

Global Views

Weekly commentary on economic and financial market developments

September 2, 2011

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Central Banks To Tread Carefully Through European Politics & Global Data Risk

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

Schnallen Sie sich an! **European** headline risk could be back in full force with German politics being front and centre. Another state election on September 4th in Mecklenburg-Western Pomerania is expected to hand Chancellor Merkel's CDU a defeat and result in its ouster as a junior coalition partner. This will set the stage for the re-opening of German (and UK, and other European) parliaments on Monday. On that same day, German lawmakers will introduce the bill on Greek aid and expanding the EFSF, followed by a first reading on Wednesday, and debate on Thursday. On September 14th, the German Federal Constitution Court then rules on the very constitutionality of the aid package. This then gives way to another election in Berlin on September 18th and the CDU is also trailing in the polls there. All of this builds to a crescendo on September 29th when a parliamentary vote is scheduled on the aid package, and Merkel is faced with internal dissent that will likely be fanned by two more election defeats. Against this political backdrop will be sizeable data risk in the form of European add-ups for GDP, retail sales, and service sector PMIs. German factory orders will be watched for weakness as consensus is expecting a decline that would raise further doubt about its export- and factory-led growth.

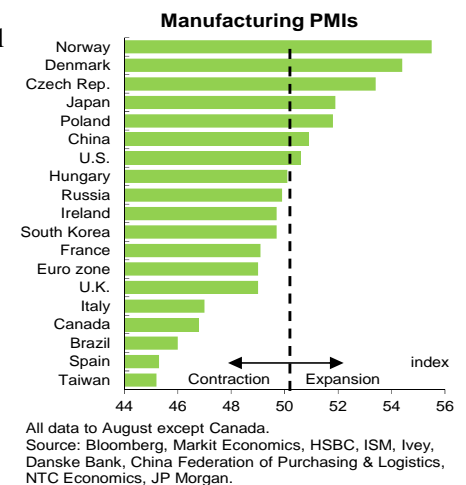
Central bank rate decisions will be key throughout the week ahead, as the BoE, ECB, BoJ, BoC, RBA, and Riksbank lead the way with regional central banks across South Korea, Indonesia, Malaysia, Philippines and Peru also on tap. Expect a nearly uniform dovish tone, with some risk of surprise as per Brazil and Turkey. We do not expect major central banks to be embracing rate cuts (where possible) or further QE efforts at this juncture.

This will also be a huge week for global trade and industrial production figures across countries as diverse as the US, Canada, several Asian export powerhouses, the UK, much of the euro zone, and some Lat-am economies. Markets may be enthused by trade data that holds up reasonably well, but keep in mind it will be July data in almost all cases and will thus lag behind the much more recent shock-induced deterioration evident in more timely gauges like global manufacturing purchasing managers' indices (see chart) that have slipped toward or below the 50 line and thus into contraction. Don't get fooled by analysts and media that may over-emphasize the rearview mirror perspective.

This will be a big week for **Canada** despite the fact that it starts with a Monday close due to Labour Day. Markets have been pricing in a BoC cut for some time, but we think it will resist on Wednesday. The BoC is likely to be highly reticent to re-explore the lower zero bound on rates after having invested so much into getting off of it in 2010. A cut would risk markets pushing it all the way back to the lower bound in the absence of a liquidity crunch, and to little or no benefit. Rather, after the July misstep which signaled a somewhat more hawkish stance through the removal of "eventually" rate guidance, we'll be looking for a return toward very dovish commentary that reinforces our expectation that the BoC is on prolonged hold but that further softens rate cut pricing. At this uncertain juncture, however, it would be imprudent for the BoC to go further in rocking markets — and the pressure to do so is absent until at least the October statement when a full Monetary Policy Report can provide a detailed forecast update that is likely to push the output gap's closure back outward in time. Also next Friday's employment data could well come in artificially solid given education sector contract distortions (see page A1 for more), and it's also likely too early for lagging employment data to reflect downside concerns. Housing starts (Friday) will get buried behind the jobs data, but at a high 205k in July, it is unlikely that August housing will continue to contribute toward GDP growth.

Other than central banks, **Asia-Pacific** markets will be mostly focused upon Australian jobs following July's disappointing figures, Australian Q2 GDP, and a bevy of Chinese data releases that may yield gently cooling inflation and growth pressures across retail sales, industrial production and cap-ex spending.

US markets will generally not be in the driver's seat throughout the week, with two possible exceptions. One is President Obama's jobs and deficit speech on Thursday evening that may throw more job and fiscal exit proposals into a divided and election-obsessed Congress. The other is that there are several Fed speeches on the docket (Bernanke, Williams, Evans and Kocherlakota) that will be worth heeding for further policy signals in advance of this month's two-day FOMC meeting. Data flow will be fairly light with only ISM services on Tuesday, the Beige Book on Wednesday, and trade on Thursday.



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The Fed's Unattractive Policy Options

- **The Fed is likely to pursue additional easing, but markets are holding on to false hopes that this can rescue the economy or the longer-run health of the markets.**

The minutes to the Fed's August 9th FOMC meeting read like one of Dickens' least uplifting works, if written less elegantly by central bankers. But what strikes us the most — and disappointingly so — is the total lack of any fresh thinking evident in the August 9th debate, and the many reasons to discount the efficacy of what the Fed views as its additional policy tools. This is indeed a divided Fed and a let-down. With fair conviction, I believe that markets are wrongly clinging to the fantasy of one day being rescued by the Bernanke put, and are thus setting themselves up for further eventual disappointment. That puts us onside with this comment in the minutes: "In contrast, some participants judged that none of the tools available to the Committee would likely do much to promote a faster economic recovery." Below, we review some of the more popular options being considered and offer our thoughts on why they may feed volatile trading opportunities for some time to come, but perhaps do further damage to economic growth and the longer-run health of financial markets.

1. QE3

Why add to asset purchases, when QE2 failed? QE1 worked because it was about leaning a central bank's balance sheet into a private market failure affecting the pricing of risky assets and curing relative pricing anomalies in a liquidity vacuum. QE2 was not about the same motivations, but an army of Fed researchers is out to prove its efficacy. I'm much less convinced, and not even convinced that markets and the economy were better off with QE2 than without. For one thing, I continue to believe QE2 supporters cherry-pick the elements of the market that support their cause. If QE2 really did lift equities and inflation expectations as the Fed argues in isolation of other influences like last summer's soft base effects for future inflation and the operating leveraged earnings cycle, then how can QE2 have affected such markets without impacting others? There is a certain internal inconsistency to leaving out other influences. If it impacted elements of the risk trade in a growth-friendly manner, it impacted others less favourably toward growth prospects by lifting commodities and thus crimping real wages and damaging consumption, while boosting inflation expectations that raised borrowing costs with negative connotations for a housing double dip. There is the real risk that repeating this experiment would do much more harm than good by once again boosting commodities and the 30 year fixed mortgage rate only to spark a lagged safe haven rally thereafter when the negative growth implications settle in. In contrast to the assertion that the economy performed better than it would have in the absence of QE2, I'd argue the opposite by noting the distinct possibility that QE2 damaged US and global growth prospects while QE3 would only build further upon the damage.

2. Reduce Interest On Reserves

Reducing the interest rate paid on excess reserves parked at the Fed may only further aggravate problems in the US banking landscape and money markets. A few basis points of lower cash returns when stuck in a liquidity trap won't incite a sudden desire to lend to a shortage of good credits or embrace undue risk, but will have a modestly negative impact upon cash flow. What this policy option ignores is that lending and risk taking is about more than just lessening the incentive to hold cash; it's also about avoiding losses and making unwise lending decisions.

3. Lengthen The Maturity Structure Of The Fed's Balance Sheet

Increasing maturities on the Fed's existing portfolio by either reinvesting maturing proceeds further out along the curve or through explicit portfolio shifts would put the Fed's yield curve management strategies totally at odds with one another in a zero sum game — a point we've consistently made over time. A steep yield curve is supposed to be required to recapitalize banks by enabling them to borrow short and reinvest long at a fat spread and that has worked in past cycles. It's not clear that this approach is no longer needed, but attempting to flatten the curve through yield caps or portfolio realignments further out along the curve would reverse this logic in an effort toward ultimately getting investors into the risk trade and more leveraged transactions. You can't do both simultaneously. Attempting as much is a zero sum game in tinkering with the yield curve, and signals destabilizing uncertainty over appropriate curve management going forward. It stands in the way of price discovery by markets that will take the curve where it should go over time anyway, such that the Fed's attempts to control it are unlikely to add anything beyond instability across planning horizons. Besides, are we not all already convinced this isn't a rate problem across any maturity,

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with demand for money proving to be rate insensitive anyway? Low to negative real rates don't work when aging baby boomers have watched their retirement nest eggs drop sharply in value, and/or can't get a job, and/or retain enormous debt burdens and continue to face steep family bills.

4. Encourage Higher Inflation

This option is in keeping with Chicago Fed President Evans' recent comments and the views of others including Kenneth Rogoff. Aside from the fact that Bernanke poured cold water on the idea in his August 2010 Jackson Hole speech, there are other good reasons to tread very carefully here. First, it sounds easy to do, but in practice how does one simply engineer higher inflation? Damning the torpedoes with much more liquidity provided to the market when people are intent upon not spending it would have it parked right back at the Fed in the form of even greater excess reserves. Thus, proponents of raising inflation to the 3-4% range or higher fall short in explaining the magical mechanics behind sustainably lifting broadly based inflation. I say broadly based, because it's easier to imagine engineering a relative price shock through higher commodity prices by flooding the system with more liquidity to put through speculative channels than it is to imagine a generalized increase in broadly based price pressures. A relative price shock, however, would then sap purchasing power just like QE2 may have done, and prove to be disinflationary for other prices.

Second, even if it worked, the cost to higher inflation would be higher bond yields that would flow through business and household borrowing rates unless one is prepared to argue that bond markets will somehow get fooled by such policy intentions and gladly offer up a free lunch. They didn't with QE2, as US 10s rose by about 100bps from pre-Jackson Hole 2010 to December of last year while it was being implemented. That backing up in inflation expectations and bond yields was also part of why consumer and housing markets stumbled into the new year. I think we can safely say we don't want to be hawkish like the Fed's inappropriate policy bias on the eve of the Great Depression, but it's also not clear to me that the opposite tail solution is appropriate in terms of how to get broadly based inflation out of the bottle, what net benefit that would yield, and then how and when to decide upon putting it back in, which has not historically been a strong suit of central banks including the Fed. Then we're also left with the policy response of other countries in that allowing inflation out of the bottle in one country wouldn't likely occur in a market and policy vacuum elsewhere such that the FX, spread, protectionist, and foreign central bank responses could result in a far worse outcome for the global economy.

