Scotiabank Group

Global Views

Weekly commentary on economic and financial market developments

May 27, 2011

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Plenty of Scope For Cross-Market Bets on Diverse Global Risks

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A9.**

Any globally minded fund will have plenty of opportunities for cross spread and currency plays on relative market prospects next week, owing to a diverse array of marquee indicators and event risk spread across all regions. We expect the general tone of the week to be unfriendly to the risk trade.

Next week will be a key week for **Canada** watchers. Tuesday's BoC rate announcement follows on the heels of what is likely to be a strong Q1 GDP report the prior day. We're expecting annualized 4-handled growth in Q1 that might get the hawks excited if they're not aware of what's coming down the pipeline. The BoC, however, should have ample opportunity to talk down the results in Tuesday's rate statement since Q2 will bring with it an abrupt slowdown. Scotia's auto economist, Carlos Gomes, figures that Canadian auto production fell 25% m/m in April reflecting lower production at the Japanese-owned facilities in Ontario that are facing parts shortages in the wake of the Japanese shocks, followed by roughly flat production in May and a gradual recovery thereafter (see page 3 for our further thoughts on this). That will weigh on Q2 GDP which we expect to come in at about half the Q1 growth rate. Parliament reconvenes on Thursday, and Finance Minister Flaherty has announced June 6th for re-tabling the Federal Budget that was swept aside by the recent federal election. Partly in accordance with recent comments by Minister Flaherty, one might argue that Canada should speed the path to fiscal repair under a majority government, given the fiscal train wreck coming down the pipeline in the US and Europe through to 2013. BoC Senior Deputy Governor Tiff Macklem speaks at the CD Howe Institute on Thursday and will address how the global financial reform agenda affects monetary policy in the context of the renewal of the BoC's inflation agreement with the Federal Government that expires this year. Canada also auctions a 30-year real return bond next week, and bank earnings season comes to a close with BNS, Laurentian and Canadian Western Bank due up.

US markets face plenty of data risk next week and we think the bias could be bearish for the risk trade. Our top three list includes Friday's nonfarm payrolls that we expect to post a softer sub-200k print reflecting the backing-up in trend jobless claims that was partly driven by short-term technical distortions but also by an underlying deterioration which accompanied the synchronous global weakening across many indicators. Also on that list is Wednesday's ISM manufacturing reading which will likely continue to head lower and thus reflect the softening across regional manufacturing surveys. Third up will be Tuesday's consumer confidence print that may face downside risk given equity market weakness and higher average monthly gasoline prices in May than April despite recent softening. Rounding out the week are ADP private payrolls, ISM non-manufacturing, and factory orders which will partly reflect the recently bearish print for durable goods orders but unknown figures for the nondurables component.

Peripheral auctions return to **European** markets next week, including a Spanish 2014 bond auction and bills auctions in Belgium (that faces downgrade risk) and Portugal. The debate over Greek austerity measures will be further fanned in a panel discussion by Greek members of the European Parliament on Tuesday. Key data risk includes German retail sales that posted a large drop in April after small gains the prior two months and which consensus expects will post a sizeable gain in April. Euro zone CPI is likely to track German CPI lower on a m/m basis, adding to a more dovish ECB perspective throughout the summer. French consumer spending, German unemployment, French jobs, Spanish CPI and unemployment, and speeches by ECB members including Trichet round out the key European risks.

Watch out for two key developments in **Asian** markets. One is Tuesday night's release of China's manufacturing PMI gauge that is expected to show a further deceleration in that country's manufacturing sector partly due to policy tightening but also Japan's shock to global supply chains. Second is a batch of bleak Japanese indicators due out over Monday morning and evening (eastern time) including household spending, housing starts, the unemployment rate, industrial production, and vehicle production all covering the month of April. A$ watchers will have keen eyes on Tuesday night's Q1 Australian GDP report and new home sales, and Wednesday's retail sales and trade balance. Both India and the Philippines release Q1 GDP figures, and the Bank of Thailand is expected to hike by 25bps.

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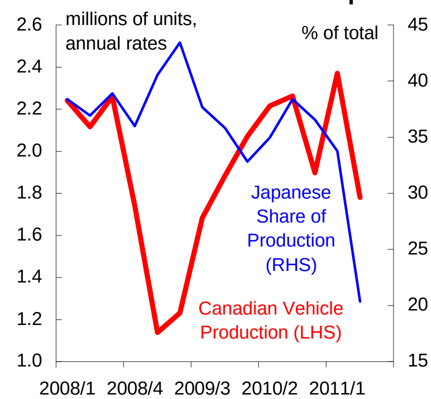
Look Through Q1 Canadian GDP to Sharp Downsides Into Q2

- **Very bearish near-term readings coming for manufacturing and trade figures.**

Monday will bring forward a strong print for Canadian Q1 GDP, right before the BoC's rate announcement the next day. A four-handled growth figure is likely, but there are solid reasons to look through it. While it may resuscitate the hawks, buoy CAD and take a bit away from the rally at the front end of the curve, the effects, if any, are likely to be temporary since much of the rise is already expected. We also anticipate the BoC's bias in Tuesday's statement to return the markets to dovish interpretations. What may not be fully expected, however, is the strong two-fold case to look entirely through the Q1 GDP print.

The weaker of the two arguments for looking through the Q1 GDP report is that momentum was front-loaded to the start of the quarter on manufacturing sector distortions. Recall that manufacturing shipments spiked in January and contributed toward a large gain in January GDP, but only because pent-up activity was released from earlier months for two reasons. One related to unusually timed plant shut-downs that were not controlled through standard seasonal adjustment factors late last year. Two is the effects of snowstorms that had crippled supply chains in Ontario and the US northeast. Pushing activity out of Q4 made Q1 look good, but this is a one-off inter-temporal distortion that creates the illusion of Canada doubling Q1 US growth.

Japanese Cutbacks Slash Canadian Vehicle Output



Source: Ward's Automotive

The second and more powerful argument for looking through the Q1 rise argues that once additional releases push into Q2, the hawks could well have their heads handed back to them such that CAD and the front-end of the curve will be defensively positioned following key coming releases. The impact of Japan's distortions on Canada will be severe across some indicators. Canadian auto production fell 25% m/m in April, will be roughly flat in May, and then start to gradually rise by June. That's because of the spillover effect of Japan's disruptions on Japanese assembly plants located in Ontario, as well as the temporary shutdown of the Windsor van plants in early April, due to a shortage of engines from a supplier. These effects will first show up in the trade figures on June 9th. Automotive products account for about 12% of total Canadian exports. Thus, a 25% shock to the sector's exports — given that most of the production is exported — could well account for at least a two or three percentage point decline in the volume of exports. The effects will be more specifically focused on the manufacturing report due out on June 15th. The overall auto sector accounts for about 12.5% of manufacturing shipments, and motor vehicle assembly operations alone account for about 8.5%. Thus, a 25% decline in auto production including spillover effects on the parts sector is likely to translate into a two or three percentage point decline in the volume of total manufacturing shipments without even getting into other effects on related manufacturing sectors like fabricated metals and plastics, and effects of Japanese supply disruptions upon totally unrelated sectors like computers and electronics. That could be the sharpest one-month decline in shipments since at least May 2009.

We estimate that the auto industry will single-handedly trim Canadian GDP by an annualized 0.8 percentage points in the second quarter. However, the portion of the decline that comes through autos will be fully reversed in the third quarter and continue to add to growth in the final months of 2011. Despite reduced operating rates at Japanese-owned auto production facilities during the spring and summer months, we still believe that Canadian vehicle assemblies will advance by at least 5% in 2011. Nevertheless, a Q2 shock of this magnitude makes it even less likely that the BoC will shift its bias as soon as this summer. Indeed, Japan's disruptive effects on Canadian supply chains isn't the only risk facing near-term growth. Waning momentum, the impact of demand destruction via high commodity prices that are serving to squeeze tepid nominal wage growth, and the effects of Japan's supply disruptions across sectors both related and unrelated to autos will combine to roughly chop GDP growth in half during Q2 compared to Q1.

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Profiting From Recovery

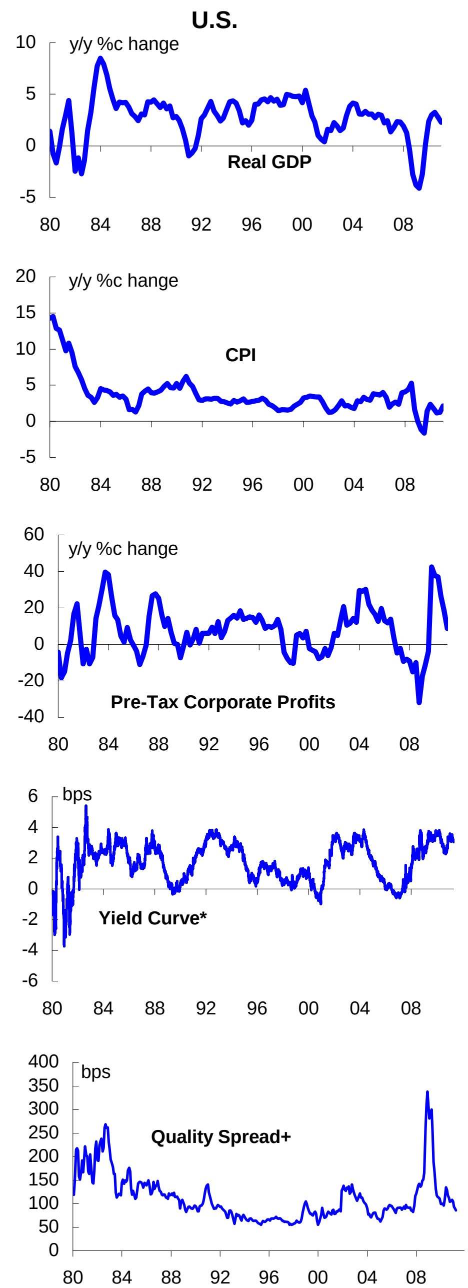
- **Corporate profitability in the United States and Canada is moderating after a very strong two-year burst of energized earnings growth. A slower pace of global activity is the primary factor, though margins are being squeezed by increasing costs, led by the recent sharp increases in commodity prices. Nevertheless, reasonably solid gains in profitability are likely to be sustained this year and next, underpinned by continuing economic growth, supportive financial conditions, and ongoing corporate efforts to improve efficiencies.**

The broad S&P stock index has increased a cumulative 95% since the low established on March 9, 2009, even including the sell-off of the past month. The surge in equity valuations — reinforced by exceptional monetary and fiscal accommodation — has been based on a solid fundamental foundation. U.S. corporate pre-tax profits have increased a cumulative 71% from their recession nadir at the end of 2008 — a very solid 27% annualized advance over the past nine quarters — with the upturn occurring roughly one quarter in advance of the rise in stock prices. With nominal U.S. GDP increasing a cumulative and relatively modest 7% since 09Q2, the pre-tax corporate profit share of nominal output has moved significantly higher into the 11-11½% range – just about 20% above the 9½% average of the 2000s.

Gains in Canadian pre-tax corporate profits have been good but not as great as in the United States, with the cumulative increase in earnings tallying just 38% over the six quarters to the end of 2010 (a 24% annualized rate since their 09Q2 low), about one-half of the U.S. gain. Yet the bellwether S&P/TSX index has advanced a hefty 82% since the early-March 2009 low, very much in line with the stellar U.S. performance.

The revival in earnings is highly cyclical. Sizeable expansions in earnings typically follow sizeable contractions in earnings, and this cycle witnessed a hefty 40% correction in the United States over an elongated nine-quarter period (-45% over a very brief three-quarter period in Canada). But the relative strength of this revival is also illustrative of a number of factors. They include a revival in U.S. manufacturing and exports that have been bolstered by the consistently stronger growth in the emerging economies and a sharply weaker U.S. dollar, solid gains in technology sales, a lengthy period of unprecedented low borrowing costs, significant wage compression and a concomitant rise in productivity, massive government support from Washington, including direct infrastructure expenditures as well as bailouts that provided much-needed restructuring time-outs for selected auto assemblers, and more recently by the recovery in the financial sector.

