

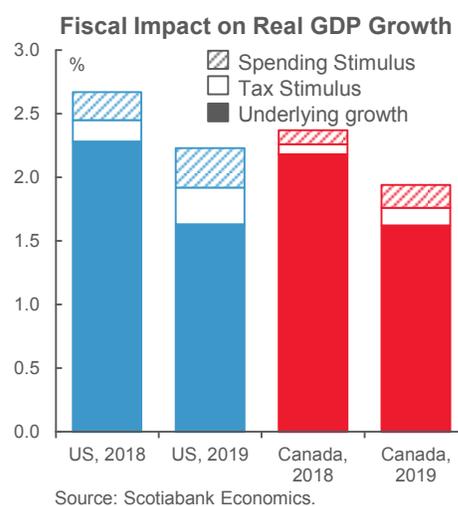
Solid Fundamentals, Exceptional Policy Uncertainty

- This update takes place amid exceptional policy-induced uncertainty. The fundamental drivers of growth remain solid across the globe, with the expansion continuing to be remarkably synchronized and mutually reinforcing. While this dynamic provides broad-based protection against risks in any one country, it also highlights the vulnerability to the escalating trade rhetoric in Washington, and the possible global response to it. At the time of printing, details of the White House's proposed tariffs on steel and aluminum have not yet been released and so we have not incorporated them into this forecast. We remain hopeful that sound economic reasoning will prevail and that the US administration will refrain from implementing measures that could dramatically alter the course of the US and global economy. If the US does proceed with these measures, we will fully reflect these developments in our growth, policy rate and foreign exchange forecasts in April. For immediate reference, our February 2nd piece [NAFTA: The Macroeconomic Consequences of Disruption](#) examines a simplified case in which a trade war breaks out between the US and all its trading partners but Canada. It implies bleak consequences for the US.
- Abstracting from trade risks, the global growth outlook has, in fact, continued improving, largely on account of US tax reform and increases in government spending. Though these policies will significantly raise US Federal deficits and debt, as well as increase the likelihood of a boom-and-bust scenario in the broader US economy, the immediate impact of these policies is to raise significantly both demand and output. The combined impact of the fiscal measures adds roughly half a percentage point to US growth this year and next (chart 1), with growth falling sharply in 2020 and 2021. This near-term boost comes at a significant fiscal cost, with the US federal deficit rising to more than a trillion dollars next year.
- In Canada, the US fiscal measures should largely benefit us in the near-term. Stronger US demand implies stronger Canadian export growth, and we have revised our forecast accordingly. We now anticipate Canadian growth will be 2.4% this year, slowing slightly below 2% in 2019 (chart 1, again). The Federal budget was a non-event from a short-term macroeconomic perspective. NAFTA-related uncertainty likely remains a drag on business activity in Canada, and we have maintained our view that this shaves about 0.2 percentage points from Canadian growth this year. Other uncertainties may compound the trade-related concerns of the business community: the loss of tax competitiveness with the US, relative changes in the countries' regulatory regimes, and increases in provincial minimum wages. Owing to these factors, business investment in Canada is likely to be much weaker than would normally be implied by the strength of the global economy, the low cost of capital, and long-standing capacity pressures. In both this year and next, Canadian growth will lag that in the US by about 1/3 of a percentage point. Nevertheless, Canadian growth is set to remain well above potential and price pressures abound: we continue to believe the Bank of Canada will

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Chart 1



raise rates by another 50 basis points this year based on domestic fundamentals. For the moment, we are sticking with our call that the next move will be in May, though the odds of that are decreasing given mounting trade-related uncertainties. We will re-evaluate this in our April 2018 Q2 *Global Outlook* in light of any announcements made on the trade side.

- We very much consider this to be a caretaker forecast, with a high likelihood of significant revisions if the Trump Administration launches the first move in what could become a series of tit-for-tat trade measures with some of its closest allies. President Trump and his advisors appear to anticipate that countries will not respond to any US tariff increases, and that additional tariffs would be imposed by the US if countries do indeed retaliate. While steel and aluminum represent reasonably small segments of the global economy, the increase in uncertainty prompted by new tariffs would amplify the first round effects of any possible increase in protectionism as businesses and households ponder which industries may be next. The knock-on effects on the global economy could be substantial.