5. Add Specific Conditionality Metrics To The Fed's Loose Rate Commitment

What's somewhat new by way of the colour provided among the policy options being discussed is that the August FOMC meeting debated adding specific metrics for conditionality to its loose rate commitment and this will no doubt be a point of further debate at the September FOMC. We agree on the need to do so as noted right after the August 9th statement and in our column "Why the Fed's Rate Commitment Differs from the BoC's Conditional Promise," (p. 3, *Global Views*, August 12, 2011). That said, doing so is easier said than done.

We're nonetheless doubtful that this debate will be fruitful. One obvious issue concerns varying opinions on appropriate targets.

Another issue related to setting targets for the loose rate commitment is that while determining two separate targets for a dual mandate (price-stability and full-employment) central bank will be challenging enough, the next question is how do you weight the metrics versus one another across varying time horizons should they not line up toward the same conclusion? We've long ago learned that Philips curves are anything but formulaic in trading off static let alone expectations-augmented inflation versus unemployment rate relationships. Communicating any trade-off to the markets would be exceptionally difficult.

The Fed is thus in a conundrum with its loose rate commitment through to mid-2013. Vague metrics could provoke market instability over the timing of policy exits in future, but explicit targets will be difficult to define and hard to trade off against one another. In that sense, the jury is still out on whether extending such a free and loose commitment will work going forward.

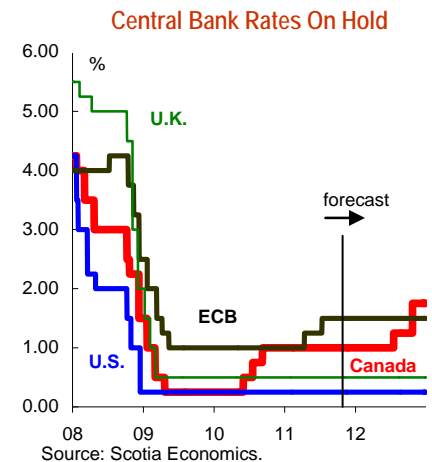
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Sputtering, But Not Stalling

Downside risks to global growth have continued to increase in recent months in response to intensifying economic, banking, and fiscal problems in the euro zone and the United States. The negative feedback loop associated with the plunge in consumer confidence on business activity and governments will have varying degrees of drag on both advanced and emerging economies through the more integrated trade and capital market linkages internationally. We have again trimmed our global growth forecast for this year and next to 3.9% and 4.2% respectively, about a percentage point below the 5.1% advance in 2010. The slowing pace of growth, particularly in the advanced nations, leaves the global economy increasingly vulnerable to any additional developments that could drag on activity.

The risk of further economic setbacks has increased because of the sharp slide in consumer and investor confidence, and the likelihood of increasing business caution in many of the advanced economies in particular. Recurring bouts of uncertainty, financial market volatility, and risk aversion are likely to persist — with negative implications for global growth — until there is some resolution to the public sector debt strains that are engulfing the euro zone and the United States. This involves bulking up and/or putting in place the much-needed fiscal restraint and restructuring policies to contain, and eventually reverse, rising debt burdens and eroding confidence. At the same time, ongoing problems — undercapitalized financial institutions in the euro zone and housing/mortgage markets in the United States — need to be redressed to provide the necessary support for the recovery.



Nevertheless, our view is that this year's underperformance will give way to improved prospects through the balance of the year and next as many of the temporary factors that contributed to the economic weakness — the massive Japan-related manufacturing supply-chain disruptions, escalating geopolitical problems around the world, sharply higher energy and other key commodity prices, and dislocations triggered by bad weather and natural disasters — wind down. Quarterly growth rates will remain quite volatile as large inventory adjustments work their way through the system. More fundamentally, we believe that continuing gains in business profitability and investments, ongoing increases in emerging nations' demand, and generally accommodative monetary policies and credit conditions will keep the global economy from losing further momentum and stalling out.

Debt strains in the advanced countries will remain an impediment to much stronger rates of economic growth over the next 18 months or more. Generally cautious consumers will likely keep U.S. output growth on a much slower 2% trajectory. Canada's trade and ongoing competitive issues should also keep this country's advance around a similar 2% performance. Significant fiscal retrenchment will limit Europe's growth to around 1.5% on average, with Germany remaining the regional economic leader. Rebuilding will continue to support Japan's post-catastrophe rebound. Strong domestic fundamentals are expected to keep most of the developing economies in the relative fast lane of growth.

Most of the advanced economies are, or will be, implementing significant fiscal restraint. In this environment of slower growth and contained inflation pressures, monetary officials are expected to keep short-term borrowing costs at ultra-low, pro-growth levels for the foreseeable future. Very low bond yields should help facilitate increased refinancing that will help reduce debt burdens in the household and government sectors. The resumption of growth and some renewed financial market stability should witness an unwinding of the heightened uncertainty and risk aversion that have provided near-term support for the U.S. dollar.

(For a perspective on foreign exchange trends, please refer to our September 2011 *Foreign Exchange Outlook* at http://www.scotiacapital.com/English/bns_econ/fxout.pdf.)

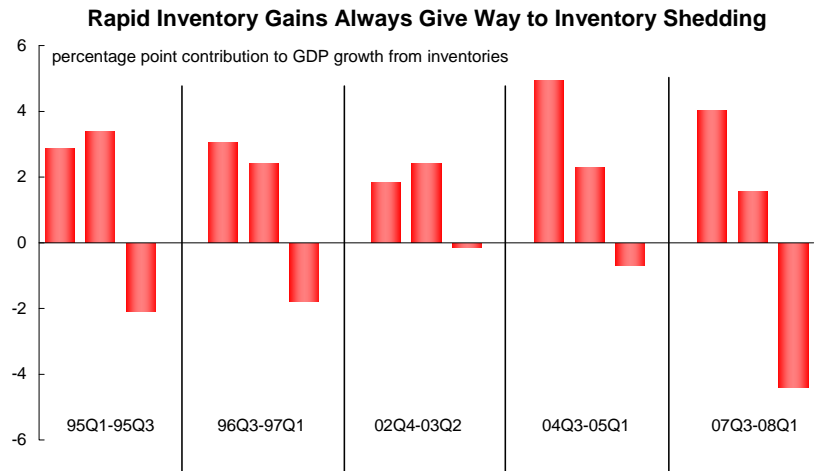
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It Wouldn't Take Much To Get A Negative Q3 For Canadian GDP...

- ...The key lies in inventories.

The Canadian economy contracted by a slim 0.4% q/q annualized pace in the second quarter of 2011. The hit could have been much worse if not for a huge contribution to 'growth' stemming from inventory stockpiling as inventory investment added 2.5 percentage points to headline Q2 GDP growth. This followed a large 2.2 percentage point inventory contribution to overall GDP growth in Q1 which accounted for nearly two-thirds of economic growth that quarter. We feel that a payback lies in wait that will sap economic growth, as inventory stockpiling is likely

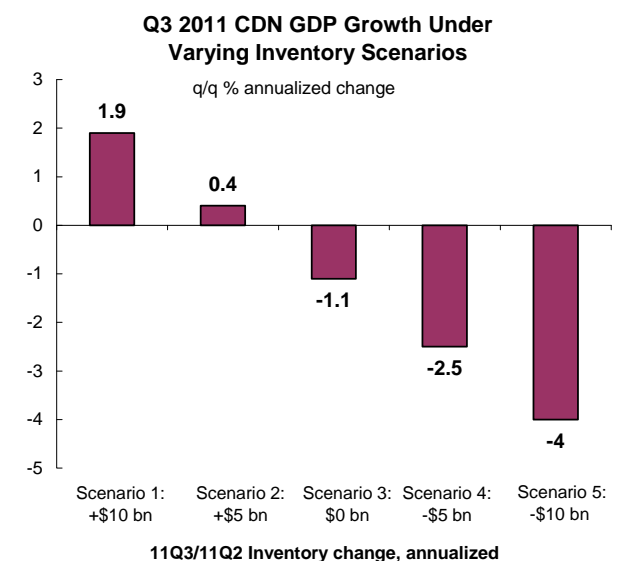


Source: Scotia Capital Economics, Statistics Canada.

undesired in the face of a weakened domestic and global economy that hit sales faster than production could adjust. On our side is evidence that, since at least 1990, every time inventories added 1.5 percentage points or more to headline GDP growth for each of two consecutive quarters, the result was always an inventory drag effect in the following quarter (chart 1). Always. Sometimes this drag effect was modest, but at other times it was enormous. Note that there has never been a time when inventories have added to growth for a third consecutive quarter following such large back-to-back quarterly inventory contributions to growth in the preceding two quarters.

With such heavy contributions to growth coming from undesired inventory stockpiling, production and employment are likely to take it on the chin going forward as firms sell down out of inventories while curtailing production activities. The key here is that it leads us to doubt the line that the dissipation of supply shocks into Q3 will boost GDP growth since an offset could well come through inventory shedding.

In chart 2 we have laid out GDP growth scenarios surrounding alternative levels of inventory investment or disinvestment in the current context. For simplicity, we've shown what happens to Q3 GDP growth should the pace of changes to inventory investment come in at +\$10 billion, +\$5 billion, \$0, -\$5 billion or -\$10 billion. The result is a range of outcomes stretching from GDP growth of as much as 1.9% q/q annualized in Q3 should another \$10 billion be added to inventory stockpiles, to a GDP contraction of as much as -4% q/q annualized should \$10 billion be shed from inventory stockpiles. These are not inventory contributions to growth that are being shown in chart 2, they are what would actually happen to GDP growth in Q3 under varying inventory accumulation scenarios while holding constant the rest of our forecast variables for Q3. Predicting inventories is exceptionally difficult, but history is on the side of inventories driving a negative print for Q3 GDP growth on the heels of the mild Q2 contraction.



Source: Scotia Capital Economics

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Sentiment Vs. Real Activity — One Thing May Lead To Another

- Recent deterioration in sentiment indicators points to softer real activity ahead, but this weakness remains concentrated in consumer and housing sectors.

Macroeconomic data out of the United States have been mixed in recent months, raising concerns that the economic recovery may be faltering. However, sifting through individual indicators, it is the sentiment indices that have been drifting lower, while real sector data — including retail sales, industrial production, commercial & industrial credit — appear to be faring better. While recent deterioration in business and consumer sentiment is becoming self-reinforcing, the historical relationship between coincident indicators and expectation components of a number of key surveys holds some predictive power.

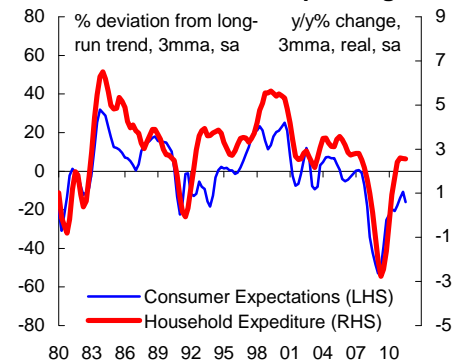
The index of consumer expectations over the next six months — part of the Conference Board's consumer confidence survey — is strongly linked to inflation-adjusted household spending. The series leads actual expenditures by up to a quarter. Traditionally, whenever the expectations index drops more than 2% below its long-run average, the U.S. economy witnesses a downturn (see chart 1). While consumer sentiment has bounced back considerably since troughing at a record-low in early 2009, this has been the longest stretch in the post-War era that it has remained below its long-run trend, a development highlighting the ongoing slowdown in consumer spending. However, when examining recent weakness, it should be taken into consideration that the series is volatile and has on more than one occasion 'double-dipped' during a recovery period.