The Canadian experience is generally similar, though there are some important performance differences. The construction and financial sectors recovered faster owing to much stronger balance sheets and more underlying strength in domestic activity. Many resource-related firms have benefitted from the sharp rise in



*Yield Curve = 10-year bond - 3-month T-bill
+Quality spread = BAA corporate bond - AAA corporate bond

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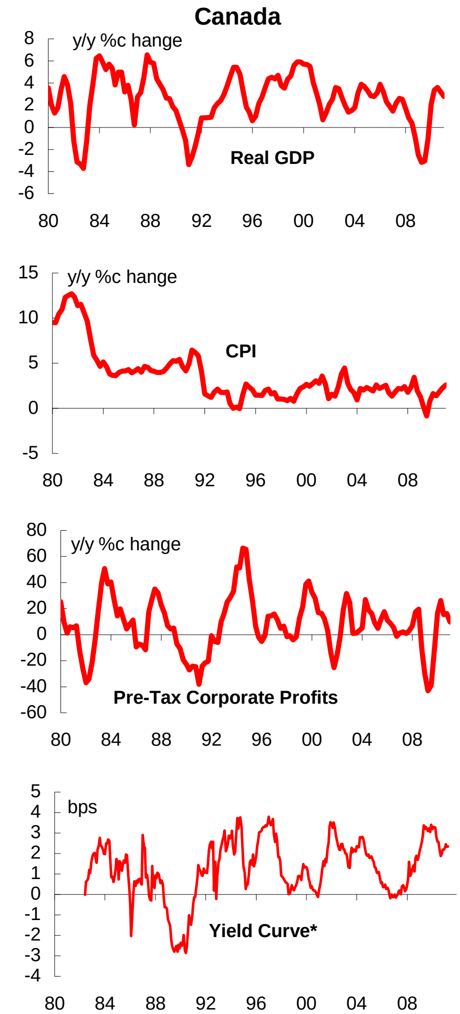
commodity prices and increased output. Although manufacturing has benefited from the economic turnaround in the United States, the significant appreciation in the Canadian dollar has had a considerable dampening impact on earnings, though for many companies, cheaper imports have helped the bottom-line. And unique to the Canadian situation, many firms are benefitting from lower tax burdens on their operations, either from corporate tax rate relief, or the harmonization of provincial and federal sales taxes.



*Yield Curve = 10-year bond - 3-month T-bill

Preliminary data for 11Q1 from Statistic Canada's Quarterly Financial Statistics (first quarter National Income Accounts results will be released on May 30th) underscore these constructive trends, revealing that the operating profits of Canadian corporations increased at a solid 17½% annualized rate in the first three months of this year, and 8% from a year earlier. One-half of the 22 industries surveyed reported higher profits in Q1, led by the financial and commodity-related sectors that dominate resource and manufacturing activity.

Looking ahead, the momentum in corporate profit growth, particularly in the United States and Canada, is expected to slow alongside the moderation in global economic activity which appears more noticeably in the advanced economies. Businesses are being confronted by an increasing number of simultaneous drags on earnings, including the fiscal consolidation underway in many jurisdictions, and Europe in particular, the global supply-chain disruptions in manufacturing triggered by the catastrophes in Japan, the slower pace of spending by more 'debt-conscious' consumers in the United States and increasingly in Canada, and the eventual normalization of ultra-low short-term borrowing costs. Businesses, here at home and around the world, are also being challenged by the sharp increase in virtually all commodity prices, but particularly oil, which has far-reaching impacts. Wage costs are rising, reflecting skill shortages in some of the advanced nations, in addition to significant minimum wage increases in a growing number of emerging market economies.

Nevertheless, businesses are actively restructuring and repositioning their operations to slow down the compression on margins that typically unfolds as business cycles mature. Many businesses are increasingly realigning their exports (goods, services, and resources) towards the faster growing emerging economies that will continue to outperform for the foreseeable future. Many firms are taking advantage of government incentives to invest in productivity-enhancing M&E that will help keep costs in check. Many companies are also taking advantage of ultra-low borrowing costs to merge & acquire, or to expand their operational capabilities to reap greater efficiencies and lower costs.

In addition, operating conditions, both economic and financial, remain generally supportive of continuing, albeit more moderate, gains in profitability. The recent acceleration in inflation, especially in Canada and the United States and the other advanced economies, is unlikely to be sustained now that the recent surge in oil prices appears to have crested, while ongoing competitive pressures will help restrain underlying price gains. Monetary officials will be reluctant to tighten significantly with global growth slowing, fiscal consolidation intensifying, and many currencies vulnerable to debilitating capital inflows during recurring bouts of U.S. dollar weakness.

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In the United States, the ‘quality’ spread between corporate Baa and Aaa bond yields is moving lower and is back into the middle of a 50-150 bp range that has largely persisted for the past 25 years. There is no indication of any intensification of corporate ‘stress’ — a sharp and sustained rise in the quality spread as corporate credit worthiness deteriorates in response to more challenging operating conditions — as was witnessed during the recent financial crisis or which generally precedes recessions that in the past were triggered by significant monetary tightening to combat rising inflation and expectations.

While there are good reasons to expect another bout of slower growth, we do not expect that the compounding effects of recent developments, whether inflation-induced tightening in the growth locomotives of the emerging market economies or the deleveraging that is so prevalent across most of the advance economies, will derail the recovery. In both the United States and Canada, yield curves — the difference between the rates on 10-year government bonds and 3-month Treasury bills — remain very pro-growth. They are very steep and positively sloped, and close to the high end of ranges that are supportive of continued, rather than interrupted, profit gains. The very steep yield curve is big plus, especially in the United States where financial institutions are in the process of recapitalizing recession-weakened balance sheets.

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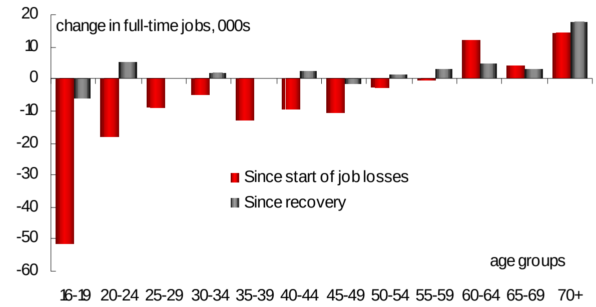
Will An Aging Workforce Lower Or Raise Wage Growth?

- **So far it has raised wage growth in recent years, but a big question mark lies ahead**

Chart 1 **Older Workers Fared Better In US**

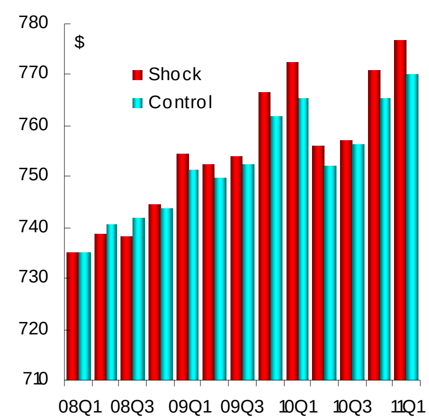


Source: BLS, Scotia Capital Econoimcs

Every recession and recovery period is different, but this one is marked by sharply different demographic circumstances. First, the workforce is aging into years when a static life cycle hypothesis would suggest that wage growth will be much softer. The baby boomers — born roughly between the mid-1940s and mid-1960s — are presently aged between their mid-40s and mid-60s. These are the years in which average weekly earnings generally peak. Second, the only age groups to post job growth in the US economy since job destruction began in 2008 are those older than 55 (chart 1), and this likely reflects one part structural and one part cyclical factors. This recession took its heavy toll on younger workers, although clearly the collapse in house prices affects those closer to retirement more harshly. Does this combination of factors thereby mean that wage growth will be more moderate in this cycle to the relief of the Federal Reserve?

What Has An Aging Population Done To Wages So Far?

Chart 2
Older Workers Pressured Wages



Source: BLS, Scotia Economics.

We first assess the impact of the shifting age structure on wages in the US during recent years in order to evaluate whether tightening in the labour market could spark wage inflation significant enough to concern the Fed, or whether this will be held at bay by demographic influences. Estimates of population, employment and weekly earnings in current dollars for the US are obtained from the Current Population Survey (CPS). The sample covers full-time wage and salary workers (excluding all self-employed individuals) by five-year age cohorts, and is unadjusted for seasonality. 'Shock and control' experiments are conducted, whereby two rolling weighted median wages are compared in each quarter from 2008Q1 to 2011Q1. The 'shock' wage is calculated as the sum of the product of median wages for each age cohort multiplied by the respective shares of total employment in each quarter. The 'control' wage is estimated by summing across age cohorts the product of current median wages and the constant employment shares of 2008Q1. In this way, the 'shock' wage minus the 'control' wage becomes a proxy for the effect of the changing age structure on aggregate wages over the course of the labour market recovery thus far.

The outcome is illustrated in chart 2 in terms of the impact on wage levels. An aging workforce has thus far exerted upward pressure upon wages—all else being equal—because the short-term effect has been to displace very young workers earning low wages in favour of older workers earning higher wages. Younger workers have aged into older cohorts in a structural sense, and have also born the brunt of the job losses in a cyclical sense. We figure that this aging workforce effect has lifted US wages by about a cumulative one percentage point since early 2008 just when jobs began to be lost, and compared to what would have occurred had the age composition of the workforce remained unchanged. Thus, in the short-run, the aging of the workforce has fed wage inflation for cyclical and structural reasons. Despite this, wage growth remains subdued.

What Might An Aging Population Do To Future Wage Growth?

The second aspect of the investigation involves using US population projections by age cohort from the United Nations 2010 Revision of World Population Prospects. Employment ratios are obtained from CPS data for each cohort in 2011Q1, and these (constant) ratios are applied to the population projections to estimate employment by age once every five years from 2015 to 2050. A weighted median wage using weekly earnings is then calculated assuming that median wages for each cohort remain constant at 2011Q1 levels as the shares of total projected

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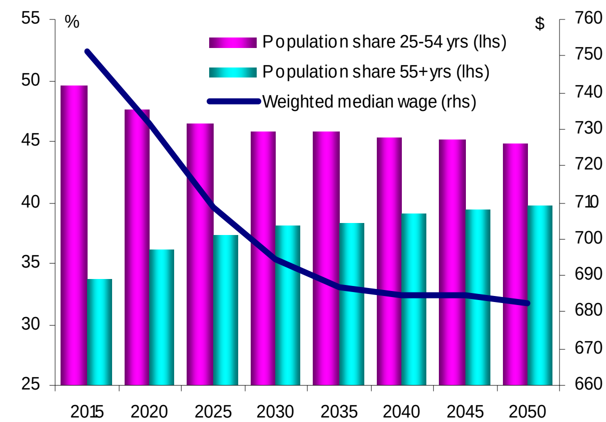
employment change over time. This provides an indication of the effect of shifting demographics on average wages going forward.

The outcome (chart 3) points to expectations for falling wages over the very long run due to an aging workforce. Note that unlike the first scenario that looks at the recent effects to date, this future scenario only addresses structural changes in the age composition of the workforce independent of cyclical components that we won't even attempt to forecast for the next half century. In essence, as the share of potential younger workers aged 25-54 drops and the share of older workers rises, wages would be expected to decline all else being equal.

Chart 3 **Median Wage To Fall As Workers Age**

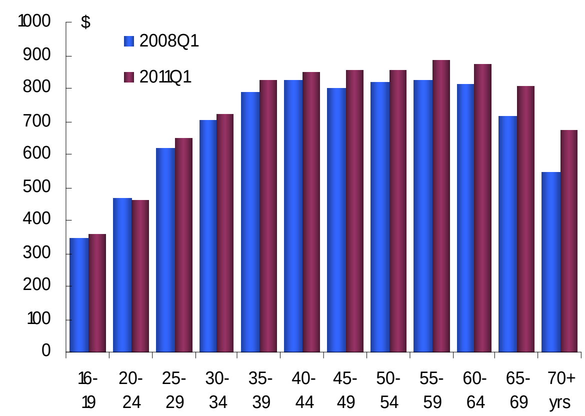


Source: BLS, UN, Scotia Economics.

All Else Not Equal

Clearly all else won't be equal in future, and that leads to our concluding point. For instance, it's likely unrealistic to assume a static life cycle of wages, versus a dynamic life cycle that allows for the potential for sizeable intra-cohort shifts in wages. Witness chart 4; this is already happening. The strongest wage growth in recent years has been focused upon older workers. Perhaps as they recognize the shortage of experience and talent in the future workforce that may shrink or grow more slowly, such workers will exert upward pressure upon wage demands. Whether that will be feasible or not in an open economy depends upon the individual industry including its tradeable versus nontradeable nature.

