



# 2015 Economic & Market Outlook

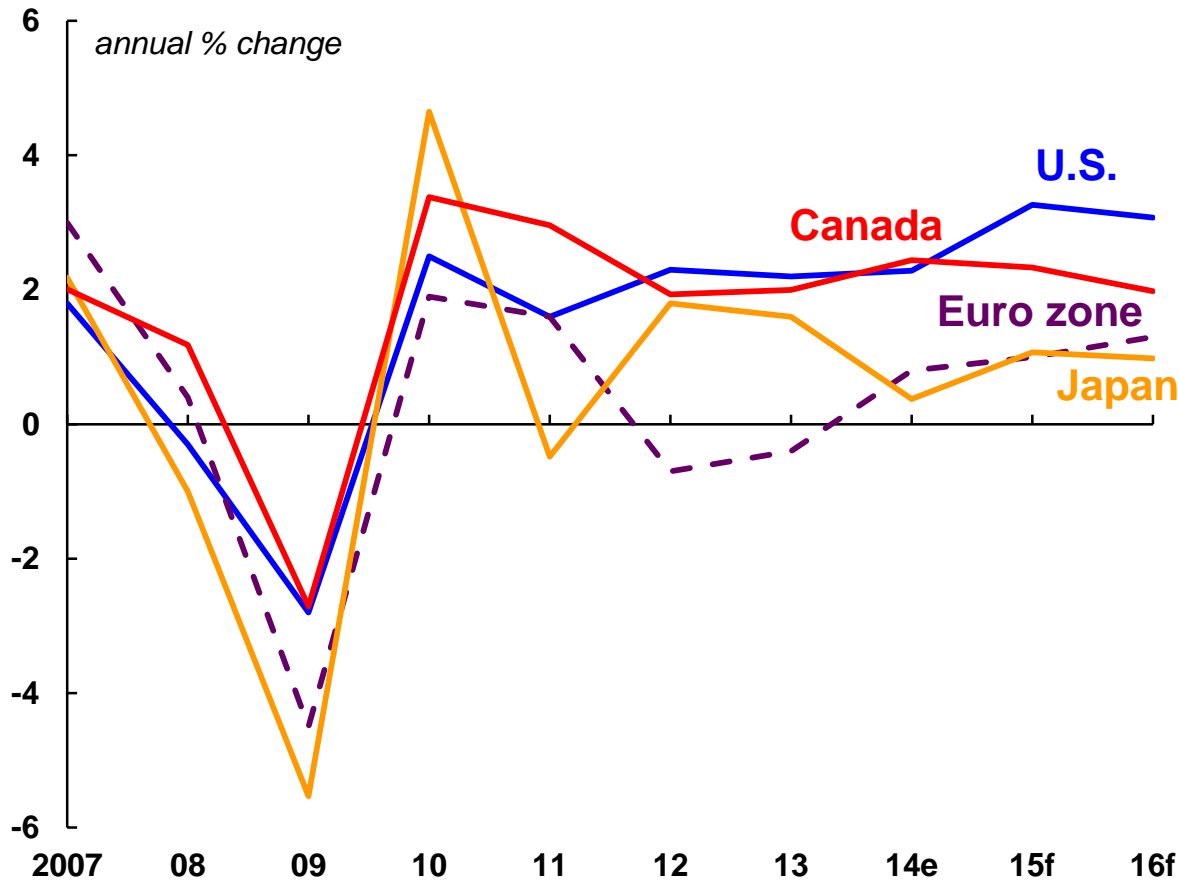
December 2014

## THE ECONOMICS OF CHANGE

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# The U.S. Gears Up

## Real GDP Growth



**U.S. boosted by consumer revival, lower energy costs & less fiscal drag.**

**Oil price decline & softer housing market temper Canadian growth outlook.**

**Euro zone in fragile recovery, as Russian shock erodes benefits of lower energy costs.**

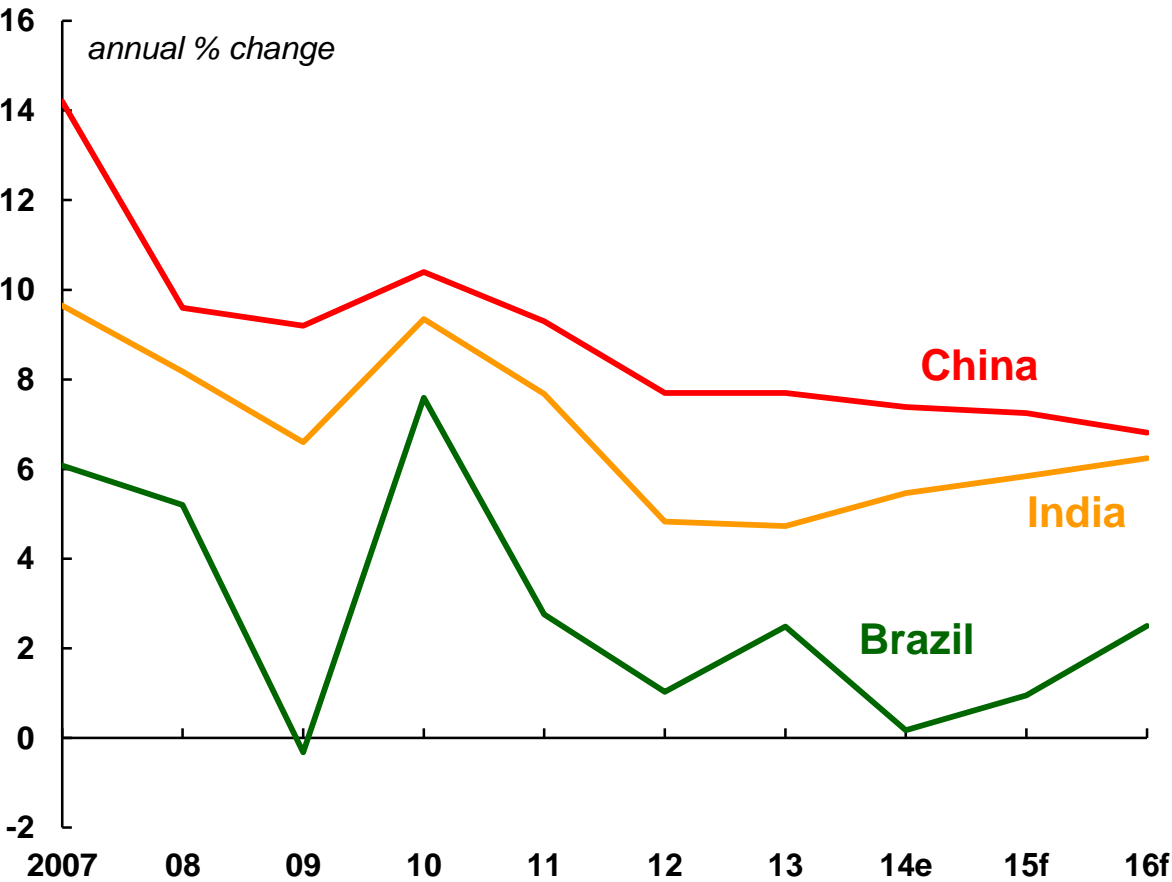
