Core CPI (y/y % change)	1.7	1.6	1.4	1.4	1.5	1.7	2.0	2.4	2.6
Spreads									
Target Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month T-bill	0.23	0.00	0.10	0.05	0.00	0.00	0.00	0.00	0.00
2-year	0.33	0.35	0.25	0.10	0.00	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	-0.05
10-year	-0.23	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
30-year	-0.56	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Central Bank Rates									
European Central Bank	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.00	2.00
Bank of England	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.50
Swiss National Bank	0.25	0.25	0.50	0.75	1.00	1.00	1.25	1.25	1.50
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50	0.50
Reserve Bank of Australia	3.75	4.00	4.25	4.50	4.75	5.00	5.00	5.00	5.00
Exchange Rates									
Canadian Dollar (USD/CAD)	1.05	1.02	1.00	0.98	0.97	0.97	0.96	0.95	0.95
Canadian Dollar (CAD/USD)	0.95	0.98	1.00	1.02	1.03	1.03	1.04	1.05	1.05
Euro (EUR/USD)	1.43	1.42	1.45	1.47	1.44	1.43	1.43	1.41	1.39
Euro (EUR/GBP)	0.89	0.87	0.88	0.89	0.88	0.88	0.88	0.87	0.85
Sterling (GBP/USD)	1.62	1.63	1.64	1.65	1.64	1.63	1.63	1.62	1.63
Yen (USD/JPY)	93	90	88	87	87	89	90	91	92
Australian Dollar (AUD/USD)	0.90	0.93	0.94	0.96	0.97	0.98	0.99	1.00	1.00
Chinese Yuan (USD/CNY)	6.8	6.7	6.6	6.5	6.4	6.3	6.2	6.1	6.0
Mexican Peso (USD/MXN)	13.1	13.4	13.5	13.8	13.9	13.9	13.8	13.8	14.0
Brazilian Real (USD/BRL)	1.74	1.87	1.88	1.89	1.90	1.92	1.95	1.97	2.00

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