International	2000–16	2016	2017	2018f	2019f	2000–16	2016	2017	2018f	2019f
	Real GDP (annual % change)					Consumer Prices (y/y % change, year-end)				
World (based on purchasing power parity)	3.9	3.2	3.7	3.8	3.7					
Canada	2.1	1.4	3.0	2.4	1.9	1.9	1.4	1.8	2.2	2.3
United States	1.9	1.5	2.3	2.7	2.2	2.2	1.8	2.1	2.3	2.4
Mexico	2.2	2.9	2.0	2.4	2.8	4.4	3.4	6.8	4.3	3.8
United Kingdom	1.8	1.9	1.8	1.7	1.9	2.0	1.6	3.0	1.9	1.9
Euro zone	1.3	1.8	2.5	2.7	2.5	1.7	1.1	1.4	1.5	1.5
Germany	1.3	1.9	2.6	3.0	3.0	1.5	1.7	1.6	1.6	1.9
France	1.3	1.2	1.9	2.5	2.0	1.6	0.8	1.2	1.5	1.5
China	9.4	6.7	6.9	6.5	6.2	2.3	2.1	1.8	2.2	2.5
India	7.1	7.9	6.4	7.4	7.5	6.9	3.4	5.2	4.6	5.7
Japan	0.9	0.9	1.6	1.3	0.9	0.1	0.3	1.0	1.1	2.3
South Korea	4.2	2.8	3.1	2.6	2.8	2.6	1.3	1.5	2.2	2.5
Australia	3.0	2.6	2.4	2.7	2.5	2.8	1.5	1.9	2.2	2.6
Thailand	4.0	3.3	3.9	3.5	3.4	2.0	1.1	0.8	1.2	2.0
Brazil	2.6	-3.5	1.0	2.5	2.7	6.7	6.3	2.9	4.1	2.6
Colombia	4.1	2.1	1.8	2.5	3.5	5.1	5.7	4.1	3.3	3.1
Peru	5.1	3.9	2.5	3.7	4.2	2.8	3.2	1.4	2.0	2.5
Chile	4.1	1.6	1.6	3.1	3.7	3.4	2.7	2.3	2.8	3.0
Commodities	(annual average)									
WTI Oil (USD/bbl)	63	43	51	57	60					
Brent Oil (USD/bbl)	66	45	55	62	65					
Nymex Natural Gas (USD/mmbtu)	4.94	2.55	3.02	2.95	2.95					
Copper (USD/lb)	2.35	2.21	2.80	3.05	3.25					
Zinc (USD/lb)	0.81	0.95	1.31	1.60	1.60					
Nickel (USD/lb)	7.26	4.36	4.72	6.00	6.50					
Aluminium (USD/lb)	0.86	0.73	0.89	0.95	1.00					
Iron Ore (USD/tonne)	67	58	72	60	60					
Metallurgical Coal (USD/tonne)	127	114	187	170	150					
Gold, London PM Fix (USD/oz)	869	1,251	1,257	1,300	1,300					

Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, IMF, Bloomberg.