**Japan struggles to exit recession, despite huge policy stimulus & yen depreciation.**

Source: Statistics Canada, BEA, Bloomberg, Scotiabank Economics.

Forecasts at December 2, 2014

# China Gears Down

## Real GDP Growth



Uneven emerging market activity as oil producers & consumers hit by lower prices.

China's growth hovers near 7% as domestic and external demand moderate.

Better news in India leads to gradual convergence of China-India growth rates.

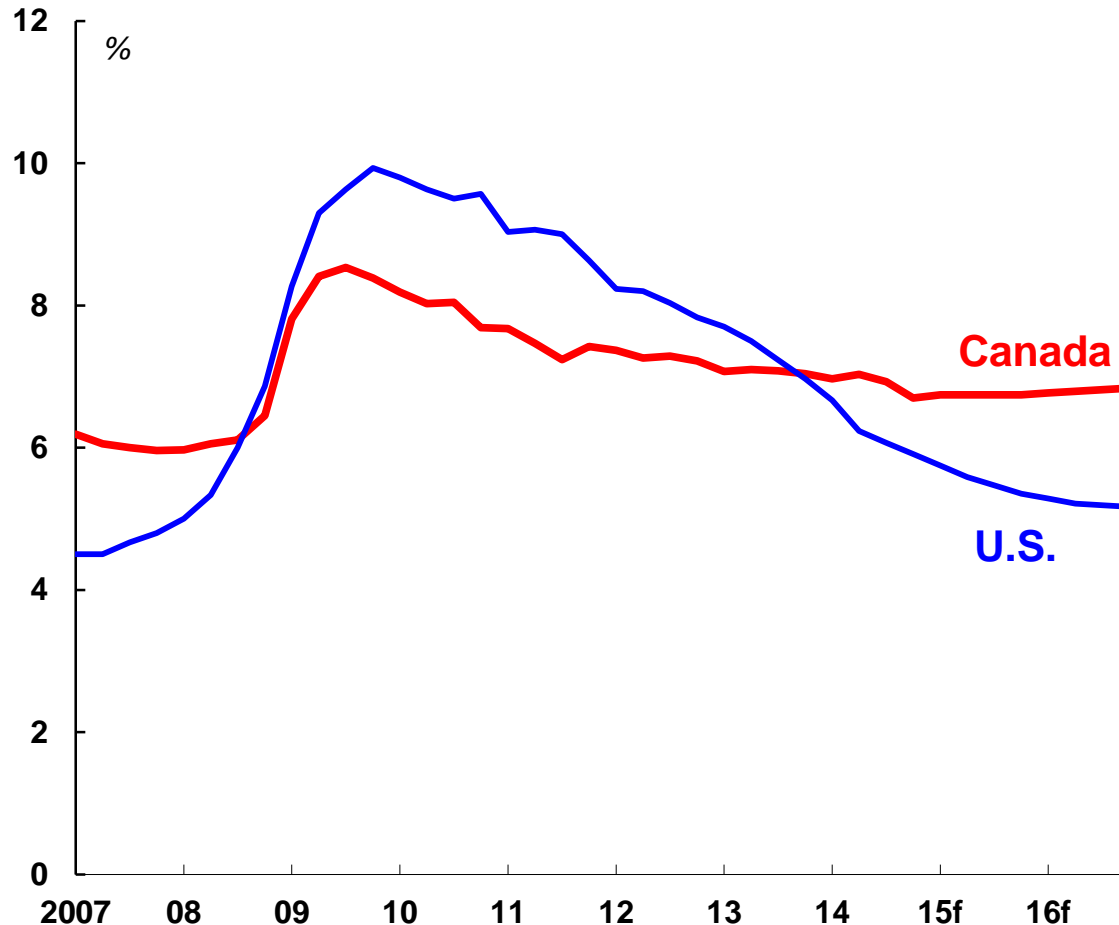
Slow recovery in Brazil should be visible by late 2015.

