

Global Forecast Update



Canada — Still On The Trail for Gold

Scotia Economics is raising its above-consensus forecast for Canadian real GDP this year to an average of 3.2%, an increase of 0.2 percentage points from our prior outlook. However, we are maintaining our below-consensus real GDP estimate for 2011, which is expected to average 2.8%.

In the United States, we are keeping our above-consensus growth outlook for this year, with real GDP expected to advance 3.6% — still on the top rung of the G7 growth ladder. For 2011, our outlook for U.S. real GDP remains unchanged at a below-consensus 2.6%. We are raising our real GDP estimate for our other NAFTA partner, Mexico, to an average of 4.2% this year from our previous expectation of 4.0%. We are lifting next year's average increase to 3.5% from the prior forecast of 3.1%.

Internationally, we have made a number of changes to our outlook. Scotia Economics now expects real GDP in India to advance 7.5% and 7.0% respectively this year and next, one-half a percentage point higher than in our previous outlook for 2010 and 2011. We have also raised our output growth estimate for South Korea this year by 0.7 percentage points to 4.7%, and have kept next year's output gain pegged at a healthy 4.5%. In Europe, we have lifted our 2011 forecast for German output growth to an average of 1.3% from our prior expectation of 1.1%. Throughout South America, we have maintained our forecasts for output growth this year, with Brazil continuing to lead the region with real GDP estimated to average around 5.0%. However, we have reduced our 2011 growth forecast for Brazil by 0.5 percentage points to 4.5%, a reflection of the projected loss of momentum throughout the global economy.

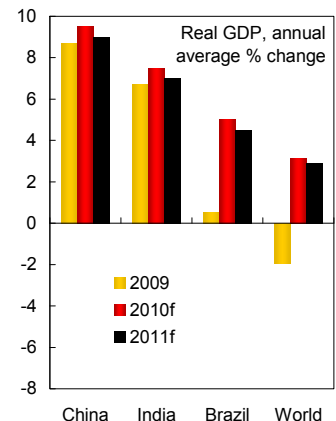
From a Canadian perspective, the upward revision to growth this year reflects the stronger economic momentum developing at the turn of the year. Last year's fourth-quarter output growth was pegged at a solid 5.0% rate — compared with our expectation of a 4.2% annualized advance — following an upwardly revised third-quarter growth rate of only 0.9%. The stronger handoff reflects a more robust performance in consumer spending and residential construction — sectors that have benefitted from the aggressive and sustained monetary easing, and more recently, from the turnaround in hiring conditions. We now expect that Canada's jobless rate will average 8.2% in 2010 and 8.0% in 2011, a 0.1 percentage point reduction in both years from our previous outlook.

Despite output growth averaging around 3.0% this year and next in both Canada and the United States, domestic-led activity is expected to remain much stronger north of the 49th parallel, and the best in the G7. Final domestic demand — which aggregates consumer spending,

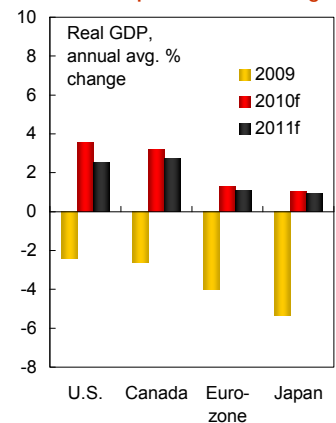
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Developing Economies Lead ...



... Developed Economies Lag





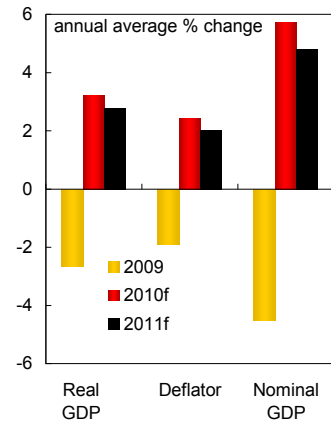
business investment, residential construction, and government expenditures — is forecast to average roughly 3¼% in Canada, higher than overall growth, and a full percentage point greater than in the United States. Even excluding the multi-year ramping up of government expenditures to underpin the recovery, Canada’s private sector-led domestic activity is likely to expand an average of 3.0% through the end of 2011, versus an expected gain of 2¼% south of the border. For the United States, an improvement in net trade and a much larger contribution from inventory rebuilding are the primary factors supporting its stronger pace of overall growth this year.