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North America	2000–16	2016	2017	2018f	2019f	2000–16	2016	2017	2018f	2019f
	Canada (annual % change, unless noted)					United States (annual % change, unless noted)				
Real GDP	2.1	1.4	3.0	2.4	1.9	1.9	1.5	2.3	2.7	2.2
Consumer spending	2.9	2.3	3.4	2.6	2.0	2.4	2.7	2.7	2.8	2.3
Residential investment	3.7	3.4	3.0	1.3	-0.3	-0.4	5.5	1.8	2.1	2.0
Business investment	2.2	-8.8	2.5	5.0	2.6	2.3	-0.6	4.7	4.7	2.4
Government	2.2	2.7	2.5	2.0	1.1	1.0	0.8	0.1	2.1	2.2
Exports	1.3	1.0	1.0	2.1	3.4	3.6	-0.3	3.4	3.5	2.7
Imports	2.9	-1.0	3.6	3.1	2.5	3.4	1.3	3.9	4.8	3.2
Nominal GDP	4.2	2.0	5.3	4.5	4.2	3.9	2.8	4.1	4.7	4.4
GDP deflator	2.1	0.6	2.3	2.1	2.3	2.0	1.3	1.8	2.0	2.1
Consumer price index (CPI)	1.9	1.4	1.6	2.1	2.3	2.2	1.3	2.1	2.3	2.4
CPI ex. food & energy	1.6	1.9	1.6	1.9	2.2	2.0	2.2	1.8	2.1	2.3
Pre-tax corporate profits	3.6	-1.9	20.2	6.0	1.0	5.5	-2.1	5.0	4.4	0.5
Employment	1.3	0.7	1.9	1.4	0.9	0.7	1.8	1.6	1.4	1.0
Unemployment rate (%)	7.1	7.0	6.3	5.9	5.9	6.2	4.9	4.4	4.0	4.0
Current account balance (CAD, USD bn)	-17.1	-65.4	-63.9	-55.9	-46.2	-507	-452	-455	-504	-558
Merchandise trade balance (CAD, USD bn)	25.1	-25.9	-23.9	-21.1	-14.7	-673	-753	-809	-897	-968
Federal budget balance* (FY, CAD, USD bn)	-2.8	-1.0	-17.8	-19.4	-15.1	-532	-586	-666	-845	-1,085
percent of GDP	-0.2	0.0	-0.9	-0.9	-0.7	-3.7	-3.1	-3.4	-4.2	-5.1
Housing starts (000s, mn)	199	198	220	206	196	1.27	1.18	1.21	1.25	1.30
Motor vehicle sales (000s, mn)	1,657	1,949	2,041	2,000	1,950	15.5	17.5	17.1	17.4	17.3
Industrial production	0.6	0.1	5.1	2.2	1.0	0.7	-1.2	2.0	2.9	1.1
Mexico (annual % change)										
Real GDP	2.2	2.9	2.0	2.4	2.8					
Consumer price index (year-end)	4.4	3.4	6.8	4.3	3.8					
Current account balance (USD bn)	-14.6	-22.8	-18.8	-27.4	-29.9					
Merchandise trade balance (USD bn)	-7.2	-13.1	-10.9	-13.0	-16.0					

Sources: Scotiabank Economics, Statistics Canada, CMHC, BEA, BLS, Bloomberg. * Canada federal deficit ex risk adjustment of \$3.0bn for FY19.

Quarterly Forecasts	2017		2018				2019			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Canada										
Real GDP (q/q ann. % change)	1.5	1.7	2.5	2.6	2.5	2.3	1.7	1.7	1.6	1.6
Real GDP (y/y % change)	3.0	2.9	2.5	2.1	2.3	2.5	2.3	2.0	1.8	1.7
Consumer prices (y/y % change)	1.4	1.8	1.9	2.0	2.2	2.2	2.3	2.3	2.3	2.3
Avg. of new core CPIs (y/y % change)	1.5	1.7	1.8	1.9	2.0	2.1	2.2	2.2	2.2	2.2
United States										
Real GDP (q/q ann. % change)	3.2	2.5	2.7	2.6	2.6	2.5	2.0	2.0	1.9	1.9
Real GDP (y/y % change)	2.3	2.5	2.9	2.7	2.6	2.6	2.4	2.3	2.1	2.0
Consumer prices (y/y % change)	2.0	2.1	2.1	2.3	2.3	2.3	2.3	2.4	2.4	2.4
CPI ex. food & energy (y/y % change)	1.7	1.7	1.8	2.1	2.2	2.2	2.2	2.3	2.3	2.3

Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, Bloomberg.