Source: Bloomberg, Scotiabank Economics.

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# U.S. Labour Market Moves from Laggard to Leader

## Unemployment Rate



**U.S. job growth leads Canada, with unemployment rate below 6% for first time since 2008.**

**Weak oil prices undercut job gains in Canada's energy-rich provinces...**

**... while the lower loonie and U.S. recovery benefit many industries, including manufacturing...**

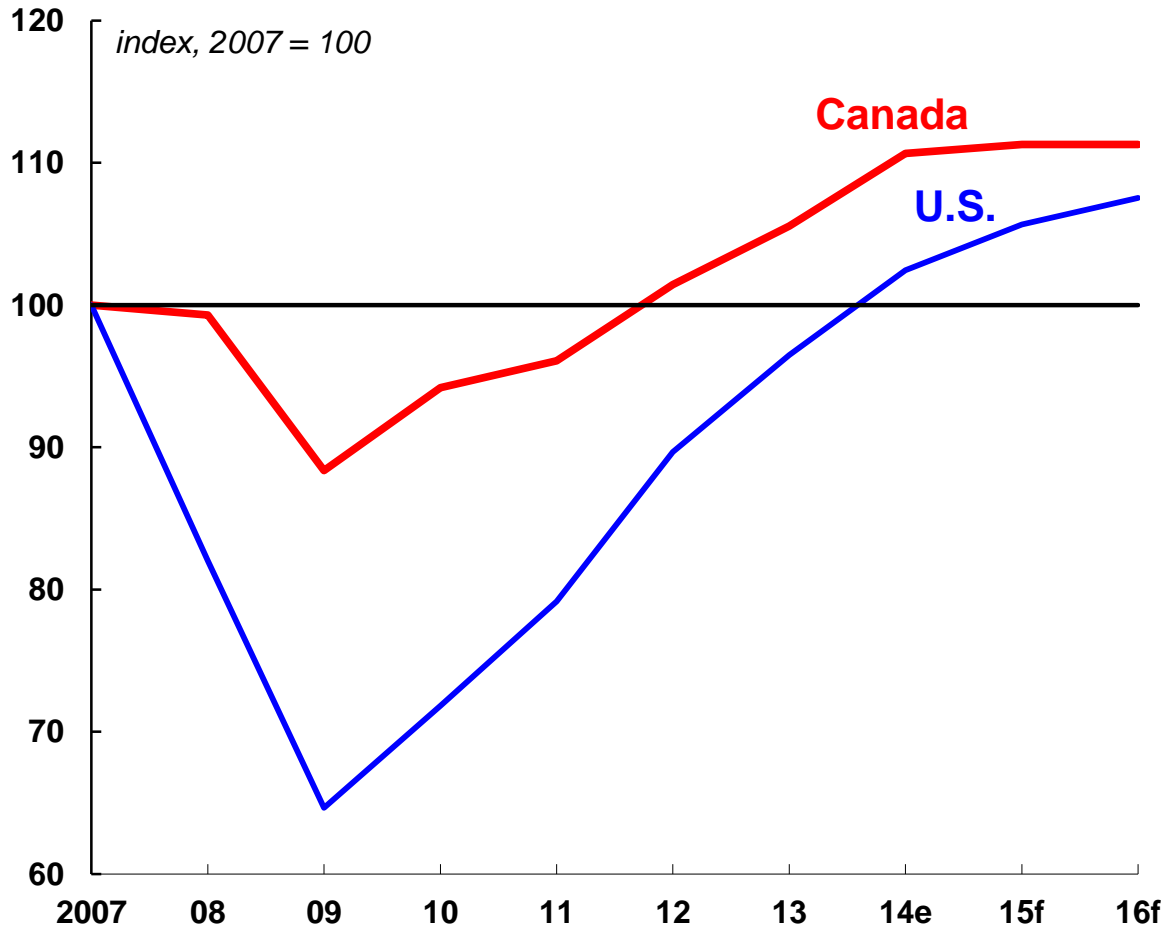
**... leading to a more balanced growth performance across Canada.**

*Source: Statistics Canada, BLS, Scotiabank Economics.*

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# Pent-Up Demand Puts U.S. Shoppers In A Buying Mood

## Motor Vehicle Sales



Source: Statistics Canada, BEA, Scotiabank Economics.