Price pressures are slowly beginning to resurface in both Canada and the United States alongside the resumption in output growth, and the rebound in commodity prices, especially for energy. However, the upward trend in inflation remains quite muted in an environment of considerable excess industrial and labour capacity. Nevertheless, even the modest upward trajectory is helping to underpin the turnaround in nominal output growth — a development that is critical to all levels of government that are focussing on lowering their recession-bloated deficits. We expect nominal output in Canada to expand by an average of 5.7% this year and 4.8% next year, with the two-year average of roughly 5.3% slightly above the 4.6% average annual growth registered in the 2000-09 period. For the United States, we project nominal growth to average around 4.5% over the two years, in line with the 4.3% average annual rise in the previous ten years.

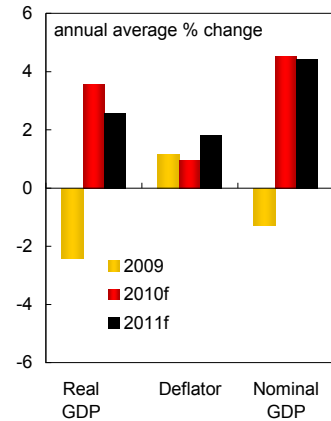
In this environment, we continue to expect that the Federal Reserve and the Bank of Canada will begin to move away from their emergency low levels of rates in the third quarter of 2010, with a cumulative increase of two percentage points by mid-2011 pushing their bellwether overnight rates up to 2.25%. Bond yields should trend higher against the backdrop of improving growth and rising inflation prospects, though Canadian yields should remain below those in the United States owing to a stronger Canadian dollar, less inflation potential, and comparatively smaller current account and fiscal deficits.

Commodity-linked currencies, such as the Canadian and Australian dollars, are expected to continue to benefit from the strengthening in global economic activity that is being led by the developing nations. Heightened concerns over the fiscal deterioration in a number of euro zone countries and the United Kingdom have weakened the euro and sterling, though longer-term prospects for the respective currencies should be buoyed by public sector adjustments and increased exports as the recovery internationally gathers speed. As a ‘safe-haven’ during periods of renewed uncertainty and risk, the U.S. dollar has benefitted from the financial problems in Europe as well as America’s stronger growth trajectory for the time being. Nevertheless, the greenback’s rise against its major overseas competitors is unlikely to be sustained given the magnitude of the structural adjustments that the United States must undergo to rebalance its savings shortfall, and its overwhelming reliance on foreign capital inflows. For a more complete assessment of the foreign exchange outlook, please refer to the March 2010 issue of *Foreign Exchange Outlook* at http://www.scotiacapital.com/English/bns_econ/fxout.pdf. ■

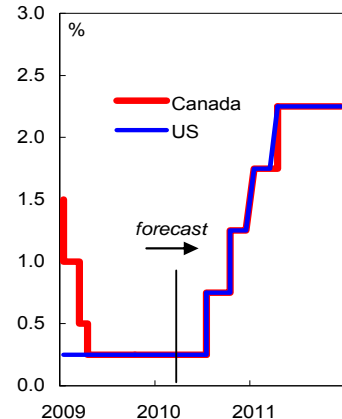
Nominal Growth Bouncing Back In Canada ...