Central Bank Rates	2017		2018				2019			
	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
Americas	(%, end of period)									
Bank of Canada	1.00	1.25	1.50	1.50	1.75	2.00	2.25	2.25	2.50	
US Federal Reserve (upper bound)	1.50	1.75	1.75	2.00	2.25	2.25	2.50	2.50	2.75	
Bank of Mexico	7.25	7.50	7.50	7.50	7.75	7.75	7.50	7.25	7.00	
Central Bank of Brazil	7.00	6.75	6.50	6.50	6.75	7.00	7.50	8.00	8.50	
Bank of the Republic of Colombia	4.75	4.50	4.25	4.25	4.25	4.50	4.75	5.00	5.00	
Central Reserve Bank of Peru	3.25	2.75	2.75	2.75	2.75	3.00	3.00	3.25	3.25	
Central Bank of Chile	2.50	2.50	2.75	3.00	3.25	3.50	3.50	3.75	3.75	
Europe										
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50	
Bank of England	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50	
Asia/Oceania										
Reserve Bank of Australia	1.50	1.50	1.50	1.50	1.75	1.75	2.00	2.00	2.25	
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	
People's Bank of China	4.35	4.35	4.35	4.35	4.35	4.60	4.60	4.85	4.85	
Reserve Bank of India	6.00	6.00	6.00	6.00	6.00	6.25	6.25	6.50	6.50	
Bank of Korea	1.50	1.50	1.75	1.75	2.00	2.00	2.25	2.25	2.25	
Bank of Thailand	1.50	1.50	1.50	1.50	1.75	1.75	2.00	2.00	2.25	
Currencies and Interest Rates										
Americas	(end of period)									
Canadian Dollar (USDCAD)	1.26	1.28	1.27	1.26	1.25	1.25	1.22	1.22	1.25	
Canadian Dollar (CADUSD)	0.80	0.78	0.79	0.79	0.80	0.80	0.82	0.82	0.80	
Mexican Peso (USDMXN)	19.66	18.84	19.11	19.18	19.46	19.56	19.38	19.43	19.71	
Brazilian Real (USDBRL)	3.31	3.25	3.15	3.25	3.25	3.30	3.30	3.35	3.35	
Colombian Peso (USDCOP)	2,986	2,800	2,900	2,900	2,900	2,950	2,950	3,000	3,050	
Peruvian Nuevo Sol (USDPEN)	3.24	3.22	3.19	3.20	3.18	3.18	3.14	3.15	3.12	
Chilean Peso (USDCLP)	615	597	598	597	596	593	591	588	586	
Europe										
Euro (EURUSD)	1.20	1.18	1.18	1.20	1.20	1.24	1.24	1.28	1.28	
UK Pound (GBPUSD)	1.35	1.35	1.35	1.37	1.37	1.38	1.38	1.40	1.40	
Asia/Oceania										
Japanese Yen (USDJPY)	113	114	114	115	115	118	118	120	120	
Australian Dollar (AUDUSD)	0.78	0.79	0.79	0.80	0.80	0.81	0.81	0.82	0.82	
Chinese Yuan (USDCNY)	6.51	6.40	6.40	6.30	6.30	6.20	6.20	6.10	6.10	
Indian Rupee (USDINR)	63.9	64.5	64.5	64.0	64.0	63.5	63.5	63.0	63.0	
South Korean Won (USDKRW)	1,067	1,060	1,060	1,040	1,040	1,030	1,030	1,020	1,020	
Thai Baht (USDTHB)	32.6	31.8	31.8	31.6	31.6	31.2	31.2	31.0	31.0	
Canada (Yields, %)										
3-month T-bill	1.06	1.20	1.50	1.55	1.75	2.05	2.30	2.30	2.50	
2-year Canada	1.69	1.75	2.00	2.20	2.30	2.40	2.50	2.55	2.65	
5-year Canada	1.87	2.00	2.25	2.30	2.45	2.55	2.60	2.65	2.75	
10-year Canada	2.05	2.20	2.45	2.50	2.60	2.65	2.70	2.75	2.85	
30-year Canada	2.27	2.40	2.65	2.75	2.90	3.00	3.10	3.15	3.10	
United States (Yields, %)										
3-month T-bill	1.38	1.70	1.85	2.05	2.30	2.30	2.55	2.60	2.80	
2-year Treasury	1.88	2.25	2.30	2.50	2.60	2.70	2.75	2.85	2.90	
5-year Treasury	2.21	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.05	
10-year Treasury	2.40	2.90	2.95	2.95	3.00	3.05	3.10	3.15	3.20	
30-year Treasury	2.74	3.20	3.20	3.25	3.25	3.30	3.30	3.35	3.35	

Sources: Scotiabank Economics, Bloomberg.