Chart 4 **Median Wages Peak After 50**



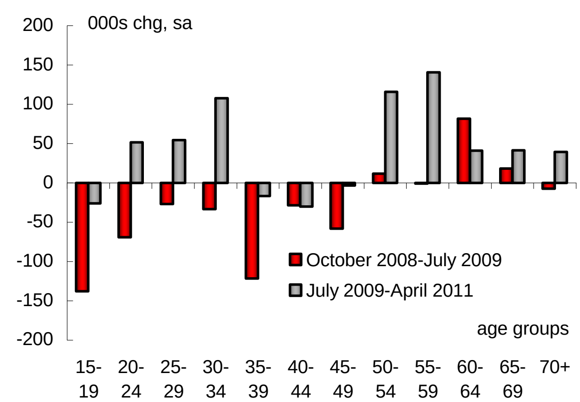
Source: BLS, Scotia Economics.

Canadian Parallels

We will look more carefully at Canada in future, but for now point to a key parallel to the US. Employees aged 15-50 accounted for almost all of the job losses during Canada's employment recession, with a small dip in 70+ employees to round out the losses (chart 5). Cohorts 15-19 and 35-39 took the brunt of the hit with over 120,000 jobs shed during that period, accounting for over half of all of the losses. It is interesting to note that industry-wise, manufacturing shed 210,000 workers, almost 50% of the total decline in employment, with construction accounting for almost 25%. Not surprising then, males accounted for almost 70% of the total decline in jobs during this period, with men aged 15-19 experiencing the largest decline. Indeed, while the younger cohorts were pounding the pavement looking for a new job, Canadians aged 50-54, 60-64 and 65-69 all witnessed an increase in payrolls despite weaker economic growth.

Chart 5

Older Workers Also Fared Better in Canada



Source: Statistics Canada, Scotia Economics.

While workers aged 15-50 were hit the hardest during the employment downdraft, they were not necessarily the age groups that witnessed the fastest pace of growth once the recovery started. In fact, the older cohorts of 50+ have thus far accounted for over 70% of all of the jobs recovered over the past year and a half, while employees aged 15-19 continue to witness job shedding. Some of this can be explained by the baby boomers now hitting the latter years of 50+ with firms choosing to keep experienced workers over young blood.

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Pension Liabilities Shadow U.S. State Budget Plans for FY12

- **Although State revenues are regaining traction, continuing operating budget pressures in a number of States are impacting employee pension fund repair.**

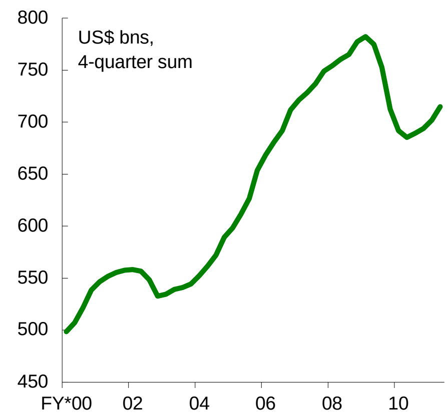
The recovery in State tax revenues that began in the second half of fiscal 2010 (FY10)[1] with relatively modest year-over-year increases has gradually gained traction, with preliminary data for Q3 FY11 indicating a solid advance. Initially, much of the positive year-over-year momentum in State tax receipts stemmed from legislated tax increases. The National Association of State Budget Officers (NASBO) reports almost $24 billion of tax and fee increases for FY10, of which $18.6 billion were tax hikes. More recent quarterly State tax collections, however, also have benefitted from the strengthening economy.

Nevertheless, State tax receipts have been slow to regain pre-recession peaks *(top chart)*. For the four quarters to Q2 FY11, among the major tax streams, only property levies, tobacco and liquor taxes and vehicle licenses were above the levels witnessed three years ago. As many States struggle with their FY12 *Budgets* to accomplish a third or fourth consecutive year of spending restraint, the squeeze is expected to continue as Washington steps up its own fiscal restraint over the next few years.

This operating budget pressure has spurred the majority of States to proceed with multiple reforms to curtail their unfunded pension and benefit liabilities. With respect to pension benefits, cutbacks include raising the retirement age, limiting early retirement provisions, restricting cost of living adjustments, increasing the vesting period, redefining "average salary:" from the last year of employment to the average of the last five years, and trimming the "formula multiplier" in the benefit calculation[2]. The consequences of these cutbacks are particularly significant for the one-quarter of State and local government workers not covered by Social Security. In addition to increased employee contributions in many jurisdictions, there are also widespread efforts to curtail abuses, such as limiting the opportunities to "spike" final-year earnings.

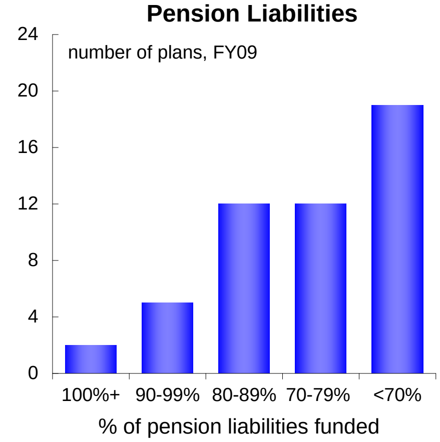
From the PEW Centre on the States, the update this spring on State pension and benefit liabilities for FY09 *(bottom two charts on this page and two charts on the next page)* underlines, once again, the extent of the problem. Overall, State pensions for FY09 were slightly less than 78% funded, down from the FY08 funding level of 84%, with a further slight decline indicated in advance data for 16 States for FY10. With the exception of three States, the remaining States use a smoothing formula, typically employing a five-year average, which only gradually introduces the dramatic pension plan losses in the recent downturn. Pension advisors and the Government Accountability Office recommend that State

U.S. State Tax Revenues Revive

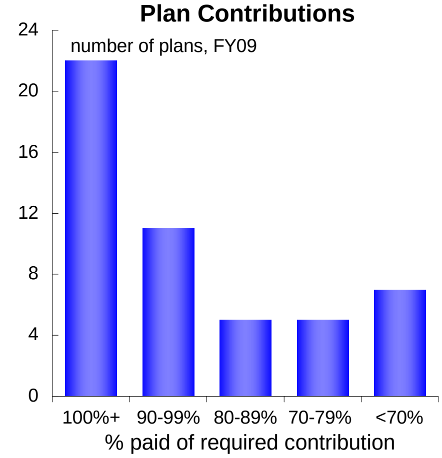


* 46 States use a June 30 fiscal year-end.
Source: U.S. Census Bureau.

U.S. State Unfunded Pension Liabilities



Required State Pension Plan Contributions



Source: Pew Center on the States, 2011.

[1] Forty-six States use a June 30th fiscal year-end. Data in US dollars.
[2] The general summary formula for retirement annuities is (Years Worked * Formula Multiplier) *Average Salary.

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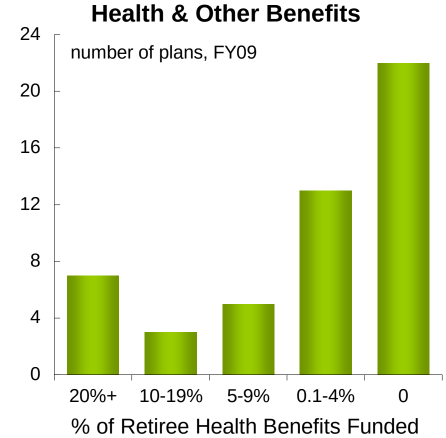
pension plans have at least an 80% funding level. In FY09, thirty-one States fell below this level, a significant increase from the 22 States below this threshold in FY08. For retiree health care and other benefits, with a legacy of pay-as-you-go arrangements in 19 States, only 5% funding of the benefit commitments is reported for FY09.

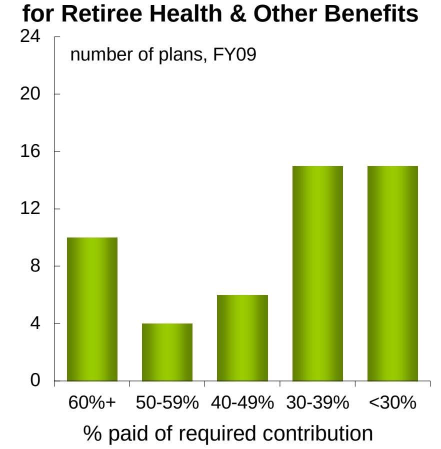
On average, States paid 83% of their required $68 billion actuarial pension contribution in FY09 and just 34% of their required $49 billion benefit contribution. In part this shortfall in contributions reflects State governments balancing competing expenditure demands. It is also due to the escalation in the required payments. In FY00 when State and participating local government pension plans were better funded, the required payment was just $27 billion.

Several States have shifted to defined contribution pension plans or some form of hybrid plan for new employees. Even this dramatic move has a limited near-term impact because it applies only to new employees. Indeed, most of the benefit reforms detailed above are limited to new or current employees for service going forward, leaving vested benefits and benefits for retirees largely intact. Thus for the hardest pressed States, these initial reforms likely represent just the first round in more difficult compromises in the future.

Funding of U.S. State Retiree Health & Other Benefits



Required State Contributions for Retiree Health & Other Benefits



Source: Pew Centre on the States, 2011.

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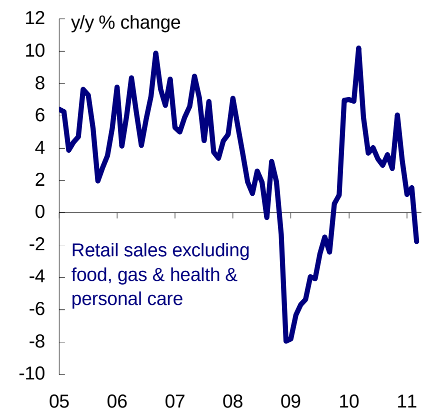
Canadian Consumers Tighten Their Belts

- **Rising food and gasoline prices, combined with high debt loads and stagnant real wages, point to a much more tightfisted Canadian consumer in 2011.**

Following a string of disappointing retail reports, Monday's GDP release for Q1 is expected to show only a modest consumer contribution to overall growth in the quarter. Some of the moderation in retail activity is likely weather influenced, with a cool wet spring delaying purchases of seasonal clothing and other goods. At the same time, slowing home sales and softer pricing are likely dampening purchases of housing-related durable goods such as furniture and appliances as well as renovation-related materials.

Even so, evidence of the emergence of a more cautious consumer is convincing. Discretionary retail spending (i.e. total outlays excluding food, gasoline and health & personal care items) dropped below year-ago levels in March for the first time since the 2008 recession (see chart). Consumer sentiment dipped in May, with notable pessimism over the current state of household finances and reduced intentions to make a major purchase. Confidence is trending above the depths of the 2008 recession, but well below historical averages.

Discretionary Spending



Source: Statistics Canada, Scotia Economics

Rising food and gasoline prices are a significant factor behind the increasingly reticent Canadian consumer. Retail store food & non-alcoholic beverage purchases totaled $83 billion last year, representing 19% of all retail store spending. Retail gasoline purchases totaled another $43 billion, or 10% of total expenditures. Based on average retail food and gasoline inflation of 4% and 12%, respectively, in 2011, this higher bill for 'essentials' crowds out over $8 billion in spending at other retailers.

The typical household has some options for stretching their budget. For example, to reduce gas costs, they could limit the frequency of trips to the mall, vacation closer to home, or take public transit; to reduce grocery store bills, they could switch from name brand to store brand products, or rely less on higher-priced prepared meals. For the most part, however, demand in both retail segments is highly inelastic, at least in the short-term.

We estimate that the combined share of household expenditures devoted to food and gasoline in Q1 surpassed its prior peak in mid-2008 — at the height of the last commodity price spike. Moreover, the negative repercussions for the broader retail sector are likely greater this time around given relatively higher unemployment and weaker income growth. Wage gains have firmed a bit this year, but at around 2½% y/y still lag the pickup in inflation of over 3%. In 2008, real wages were rising between 1-3% y/y.

Canadians also now appear less inclined to add to their debt loads or tap into their savings in order to maintain 'non-essential' purchases in the face of the higher cost of 'essentials'. Consumer credit growth has moderated to its slowest rate in nine years, and the household savings rate has edged back up. It would appear Canadians are finally heeding repeated central bank warnings on the danger of overextending their finances in today's ultra-low interest rate environment.