A similar story follows for the manufacturing sector. Regional purchasing manager indices (PMIs) and the future inventory turnover ratio (see chart 2) lead industrial production by just under two quarters. That said, these series are notoriously volatile, and while they have not missed a downturn, they are better at predicting directionality than the magnitude of change. Since peaking in March, these leading indicators have sharply retreated below their long-run average. However, industrial production — although it is advancing at a slower clip, in part due to temporary disruptions caused by Japan's earthquake — is still clocking the fastest growth, outside the current cycle, since 2006, roughly a year before the onset of the financial crisis. The pace of production decelerated the most for consumer durables and construction supplies.

While the soft, second-quarter GDP figure can be partly attributed to temporary factors — Japan's earthquake, high gasoline prices and unseasonable weather conditions — a number of cyclical and structural headwinds remain at play. U.S. consumers are wary of spending, faced with high gasoline prices, weak hiring activity, and fiscal uncertainty. Ongoing household and public-sector deleveraging is further constraining domestic demand. That said, we expect businesses to continue to invest in productivity through technology enhancements, and for exports to remain steady, helped by solid emerging market demand and a more competitive U.S. dollar. The leading economic indicators index reaffirms this view (see chart 3). While some components have pulled back, weakness remains concentrated in the consumer and housing sectors. Business investment and exports continue to provide support, and monetary policy remains very accommodative.

Chart #1

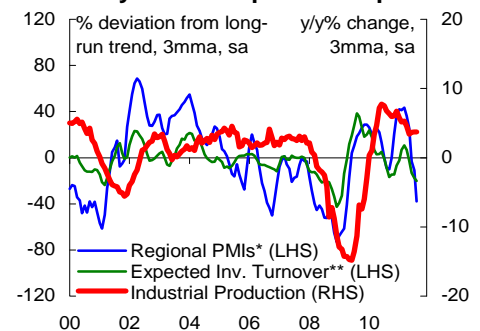
Consumer Sentiment Points To Softer Household Spending



Source: BEA, Conference Board, Scotia Economics.

Chart #2

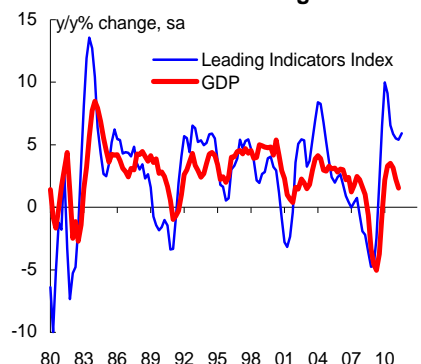
Weakness In Manufacturing Partly Due To Japan Earthquake



* Average of expectation components across regional PMIs; ** Inventory-to-new order ratio.
Source: Federal Reserve, Institute for Supply Management, Scotia Economics.

Chart #3

Leading Indicators Index Has Not Entered Danger Zone



Source: BEA, Conference Board, Scotia Economics.

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Vehicle Production Rebound To Continue Across North America

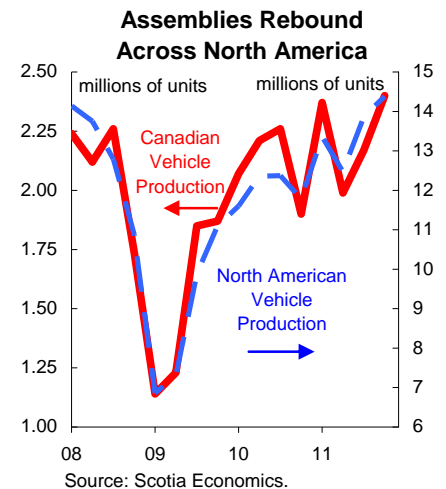
- Japanese automakers drive gain, as they attempt to build depleted inventories.

An auto sector revival began in the third quarter both in North America and across the globe, and the uptrend will remain intact through at least the end of 2011. Strengthening sales and low inventories prompted automakers to schedule a further 4% quarter-to-quarter increase in North American vehicle production for the final months of the year. This comes on the heels of an 11% jump in the July-September period, which we estimate will add more than a percentage point to economic growth across North America in the third quarter, enabling the North American economy to overcome the 'soft patch' experienced in recent months, when supply chain disruptions forced automakers to slash production.

Every automaker assembling vehicles in North America will boost output further in the final months of 2010, but Japanese manufacturers — especially Honda and Toyota — will lead the way, as they attempt to restock their dealer networks. At the end of July, these two automakers only had a 31 days' supply across their U.S. dealerships — less than half the normal industry level of 60 to 65 days'. The supply crunch was even greater for some key high-volume models. For example, Wards Automotive indicates that the inventory of the reigning best-selling car in the United States — the Toyota Camry — stood at only 16 days' at the end of August.

Toyota is attempting to boost its inventory to pre-earthquake levels by the end of the year, and intends to increase North American assemblies 25% above a year earlier in the fourth quarter, a sharp reversal from a 17% year-over-year slump through July. The scheduled fourth-quarter increase in North American production is even greater at Honda, estimated at nearly 30% year-over-year. As a result, Honda and Toyota will account for 23% of North American vehicle output in the fourth quarter, more than double their 11% share in the April-June period.

Canadian plants will benefit most from higher output at Japanese-owned facilities in the final months of 2011. This reflects the fact that Toyota and Honda normally account for about 36% of overall Canadian vehicle output, while the share of Japanese assemblers is smaller in the United States at about 30%, and in Mexico only one-quarter of overall vehicle production. As a result, output at Canadian assembly plants is expected to jump 27% year-over-year in the fourth quarter, compared with a 22% increase in the United States and a more modest 5% gain in Mexico. The large increase in vehicle production in coming months will likely add at least half a percentage point to growth in the Canadian economy in the fourth quarter — a sharp reversal from the recently released second-quarter data, which indicated supply chain disruptions forced production slowdowns and slashed half a percentage point from economic activity.



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Confidence Matters — And It's Not Looking Good For The US Economy

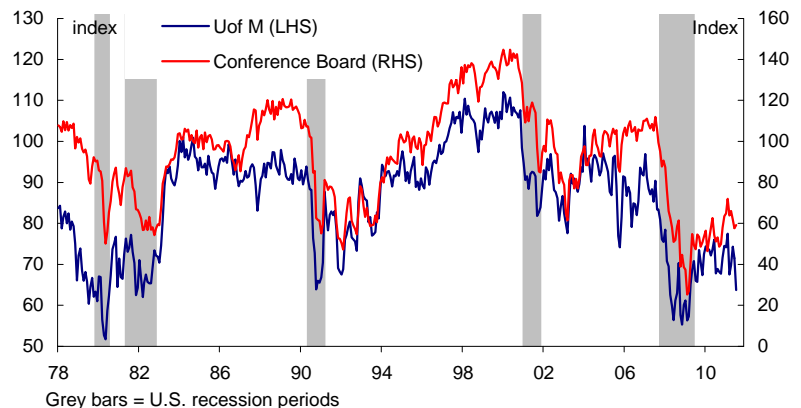
- We survey the role of confidence readings as explanatory variables for consumption.

Against the notion that actions speak louder than words when it comes to judging consumer behaviour, chart 1 should immediately dispel any notion that confidence simply doesn't matter. Every time the Conference Board's consumer confidence gauge and the University of Michigan's consumer sentiment survey have tanked, the result has been a recession in the US economy once the lagging GDP data arrives — whether confidence presages or coincides with recessions, but the deterioration is usually visible just beforehand. Such a high level approach, however, benefits from providing further granularity on the importance of these gauges both on their own through casual empiricism, and within the literature that controls for myriad other influences in order to home in on just the additional explanatory power of confidence readings when it comes to forecasting actual economic growth.

1. Stylized Facts on Confidence Readings And Consumption

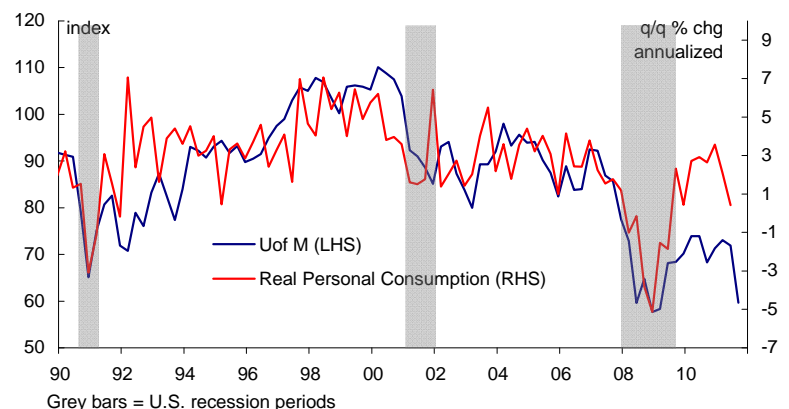
First we provide the casual stylized facts. Chart 2 shows a reasonably close correlation between the University of Michigan's consumer sentiment survey and quarterly changes in actual inflation adjusted consumer spending. Here too, each time confidence has tanked, spending corrects in nearly coincident fashion. Chart 3 shows a similar pattern when correlated against y/y changes in consumption, but switches to the Conference Board's confidence gauge. Note, however, that the more recent pattern in both charts had spending improve without a concomitant improvement in confidence — suggesting that spending may have further to fall of late than confidence that was already soft — but to argue consumption will show no

Chart 1



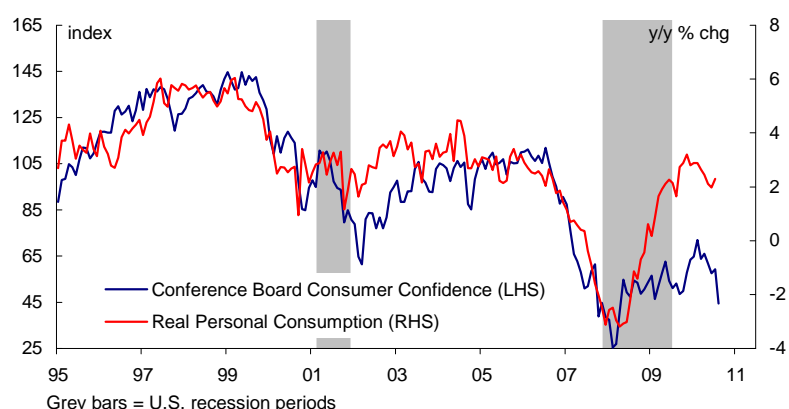
Source: Conference Board, University of Michigan, Scotia Capital Economics