Low borrowing costs & record employment push Canadian vehicle sales to record levels...

... but moderating job gains & high household debt temper the Canadian outlook.

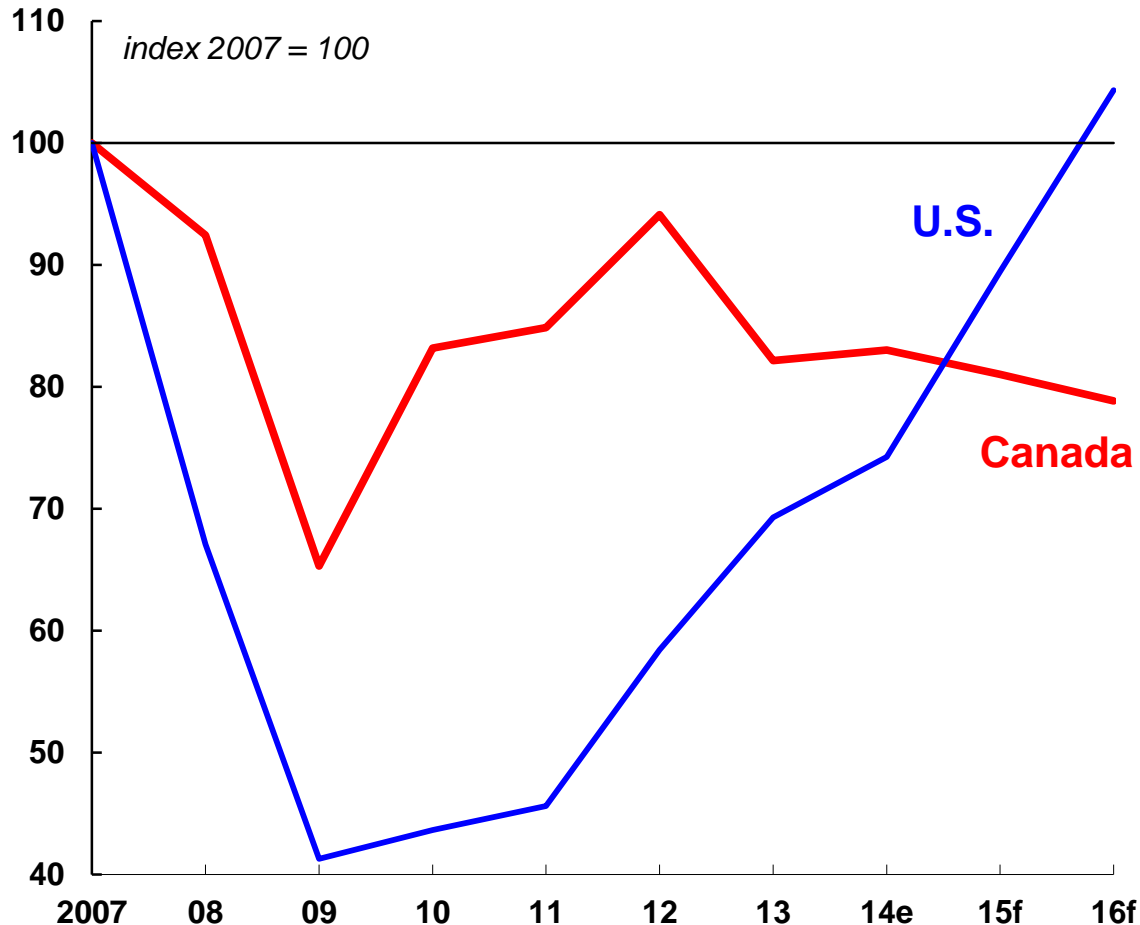
Buoyant job gains, pent-up demand & low interest rates drive U.S. consumers...

... pushing U.S. vehicle sales to pre-recession levels, with further gains likely into 2016.

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# Housing Activity Underpins U.S. Outperformance