Yet Canadian consumers are also not down for the count. Steady employment gains, a still healthy housing market and the purchasing power boost of a strong Canadian dollar are all positive factors for the retail outlook. Meanwhile, the lure of cross-border savings given an above-parity Canadian dollar alongside the entry of several major U.S. retailers over the next few years will maintain a highly competitive retail pricing environment, allowing consumers to stretch the value of their spending dollar.

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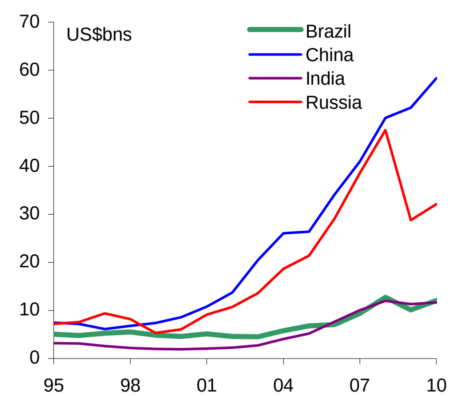
Germany to Retain Its Status as Euro Zone Economic Power House

- **German economy remains on strong growth trajectory, supported by robust exports.**

Germany, accounting for over 27% of the euro zone economy, will continue to be the engine of growth in the region. The economy grew by 1.5% q/q and 4.9% y/y in the first quarter of 2011 (compared with 0.4% q/q and 3.8% y/y in the final quarter of 2010), with net exports (up by 8.9% q/q, non-annualized, in Q1) being the main contributor to the strong economic activity. With the unemployment rate at its lowest level since 1991 (at 7.1% in April), improving labour market conditions are reflected in private consumption (up 0.4% q/q in the first quarter), thereby helping the economic recovery to become more broadly-based. Nevertheless, confidence indicators reveal that German consumers and businesses remain cautious, given intensifying inflationary pressures and the persistent sovereign credit turmoil surrounding the economies in the euro zone periphery. Therefore, we expect that investment, which recorded a strong expansion of 5.0% q/q in Q1, will moderate in the coming quarters. The deceleration in fixed capital formation will likely be accompanied by slower export sector momentum. Following the stronger-than-expected performance in the January-March period, we are revising our real GDP growth forecasts, anticipating German output to expand by close to 3½% this year, followed by a slowdown to around 2½% in 2012. For further information regarding the forthcoming forecast changes, please refer to the Scotia Economics Global Forecast Update report to be published next week.

The German external sector continues to benefit from strong demand in Asia, with exports increasing by 7.3% m/m in March. In recent years, Germany has focused on expanding the share of developing economies among its export destinations, establishing trade links with those economies that have a promising economic outlook and favourable domestic demand conditions. Indeed, with emerging markets such as China and India overtaking many historically important trading partners, Germany's export sector is well-positioned to face the emergence of developing economies as major players in world trade. Revealing its successful strategy to increase shipments to these emerging markets, the country has raised the amount of its exports destined for the BRICs (Brazil, Russia, India, and China) from 1½% of total exports in 1990 to 9½% in 2010 (please see chart). Meanwhile, total German export volumes grew by 32% in 2006-2010 from the preceding five year period. The ongoing diversification of its export destinations is one of the underlying reasons the German export-oriented economy is performing so well. Moreover, the Japanese shock may favour Germany as the two countries' exporting industries operate in the same fields.

German Exports to BRICs



Source: IMF

Inflationary pressures will likely continue to build in Germany in the near term, despite an easing in the inflation rate in May. Elevated commodity prices will likely result in second-round inflationary impacts while tightening labour market conditions will put pressure on wages. At the same time, excess capacity in the economy is narrowing, as indicated by the elimination of the country's output gap (defined as actual GDP less potential GDP as a percent of potential GDP; please see chart). The headline consumer price index increased by 2.4% y/y in May, continuing to exceed the European Central Bank's (ECB) inflation target of "below, but close, to 2%". We expect the German inflation rate to approach the 3% threshold in the second half of the year, before subsiding towards 2½% in the final months of 2011.

German Output Gap & GDP Growth

Source: IMF

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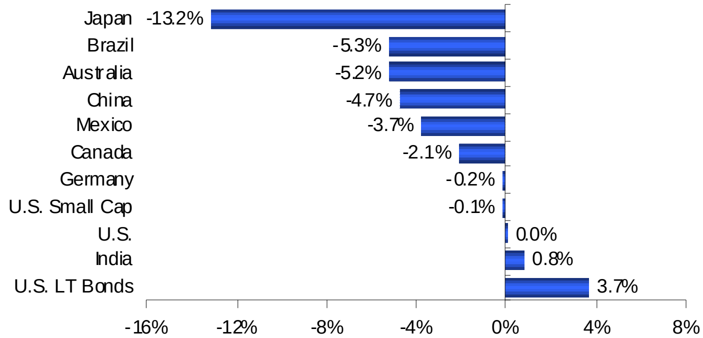
Earnings are Still the Market's Best (Only) Friend

Spring Break Continues

- The global equity recovery has looked fatigued since the start of 2011 and “risk-off” signs have been increasingly visible this spring. Amidst low trading volumes, the S&P 500 and the DAX have been moving sideways in the last three months while indices in Brazil, Canada, and China have pulled back (see Exhibit 1). Over the same period, U.S 10-year bond yields have declined 28 bp to 3.13% and the long-term bond ETF (TLT) is up 3.7%.
- In our opinion, 2011 leadership has been consolidating after the spectacular high beta rally witnessed in the 2H/10. In addition, monetary tightening has hurt emerging market sentiment and risk appetite.

Exhibit 1: Global Equities – Last Three-Month Performance in Local Currency (May 25 close)



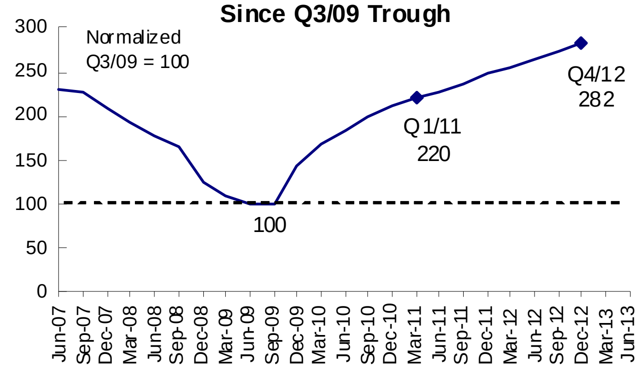
Source: Scotia Capital, Bloomberg.

- Mean-reversion favoured the “risk-off” trade entering 2011, but a “risk-on” window could open up later in Q3. Seasonal weakness in May is somewhat typical and the current “spring break” could eventually develop into a buying opportunity. The global economy is moving from recovery to expansion, with the latter pointing to more moderate growth, not disappearing growth. Hence, earnings growth looks poised to continue.
- However, one driver of equity gains may be lost amidst the transition to monetary tightening. P/E multiples have contracted recently, leaving earnings growth as the main pillar of equity gains. With negligible P/E multiple expansion in sight, earnings may be the market’s best and only friend.

S&P 500 EPS Surge, but P/E's are not collaborating

- Exhibit 2 highlights the recovery in S&P 500 earnings since markets troughed in late 2008/early 2009. Earnings are up 120% from their Q3/09 trough in what has been a spectacular profit recovery so far. Although P/Es initially moved up, the trend has been a gradual trickle down in the last 18 months. The S&P 500 forward P/E has moved from a low of under 9x in October 2008 to a peak of 14.9x in September 2009. Since the latter stages of 2009, however, P/Es have been contracting.
- Since the start of the year. S&P 500 2011 EPS estimates have gone from US$94.85 to

Exhibit 2: S&P 500 Earnings Recovery Since Q3/09 Trough



Source: Scotia Capital, S&P.

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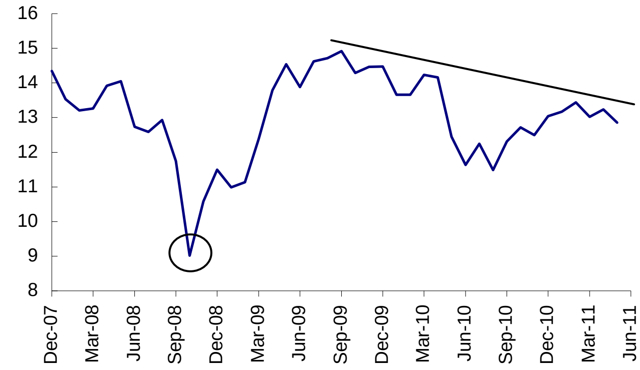
Exhibit 3: S&P 500 Forward P/E Since 2008



Source: Scotia Capital, Thomson Financial.

US$98.65 currently and the S&P 500 forward P/E has declined to 12.8x from 13.2x in December (see Exhibit 3).

- Globally, P/E contraction has been more hurtful in countries where tightening policies are well under way and where inflation is above the central bank target. Valuations remain below historical average and may stay there as long as conditions tighten.
- In our opinion, the trend in corporate profits remains positive. Looking out to 2012, S&P 500 EPS is expected to bounce another 14% on the back of a 17% increase in 2011. A steep yield curve points to sustained profit growth in the next 18 months.
- However, P/E upside will be challenged by monetary tightening and flattening yield curves. The only time markets ignored this relationship was back in the late 1990s when P/Es surged to the mid-20s as the Fed was tightening and the yield curve was flattening. We do not expect the same divergence to occur any time soon.
- In this context, sustained earnings growth should remain the main pillar of equity gains in coming months and we don't expect much from valuation expansion.

Softer U.S. Data

- With the exception of the latest payrolls and jobless claims figures, most recent U.S. economic releases have been coming in on the weak side. Admittedly, housing has been bouncing off the bottom since 2009, but manufacturing barometers are now rolling over, which points to moderate growth in Q2 and Q3. Last week, industrial production, leading indicators (LEI), the Philly Fed, and Empire manufacturing indices all came in below expectations.
- One of our preferred indicators, the ISM Index, now looks poised to slip towards the low 50s in coming months. The ISM typically moderates to the 50-55 range once the recovery is over. From December 2008 to January 2011, the ISM Index went from 33.3 to 60.8. ISM levels above 50 remain coherent with earnings growth.
- As long as employment and corporate profit trends remain positive, we will stick to a growth scenario for the U.S. and global economy. Still, visibility will be more challenging as the ISM (and PMIs in Europe) loses its mojo, making it harder to ignite the "risk-on" sentiment in the near term.

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Market Pricing and the Bank of Canada

During the past six weeks, the market has in effect not only come around to Scotia's view on the BoC, but exceeded it. Scotia Economics had long forecasted that the BoC would hold off raising rates until October, and would then raise a total of 50 bps by year end. The market is now pricing in less than 25 bps of cumulative tightening by December on a break-even forward basis (i.e. with no allowance for a risk premium). There is minimal tightening now priced in for July, about 3 bps, and just about 8 bps for the September meeting. This is a significant change from April 11, when a quarter point rate increase was fully priced in for the July meeting, and close to 70 bps was priced in for December.

The decline in implied BoC tightening expectations has been only partly a made-in-Canada phenomenon (e.g. the weak retail sales report last week, strong currency, Carney's previous suggestion that there are limits to how far Canadian policy can diverge from the US). It has been very much a reflection of events outside of Canada, where fixed income generally has rallied since early April, due to a combination of factors, most notably weaker US data, rising concerns about peripheral Europe, and the covering of short positions.

The market has effectively factored in quite a dovish BoC statement now (scheduled for Tuesday May 31). The statement should have a somewhat more cautious tone than the previous statement on a number of counts. It should include a more cautious take on the international economy than the last statement, given that the intervening economic data from the US in particular have been weaker. The statement will presumably reiterate that the Bank expects headline inflation to remain elevated for some time before declining, and that Q2 growth is likely to decline significantly from the Q1 pace, due in part to the supply chain disruption after the Japanese earthquake and tsunami. But both of these factors have already been well advertised. I doubt, therefore, that the statement on Tuesday can be more dovish than the market has already discounted. The risk from here would therefore seem to be for the market to sell off after the BoC.

Chart 1 shows how the market's implied expectations for Bank of Canada tightening have evolved over the past year. Interestingly, this will be the first BoC statement in a long time when the market hadn't been selling off leading up to the statement (those previous episodes involved a fairly consistent pattern of the market selling off prior to the statement, then rallying amid short covering after the BoC was not as hawkish as the market had expected).