Chart 2



Source: BEA, University of Michigan, Scotia Capital Economics

Chart 3



Source: BEA, Conference Board, Scotia Capital Economics

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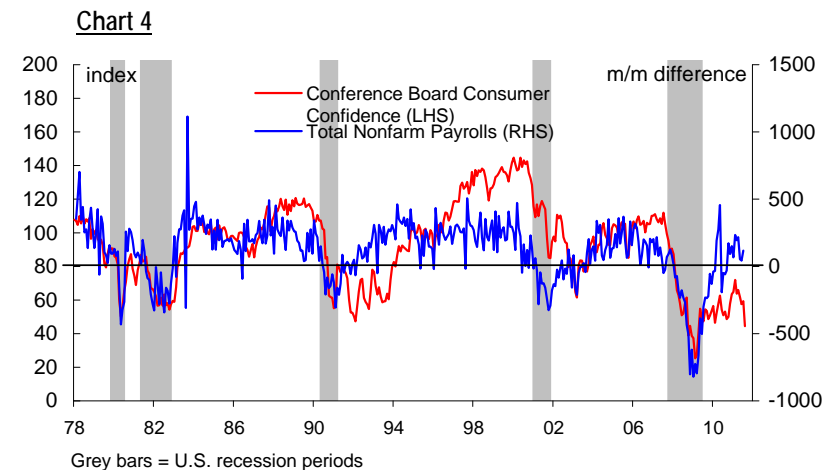
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effect in response to confidence would belie the fact that the turning points between confidence and consumption were still correlated over this most recent period. On the face of it, confidence matters, but what we can't tell so far from these charts is whether they are just reflecting the same broad forces driving both confidence and spending and hence whether or not confidence readings provide any additional explanatory power behind spending growth patterns other than in terms of the greater timeliness of confidence readings that arrive before spending data. We'll return to this in section 3.

2. Stylized Facts On Confidence Readings And Jobs

Related to consumption, how does confidence affect job forecasts given that we get confidence readings first? We've had a taste of that in the recently disappointing nonfarm payrolls survey that was very soft even after controlling for strike distortions. Chart 4 demonstrates the relationship over time between confidence and nonfarm payrolls using the Conference Board's consumer confidence gauge back to the 1970s. There is a fair correlation here, and when the CB's consumer confidence reading drops below around 80 it suggests a drop in nonfarm payrolls. Well, we're way down at 44.5 on the CB's current confidence reading, which would historically suggest a pending drop in nonfarm payrolls. That said, in the early 1990s, confidence plunged but some of the relationship with nonfarm broke down as payrolls didn't drop to the same degree and the trends were relatively disconnected. Thus, the relationship is not fool proof.



Source: Conference Board, Department of Labour, Scotia Capital Economics

3. What The Literature Says

To repeat, all of the correlations provided thus far do not control for the possibility that confidence and other real variables like jobs and spending are driven by a common set of factors—versus whether or not higher frequency and fresher confidence readings tell us anything new in and of themselves. For this, we need to control for the other common drivers such as income and financial market drivers and for this we turn to the literature for evidence.

There are only a handful of studies that have looked at the predictive power of consumer confidence on inflation adjusted personal consumption but two in particular showed some interesting results, one of which is an update of a prior version of the same study. A 1998 study by Jason Bram and Sydney Ludvigson of the New York Fed¹ showed that the Conference Board's consumer confidence index (herein Conference Board's Index) serves as a greater predictor for real personal consumption expenditures than the University of Michigan consumer sentiment Index (herein U of M's Index). Indeed, the U of M's index actually weakens the predictive power when looked at on its own. However, when the two indices are looked at together, the predictive power is even stronger than the Conference Board measure on its own. Using quarterly data between 1967 and 1996 and lagging both indices by four quarters, chart 5 shows the resulting additional explanatory power of both indices when they are added to the baseline equation. In other words, the two indices together predict an additional 13% of the variation in the next period's consumption growth beyond what is already captured by incomes and financial market variables, 21% for motor vehicles expenditure, 5% for goods, excluding motor vehicles, 11% for services and 17% for durables, excluding motor vehicles.

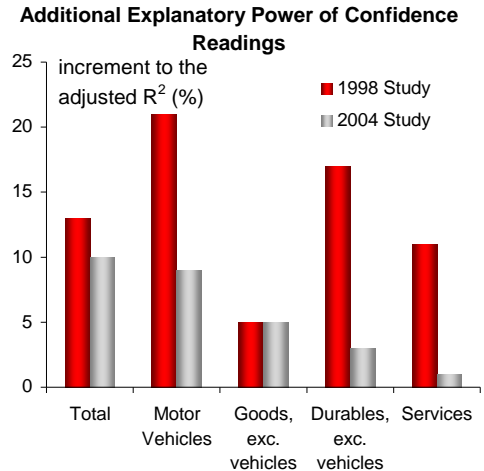
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Fast forward to 2004 and Sydney Ludvigson updated his empirical study using data from 1968 to 2002 and found that the additional explanatory power of both indices had diminished over time, especially for motor vehicles spending, as also illustrated in the accompanying chart. However, this result could be a partial red herring. For instance, when confidence tanked at the start of the last decade, Americans went on to buy record volumes of cars and homes only because of the historic period of easy access to credit that ensued. However, we're in a very different environment today marked by an inability to rely upon credit easing terms while further monetary and fiscal policy options will likely be limited such that weak confidence may be more likely to impact consumer spending this time around — and thus lift the explanatory power of confidence once again. Regardless, confidence readings appear to play a significant enough role by way of providing additional explanatory power above and beyond other spending drivers to merit serious consideration in a forecast for consumer spending growth.

Chart 5



Source: Jason Bram and Sydney Ludvigson (1998), Sydney Ludvigson (2004), Scotia Economics.

4. Does The July Spending Gain Save The Quarter?

The final issue we wish to address concerns the very near term outlook for Q3 consumption. July's solid gain in consumer spending had some arguing that recession talk was something to be ruled out. Nonsense in our view. Yes, consumer spending still accounts for about 70% of US GDP such that if it is holding up well then that would mitigate recession talk. But it was a July reading, and hence before market confidence aided by a total collapse in policy confidence came to the fore front of the US consumers' mindset in driving indicators like the University of Michigan's August consumer sentiment survey to its lowest reading since 1980. Should that take a toll in halting growth in inflation adjusted consumer spending in August over July, and then again in September over August, then the third quarter would only post annualized consumption growth of 1.8%. Given how swing factors like inventory disinvestment can easily knock multiple percentage points off of GDP growth, that may not be enough to spare a negative Q3 GDP print.

Furthermore, what if consumer spending actually declined in August and September? If spending retreated at the same downward clip in each month as the upward rise in July (something that confidence readings would support), then the quarter as a whole would see consumer spending make no contribution to GDP growth and leave the economy completely susceptible to what happened to inventories, net trade, government spending and business investment with the picture not looking good so far on multiple counts. A drop of a half point in consumer spending in each month would be comparable to the monthly rates of decline recorded during the back half of 2008. Adding to the caution is that the only real reason why spending was up in July was because of the release of pent-up auto demand compared to when consumers couldn't get product in Q2 following the Japanese supply disruptions. That effect topped out in August vehicle sales that were flat over July (technically, they slipped slightly). Our main point here is that it's grossly premature to over-react to July's spending gain. Further, what happens in Q4 once the auto supply disruptions have fully worn off?

1. Bram, Jason and Sydney Ludvigson. 1998. "Does Consumer Confidence Forecast Household Expenditure? A Sentiment Index Horse Race." *Federal Reserve Bank of New York Economic Policy Review*, June.
2. Ludvigson, Sydney. 2004. "Consumer Confidence and Consumer Spending." *Journal of Economic Perspectives*. Spring, 18:2.

Dominican Republic Update: Growth & Inflation

The following article was published on September 1, 2011.

Recent developments in the Dominican Republic, namely slower growth and higher inflation, pose some challenges for the Central Bank, especially as these developments come nine-months before the next presidential election. Meanwhile, opposition candidate Mejía has widened his lead over Medina. Local bond markets are already pricing the economic news, with yields on long-term bonds in the range of 16% to almost 19%.

Recent economic developments

The economic data on the Dominican Republic has been disappointing, although that is relative to the impressive benchmarks the country had established in previous years. Preliminary data for the second quarter show a growth rate of 4.0%, confirming that the slowdown that we first saw in the first quarter may be permanent. We are not sure why growth has slowed so quickly—whether it is a result of the 275bp hike in interest rates since October or the fact that long-term growth rates are naturally far below the 7.5% registered in 2010. Probably some slowdown was expected, but perhaps not that much; notice, for example, that the IMF mission's growth forecast last spring was 5.5% to 6%, a projection that at this point seems hard for the country to attain. Despite the considerable slowdown, we should remember that 4% is still a reasonable growth rate worthy of foreign investor interest, though perhaps not at the level of enthusiasm we saw during last year's global bond offering.

Meanwhile, inflation has accelerated, registering 0.85% in July, and nearly 7% over the last seven months, putting it above the target of 5% to 6%. Current inflation rates seem a problem for the existing scheme of monetary policy in the long-term, as the Central bank has an overnight rate of 6.75%, a Lombard rate of 9.5%, and targets an exchange rate depreciation of 3%-4% annually. The good news is that core inflation is only 3.5% YTD, or only half that of the overall number, suggesting that some price increases resulting from higher global commodity prices, especially oil, may not repeat. Still, these two effects of lower growth and higher inflation put the central bank in a difficult position, especially since we are entering an election cycle where lower growth numbers may give an advantage to the opposition. In an attempt to raise additional revenue, the government recently enacted a 1% tax on all interest-paying assets of banks with the exception of holdings of government securities; that tax may have decreased local liquidity, and we think that at this point the Central Bank would prefer to increase liquidity rather than tighten further.

The Central Bank, as usual, is doing a good job of keeping exchange rate depreciation on a slow and stable path, with an annualized depreciation rate, year to date, of about 3%. International reserves, after dropping during the first half of the year, continue on a long-term upwards path, boosted in July by the reopening of the Global 2021 bond and the disbursement of additional IMF money following a successful review. The problem for the country is that imports rose by about \$1bn in the first half of the year, with half of that rise due to the increase in world oil prices and the other half due to an increase in imports of other products, mostly raw materials, leaving the import coverage ratio at about 2.5 months. A rise in exports and in FDI helped, but reserves had to absorb the increased oil bill.