## Housing Starts



**Increase in U.S. housing activity as job gains boost confidence & unleash pent-up demand.**

**The revival in U.S. residential construction is good news for Canadian lumber exporters.**

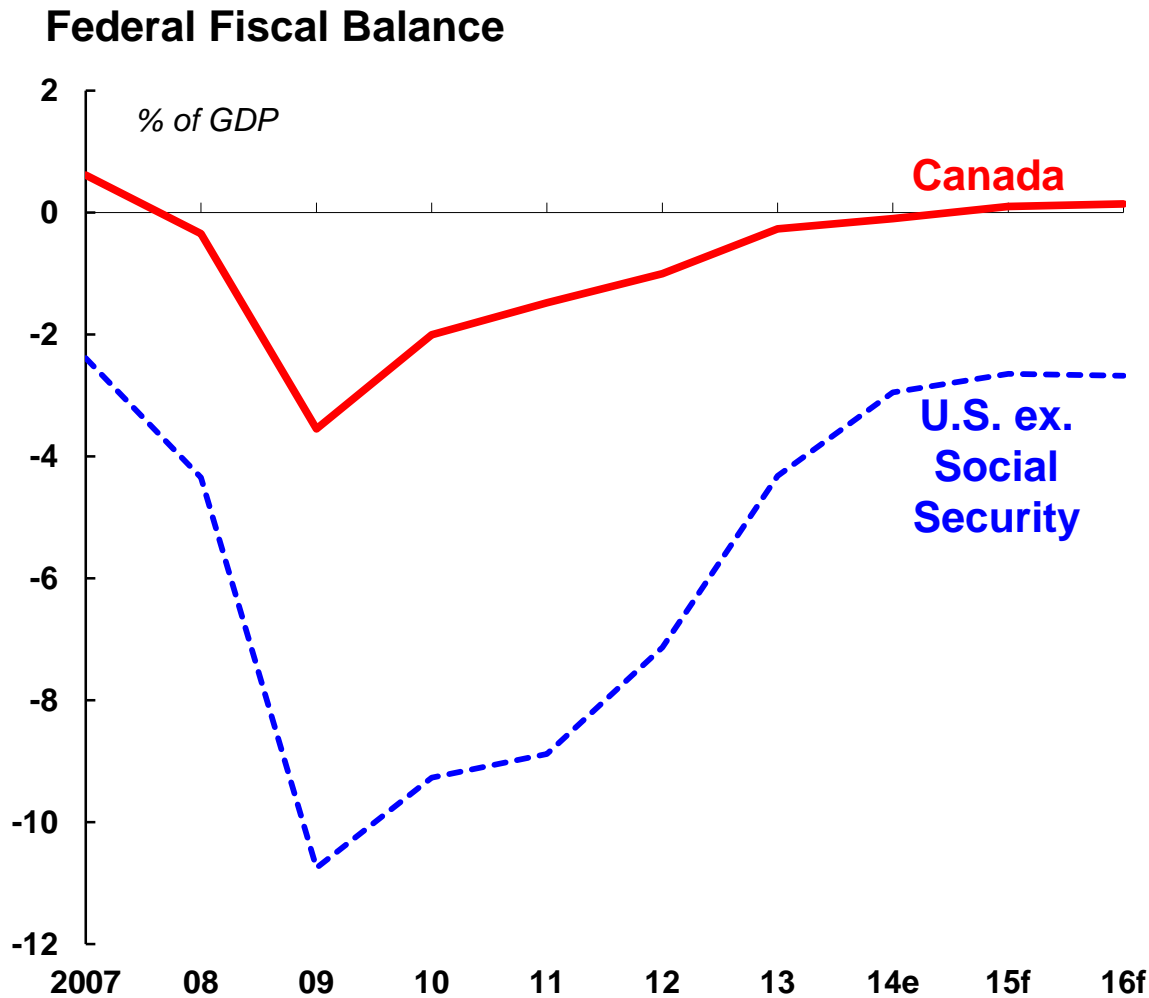
**Canada's housing market softens alongside record home ownership rates & high debt levels ...**

**... but a sudden reversal is unlikely with employment at record highs & borrowing costs near generational lows.**

*Source: CMHC, U.S. Commerce Department, Scotiabank Economics.*

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# Gradual Improvement in the Federal Fiscal Balance



Stronger growth & previous fiscal cutbacks have led to a sharp improvement in Washington's deficit...

... allowing the government to turn down fiscal drag & offer more support to U.S. growth.

Sharply lower oil prices reduce but won't forestall Ottawa's return to fiscal balance...