... And In The United States



Moving To Normalize Interest Rates In The Second Half Of 2010



North America	2000-08	2009e	2010f	2011f
	(annual % change)			
Canada				
Real GDP	2.6	-2.6	3.2	2.8
Consumer Spending	3.5	0.2	2.9	2.7
Residential Investment	5.3	-7.4	9.0	2.6
Business Investment	4.6	-17.4	-0.4	5.9
Government	3.4	4.5	6.0	1.7
Exports	0.9	-14.0	7.1	6.0
Imports	3.9	-13.4	9.5	6.1
Nominal GDP	5.6	-4.5	5.7	4.8
GDP Deflator	2.9	-1.9	2.4	2.0
Consumer Price Index	2.3	0.3	1.8	2.2
Core CPI	1.9	1.8	1.7	2.0
Pre-Tax Corporate Profits	7.7	-33.2	27.0	16.0
Employment	1.9	-1.6	1.0	1.6
thousands of jobs	301	-272	177	272
thousands of jobs (Q4/Q4)	285	-253	240	291
Unemployment Rate (%)	6.9	8.3	8.2	8.0
Current Account Balance (C\$ bn.)	21.0	-41.3	-37.8	-30.9
per cent of GDP	1.7	-2.7	-2.3	-1.8
Merchandise Trade Balance (C\$ bn.)	58.2	-4.3	3.0	9.0
Federal Budget Balance (C\$ bn.)	8.4	-56	-46	-30
per cent of GDP	0.7	-3.7	-2.8	-1.8
Housing Starts (thousands)	207	149	185	175
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	0.5	-10.0	3.4	2.6
United States				
Real GDP	2.4	-2.4	3.6	2.6
Consumer Spending	2.8	-0.6	2.0	2.2
Residential Investment	-2.6	-20.4	4.5	5.8
Business Investment	3.0	-17.7	1.6	4.8
Government	2.3	1.9	3.4	1.2
Exports	4.5	-9.6	13.5	8.3
Imports	4.3	-13.9	9.8	6.3
Nominal GDP	4.9	-1.3	4.5	4.4
GDP Deflator	2.5	1.2	0.9	1.8
Consumer Price Index	2.9	-0.3	2.5	2.4
Core CPI	2.2	1.7	1.5	2.2
Pre-Tax Corporate Profits	5.3	-4.1	25.0	14.5
Employment	0.7	-4.3	0.0	2.2
millions of jobs	0.86	-5.88	-0.06	2.87
millions of jobs (Q4/Q4)	0.53	-5.39	2.27	2.82
Unemployment Rate (%)	5.1	9.3	9.8	9.1
Current Account Balance (US\$ bn.)	-601	-430	-513	-564
per cent of GDP	-4.9	-3.0	-3.4	-3.6
Merchandise Trade Balance (US\$ bn.)	-655	-517	-633	-708
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	0.70	1.04
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	-9.7	4.6	3.8
Mexico				
Real GDP	2.8	-6.5	4.2	3.5
Industrial Production	1.5	-7.3	4.7	3.8
Consumer Price Index (year-end)	5.1	3.6	5.4	4.5
Current Account Balance (US\$ bn.)	-11.4	-5.2	-13.8	-25.0
per cent of GDP	-1.6	-0.5	-1.6	-2.5

Forecast Changes

Canada & United States

- We have revised up our Canadian GDP growth forecast for 2010 by 0.2 percentage points to 3.2%, reflecting the strong turn-of-the-year momentum. We still expect output growth to slow to around 2.8% in 2011 amid less stimulative fiscal and monetary policy and continued cautious consumer and business spending plans. We have maintained our U.S. GDP growth forecast of 3.6% and 2.6%, respectively, for 2010 and 2011.
 - In light of the renewed strength in construction and permit demand, we have raised our forecast for Canadian housing starts for 2010 to 185,000 units. We expect starts to slip to 175,000 units next year as demand cools and inventories edge up. In contrast, U.S. homebuilding remains stalled, leading to a slight downward revision to starts in 2010-11.
 - Corporate profits have rebounded 20% above the cyclical low in both Canada and the U.S. A further 25-30% gain is expected in 2010, enabling companies to boost capital spending and begin re-hiring. In the U.S., spending on high-tech equipment is already advancing at the strongest pace since the tech boom a decade ago. Business investment is also expected to advance in Canada for the first time since 2007.
 - Our expectation of slightly narrower U.S. federal deficits than the Administration forecasts reflects in part the gridlock in passing new initiatives. In Canada, the year-over-year decline in federal government revenues moderated in December, with both the corporate income tax and the GST showing gains.
- ### Mexico
- We have raised our 2010 and 2011 output growth expectations for Mexico, to 4.2% and 3.5%, respectively, on the back of better-than-expected recent results and improving prospects for the service sector.