Chart 1

Evolution of Implied BoC Rates
(break-even forward OIS rates on Bank of Canada dates)

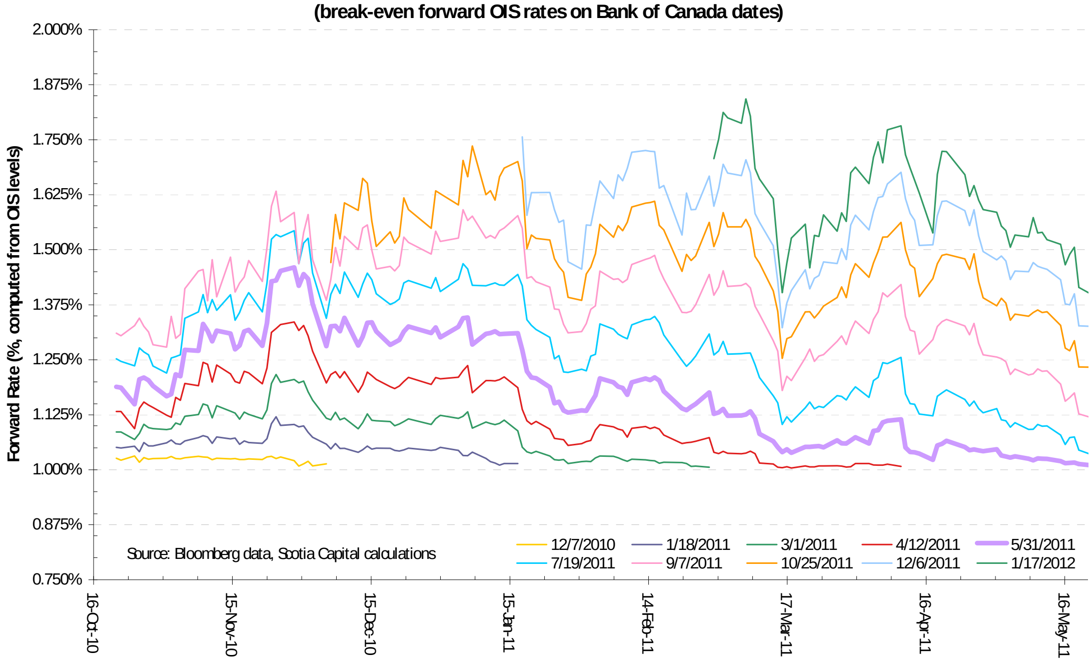

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Chart 2 shows what is currently implied in the forward break-even curve for various central banks including the Bank of Canada.

Chart 2

Implied Central Bank Rate Expecations (Break-Even Forwards)

Canada 1.00%

Meeting Date	Forward Rate	Cumulative Change	
31-May-11	1.01%	0.7	3%
19-Jul-11	1.03%	3.3	13%
7-Sep-11	1.09%	8.6	35%
25-Oct-11	1.16%	15.8	
6-Dec-11	1.23%	23.2	
17-Jan-12	1.32%	31.6	

AU 4.75%

Meeting Date	Forward Rate	Cumulative Change	
7-Jun-11	4.77%	2.3	9%
5-Jul-11	4.80%	4.7	19%
2-Aug-11	4.85%	9.6	38%
6-Sep-11	4.87%	12.0	
4-Oct-11	4.86%	11.4	
4-Nov-11	4.88%	12.9	

US 0.25%

Meeting Date	Forward Rate	Cumulative Change*	
22-Jun-11	0.10%	-0.1	0%
10-Aug-11	0.13%	3.1	12%
21-Sep-11	0.15%	5.0	20%
3-Nov-11	0.16%	5.6	
14-Dec-11	0.18%	8.0	
25-Jan-12	0.21%	11.3	

* Measured vs effective fed funds rate of 0.10%

JP 0.10%

Meeting Date	Forward Rate	Cumulative Change	
14-Jun-11	0.07%	-3.2	-13%
12-Jul-11	0.07%	-3.2	-13%
9-Aug-11	0.07%	-2.5	-10%
6-Sep-11	0.08%	-2.1	
7-Oct-11	0.08%	-2.0	
27-Oct-11	0.08%	-2.0	

UK 0.50%

Meeting Date	Forward Rate	Cumulative Change	
9-Jun-11	0.53%	3.0	12%
7-Jul-11	0.54%	4.4	17%
4-Aug-11	0.56%	6.0	24%
8-Sep-11	0.59%	8.7	
6-Oct-11	0.62%	12.0	
10-Nov-11	0.65%	15.4	

EU 1.25%

Meeting Date	Forward Rate	Cumulative Change*	
9-Jun-11	1.05%	25.6	102%
7-Jul-11	1.21%	41.6	166%
4-Aug-11	1.29%	49.3	197%
8-Sep-11	1.36%	56.2	
6-Oct-11	1.42%	62.2	
3-Nov-11	1.48%	68.6	

* Measured vs EONIA (0.79%) rather than ECB Target

All calculations use Overnight Indexed Swaps, except for the US, which use Fed Funds futures.
Break-even forwards assume no risk premiums, and hence may be biased predictors of future rates.

In the case of the US and EU, the effective rate has typically traded well below the central bank's target for much of the time since the financial crisis began. We are showing the cumulative change with respect to the effective rate. A positive value for the cumulative change could therefore reflect the expectation of either a normalization in the effective rate, or an increase in the target rate, or some combination of the two.

Data from Bloomberg, calculations by Scotia Capital Fixed Income Research.

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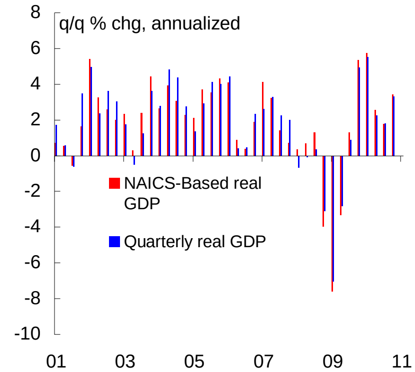
Key Data Preview

CANADA

March real GDP (Monday) will likely rebound by about 0.3% m/m, supported by base effects after a decline in February, as well as gains in aggregate hours worked, real manufacturing shipments and wholesale volumes. A further improvement in housing starts will also provide a lift to economic growth, albeit modest at best as the multi-family segment accounted for all of the increase in starts during the month. Only a decline in price-adjusted retail sales will offset these gains but will not likely be enough to push Q1 GDP off our current estimate of 4.0% q/q annualized. Going forward, however, the picture won't be as rosy given that much of the strength in Q1 was temporary, deferring weakness in Q4. In addition, supply chain constraints from Japan's earthquake/tsunami in mid-March will constrain economic activity in Q2 and possibly Q3. This growth profile, together with relatively muted inflation, should keep the Bank of Canada on hold on Tuesday with the first rate hike in October, if not later.

Monthly Cdn GDP Releases Provide a Decent Indicator for Quarterly Print



Source: Statistics Canada, Scotia Economics

UNITED STATES

There are several US data releases next week but markets will likely be focused primarily on the ADP private employment and ISM manufacturing reports along with the nonfarm payrolls report.

After falling by over 6% since the peak in January 2008, **nonfarm payrolls** (Friday) have only recovered 1.4% of the losses as businesses contend with a variety of headwinds, including high input costs, drive for increased labour productivity and reduced real consumption. While the US won't likely recover all of the jobs lost during the recent recession, we should continue to witness only modest monthly gains as illustrated by initial jobless claims which remain above the 400,000 level. In fact, while April as a whole witnessed a spike in initial claims, in part due to one-off factors, claims in May have remained elevated, pointing to a sub-200,000 print for nonfarm payrolls in May. In addition, the employment components of both the ISM manufacturing and non-manufacturing indexes have declined in March and April and will likely report a further decline in May, pointing to a slowing pace of employment growth. After an unexpected decline in total household employment (from the Household Survey) in April, we are looking for a rebound in May which will likely result in a decline in the unemployment rate after pushing back up to 9% in April. While **ADP's private employment report** (Wednesday), released two days ahead of the nonfarm payrolls report, used to provide a decent signal for the direction of nonfarm payrolls on their first print, in recent years that correlation has been much weaker. Nonetheless, markets continue to focus on the report and thus we continue to cover it. We are looking for a print of about 170,000 in May.

Both the **ISM manufacturing** (Wednesday) **and non-manufacturing** (Friday) reports will be released next week with a potential surprise to the downside for the former report. We already know that the Richmond and Kansas City Fed manufacturing reports plunged into negative territory in May, suggesting that manufacturing activity contracted during the month, in part due to the impact from Japan's earthquake on supply chains. In addition, the Philly Fed's May report surprised analysts when it dropped to the lowest level since October 2010 as manufacturing activity slowed. The Empire State manufacturing report also fell to half the pace posted in April. Given that these reports all together provide a decent gauge for the ISM manufacturing report released later in the month, we are looking for a print of 55 in May. This would be the lowest level since November 2009 with further weakness expected in June. However, once Japanese producers come back on line (hopefully in June), we should witness a gradual rebound in manufacturing in the US as well. The ISM non-manufacturing index will likely rebound slightly in May after a large decline in April.

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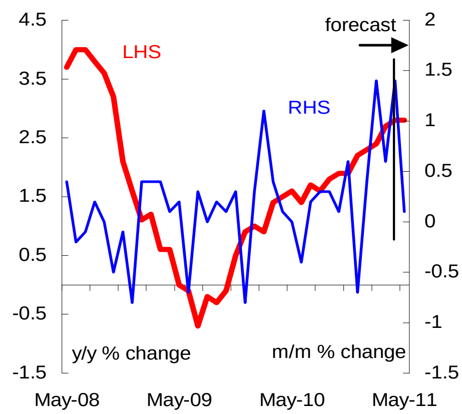
EUROPE

Consumer price inflation in the euro zone continues to exceed the European Central Bank's (ECB) target of "below, but close to, 2%" by a wide margin. The flash estimate for euro zone headline inflation will be released on May 31st; we estimate that consumer prices increased by 0.1% m/m in May, keeping the annual increase in the consumer price index at 2.8%. Inflationary pressures will likely continue to intensify further in the near term, hovering above the 3.0% mark in the coming months, and prompting the ECB to increase the main refinancing rate to 1.50% in the third quarter of the year. The ECB's policymakers remain concerned about potential second round inflationary impacts stemming from elevated commodity prices.

Euro zone Headline Inflation

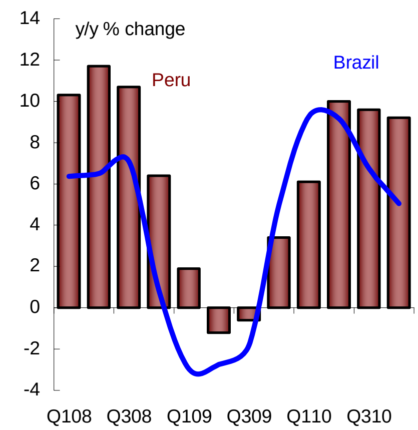


Source: Bloomberg. Scotia Economics

LATIN AMERICA

Over the coming week (May 31st - June 3rd), reports on first-quarter real GDP growth in Brazil and Peru will hold the region's attention. In 2010, economic activity in Latin America remained strong, driven mainly by high commodities' demand, improvement in local consumption and prudent macroeconomic policies. Brazil has led the region's recovery, causing some concerns regarding a possible overheating of the economy. The central bank's economic activity index suggests an increase in economic activity in Q1 over the previous quarter; however, on a yearly basis, the economy has been growing at a more moderate pace. With inflation increasing at a faster pace, the central bank restarted its tightening cycle at the beginning of the year, aiming to cool down the rampant economy. We expect the Brazilian economy to grow by 4.0% in 2011.

Brazil and Peru's GDP Growth



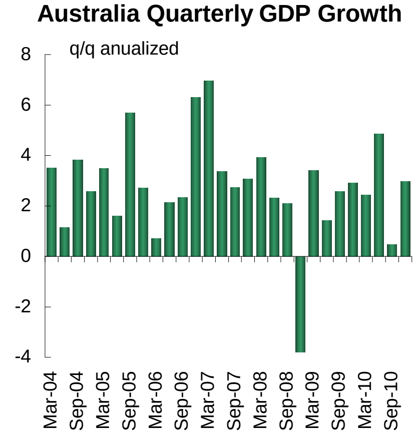
Source: IBGE, INEI.