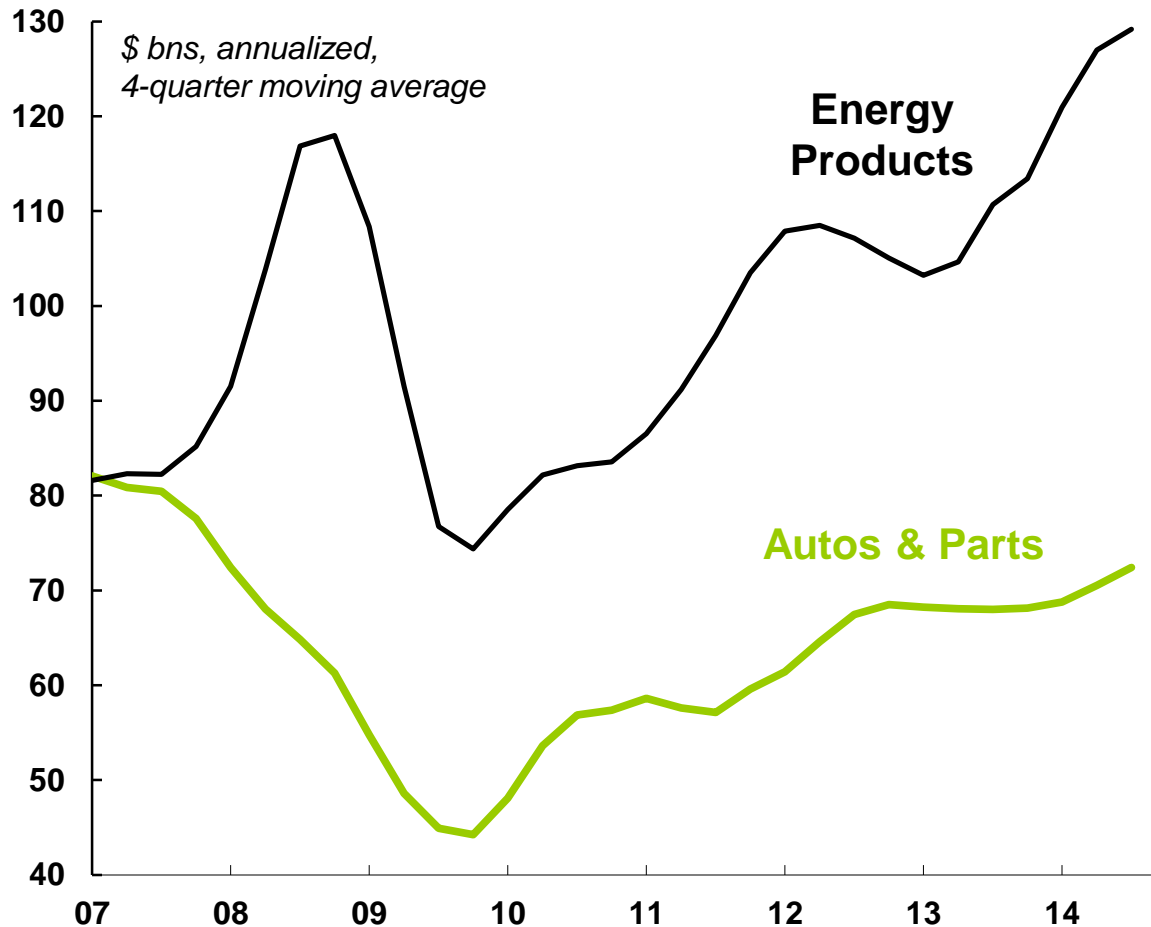
... but new energy market realities pose big challenges for producing provinces.

Source: Finance Canada, U.S. Treasury, Scotiabank Economics.

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# Energy Has Become Canada's Export Leader

## Canadian Exports



Source: Statistics Canada, Scotiabank Economics.

**U.S. sales account for roughly three-quarters of Canadian exports.**

**While a weaker loonie & U.S. revival will boost our non-commodity exports...**

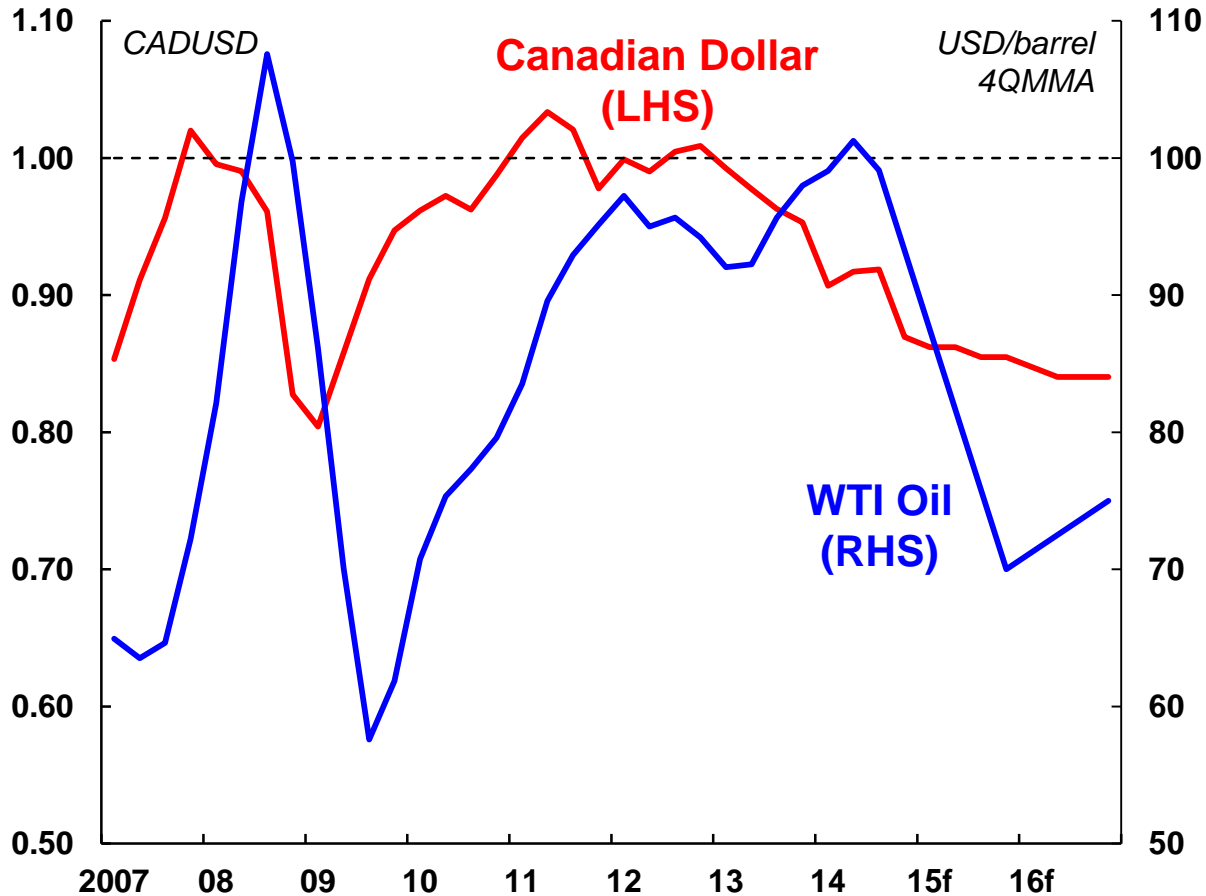
**... sharply lower oil prices will frustrate an improvement in Canada's trade balance...**