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	-4.0	1.3	1.1
Germany	1.4	-4.9	1.6	1.3
France	1.9	-2.3	1.5	1.5
Italy	1.1	-4.9	0.6	0.5
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	6.7	7.5	7.0
Korea	4.9	0.2	4.7	4.5
Brazil	3.3	0.5	5.0	4.5
Chile	4.2	-1.5	5.0	4.5
Peru	5.6	1.4	4.2	5.0
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	4.5
Chile	4.0	-1.4	2.5	3.0
Peru	2.7	0.3	3.0	3.5
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	3.9	3.4
France	0.1	-2.1	-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	5.8	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	83	87
Nymex Natural Gas (US\$/mmbtu)	6.15	4.15	5.50	5.50
Copper (US\$/lb)	1.72	2.34	3.15	3.50
Zinc (US\$/lb)	0.73	0.75	0.95	1.05
Nickel (US\$/lb)	7.16	6.50	8.00	8.25
Gold, London PM Fix (US\$/oz)	472	973	1,050	1,000
Pulp (US\$/tonne)	662	720	850	850
Newsprint (US\$/tonne)	574	560	563	650
Lumber (US\$/mfbm)	286	178	237	250

Forecast Changes

International

- With overall economic growth barely evident, the recovery in euro zone manufacturing activity will not have any appreciable impact on employment for some time yet, even assuming the sectoral momentum can be sustained. With significant numbers of employees on shortened hours and plants running well below capacity, output can be increased significantly before employers initiate a strong hiring push. Thus the euro zone jobless rate, which held steady at 9.9% for a third consecutive month in January, will likely remain well above the 9% threshold through most — if not all — of 2010.
- Japanese industrial production increased a further 2.5% m/m in January, bringing the cumulative rise in output over the past eleven months to 32%. The strength of the recovery suggests that domestic manufacturers are still coping reasonably well with yen strength.
- Despite a less stimulative federal budget and a monsoon-related deceleration in economic activity in the final three months of 2009, we anticipate stronger growth in India in the upcoming year — with a GDP increase of about 7½%.

Commodities

- LME copper prices remain lucrative at US\$3.39 per pound in early March, yielding a 63% profit margin over average world break-even costs including depreciation and overheads. Prices have been lifted in recent days by uncertainty over Chilean copper exports, following the earthquake at Concepcion (south of Santiago). While 15% of Chile's copper mine capability was temporarily shut for about a day to check for damage and in light of some power outages, almost all of Chile's mines have resumed operation with little damage. Chile is the world's biggest copper producing country, accounting for about 36% of world production. The majority of the mines are located in the north away from the earthquake, though one port in the south has been damaged and may slightly reduce exports.