In the case of Peru, national production — a proxy for monthly GDP — has also recorded a positive performance in the first months of 2011. In March, national production grew by 7.9% y/y, the nineteenth consecutive month of increases, led by the manufacturing and commerce sectors. Despite recent volatility in Peruvian financial markets associated with the Presidential elections, we expect the economy to remain on track and expand by 7.0% in 2011.

ASIA

In part due to the adverse effects of the Queensland floods, Australia's first quarter GDP growth must have slowed on a sequential basis after the 2.9% q/q (annualized) expansion of the final three months of 2010. We expect a 1.2% q/q expansion in the March quarter. Preliminary figures already display a negative contribution from net exports, as coal and other raw material shipments slowed due to the disruptions in normal activity. While there is also likely to be some effect from the Japanese shock on the figures, the economy will gather pace during the second half of the year as Asian demand for commodities remains

Australia Quarterly GDP Growth



Source: Bloomberg

Key Indicators for the week of May 30 - June 3

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	05/30	08:30	Current Account (BOP)	1Q	--	-3.3	-11.0
CA	05/30	08:30	Gross Domestic Product (MoM)	MAR	0.3	0.2	-0.2
CA	05/30	08:30	Quarterly GDP Annualized	1Q	4.0	4.0	3.3
CA	05/31	08:30	Industrial Product Price (MoM)	APR	0.5	0.7	0.9
CA	05/31	08:30	Raw Materials Price Index (MoM)	APR	3.0	3.5	5.7
CA	05/31	09:00	**Bank of Canada Rate (%)**	31-May	**1.00**	**1.00**	**1.00**
US	05/31	09:00	S&P/Case-Shiller 20 City (MoM) SA	MAR	-0.2	-0.2	-0.2
US	05/31	09:00	S&P/Case-Shiller Composite-20 (YoY)	MAR	-3.0	-3.4	-3.3
US	05/31	09:00	S&P/Case-Shiller US HPI (YoY)	1Q	--	--	-4.1
US	05/31	09:45	Chicago Purchasing Manager Index	MAY	--	62.3	67.6
US	05/31	10:00	Consumer Confidence	MAY	65.0	66.5	65.4
US	05/31	10:30	Dallas Fed Manf. Activity	MAY	--	8.3	10.5
US	06/01	07:00	MBA Mortgage Applications (WoW)	27-May	--	--	1.1
US	06/01	08:15	ADP Employment Change (000s)	MAY	170.0	177.5	179.0
MX	06/01	10:00	Central Bank Economists Survey				
US	06/01	10:00	Construction Spending (MoM)	APR	--	0.4	1.4
MX	06/01	10:00	Remittances (USD millions)	APR	--	1919.0	2049.1
US	06/01	10:00	ISM Manufacturing Index	MAY	55.0	57.5	60.4
US	06/01	10:00	ISM Prices Paid Index	MAY	--	82.0	85.5
US	06/01	17:00	Total Vehicle Sales (millions)	MAY	12.4	12.8	13.1
US	06/02	08:30	Unit Labor Costs (QoQ)	1Q F		0.8	1.0
US	06/02	08:30	Initial Jobless Claims (000s)	28-May	425	420	424
US	06/02	08:30	Continuing Claims (000s)	21-May	3650	--	3690
US	06/02	08:30	Nonfarm Productivity (QoQ)	1Q F	--	1.7	1.6
US	06/02	10:00	Factory Orders (MoM)	APR	-2.0	-0.9	3.4
US	06/02		ICSC Chain Store Sales (YoY)	MAY	--	--	8.5
US	06/03	08:30	Avg Hourly Earning (MoM) All Emp	MAY	0.1	0.2	0.1
US	06/03	08:30	Avg Weekly Hours All Employees	MAY	34.3	34.3	34.3
US	06/03	08:30	Change in Nonfarm Payrolls (000s)	MAY	180	190	244
US	06/03	08:30	Chg in Household Survey Emply (000s)	MAY	--	--	-190
US	06/03	08:30	Unemployment Rate (%)	MAY	8.9	8.9	9.0
MX	06/03	09:00	Consumer Confidence Index	MAY	--	90.2	89.7
US	06/03	10:00	ISM Non-Manf. Composite Index	MAY	53.5	54.0	52.8

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Key Indicators for the week of May 30 - June 3

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
SP	05/30	03:00	CPI (EU Harmonised) (YoY)	MAY P	--	3.4	3.5
SP	05/30	03:00	Consumer Price Index (YoY)	MAY P	--	3.7	3.8
GE	05/30		Retail Sales (MoM)	APR	--	1.8	-2.7
GE	05/30		Retail Sales (YoY)	APR	--	1.5	-3.5
FR	05/31	02:45	Consumer Spending (MoM)	APR	--	0.0	-0.7
FR	05/31	02:45	Producer Prices (MoM)	APR	--	0.8	0.9
GE	05/31	03:55	Unemployment Change (000's)	MAY	--	-30.0	-37.0
GE	05/31	03:55	Unemployment Rate (s.a)	MAY	--	7.0	7.1
IT	05/31	04:00	Unemployment Rate (SA)	APR P	--	8.3	8.3
EC	05/31	05:00	Euro-Zone CPI Estimate (YoY)	MAY	2.8	2.8	2.8
EC	05/31	05:00	Euro-Zone Unemployment Rate	APR	--	9.9	9.9
IT	05/31	05:00	CPI (NIC incl. tobacco) (MoM)	MAY P	--	0.2	0.5
IT	05/31	05:00	CPI (NIC incl. tobacco) (YoY)	MAY P	--	2.7	2.6
IT	05/31	05:00	CPI - EU Harmonized (MoM)	MAY P	0.2	0.2	1.0
IT	05/31	05:00	CPI - EU Harmonized (YoY)	MAY P	3.0	3.0	2.9
IT	05/31	06:00	PPI (MoM)	APR	--	0.9	0.7
GR	05/31		Retail Sales (YoY)	MAR	--	--	-7.0
FR	06/01	01:30	ILO Mainland Unemployment Rate (%)	1Q	--	--	9.2
FR	06/01	01:30	Mainland Unemp. Change (000s)	1Q	--	--	-49.0
FR	06/01	01:30	ILO Unemployment Rate (%)	1Q	--	9.4	9.6
IT	06/01	03:45	PMI Manufacturing	MAY	--	53.0	55.5
FR	06/01	03:50	PMI Manufacturing	MAY F	--	55.0	55.0
GE	06/01	03:55	PMI Manufacturing	MAY F	--	58.2	58.2
EC	06/01	04:00	PMI Manufacturing	MAY F	--	54.8	54.8
UK	06/01	04:30	PMI Manufacturing	MAY	--	54.1	54.6
UK	06/01	04:30	Mortgage Approvals (000s)	APR	--	47.0	47.6
IT	06/01	13:00	Budget Balance (€ billions)	MAY	--	--	-40.1
UK	JUN 01-08		Halifax House Price 3Mths/Year	MAY	--	0.3	-1.4
UK	JUN 01-08		Halifax House Prices sa (MoM)	MAY	--	--	831.1
SP	06/02	03:00	Unemployment MoM Net ('000s)	MAY	--	53.5	53.3
UK	06/02	04:30	PMI Construction	MAY	--	--	1.2
IT	06/03	03:45	PMI Services	MAY	--	62.8	62.8
FR	06/03	03:50	PMI Services	MAY F	--	54.9	54.9
GE	06/03	03:55	PMI Services	MAY F	--	55.4	55.4
EC	06/03	04:00	PMI Services	MAY F	--	55.4	55.4
UK	06/03	04:30	PMI Services	MAY	--	54.2	54.3
UK	06/03	04:30	Official Reserves (Changes)	MAY	--	--	1663.0

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Key Indicators for the week of May 30 - June 3

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
VN	MAY 24-30		Industrial Output YTD (YoY)	MAY	--	--	14.2
NZ	05/29	18:45	Trade Balance (NZD millions)	APR	--	600.0	463.5
JN	05/29	21:00	Small Business Confidence	MAY	--	--	36.1
AU	05/29	21:30	Inventories (QoQ)	1Q	--	0.1	0.7
PH	05/29	22:00	GDP sa (QoQ)	1Q	--	1.6	3.0
JN	05/30	01:00	Construction Orders (YoY)	APR	--	--	-11.0
JN	05/30	01:00	Annualized Housing Starts (millions)	APR	--	0.8	0.8
JN	05/30	01:00	Housing Starts (YoY)	APR	--	-3.1	-2.4
SK	05/30	19:00	Industrial Production (MoM)	APR	--	0.5	1.4
JN	05/30	19:30	Overall Hhold Spending (YoY)	APR	--	-2.8	-8.5
JN	05/30	19:30	Jobless Rate (%)	APR	--	4.7	4.6
JN	05/30	19:50	Industrial Production (MoM)	APR P	--	2.2	-15.5
NZ	05/30	21:00	NBNZ Activity Outlook	MAY	--	--	29.5
NZ	05/30	21:00	NBNZ Business Confidence	MAY	--	--	14.2
AU	05/30	21:30	Building Approvals (MoM)	APR	--	-1.8	9.1
AU	05/30	21:30	Current Account Balance (AUD millions)	1Q	--	-10000	-7299
IN	MAY 30-31		Qtrly GDP YoY%	1Q	--	8.2	8.2
JN	05/31		Vehicle Production (YoY)	APR	--	--	-57.3
TH	05/31	03:30	Overall Balance (USD Million)	APR	--	--	1365.0
CH	05/31	21:00	PMI Manufacturing	MAY	53.4	51.6	52.9
AU	05/31	21:00	HIA New Home Sales (MoM)	APR	--	--	4.3
AU	05/31	21:30	Gross Domestic Product (QoQ)	1Q	0.2	-0.3	0.7
TA	05/31	22:00	HSBC Taiwan Manufacturing PMI	MAY	--	--	58.2
ID	06/01		Total Trade Balance (USD millions)	APR	--	1398.4	1812.8
ID	06/01		Inflation NSA (MoM)	MAY	--	0.1	-0.3
ID	06/01		Inflation (YoY)	MAY	--	5.9	6.2
ID	06/01		Core Inflation (YoY)	MAY	--	4.7	4.6
IN	06/01	01:00	India May Markit Manufacturing PMI (Table)		58.5	--	58.0
JN	06/01	01:00	Vehicle Sales (YoY)	MAY	--	--	-51.0
IN	06/01	01:30	Exports YoY%	APR	--	--	43.9
IN	06/01	01:30	Imports YoY%	APR	--	--	17.3
AU	06/01	02:30	RBA Commodity Price Index Au	MAY	--	--	106.1
AU	06/01	02:30	RBA Commodity Index SDR (YoY)	MAY	--	--	32.2
TH	06/01	03:00	Core CPI (YoY)	MAY	2.3	2.2	2.1
TH	06/01	03:00	Consumer Price Index NSA (MoM)	MAY	--	0.4	1.4
TH	06/01	03:00	Consumer Price Index (YoY)	MAY	--	4.3	4.0
TH	06/01	03:30	**Benchmark Interest Rate (%)**		**3.00**	**3.00**	**2.75**
SI	06/01	09:30	Electronics Sector Index	MAY	--	52.0	53.0
AU	06/01	21:30	Trade Balance (AUD millions)	APR	--	2100	1740
AU	06/01	21:30	Retail Sales s.a. (MoM)	APR	--	0.4	-0.5
NZ	06/02	18:45	Building Permits (MoM)	APR	--	0.5	2.2
CH	06/02	21:00	China Non-manufacturing PMI	MAY	--	--	62.5
CH	06/02	22:30	China HSBC Services PMI	MAY	--	--	51.6
HK	06/02	22:30	Purchasing Managers Index	MAY	53.3	--	52.9
MA	06/03	00:01	Trade Balance (MYR billions)	APR	--	9.3	13.5
IN	06/03	01:00	India May Markit Services PMI (Table)				

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Key Indicators for the week of May 30 - June 3