Elections get underway

On the political front, Danilo Medina, having won the PLD's primary at the end of June, was officially proclaimed last Sunday as the incumbent party's candidate for president. The latest Gallup poll, from August 22nd, continues to show him trailing opposition candidate and former President Hipólito Mejía by a wide margin of 33% to 48%. May polls had shown a closer election with votes of 40% and 49% for those two candidates. Medina faced Mejía in the presidential election of 2000 and lost by a very large margin, though that may have partly resulted from a third candidate, former President Belaguer, splitting the vote with Medina. Sunday's declaration may help, and the margin could change once Medina starts to campaign more

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actively, though we don't know if Medina can overcome such a large gap. Foreign investors would probably prefer Medina and the continuation of the PLD regime, one they associate with macroeconomic stability and impressive growth rates.

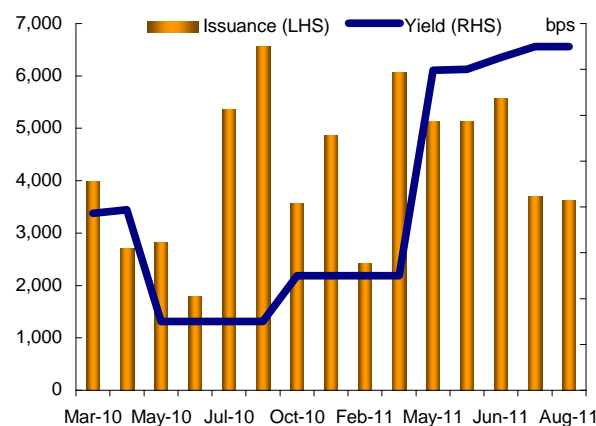
Nevertheless, we do not think foreign investors have reason to fear Mejía. True, Mejía is more left-leaning, and during his first regime he liked to talk about poverty, education, and health care. His catchy campaign slogan of “Llegó Papá” (Daddy has arrived) is suggestive of his desire to provide more social programs, but so far he has not made any specific proposals. Instead, he attacks the Fernández administration for corruption and an irresponsible policy of increasing public indebtedness to finance wasteful expenditure; that latter point is unusual when coming from someone from the left. We also don't think Mejía is anti-business. While he does best in polls among the poor where he leads by a 17% margin, he is also ahead of Medina among upper class voters by a 4% margin. There is no reason to expect a repeat of the panic in financial markets that occurred prior to the election in Peru.

With the PLD reminding voters of the banking crisis under Mejía's previous administration, Mejía, in response, is emphasizing to businesspeople his commitment to macroeconomic stability. While some may criticize Mejía for his handling of the crisis, it is hard to argue that Mejía caused that crisis. The problems stemmed from a massive accounting fraud at the country's second-largest bank that had gone undetected by several government administrations over more than a decade. Bank executives were ultimately accused of robbing their own bank, and keeping a second set of books to cover up their activities.

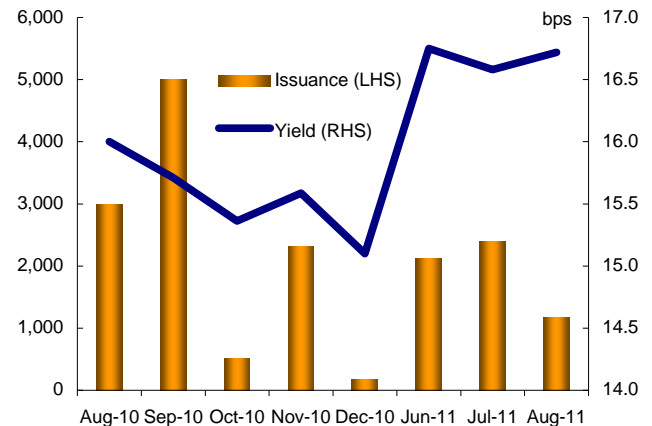
The response from local markets

Local yields have been pricing the weaker economic numbers for a few months now. We saw the effects first in the central bank auctions, as those occur more frequently and usually in larger volumes. Yields on the Central Bank 7Y paper have increased by 250bp since February (Figure 1). Yields on the 10Y Treasury bonds increased by about 100bp, as we think foreign demand may have helped offset some of the weaker data (Figure 2). 70% of GDNs outstanding on Dominican paper are in the 10-year tenor and foreign investors have purchased Treasury bonds from every auction this year.

Yields increased by about 10bp in August, as demonstrated by the bi-weekly auctions for shorter-term central bank paper; the six-month yield in yesterday's auction was 11%. The next Treasury 10Y auction is scheduled for Tuesday, September 6, and there will be additional auctions on the first Tuesday of every month throughout the remainder of the year.

Figure 1.**Central Bank 7Y Issuance and Yields**

Source: Banco Central.

Figure 2.**Local Treasury 10Y Issuance and Yields**

Source: Ministerio de Hacienda.

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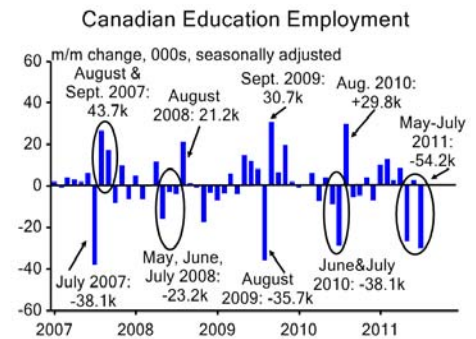
Key Data Preview

CANADA

A sharp deterioration in **Canadian trade** in Q2 led to the first quarterly contraction in Canadian GDP since Q2 2009, as auto production ground to a halt while a decline in crude oil prices cut energy exports for two consecutive months, sending the real trade deficit up to a new record high. While this is discouraging, some of this weakness will likely be reversed in July's trade numbers (Thursday) as auto production came back on line following the supply chain disruptions in the early Spring. Energy exports should also get a lift from an increase in oil prices after two months of declines. What could be a wildcard here is whether oil production is now back up and running following temporary shutdowns in May as wildfires decimated Slave Lake, Saskatchewan and the surrounding areas while extreme flooding hit southern Saskatchewan and Manitoba. Lastly, a solid increase in US personal spending — mainly in the autos sector — in July should boost Canadian exports during the month. Import growth will also likely come from the auto segment as dealers restock following a huge surge in demand in June on the back of increased discounting plus already thin inventory levels. Nonetheless, import growth will likely remain quite modest in other sectors as consumer spending in Canada starts to slow, likely resulting in a narrowing in the nominal trade deficit by about half the current level. While an improvement in the real trade deficit will likely ensue as well, August could witness a reversal once again as auto production slows following the initial surge, similar to what we are currently seeing in the high frequency manufacturing indicators in the U.S. and globally.

Canadian housing starts (Friday) pushed back above 200k (SAAR) in July as the recent tightening in mortgage rules pushed prospective homebuyers to enter the market ahead of the regulation change. However, housing demand is finally starting to cool — after reaching cycle tops on many housing metrics — with existing home sales essentially flat in July, according to the most recent MLS report. In addition, the inventory to sales ratio for existing home sales is on the rise once again, suggesting that home construction will likely start to decelerate over the next few months as demand moderates. For now though, building permits remain strong, suggesting that we could see another 200k print for housing starts in August before all of the headwinds come together in the Fall.

Canadian employment (Friday) could garner a decent print in August on the back of further distortions in the education sector. After a 56.8k decline in education jobs from May-July this year, as the accompanying chart shows, we could witness a roughly 25k headline gain in payrolls in August. These distortions are a result of a change in the way education workers are being hired in secondary and post-secondary schools. What used to be full-year contracts are now being culled back to only 9 or 10 month contracts, resulting in these same workers being technically unemployed through the summer despite the high probability that they will receive a new contract in August or September for the following 9 or 10 months. We could also get an additional lift from the construction and manufacturing sectors given the continued strength in housing starts and the increase in auto production following the recent shutdown although weakness in trade may offset some of this strength after a dismal Q2 showing on the trade front. It may also be too early to witness a possible pullback in hiring stemming from the recent global market sell-off and resulting hit to both business and consumer confidence given the employment lags.



Source: Statistics Canada, Scotia Capital Economics

UNITED STATES

The **US ISM non-manufacturing index** (Tuesday) will likely deteriorate once again in August as consumer spending moderates following the global market sell-off and weakening employment conditions as witnessed in the recent nonfarm payrolls report. While the index should remain above 50 in August, it will likely fall to the lowest print since January of last year and keep on going through the Fall as the lags start to come into play, likely pushing into contractionary territory over the next few months as consumers focus once again on essential goods.

The **US trade deficit** (Thursday) will likely narrow slightly in July as export growth modestly outpaces imports on the back of a rebound in auto exports following a pullback in production through the Spring due to Japanese-induced supply-chain constraints. Nonetheless, import growth will still likely come in positive in July as consumer spending surged during the month while in oil prices increased after two months of declines.

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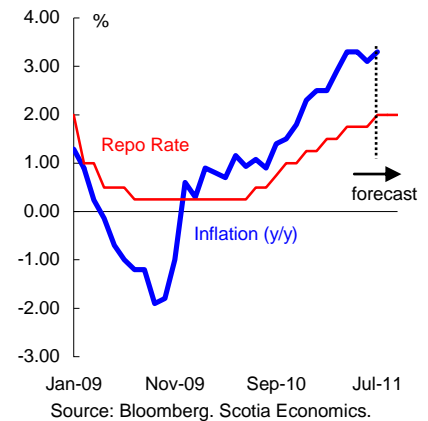
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EUROPE

Swedish monetary policymakers will likely refrain from further monetary policy normalization following the next Riksbank's Executive Board meeting on September 7th, on the back of heightened uncertainty regarding the global economic outlook and the persistent sovereign credit turmoil in Europe. In order to stabilize inflation and to prevent excessive resource utilization, Swedish authorities have increased the benchmark repo rate by 175 basis points since mid-2010 to the current level of 2.0%, with the most recent hike taking place in early July. Inflation will likely remain relatively high in the coming months due to wage pressures and limited spare capacity in the economy. Nevertheless, inflationary pressures should ease towards the central bank's 2% target in 2012. The consumer price index increased by 3.3% y/y in July following a 3.1% rise in June. Swedish economic fundamentals are strong, with the economy remaining in robust growth territory, though signs of deceleration are emerging. Real GDP growth accelerated to 1.0% q/q (5.3% y/y) in the second quarter of the year from a 0.8% (6.4% y/y) expansion in the January-March period.

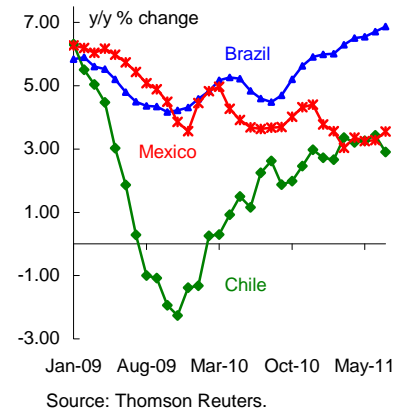
Sweden Repo Rate and Inflation



LATIN AMERICA

Monetary policy expectations in Latin America have changed in recent weeks, reinforced by the Brazilian central bank's decision to cut rates by 50 basis points (bps) at the end of August. As a result, inflation data and the pace of economic deceleration will attract investor attention, and likely generate calls for a reversal in monetary policy. In the coming week, August inflation data will be released in Mexico, Chile and Brazil. Mexican consumer price inflation has trended down so far in 2011, while inflationary pressures in Chile rose at the beginning of the year; nevertheless, in both countries the CPI rate is stabilizing around 3.0% y/y - the mid-point of the official target ranges. The Brazilian story is different, as inflation has increased significantly, taking the annual rate to 6.87% in July, 30 bps above the central bank's tolerance range. Nonetheless, the central bank cut the benchmark rate to 12.0%, showing that concerns regarding economic deceleration outweighed those related to inflationary pressures.