**... because energy accounts for one-quarter of Canada's overall exports.**



# The Loonie Swoons on Weak Commodity Prices

## Loonie Moves Below Parity



The Canadian dollar is expected to gravitate towards 85 cents(US) into 2016.

Lower commodity prices, particularly oil, have undercut commodity currencies...

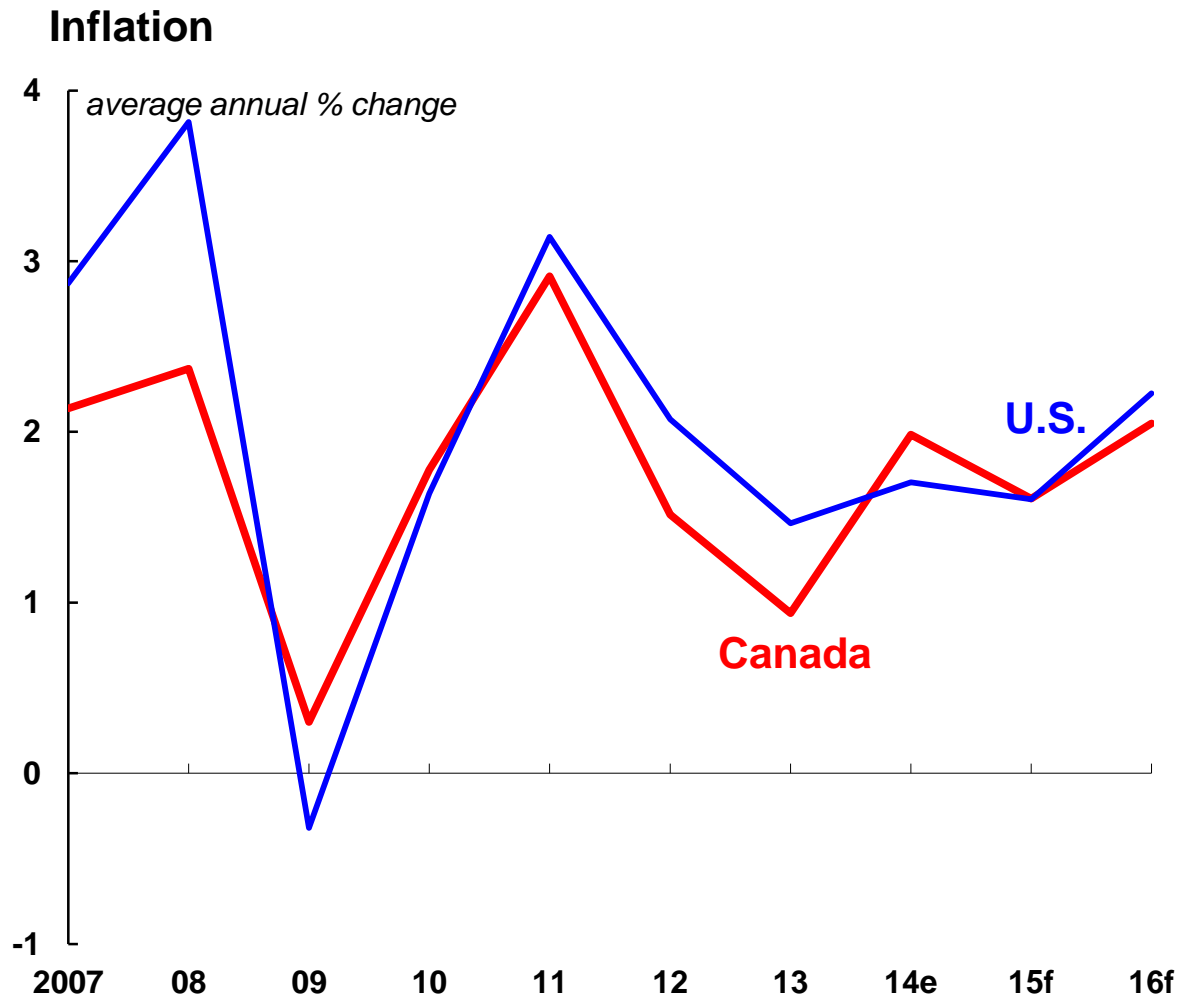
... the U.S. revival & investor risk aversion have bolstered the greenback ...