Provincial	2000-08	2009e	2010f	2011f	2000-08	2009	2010f	2011f
	Real GDP (annual % change)				Budget Balance, FY March 31* (\$millions)			
Canada	2.6	-2.6	3.2	2.8	10,666	-5,755	-56,000	-46,000
Newfoundland & Labrador	4.6	-4.1	3.4	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	-0.8	2.3	2.0	60	20	-525	n.a.
New Brunswick	2.0	-0.7	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	3.2	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	-1.8	3.4	3.3	207	2,389	425	n.a.
Alberta	3.5	-2.8	3.4	3.5	4,837	0	0	0
British Columbia	2.9	-2.5	3.5	3.1	660	78	-2,775	-1,715
	Employment (annual % change)				Unemployment Rate (annual average, %)			
Canada	1.9	-1.6	1.0	1.6	6.9	8.3	8.2	8.0
Newfoundland and Labrador	1.0	-2.5	0.9	1.6	15.4	15.5	15.3	14.9
Prince Edward Island	1.7	-1.1	1.2	1.1	11.3	12.0	11.5	11.3
Nova Scotia	1.3	-0.1	0.8	1.1	8.7	9.2	9.3	9.0
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	8.3	8.1
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	5.3	5.2
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	6.6	6.4
British Columbia	2.2	-2.4	1.4	1.6	6.4	7.6	7.8	7.6
	Housing Starts (annual, thousands of units)				Motor Vehicle Sales (annual, thousands of units)			
Canada	207	149	185	175	1,605	1,461	1,525	1,570
Atlantic	12	11	12	11	113	115	119	121
Quebec	44	43	48	44	405	392	402	416
Ontario	77	50	60	60	615	535	557	572
Manitoba	4	4	5	5	44	43	45	46
Saskatchewan	4	4	6	5	40	44	46	48
Alberta	37	20	28	26	207	182	198	205
British Columbia	29	16	26	24	181	150	158	162

* FY10-FY11 prov. balances: government estimates.

Forecast Changes

Provincial

- Newfoundland and Labrador's oil and gas production posted a sluggish performance at the end of 2009, with a more pronounced rebound now expected for 2010. Nova Scotia and New Brunswick's export weakness last year was offset by resilient employment and consumer activity, prompting an upward revision to 2009 GDP estimates. Delays have been announced for first production at the Deep Panuke natural gas field, with production now slated to begin at the end of 2011, trimming our average output forecast for Nova Scotia for the year.
- Saskatchewan's potash shipments failed to gain traction late last year, and consumer spending lagged behind the pace set by the rest of Canada, edging down our 2009 GDP estimate. A larger rebound is now expected in 2010, with potash likely to show more signs of life and investment continuing to flow into the province's resource sector. Likewise, prospects continue to improve in Alberta with two new oilsand projects confirmed in February.
- Provincial updates confirm the strength of infrastructure investments entering 2010. British Columbia's early March *Budget* confirms its plans to eliminate its deficit by fiscal 2013-14 (FY14), with the possibility of black ink a year earlier, in line with Alberta's commitment to balance its books without a Sustainability Fund drawdown by FY13.

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)	5.0	4.5	3.8	3.0	2.8	2.7	2.6	2.5	2.5
Real GDP (y/y, % change)	-1.2	1.7	3.6	4.1	3.5	3.1	2.8	2.6	2.6
Consumer Prices (y/y, % change)	0.8	1.6	1.4	1.9	2.2	2.1	2.1	2.1	2.3
Core CPI (y/y % change)	1.6	1.8	1.6	1.8	1.9	1.9	1.9	2.1	2.2
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)	5.9	3.8	3.8	3.3	2.5	2.4	2.3	2.1	2.1
Real GDP (y/y, % change)	0.1	2.8	3.9	4.2	3.3	3.0	2.6	2.3	2.3
Consumer Prices (y/y, % change)	1.5	2.6	2.8	2.4	2.1	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	0.25	0.50	0.75	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	1.37	1.40	1.45	1.45	1.43	1.43	1.41	1.39
Euro (EUR/GBP)	0.89	0.90	0.88	0.89	0.89	0.88	0.88	0.87	0.86
Sterling (GBP/USD)	1.62	1.53	1.60	1.63	1.63	1.63	1.63	1.62	1.62
Yen (USD/JPY)	93	90	88	87	87	89	90	91	92
Australian Dollar (AUD/USD)	0.90	0.91	0.93	0.95	0.96	0.98	0.99	1.00	1.00
Chinese Yuan (USD/CNY)	6.8	6.8	6.7	6.5	6.4	6.3	6.2	6.1	6.0
Mexican Peso (USD/MXN)	13.1	13.1	13.4	13.7	13.8	14.0	13.9	13.9	14.0
Brazilian Real (USD/BRL)	1.74	1.82	1.84	1.87	1.90	1.92	1.95	1.97	2.00

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