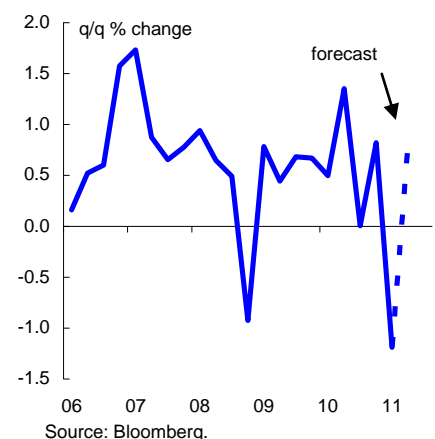
Annual Inflation Rate in Mexico, Chile and Brazil



ASIA

Australia's second quarter GDP growth will display a partial rebound from the natural-disaster-affected performance of the previous three months. We expect an output advance of 0.8% q/q as a result of a return to normal operating conditions in most affected areas. While demand for commodities from the rest of Asia remained on solid footing, it was still being affected by the de-stocking phase that most economies went through during the three months to June. Recent evidence from forward looking manufacturing indicators in China (August) signal an end to the inventory depletion period, which would imply more intense demand for Australian raw materials in the fall.

Australia's Real GDP Growth



Key Indicators for the week of September 5 - 9

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
MX	09/05	09:00	Consumer Confidence Index	AUG	--	--	95.5
MX	09/05	13:00	IMEF Manufacturing Index	AUG	--	--	50.4
MX	09/05	13:00	IMEF Non Manufacturing Index	AUG	--	--	52.5
MX	SEP 5-9		Vehicle Domestic Sales (AMDA)	AUG	--	--	68533
MX	SEP 5-9		Vehicle Production (AMIA)	AUG	--	--	209534
MX	SEP 5-9		Vehicle Exports (AMIA)	AUG	--	--	177843
US	09/06	10:00	ISM Non-Manf. Composite	AUG	51.5	51.0	52.7
US	09/07	00:00	Fed's Beige Book				
US	09/07	07:00	MBA Mortgage Applications (WoW)	2-Sep	--	--	-9.6
CA	09/07	09:00	Bank of Canada Rate	7-Sep	1.00	1.00	1.00
CA	09/07	10:00	Ivey Purchasing Managers Index SA	AUG	--	55.5	46.8
CA	09/08	08:30	Building Permits (MoM)	JUL	1.5	--	2.1
CA	09/08	08:30	New Housing Price Index (MoM)	JUL	0.3	--	0.3
CA	09/08	08:30	International Merchandise Trade (C\$ bns)	JUL	-0.8	-0.8	-1.6
US	09/08	08:30	Trade Balance (US\$ bns)	JUL	-49.0	-51.0	-53.1
US	09/08	08:30	Initial Jobless Claims (000s)	2-Sep	400	410	409
US	09/08	08:30	Continuing Claims (000s)	27-Aug	3700	--	3735
MX	09/08	09:00	Consumer Prices (MoM)	AUG	0.48	--	0.48
MX	09/08	09:00	Consumer Prices (YoY)	AUG	3.55	--	3.6
MX	09/08	09:00	Consumer Prices Core (MoM)	AUG	0.22	--	0.22
US	09/08	15:00	Consumer Credit (US\$ bns)	JUL	--	6.0	15.5
MX	SEP 8-15		ANTAD Same-Store Sales (YoY)	AUG	--	--	6.4
CA	09/09	07:00	Unemployment Rate	AUG	7.2	7.3	7.2
CA	09/09	07:00	Net Change in Employment (000s)	AUG	25.0	20.0	7.1
CA	09/09	07:00	Full Time Employment Change (000s)	AUG	--	--	25.5
CA	09/09	07:00	Part Time Employment Change (000s)	AUG	--	--	-18.4
CA	09/09	07:00	Participation Rate	AUG	--	--	66.8
CA	09/09	08:15	Housing Starts (000s)	AUG	200.0	200.0	205.1
CA	09/09	08:30	Labor Productivity (QoQ)	2Q	--	-0.6	0.4
MX	09/09	09:00	Trade Balance (US\$ mns)	JUL F	--	--	-1178.8
MX	09/09	10:00	Central Bank Monetary Policy Minutes				
US	09/09	10:00	Wholesale Inventories (MoM)	JUL	--	0.8	0.6

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of September 5 - 9

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
SP	09/05	03:15	Spain August Services PMI				
IT	09/05	03:45	PMI Services	AUG	--	48.5	48.6
FR	09/05	03:50	PMI Services	AUG F	56.1	56.1	56.1
GE	09/05	03:55	PMI Services	AUG F	50.4	50.4	50.4
EC	09/05	04:00	PMI Composite	AUG F	51.1	50.9	51.1
EC	09/05	04:00	PMI Services	AUG F	51.5	51.5	51.5
UK	09/05	04:30	PMI Services	AUG	52.4	54.0	55.4
UK	09/05	04:30	Official Reserves (Changes) (US\$ mns)	AUG	--	--	2082.0
EC	09/05	05:00	Euro-Zone Retail Sales (MoM)	JUL	0.0	0.0	0.7
NO	09/06	00:30	Norway Consumer Confidence	3Q	--	25.0	27.7
SW	09/06	03:30	Service Production SA (MoM)	JUL	--	0.1	0.3
EC	09/06	05:00	Euro-Zone GDP s.a. (QoQ)	2Q P	0.2	0.2	0.2
EC	09/06	05:00	Euro-Zone Household Cons (QoQ)	2Q P	-0.1	-0.1	0.2
EC	09/06	05:00	Euro-Zone Gross Fix Cap (QoQ)	2Q P	0.8	0.8	1.9
EC	09/06	05:00	Euro-Zone Govt Expend (QoQ)	2Q P	0.1	0.1	0.5
GE	09/06	06:00	Factory Orders SA (MoM)	JUL	--	-1.5	1.8
UK	09/06	19:01	BRC Shop Price Index (YoY)	AUG	--	--	2.8
PO	09/06		Industrial Sales (MoM)	JUL	--	--	-1.8
UK	09/06		New Car Registrations (YoY)	AUG	--	--	-3.5
SW	09/07	03:30	Budget Balance (SEK bns)	AUG	--	--	-3.7
SW	09/07	03:30	Riksbank Interest Rate	7-Sep	2.00	2.00	2.00
NO	09/07	04:00	Industrial Production SA (MoM)	JUL	--	--	5.2
NO	09/07	04:00	Ind Prod Manufacturing SA (MoM)	JUL	--	0.9	-1.5
UK	09/07	04:30	Industrial Production (MoM)	JUL	0.2	0.1	0.0
UK	09/07	04:30	Manufacturing Production (MoM)	JUL	0.1	0.0	-0.4
GE	09/07	06:00	Industrial Production SA (MoM)	JUL	0.5	0.5	-1.1
IR	SEP 7-12		CPI (EU Harmonised) (MoM)	AUG	--	0.2	-0.2
IR	SEP 7-12		CPI (EU Harmonised) (YoY)	AUG	--	1.0	1.0
IR	SEP 7-12		CPI (MoM)	AUG	--	0.3	0.0
IR	SEP 7-12		CPI (YoY)	AUG	--	2.3	2.7
FR	09/08	01:30	Non-Farm Payrolls (QoQ)	2Q F	--	0.4	0.4
GE	09/08	02:00	Exports SA (MoM)	JUL	--	0.5	-1.2
GE	09/08	02:00	Imports SA (MoM)	JUL	--	0.3	0.3
GE	09/08	02:00	Current Account (€ bns)	JUL	--	10.0	11.9
GE	09/08	02:00	Labor Costs Workday Adj (YoY)	2Q	--	--	2.8
GE	09/08	02:00	Labor Costs Seas. Adj. (QoQ)	2Q	--	--	2.0
GE	09/08	02:00	Trade Balance (€ bns)	JUL	--	11.5	12.7
FR	09/08	02:30	Bank of France Bus. Sentiment	AUG	--	97.0	98.1
FR	09/08	02:45	Trade Balance (€ mns)	JUL	--	-5800	-5598
SP	09/08	03:00	Industrial Output WDA (YoY)	JUL	--	-3.1	-2.0
SP	09/08	03:00	Industrial Output NSA (YoY)	JUL	--	--	-2.7
UK	09/08	07:00	BOE Asset Purchase Target (£ bns)	SEP	200	200	200
UK	09/08	07:00	BOE Announces Rates	8-Sep	0.50	0.50	0.50
EC	09/08	07:45	ECB Announces Interest Rates	8-Sep	1.50	1.50	1.50
IR	SEP 8-12		Industrial Production SA (MoM)	JUL	--	--	0.5
IR	SEP 8-13		New Vehicle Licences	AUG	--	--	8600
GE	09/09	02:00	Consumer Price Index (MoM)	AUG F	-0.1	-0.1	-0.1
GE	09/09	02:00	Consumer Price Index (YoY)	AUG F	2.3	2.3	2.3
GE	09/09	02:00	CPI - EU Harmonised (MoM)	AUG F	-0.1	-0.1	-0.1
GE	09/09	02:00	CPI - EU Harmonised (YoY)	AUG F	2.4	2.4	2.4
FR	09/09	02:45	Industrial Production (MoM)	JUL	--	0.4	-1.6
FR	09/09	02:45	Central Govt. Balance (€ bns)	JUL	--	-87.7	-61.3
FR	09/09	02:45	Manufacturing Production (MoM)	JUL	--	0.6	-1.9
SW	09/09	03:30	Industrial Production SA (MoM)	JUL	--	0.4	-3.3
SW	09/09	03:30	Industrial Orders SA (MoM)	JUL	--	0.4	-1.0
IT	09/09	04:00	GDP sa and wda (QoQ)	2Q F	0.3	0.3	0.3
UK	09/09	04:30	PPI Input NSA (MoM)	AUG	0.0	-1.5	0.6
UK	09/09	04:30	PPI Output NSA (MoM)	AUG	0.1	0.1	0.2
UK	09/09	04:30	PPI Output Core NSA (MoM)	AUG	0.1	0.1	0.3
PO	09/09		Trade Balance (€ mns)	JUL	--	--	-1009
GE	SEP 9-16		Wholesale Price Index (MoM)	AUG	--	--	-0.6