... & soft growth suggests the Bank of Canada will lag the Fed in raising interest rates.

Source: Bloomberg, Scotiabank Economics.

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# Inflation Interrupted ... Once Again



**Lacklustre global growth & sharply lower oil prices have dragged down global inflation.**

**Even with some rebound in energy prices & a revival in global demand, inflation will remain subdued into 2016.**

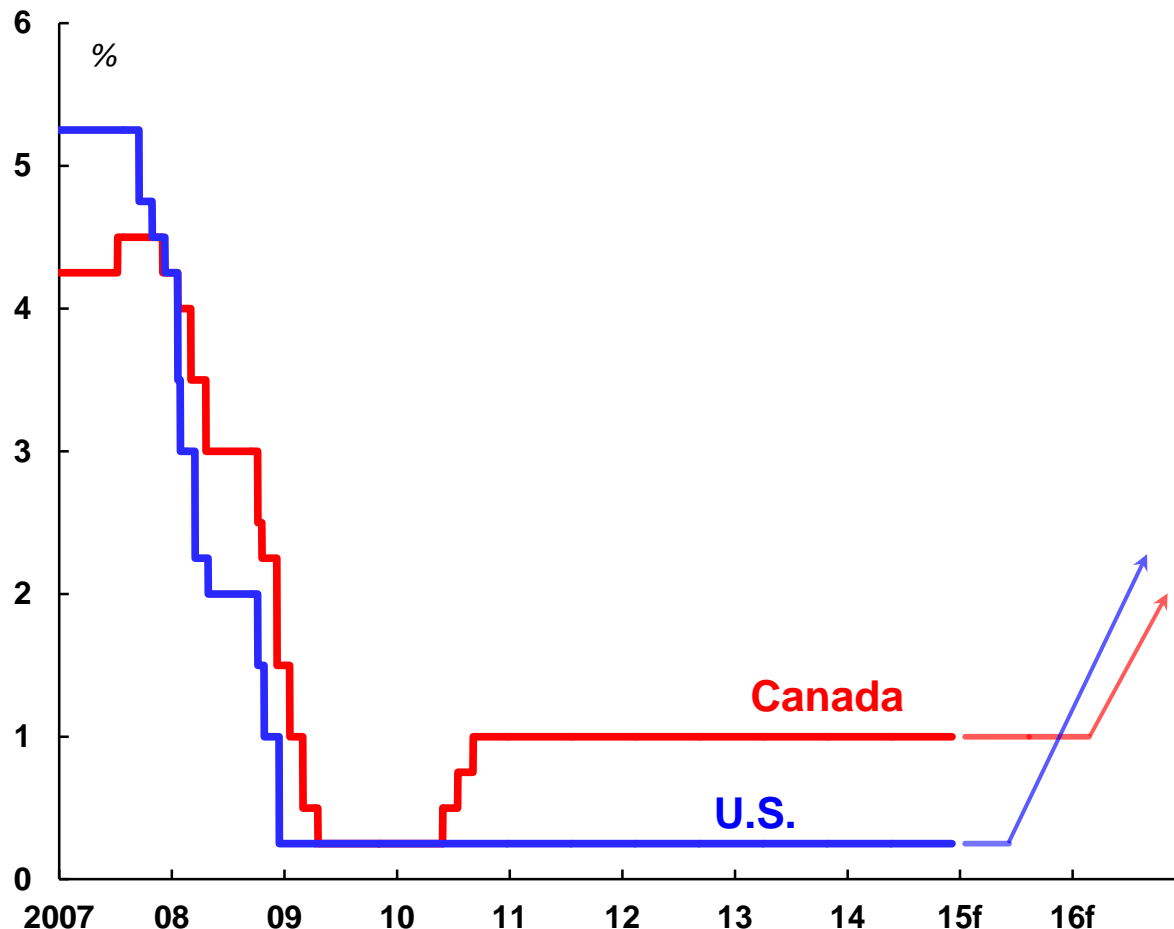
**For central banks, reviving & sustaining growth will be the top priority beyond mid-decade.**

*Source: Statistics Canada, BLS, Scotiabank Economics.*

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# Monetary Policy On Hold For Now

## Central Bank Rates



Source: Bank of Canada, U.S. Federal Reserve, Scotiabank Economics.

While the U.S. Fed may raise rates by mid-2015, sustaining growth is the top priority...

... signs of reduced economic momentum will push the Fed to the sidelines ...

Weak commodity prices & soft domestic growth will keep the Bank of Canada from raising rates into 2016.

Low inflation & uneven global growth will limit the back-up in U.S. & Canadian bond yields.

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