The Provinces		(annual % change except where noted)										
Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	
2000–16	2.1	2.5	1.7	1.3	1.2	1.7	2.0	2.3	2.0	2.7	2.8	
2016	1.4	1.9	2.3	0.8	1.2	1.4	2.6	2.2	-0.5	-3.7	3.5	
2017e	3.0	-1.5	1.9	1.6	1.4	2.8	2.9	2.3	1.9	4.3	3.5	
2018f	2.4	0.5	1.6	1.2	1.0	2.1	2.3	2.2	2.2	2.8	2.6	
2019f	1.9	1.0	1.2	0.9	0.7	1.6	1.9	1.8	1.9	2.1	2.0	
Nominal GDP												
2000–16	4.2	5.6	4.2	3.4	3.3	3.6	3.8	4.4	5.3	5.9	4.5	
2016	2.0	2.6	4.0	2.8	3.6	2.7	4.3	2.3	-4.0	-4.9	4.8	
2017e	5.3	2.9	3.7	3.2	3.0	4.2	5.1	4.0	4.9	7.8	5.6	
2018f	4.5	3.4	3.3	2.9	2.7	4.0	4.5	3.9	4.3	5.2	4.8	
2019f	4.2	4.4	3.1	2.7	2.3	3.6	4.1	3.6	4.4	5.3	4.3	
Employment												
2000–16	1.3	0.8	1.0	0.6	0.4	1.3	1.3	0.9	1.1	2.3	1.4	
2016	0.7	-1.5	-2.3	-0.4	-0.1	0.9	1.1	-0.4	-0.9	-1.6	3.2	
2017	1.9	-3.7	3.1	0.6	0.4	2.2	1.8	1.7	-0.2	1.0	3.7	
2018f	1.4	-0.8	0.9	0.4	0.3	1.5	1.5	0.8	0.5	1.5	1.7	
2019f	0.9	-0.5	0.7	0.2	0.1	0.7	1.0	0.5	0.6	1.0	1.1	
Unemployment Rate (%)												
2000–16	7.1	14.3	11.2	8.8	9.6	8.0	7.1	5.1	5.0	5.1	6.6	
2016	7.0	13.4	10.7	8.3	9.5	7.1	6.5	6.1	6.3	8.1	6.0	
2017	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1	
2018f	5.9	14.9	10.1	8.1	8.0	5.6	5.6	5.3	6.0	7.3	4.9	
2019f	5.9	15.0	10.0	8.0	8.0	5.6	5.6	5.3	5.9	7.2	4.8	
Housing Starts (units, 000s)												
2000–16	199	2.6	0.7	4.3	3.5	44	71	5.1	5.2	34	28	
2016	198	1.4	0.6	3.8	1.8	39	75	5.3	4.8	25	42	
2017	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44	
2018f	206	1.3	0.9	3.8	2.1	41	75	6.3	5.0	29	42	
2019f	196	1.3	0.8	3.8	2.1	38	71	6.3	5.0	30	38	
Motor Vehicle Sales (units, 000s)												
2000–16	1,657	29	6	48	38	413	635	47	45	216	180	
2016	1,949	33	9	54	44	458	807	55	51	220	218	
2017	2,041	33	9	59	42	453	847	62	56	245	235	
2018f	2,000	32	8	58	40	445	821	61	56	248	231	
2019f	1,950	30	8	56	39	434	791	60	56	250	226	
Budget Balances, Fiscal Year Ending March 31 (CAD mn)												
2000–16*	-2,803	-93	-38	-30	-153	-755	-5,115	-142	360	1,064	319	
2016	-987	-2,206	-13	-13	-261	0	-3,515	-839	-675	-6,442	811	
2017	-17,770	-1,148	-1	150	-119	0	-991	-764	-1,354	-10,784	2,737	
2018f**	-19,400	-852	1	139	-115	0	0	-827	-679	-9,066	151	
2019f	-15,100	n/a	n/a	n/a	-189	n/a	n/a	n/a	n/a	n/a	219	

Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents. * MB:FY04–FY16; AB:FY05–FY16; SK:FY15–FY18f: ex. accrual adjustment for pension expense.
 ** Federal & Provinces' FY18 & FY19: Budget documents. Federal FY19: ex risk adjustment of \$3.0bn.

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