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of September 5 - 9

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
JN	SEP 1-7		Official Reserve Assets (US\$ bns)	AUG	--	--	1150.9
AU	09/04	21:30	Company Operating Profit (QoQ)	2Q	--	2.9	-2.0
AU	09/04	21:30	Inventories (QoQ)	2Q	--	0.3	0.4
CH	09/04	22:30	China HSBC Services PMI	AUG	--	--	53.5
HK	09/04	22:30	Purchasing Managers Index	AUG	--	--	51.4
ID	09/05		Inflation (YoY)	AUG	--	4.7	4.6
ID	09/05		Inflation NSA (MoM)	AUG	--	0.8	0.7
ID	09/05		Core Inflation (YoY)	AUG	--	4.6	4.6
ID	09/05		Exports (YoY)	JUL	--	47.2	49.3
ID	09/05		Total Imports (YoY)	JUL	--	25.6	28.3
ID	09/05		Total Trade Balance (US\$ mns)	JUL	--	2600.0	3332.1
IN	09/05	01:00	India August Markit Services PMI				
TA	09/05	04:00	CPI (YoY)	AUG	--	1.5	1.3
SK	09/05	19:00	GDP at Constant Price (QoQ)	2Q F	--	--	0.8
PH	09/05	21:00	Consumer Price Index (YoY)	AUG	--	5.0	5.1
PH	09/05	21:00	Consumer Price Index NSA (MoM)	AUG	--	0.4	0.1
PH	09/05	21:00	Core CPI (YoY)	AUG	--	--	3.7
AU	09/05	21:30	Current Account Balance (AU\$ mns)	2Q	--	-7100.0	-10447
AU	09/05	21:30	Home Loans (MoM)	JUL	--	1.5	0.0
AU	09/06	00:30	RBA Cash Target Rate	6-Sep	4.75	4.75	4.75
AU	09/06	21:30	Investment Lending (MoM)	JUL	--	--	-4.4
AU	09/06	21:30	Owner-Occupied Home Loan Value (MoM)	JUL	--	--	0.0
AU	09/06	21:30	Gross Domestic Product (QoQ)	2Q	0.8	1.0	-1.2
SK	09/06	23:00	Bank Lending to HH (KRW tns)	AUG	--	--	445.5
JN	SEP 6-7		BOJ Target Rate	7-Sep	0.10	--	0.10
JN	09/07	01:00	Coincident Index CI	JUL P	--	108.8	108.8
JN	09/07	01:00	Leading Index CI	JUL P	--	105.9	103.2
NZ	09/07	18:45	Manufacturing Activity (QoQ)	2Q	--	--	2.9
NZ	09/07	18:45	Manufacturing Activity Volume SA (QoQ)	2Q	--	--	1.9
JN	09/07	19:50	Bank Lending Ex-Trusts (YoY)	AUG	--	--	-0.6
JN	09/07	19:50	Bank Lending incl Trusts (YoY)	AUG	--	--	-0.5
JN	09/07	19:50	Current Account Total (¥ bns)	JUL	--	1175.8	527.0
JN	09/07	19:50	Adjusted Current Account Total (¥ bns)	JUL	--	990.8	922.8
JN	09/07	19:50	Trade Balance - BOP Basis (¥ bns)	JUL	--	149.1	131.5
JN	09/07	19:50	Machine Orders (MoM)	JUL	--	-4.2	7.7
SK	09/07	21:00	South Korea 7-Day Repo Rate	8-Sep	3.3	3.3	3.3
AU	09/07	21:30	Employment Change (000s)	AUG	--	10.0	-0.1
AU	09/07	21:30	Unemployment Rate	AUG	5.1	5.1	5.1
AU	09/07	21:30	Full Time Employment Change (000s)	AUG	--	--	-22.2
AU	09/07	21:30	Part Time Employment Change (000s)	AUG	--	--	22.1
AU	09/07	21:30	Participation Rate	AUG	--	65.6	65.6
TH	09/07	23:30	Consumer Confidence Economic	AUG	--	--	74.4
ID	SEP 7-8		Bank Indonesia Reference Rate	8-Sep	6.75	--	6.75
MA	09/08	00:01	Exports (YoY)	JUL	--	7.0	8.6
MA	09/08	00:01	Imports (YoY)	JUL	--	6.2	6.3
MA	09/08	00:01	Trade Balance (MYR bns)	JUL	--	7.9	7.6
JN	09/08	00:30	Bankruptcies (YoY)	AUG	--	--	1.4
PH	09/08	04:00	Overnight Borrowing Rate	8-Sep	4.50	4.50	4.50
TA	09/08	04:00	Total Trade Bal (US\$ bns)	AUG	--	2.8	3.3
TA	09/08	04:00	Total Exports (YoY)	AUG	--	15.4	17.6
TA	09/08	04:00	Total Imports (YoY)	AUG	--	13.8	14.0
MA	09/08	06:00	Overnight Rate	8-Sep	3.00	3.00	3.00
SK	09/08	17:00	Producer Price Index (YoY)	AUG	--	--	6.5
JN	09/08	19:50	GDP Deflator (YoY)	2Q F	--	-2.2	-2.2
JN	09/08	19:50	Nominal GDP (QoQ)	2Q F	--	-1.5	-1.4
JN	09/08	19:50	GDP (QoQ SAAR)	2Q F	-1.2	-2.0	-1.3
JN	09/08	19:50	Gross Domestic Product (QoQ)	2Q F	-0.3	-0.5	-0.3
CH	09/08	22:00	Consumer Price Index (YoY)	AUG	6.3	6.2	6.5
CH	09/08	22:00	Producer Price Index (YoY)	AUG	--	7.2	7.5
CH	SEP 8-9		Industrial Production (YoY)	AUG	14.0	13.7	14.0
CH	SEP 8-9		Fixed Assets Inv Excl. Rural YTD (YoY)	AUG	25.0	25.2	25.4
CH	SEP 8-9		Retail Sales (YoY)	AUG	17.2	17.0	17.6
PH	SEP 8-9		M3 Money Supply (YoY)	JUL	--	--	11.4
PH	SEP 8-9		Bank Lending Net of RRP's (YoY)	JUL	--	--	18.8
PH	SEP 8-9		Bank Lending (YoY)	JUL	--	--	20.5
IN	SEP 8-12		India Local Car Sales	AUG	--	--	133747
MA	09/09	00:01	Industrial Production (YoY)	JUL	--	2.7	1.0
MA	09/09	00:01	Manufacturing Sales Value (YoY)	JUL	--	--	12.9
JN	09/09	01:00	Consumer Confidence	AUG	--	--	37.0

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of September 5 - 9

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	SEP 2-6		CNI Capacity Utilization	JUL	- -	81.5	82.3
BZ	09/05	07:30	Central Bank Weekly Economists Survey				
CL	09/05	07:30	Economic Activity (YoY)	JUL	- -	5.5	6.2
BZ	09/05	10:00	Trade Balance (FOB) - Weekly (US\$ mns)	4-Sep	- -	--	1576
CO	09/05	20:00	Consumer Price Index (MoM)	AUG	- -	0.1	0.1
CO	09/05	20:00	Consumer Price Index (YoY)	AUG	- -	3.4	3.4
BZ	09/06	08:00	IBGE Inflation IPCA (MoM)	AUG	- -	0.4	0.2
BZ	09/06	08:00	IBGE Inflation IPCA (YoY)	AUG	- -	7.2	6.9
BZ	09/06	09:30	Vehicle Production (Anfavea)	AUG	- -	--	307198
BZ	09/06	09:30	Vehicle Exports (Anfavea)	AUG	- -	--	46502
CO	09/06	17:00	Exports FOB (US\$ mns)	JUL	- -	--	4709
CO	SEP 6-9		Vehicle Sales	AUG	- -	--	26799
CL	09/07	07:30	Trade Balance (US\$ mns)	AUG	- -	1150.0	1213.0
CL	09/07	07:30	Copper Exports (US\$ mns)	AUG	- -	--	4189.7
CL	09/08	07:00	CPI (MoM)	AUG	- -	0.2	0.1
CL	09/08	07:00	CPI (YoY)	AUG	- -	3.2	2.9
BZ	09/08	07:30	COPOM Monetary Policy Meeting Minutes				
PE	09/08	19:00	Reference Rate	SEP	4.25	4.25	4.25

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of September 5 - 9

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	09/06	11:00	U.S. Fed to Purchase USD0.5-1 Bln Notes/Bonds
US	09/06	11:30	U.S. to Sell 3-Month Bills
US	09/06	11:30	U.S. to Sell 6-Month Bills
US	09/07	11:30	U.S. to Sell 4-Week Bills
US	09/09	11:00	U.S. Fed to Purchase USD2.75-3.5 Bln Notes/Bonds

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NO	09/05	05:00	Norway to Sell NOK5 Bln 3.75% 2021 Bonds
SO	09/05	05:10	Slovakia to Sell Floating 2013 Bonds
HU	09/05	05:30	Hungary to Sell 6-Week Bills
TU	09/05	06:00	Turkey to Sell 8% 2014 Bonds
FR	09/05	09:00	France to Sell Bills
EC	09/05	09:30	ECB Calls for Bids in 7-Day Main Refinancing Tender
EC	09/05	09:30	ECB Announces Bond Purchases
UK	SEP 5-9		U.K. to Sell 4.75% 2030 Bonds on Week Commencing Sept. 5
DE	09/06	04:15	Denmark to Sell Bonds
AS	09/06	05:00	Austria to Sell 3.2% 2017 Bonds on Sept. 6
AS	09/06	05:00	Austria to Sell 4.15% 2037 Bonds on Sept. 6
EC	09/06	05:15	ECB Announces Allotment in 7-Day Main Refinancing Tender
SZ	09/06	05:30	Switzerland to Sell 3-Month Bills
HU	09/06	05:30	Hungary to Sell 3-Month Bills
TU	09/06	06:00	Turkey to Sell Zero 2013 Bonds
TU	09/06	06:00	Turkey to Sell 10.5% 2020 Bonds
EC	09/06	07:00	ECB Announces Allotment in 7-Day Term Deposits
EC	09/07	03:15	ECB Calls for Bids in 7-Day Dollar Tender
HU	09/07	04:30	Hungary's Central Bank to Sell 2-Week Bills
EC	09/07	05:00	ECB Announces Allotment in 7-Day Dollar Tender
SW	09/07	05:10	Sweden to Sell Bonds
PO	09/07	05:30	Portugal to Sell 3M Bills
HU	09/07	05:30	Hungary to Buy Back Bonds
RU	09/07	06:00	Russia to Sell Up to RUB35 Bln OFZ Notes
HU	09/08	05:30	Hungary to Sell Bonds
PD	09/08	06:30	Poland to Hold Exchange Offer Auctions
UK	09/09	06:10	U.K. to Sell Bills
IC	09/09	06:45	Iceland to Sell Bonds

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	09/04	23:35	Japan to Sell 6-Month Bills
JN	09/05	23:35	Japan to Sell 3-Month Bills
JN	09/05	23:45	Japan to Sell 30-Year Bond
CH	09/06	23:00	China to Sell 3 Year Bond
JN	09/07	23:45	Japan to Sell 5-Year Bond

Source: Bloomberg, Scotia Economics.