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	05/30	07:30	Central Bank Weekly Economists Survey				
CL	05/30	09:00	Industrial Production (YoY)	APR	--	9.6	30.9
CL	05/30	09:00	Retail Sales (YoY)	APR	--	12.5	16.4
CO	05/30		**Overnight Lending Rate**		**4.00**	**4.00**	**3.75**
BZ	05/31	08:00	Industrial Production sa (MoM)	APR	--	0.4	0.5
BZ	05/31	08:00	Industrial Production (YoY)	APR	--	0.9	-2.1
CL	05/31	08:00	Unemployment Rate (%)	APR	--	7.3	7.3
CO	05/31	12:00	Urban Unemployment Rate (%)	APR	--	11.8	12.2
PE	05/31		GDP (YoY)	1Q	--	8.8	9.2
BZ	06/01	09:00	PMI Manufacturing	MAY	--	--	50.7
BZ	06/01	10:00	EXPORTS - (USD million)	MAY	--	21100	20173
BZ	06/01	10:00	IMPORTS - (USD million)	MAY	--	18600	18310
PE	06/01		Consumer Price Index (MoM)	MAY	--	0.3	0.7
PE	06/01		Consumer Price Index (YoY)	MAY	--	3.4	3.3
BZ	06/02	04:00	FIPE CPI - Monthly	MAY	--	0.4	0.7
UR	06/02	13:00	Consumer Prices (MoM)	MAY	--	--	0.3
UR	06/02	13:00	Consumer Prices (YoY)	MAY	--	--	8.3
BZ	06/03	08:00	GDP (IBGE) (QoQ)	1Q	--	1.2	0.7
BZ	06/03	08:00	GDP (IBGE) (YoY)	1Q	--	4.2	5.0

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Global Auctions for the week of May 30 - June 3

North America

Country	Date	Time	Event
US	05/31	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds
US	05/31	11:30	U.S. to Sell 3-Month Bills
US	05/31	11:30	U.S. to Sell 6-Month Bills
US	06/01	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds
US	06/01	11:30	U.S. to Sell 4-Week Bills
US	06/01	11:30	U.S. to Sell 52-Week Bills
CA	06/01	12:00	Canada to Sell 30-Year Real Return Bonds
US	06/03	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds

Europe

Country	Date	Time	Event
DE	05/30	03:30	Denmark to Sell Bills
IT	05/30	05:00	Italy to Sell Floating 2018 Bonds
IT	05/30	05:00	Italy to Sell 3% 2014 Bonds
IT	05/30	05:00	Italy to Sell 4.75% 2021 Bonds
GE	05/30	05:15	Germany to Sell EU3 Bln 12-Mth Bills
FR	05/30	09:00	France to Sell Bills
SZ	05/31	05:30	Switzerland to Sell 3-Month Bills
BE	05/31	05:30	Belgium to Sell Bills
FR	06/01	05:00	France to Sell Bonds
SW	06/01	05:10	Sweden to Sell Bonds
PO	06/01	05:30	Portugal to Sell Bills
RU	06/01	06:00	Russia to Sell Up to RUB20 Bln OFZ Bonds
SP	06/02	04:30	Spain to Sell 3.4% 2014 Bonds
UK	06/02	05:30	U.K. to Sell GBP3.5 Bln 3.75% 2021 Bonds
UK	06/03	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
JN	05/29	23:45	Japan to Sell 2-Year Bond
SI	05/30		Singapore to sell 91-Day T-Bills
MA	05/30		Malaysia to Sell MYR4 Bln 5.5-Year Islamic Bonds
MA	05/30		Bank Negara to Sell MYR1 Bln 364-Day Notes
MA	05/30		Bank Negara to Sell MYR1 Bln 210-Day Notes
PH	05/30	01:30	Philippines Plans to Sell PHP1.5 Bln 91-Day Bills Due 2011
PH	05/30	01:30	Philippines Plans to Sell PHP3.5 Bln 182-Day Bills Due 2012
PH	05/30	01:30	Philippines Plans to Sell PHP4.0 Bln 364-Day Bills Due 2012
HK	05/30	23:30	Hong Kong to Sell HKD25.908 Bln 91-Day Bills
HK	05/30	23:30	Hong Kong to Sell HKD9 Bln 182-Day Bills
ID	05/31	04:30	Indonesia to Sell 5-Yr to Maturity Government Sukuk
ID	05/31	04:30	Indonesia to Sell 10-Yr to Maturity Government Sukuk
ID	05/31	04:30	Indonesia to Sell 15-Yr to Maturity Government Sukuk
CH	05/31	23:00	China to Sell 5 Year Bond
JN	05/31	23:35	Japan to Sell 3-Month Bills
JN	05/31	23:45	Japan to Sell 10-Year Bond
IN	06/01	07:30	India to Sell INR 80Bln 91-Day Bills
IN	06/01	07:30	India to Sell INR 30Bln 364-Day Bills
NZ	06/01	22:30	New Zealand Plans to Sell Government Bonds
JN	06/03	04:00	Japan Auction for Enhanced-Liquidity

Source: Bloomberg, Scotia Economics.

Events for the week of May 30 - June 3

North America

Country	Date	Time	Event
US	05/28		Obama arrives in Warsaw
CA	05/31	01:00	Bank of Nova Scotia Releases Second-Quarter Results
CA	05/31	09:00	**Bank of Canada Releases Interest Rate Announcement**
US	05/31	13:00	The US-China Business Council 38th Annual Meeting
US	06/01	12:25	Fed's Pianalto Speaks on Labor Markets in Columbus, OH
CA	06/02		Re-opening of Parliament
CA	06/02	01:00	Laurentian Bank of Canada Releases Second-Quarter Results
CA	06/02	12:00	Bank of Canada Senior Deputy Governor Macklem in Toronto

Europe

Country	Date	Time	Event
GE	MAY 27-28		Merkel, Roesler Speak at Maritime Conference in Wilhelmshaven
EC	05/28	04:30	EU's Van Rompuy, Barroso Meet Japanese Leaders
GE	05/29	11:00	Merkel Gives a Statement After Talks with CDU/CSU Members
EC	05/30	09:30	ECB Announces Bond Purchases
IT	05/31	04:30	Governor Draghi Speaks at Annual Meeting of the Bank of Italy
EC	05/31	09:00	Greek Members of EU Parliament Speak on Debt Crisis
AS	05/31	12:00	ECB's Ewald Nowotny Speaks in Vienna
EC	06/01	09:00	ECB's Trichet Speaks in Aachen, Germany
EC	06/02	05:15	ECB's Trichet Speaks in Aachen, Germany
IT	JUN 02-05		Saccomanni, Passera, Mussari Speak at Trento Economy Festival
SP	06/03	03:00	ECB's Paramo, Ordonez; Vinals, Campa in Sitges
EC	06/03	10:15	ECB's Gonzalez-Paramo Speaks in Barcelona

Asia Pacific

Country	Date	Time	Event
JN	05/28	03:00	BOJ Governor Shirakawa to Speak at Meiji University in Tokyo
EC	05/28	04:30	EU's Van Rompuy, Barroso Meet Japanese Leaders
JN	05/31		BOJ to Hold International Conference on Monetary Policy
TH	06/01	03:30	**Benchmark Interest Rate**
JN	06/01	21:30	BOJ Board Member Nakamura to Speak in Nara City

Latin America

Country	Date	Time	Event
PE	05/28	23:00	Peru Presidential Debate
AR	05/29	23:00	Argentina's President Fernandez Visits Mexico
CO	05/30		**Colombia Overnight Lending Rate**

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	May 31, 2011	1.00	1.00
Federal Reserve – Federal Funds Target Rate	0.25	June 22, 2011	0.25	0.25
Banco de México – Overnight Rate	4.50	July 8, 2011	4.50	--

Monday's Canadian Q1 GDP report will be released a day before the Bank of Canada's rate announcement. While a strong print is expected, potentially leading to a resuscitation of the hawks, a gain in CAD and slight sell off in the front end of the curve, look through this Q1 GDP print. For one, momentum was front-loaded to the start of the quarter on manufacturing sector distortions. Secondly, the impact of Japan's distortions on Canada will be severe in Q2 with only a modest rebound in Q3 that will likely keep the Bank of Canada on the sidelines until at least the Fall, if not later. We also anticipate the BoC's bias in Tuesday's statement to return the markets to dovish interpretations. In the US, this week's weaker than expected economic releases continue to support our view that the Fed will remain on hold until Q1 2012.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.25	June 9, 2011	1.25	--
Bank of England – Bank Rate	0.50	June 9, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	June 16, 2011	0.25	0.25
Central Bank of Russia – Refinancing Rate	8.25	May 27, 2011	8.25	8.25
Hungarian National Bank – Base Rate	6.00	June 20, 2011	6.00	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	June 23, 2011	6.25	--

The ECB and and the BoE will likely keep their benchmark interest rates unchanged following their next monetary policy meetings in June. We expect the ECB to hike in the third quarter of the year, followed by the BoE.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	June 14, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	June 7, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	June 8, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.31	TBA	--	--
Reserve Bank of India – Repo Rate	7.25	TBA	7.25	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.75	June 24, 2011	1.75	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	July 7, 2011	3.00	--
Bank of Korea – Bank Rate	3.00	June 9, 2011	3.00	--
Bank of Thailand – Repo Rate	2.75	June 1, 2011	3.00	3.00
Bank Indonesia – Reference Interest Rate	6.75	June 9, 2011	6.75	--

The Bank of Thailand will decide in favour of an additional 25 basis point increase in the benchmark interest rate to 3%. This marks the last opportunity for the central bank to tighten policy without stirring the political pot too much prior to the July elections.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	12.00	June 8, 2011	12.25	12.25
Banco Central de Chile – Overnight Rate	5.00	June 14, 2011	5.25	--
Banco de la República de Colombia – Lending Rate	3.75	May 30, 2011	4.00	4.00
Banco Central de Reserva del Perú – Reference Rate	4.25	June 9, 2011	4.25	4.50

We expect the central bank of Colombia to raise the reference rate by 25 basis points to 4.0% on May 30th, highlighting once again that it "is prudent to retrieve monetary stimulus" to keep inflation inside the expected target range (3.0% +/- 1 percentage point). Economic activity continued to perform well in the first months of the year, prompting the central bank to revise the country's 2011 growth rate to 4.0-6.0%.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	July 18, 2011	5.50	--

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Output and Inflation (annual % change)	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
	Real GDP				Consumer Prices[2]			
World[1]	3.6	4.9	4.4	4.4				
Canada	2.1	3.1	2.9	2.6	2.1	1.8	2.8	2.3
United States	1.8	2.9	2.6	2.8	2.6	1.6	2.8	2.0
Mexico	1.9	5.5	4.3	3.8	4.9	4.4	4.1	4.1
United Kingdom	2.7	1.3	1.4	1.7	2.2	3.7	3.7	2.9
Euro zone	1.2	1.7	1.4	1.6	2.1	2.2	2.5	2.3
Japan	0.7	3.9	1.0	2.9	-0.3	-0.5	0.5	1.2
Australia	3.0	2.8	3.8	3.5	3.2	2.7	2.8	2.5
China	10.2	10.3	9.5	9.7	2.0	3.3	5.0	4.5
India	7.2	8.7	8.5	8.8	5.7	9.4	7.5	6.0
Korea	4.5	6.3	5.5	5.3	3.2	3.5	3.3	3.0
Brazil	2.9	7.5	4.0	4.5	6.6	5.9	6.5	5.5
Chile	3.6	5.2	6.0	5.5	3.7	3.0	4.5	3.5
Peru	5.1	8.8	7.0	7.2	2.5	2.1	3.5	3.0

Central Bank Rates (%, end of period)	11Q1	11Q2f	11Q3f	11Q4f	12Q1f	12Q2f	12Q3f	12Q4f
Bank of Canada	1.00	1.00	1.00	1.50	2.00	2.25	2.25	2.25
Federal Reserve	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00
European Central Bank	1.00	1.25	1.50	1.75	2.00	2.25	2.50	2.50
Bank of England	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00
Swiss National Bank	0.25	0.25	0.25	0.50	0.50	0.75	0.75	1.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50
Reserve Bank of Australia	4.75	5.00	5.25	5.50	5.75	6.00	6.25	6.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.95	0.94	0.93	0.94	0.94	0.93	0.92
Canadian Dollar (CADUSD)	1.03	1.05	1.06	1.08	1.06	1.06	1.08	1.09
Euro (EURUSD)	1.42	1.47	1.49	1.50	1.48	1.48	1.50	1.50
Sterling (GBPUSD)	1.60	1.64	1.64	1.65	1.65	1.67	1.69	1.70
Yen (USDJPY)	83	79	82	84	86	87	89	90
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.09	1.10	1.10	1.11
Chinese Yuan (USDCNY)	6.5	6.4	6.2	6.1	6.0	5.9	5.8	5.8
Mexican Peso (USDMXN)	11.9	11.6	11.8	12.0	12.1	12.0	12.1	12.3
Brazilian Real (USDBRL)	1.63	1.59	1.59	1.60	1.62	1.65	1.67	1.70

Commodities (annual average)	2000-09	2010	2011f	2012f
WTI Oil (US$/bbl)	51	79	105	110
Brent Oil (US$/bbl)	50	80	118	122
Nymex Natural Gas (US$/mmbtu)	5.95	4.40	4.40	4.75
Copper (US$/lb)	1.78	3.42	4.40	4.15
Zinc (US$/lb)	0.73	0.98	1.09	1.09
Nickel (US$/lb)	7.11	9.89	11.25	8.90
Gold, London PM Fix (US$/oz)	522	1,225	1,530	1,500
Pulp (US$/tonne)	668	960	1,018	1,050
Newsprint (US$/tonne)	572	607	660	705
Lumber (US$/mfbm)	275	254	270	300

[1] World GDP for 2000-09 are IMF estimates; 2010-12f are Scotia Economics' estimates based on a 2009 PPP-weighted sample of 34 countries.
[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

Canada	2010	10Q3	10Q4	Latest	
Real GDP (annual rates)	3.1	1.8	3.3		
Current Acc. Bal. (C$B, ar)	-50.0	-67.9	-44.2		
Merch. Trade Bal. (C$B, ar)	-9.1	-26.0	0.6	7.5	(Mar)
Industrial Production	4.8	7.9	6.1	5.0	(Feb)
Housing Starts (000s)	192	192	179	179	(Apr)
Employment	1.4	1.8	1.7	1.7	(Apr)
Unemployment Rate (%)	8.0	8.0	7.7	7.6	(Apr)
Retail Sales	5.5	4.0	5.3	0.9	(Mar)
Auto Sales (000s)	1560	1609	1554	1578	(Feb)
CPI	1.8	1.8	2.3	3.3	(Apr)
IPPI	1.1	1.1	2.7	-5.0	(Mar)
Pre-tax Corp. Profits	18.4	15.3	16.2		

United States	2010	10Q3	10Q4	Latest	
Real GDP (annual rates)	2.9	2.6	3.1	1.8	(Q1-A)
Current Acc. Bal. (US$B, ar)	-470	-502	-453		
Merch. Trade Bal. (US$B, ar)	-647	-683	-625	-745	(Mar)
Industrial Production	5.3	6.7	6.2	4.9	(Apr)
Housing Starts (millions)	0.58	0.58	0.54	0.52	(Apr)
Employment	-0.8	-0.1	0.5	1.1	(Apr)
Unemployment Rate (%)	9.6	9.6	9.6	9.0	(Apr)
Retail Sales	6.8	5.8	8.1	7.9	(Apr)
Auto Sales (millions)	11.5	11.6	12.3	13.1	(Apr)
CPI	1.6	1.2	1.3	3.2	(Apr)
PPI	4.2	3.8	3.8	6.8	(Apr)
Pre-tax Corp. Profits	36.8	34.8	16.1		

Mexico					
Real GDP	5.4	5.1	4.4		
Current Acc. Bal. (US$B, ar)	-5.7	-7.5	-14.0		
Merch. Trade Bal. (US$B, ar)	-3.1	-9.0	-4.2	9.2	(Apr)
Industrial Production	6.0	6.2	4.8	4.2	(Mar)
CPI	4.2	3.7	4.2	3.4	(Apr)

Brazil					
Real GDP	6.7	5.9	4.2		
Current Acc. Bal. (US$B, ar)	-47.4	-46.1	-48.0		
Merch. Trade Bal. (US$B, ar)	20.2	19.3	30.0	22.4	(Apr)
Industrial Production	10.5	8.2	3.7	0.5	(Mar)
CPI	5.1	5.0	6.1	6.5	(Apr)

Chile					
Real GDP	5.2	6.9	5.8		
Current Acc. Bal. (US$B, ar)	3.6	-0.2	4.9		
Merch. Trade Bal. (US$B, ar)	11.6	14.7	17.7	19.0	(Apr)
Industrial Production	0.6	4.4	2.7	30.8	(Mar)
CPI	1.4	2.2	2.5	3.2	(Apr)

Italy					
Real GDP	1.2	1.4	1.5		
Current Acc. Bal. (US$B, ar)	-0.07	-0.06	-0.07	-0.09	(Mar)
Merch. Trade Bal. (US$B, ar)	-39.1	-28.2	-46.3	-66.2	(Mar)
Industrial Production	6.5	7.5	5.1	3.2	(Mar)
CPI	1.6	1.6	1.8	2.6	(Apr)

Germany					
Real GDP	3.5	3.9	3.8		
Current Acc. Bal. (US$B, ar)	187.9	165.7	250.8	328.0	(Mar)
Merch. Trade Bal. (US$B, ar)	201.5	207.6	219.8	254.3	(Mar)
Industrial Production	10.1	10.2	11.8	10.9	(Mar)
Unemployment Rate (%)	7.7	7.6	7.5	7.1	(Apr)
CPI	1.1	1.2	1.5	3.2	(May)

France					
Real GDP	1.4	1.7	1.4		
Current Acc. Bal. (US$B, ar)	-54.3	-41.8	-94.9	-46.1	(Mar)
Merch. Trade Bal. (US$B, ar)	-38.6	-42.2	-38.6	-49.3	(Mar)
Industrial Production	5.1	4.3	4.8	3.3	(Mar)
Unemployment Rate (%)	9.8	9.8	9.6	9.5	(Mar)
CPI	1.5	1.5	1.6	2.1	(Apr)

Euro Zone					
Real GDP	1.7	1.9	2.0		
Current Acc. Bal. (US$B, ar)	-77	-43	-41	-64	(Mar)
Merch. Trade Bal. (US$B, ar)	0.0	43.0	53.2	39.6	(Mar)
Industrial Production	7.4	7.2	8.1	5.6	(Mar)
Unemployment Rate (%)	10.0	10.0	10.0	9.8	(Mar)
CPI	1.6	1.7	2.0	2.8	(Apr)

United Kingdom					
Real GDP	1.3	2.5	1.5		
Current Acc. Bal. (US$B, ar)	-56.1	-56.0	-62.2		
Merch. Trade Bal. (US$B, ar)	-151.4	-160.1	-169.4	-148.6	(Mar)
Industrial Production	2.0	3.0	3.3	0.7	(Mar)
Unemployment Rate (%)	7.9	7.8	7.9	7.7	(Feb)
CPI	3.3	3.1	3.4	4.5	(Apr)

Japan					
Real GDP	4.0	4.8	2.4		
Current Acc. Bal. (US$B, ar)	195.9	227.5	176.8	246.3	(Mar)
Merch. Trade Bal. (US$B, ar)	74.7	75.1	58.4	-71.5	(Apr)
Industrial Production	16.6	13.3	6.8	-13.1	(Mar)
Unemployment Rate (%)	5.1	5.0	5.0	4.6	(Mar)
CPI	-0.7	-0.8	0.1	0.3	(Apr)

Australia					
Real GDP	2.7	2.7	2.7		
Current Acc. Bal. (US$B, ar)	-31.8	-29.2	-34.4		
Merch. Trade Bal. (US$B, ar)	19.2	27.8	25.8	31.7	(Mar)
Industrial Production	4.3	4.2	-0.3		
Unemployment Rate (%)	5.2	5.2	5.2	4.9	(Apr)
CPI	2.8	2.8	2.7		

China					
Real GDP	10.3	9.6	9.8		
Current Acc. Bal. (US$B, ar)	30.5				
Merch. Trade Bal. (US$B, ar)	181.8	259.6	247.6	137.1	(Apr)
Industrial Production	13.5	13.3	13.5	13.4	(Apr)
CPI	4.6	3.6	4.6	5.3	(Apr)

South Korea					
Real GDP	6.2	4.4	4.7		
Current Acc. Bal. (US$B, ar)	28.2	39.7	36.6	22.5	(Apr)
Merch. Trade Bal. (US$B, ar)	41.2	42.5	52.1	61.7	(Apr)
Industrial Production	16.6	12.9	9.9	8.9	(Mar)
CPI	3.0	2.9	3.6	4.2	(Apr)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	10Q4	11Q1	May/20	May/27*
BoC Overnight Rate	1.00	1.00	1.00	1.00
3-mo. T-bill	1.05	0.96	0.96	0.90
10-yr Gov't Bond	3.12	3.35	3.21	3.04
30-yr Gov't Bond	3.53	3.76	3.60	3.49
Prime	3.00	3.00	3.00	3.00
FX Reserves (US$B)	59.4	57.0	60.4	(Mar)
Germany				
3-mo. Interbank	0.96	1.26	1.41	1.28
10-yr Gov't Bond	2.96	3.35	3.06	2.98
FX Reserves (US$B)	62.4	62.3	64.8	(Mar)
Euro-Zone				
Refinancing Rate	1.00	1.00	1.25	1.25
Overnight Rate	0.82	0.90	1.16	1.08
FX Reserves (US$B)	300.1	300.2	319.9	(Mar)
Japan				
Discount Rate	0.30	0.30	0.30	0.30
3-mo. Libor	0.13	0.14	0.13	0.13
10-yr Gov't Bond	1.13	1.26	1.13	1.13
FX Reserves (US$B)	1077.4	1061.5	1080.6	(Mar)

United States	10Q4	11Q1	May/20	May/27*
Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.12	0.09	0.04	0.05
10-yr Gov't Bond	3.29	3.47	3.15	3.06
30-yr Gov't Bond	4.33	4.51	4.30	4.23
Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	122.1	121.4	128.3	(Mar)
France				
3-mo. T-bill	0.40	0.80	1.00	0.93
10-yr Gov't Bond	3.36	3.71	3.44	3.34
FX Reserves (US$B)	52.2	55.8	61.0	(Mar)
United Kingdom				
Repo Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	4.85	4.85	4.85	4.85
10-yr Gov't Bond	3.40	3.69	3.35	3.29
FX Reserves (US$B)	67.2	68.3	75.3	(Mar)
Australia				
Cash Rate	4.75	4.75	4.75	4.75
10-yr Gov't Bond	5.55	5.49	5.32	5.23
FX Reserves (US$B)	38.1	38.7	33.3	(Mar)

Exchange Rates (end of period)

USDCAD	1.00	0.97	0.97	0.98	¥/US$	81.16	83.13	81.71	80.93
CADUSD	1.00	1.03	1.03	1.02	US¢/Australian$	102.33	103.29	106.62	106.96
GBPUSD	1.561	1.603	1.623	1.647	Chinese Yuan/US$	6.59	6.55	6.49	6.49
EURUSD	1.339	1.416	1.416	1.426	South Korean Won/US$	1125	1100	1083	1082
JPYEUR	0.92	0.85	0.86	0.87	Mexican Peso/US$	12.360	11.906	11.647	11.612
USDCHF	0.93	0.92	0.88	0.85	Brazilian Real/US$	1.660	1.632	1.625	1.601

Equity Markets (index, end of period)

United States (DJIA)	11578	12320	12512	12472	U.K. (FT100)	5900	5909	5948	5946
United States (S&P500)	1258	1326	1333	1333	Germany (Dax)	6914	7041	7267	7164
Canada (S&P/TSX)	13443	14116	13625	13844	France (CAC40)	3805	3989	3991	3959
Mexico (Bolsa)	38551	37441	35299	35896	Japan (Nikkei)	10229	9755	9607	9522
Brazil (Bovespa)	69305	68587	62597	64401	Hong Kong (Hang Seng)	23035	23528	23199	23118
Italy (BCI)	1048	1120	1113	1079	South Korea (Composite)	2051	2107	2112	2100

Commodity Prices (end of period)

Pulp (US$/tonne)	960	990	1020	1020	Copper (US$/lb)	4.42	4.26	4.07	4.15
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	1.10	1.05	0.97	1.02
Lumber (US$/mfbm)	308	290	218	227	Gold (US$/oz)	1405.50	1439.00	1490.75	1533.00
WTI Oil (US$/bbl)	91.38	106.72	99.49	100.74	Silver (US$/oz)	30.63	37.87	34.80	37.69
Natural Gas (US$/mmbtu)	4.41	4.39	4.23	4.55	CRB (index)	332.80	359.43	341.56	345.53

** Latest observation taken at time of writing.*
Source: Bloomberg, Scotia Economics.

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