Events for the week of September 5 - 9

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	09/06	13:10	Fed's Kocherlakota Speaks at University of Minnesota
US	09/06	13:30	Donald Kohn Speaks at London School of Economics
CA	09/07	09:00	Bank of Canada Releases Interest Rate Announcement
US	09/07	11:15	Fed's Evans Speaks in London
US	09/07	14:00	Fed Releases Beige Book Economic Survey
US	09/07	16:00	Fed's Williams Speaks to Seattle Rotary Club
US	09/08	13:00	Fed's Bernanke Speaks to Economics Club in Minnesota
US	09/08		President Obama Speaks to Congress on Employment
MX	09/09	10:00	Central Bank Monetary Policy Minutes
US	09/09	11:30	Fed's Williams Speaks at Symposium in San Francisco

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	09/03	04:00	EU Foreign Ministers Conclude Meeting in Poland
IT	09/03	04:30	Italy's Finance Minister Tremonti Speaks at Catholic Meeting in Rome
GE	09/03	08:00	Merkel Attends State Election Campaign Event in Mecklenburg
GE	09/04	12:00	German State Election in Mecklenburg Western-Pomerania
EC	09/05	04:00	ECB's Trichet Speaks in Paris
UK	09/05	09:30	Parliament Reconvenes After Summer Break
GE	09/05		German Lower House of Parliament Reconvenes After Summer Break
GE	09/05		German Coalition Lawmakers Introduce Bill on Greece Aid, EFSF
PO	09/05		Bank of Portugal Releases Data on Banks
UK	09/06	11:00	Cameron Appears Before Parliament's Liaison Committee
IT	09/06		CGIL Union Calls General Strike Over Austerity Plan
SW	09/07	03:30	Riksbank Interest Rate
GE	09/07		First Reading of Bill on Greece Aid, EFSF in German Parliament
GE	09/08	04:00	Economy Minister Roesler Attends Conference of Euro Rescue-Fund Critics
UK	09/08	07:00	Bank of England Monetary Policy Committee Decision
UK	09/08	07:00	BOE Asset Purchase Target
UK	09/08	07:00	BOE Announces Rates
EC	09/08	07:45	ECB Announces Interest Rates
EC	09/08	08:30	Trichet Speaks at ECB Monthly News Conference
GE	09/08	11:00	Merkel Holds Speech at CDU Konrad-Adenauer-Stiftung, Berlin
GE	09/08		German Parliament's Budget Committee Debates Greece Aid
GE	09/09		Merkel Attends Berlin Election Campaign Event

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	09/06	00:30	RBA Cash Target Rate
JN	SEP 6-7		BOJ Target Rate
SK	09/07	21:00	South Korea 7-Day Repo Rate
ID	SEP 7-8		Bank Indonesia Reference Rate
PH	09/08	04:00	Overnight Borrowing Rate
MA	09/08	06:00	Overnight Rate
NZ	09/08	18:45	Statistics New Zealand on Electronic Card Transactions

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
BZ	09/08	07:30	COPOM Monetary Policy Meeting Minutes
PE	09/08	19:00	Reference Rate

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	1.00	September 7, 2011	1.00	1.00
Federal Reserve – Federal Funds Target Rate	0.25	September 21, 2011	0.25	--
Banco de México – Overnight Rate	4.50	October 14, 2011	4.50	--

August's weaker than expected nonfarm payrolls report supports our revised forecast that the Fed will remain on hold until Q3 2013, with next week's Federal Reserve Beige Book providing even further anecdotal information that the US economy is weakening more than previously expected. In Canada, we continue to expect the BoC to remain on hold next week, especially after this week's Q2 GDP report witnessed a larger contraction than expected with inventories providing much of the underlying support. Indeed, we now expect the BoC to remain on hold until Q2 next year.

Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	1.50	September 8, 2011	1.50	1.50
Bank of England – Bank Rate	0.50	September 8, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 15, 2011	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	September 5, 2011	8.25	8.25
Hungarian National Bank – Base Rate	6.00	September 20, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	September 20, 2011	5.75	--

On the back of uncertain global economic growth prospects and an improving inflation outlook in the euro zone and the U.K., we have revised our forecasts for the European Central Bank's (ECB) and Bank of England's (BoE) benchmark interest rates. The ECB and the BoE will likely maintain their current monetary policy stances unchanged through 2012, keeping the policy rates at 1.5% and 0.5%, respectively, until the first quarter of 2013.

Asia Pacific

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Target Rate	0.10	September 7, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	September 6, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	September 14, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	September 16, 2011	8.00	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.88	September 29, 2011	--	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	September 8, 2011	3.00	3.00
Bank of Korea – Bank Rate	3.25	September 7, 2011	3.25	3.25
Bank of Thailand – Repo Rate	3.50	October 19, 2011	3.25	--
Bank Indonesia – Reference Interest Rate	6.75	September 8, 2011	6.75	--
Central Bank of the Philippines – Overnight Policy Rate	4.50	September 8, 2011	4.50	4.50

We have revised our monetary policy outlook for Australia as we now expect the central bank to remain on hold until the final quarter of 2011, when we anticipate a 25 bps lift given the prevalence of domestic price pressures. While inflation in Korea picked up again at the latest reading, we expect the Bank of Korea to stay put once more while relying on currency appreciation to carry the monetary heavy lifting. Bank Negara Malaysia will also keep rates on hold as inflation is already showing signs of abating. Such will also be the case for Indonesia, the Philippines and the Bank of Japan.

Latin America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	12.00	October 19, 2011	11.50	--
Banco Central de Chile – Overnight Rate	5.25	September 15, 2011	5.25	--
Banco de la República de Colombia – Lending Rate	4.50	September 30, 2011	4.50	--
Banco Central de Reserva del Perú – Reference Rate	4.25	September 8, 2011	4.25	4.25

We anticipate that the central bank of Peru will likely maintain its monetary policy stance and leave the reference rate unchanged at 4.25%. A recent survey conducted by the monetary authorities showed a reversal in rising inflation expectations, which also supports our thoughts of a more neutral monetary policy stance.

Africa

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	5.50	September 22, 2011	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
Output and Inflation (annual % change)								
	Real GDP				Consumer Prices²			
World ¹	3.6	5.1	3.9	4.2				
Canada	2.1	3.2	2.2	2.1	2.1	1.8	2.7	1.9
United States	1.7	3.0	1.7	2.1	2.6	1.6	2.8	1.9
Mexico	1.7	5.4	3.7	3.5	4.9	4.4	3.6	3.8
United Kingdom	1.7	1.4	1.2	1.5	1.9	3.7	4.4	2.1
Euro zone	1.1	1.7	1.7	1.4	2.0	2.2	2.5	2.0
Japan	0.6	4.0	0.3	3.5	-0.3	-0.4	1.1	1.3
Australia	3.1	2.7	3.4	3.0	3.2	2.7	2.8	2.5
China	9.4	10.4	9.3	9.5	2.0	4.6	5.0	4.5
India	7.4	9.0	8.3	8.5	6.2	9.5	7.5	6.0
Korea	4.4	6.2	4.9	5.3	3.1	3.5	3.7	3.3
Brazil	3.3	7.5	4.0	4.5	6.7	5.9	6.5	5.5
Chile	3.7	5.2	6.5	5.5	3.5	1.4	4.0	3.5
Peru	5.2	8.8	6.2	5.6	2.5	2.1	3.8	2.7
Central Bank Rates (% end of period)	11Q1	11Q2	11Q3f	11Q4f	12Q1f	12Q2f	12Q3f	12Q4f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	1.25	1.50	1.50	1.50	1.50	1.50	1.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.25	0.25	0.00	0.00	0.00	0.00	0.25	0.25
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	4.75	4.75	4.75	5.00	5.00	5.00	5.25	5.25
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.96	0.96	0.96	0.95	0.95	0.94	0.94
Canadian Dollar (CADUSD)	1.03	1.04	1.04	1.04	1.05	1.05	1.06	1.06
Euro (EURUSD)	1.42	1.45	1.45	1.50	1.48	1.46	1.43	1.40
Sterling (GBPUSD)	1.60	1.61	1.63	1.65	1.66	1.67	1.69	1.70
Yen (USDJPY)	83	81	79	80	82	83	84	85
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.09	1.10	1.10	1.11
Chinese Yuan (USDCNY)	6.5	6.5	6.3	6.3	6.2	6.1	6.0	5.9
Mexican Peso (USDMXN)	11.9	11.7	12.3	12.3	12.3	12.2	12.3	12.5
Brazilian Real (USDBRL)	1.63	1.56	1.59	1.60	1.61	1.62	1.64	1.65
Commodities (annual average)	2000-09	2010	2011f	2012f				
WTI Oil (US\$/bbl)	51	79	94	97				
Brent Oil (US\$/bbl)	50	80	113	118				
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.40	4.75				
Copper (US\$/lb)	1.78	3.42	4.30	4.30				
Zinc (US\$/lb)	0.73	0.98	1.05	1.06				
Nickel (US\$/lb)	7.11	9.89	11.00	9.35				
Gold, London PM Fix (US\$/oz)	522	1,225	1,635	1,800				
Pulp (US\$/tonne)	668	960	990	1,040				
Newsprint (US\$/tonne)	572	607	648	715				
Lumber (US\$/mfbm)	275	254	255	260				

¹ World GDP for 2000-09 are IMF estimates; 2010e-12f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.

² CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

Canada	2010	10Q4	11Q1	Latest	United States	2010	10Q4	11Q1	Latest
Real GDP (annual rates)	3.2	3.1	3.6		Real GDP (annual rates)	3.0	2.3	0.4	1.0 (Q2-S)
Current Acc. Bal. (C\$B, ar)	-50.9	-41.1	-40.3		Current Acc. Bal. (US\$B, ar)	-471	-449	-477	
Merch. Trade Bal. (C\$B, ar)	-9.0	1.5	7.4	-18.7 (Jun)	Merch. Trade Bal. (US\$B, ar)	-646	-637	-730	-811 (Jun)
Industrial Production	4.6	6.0	5.3	0.0 (Jun)	Industrial Production	5.3	6.2	5.3	3.9 (Jul)
Housing Starts (000s)	192	179	178	205 (Jul)	Housing Starts (millions)	0.58	0.54	0.58	0.60 (Jul)
Employment	1.4	1.7	1.9	1.5 (Jul)	Employment	-0.8	0.5	0.9	1.0 (Aug)
Unemployment Rate (%)	8.0	7.7	7.8	7.2 (Jul)	Unemployment Rate (%)	9.6	9.6	8.9	9.1 (Aug)
Retail Sales	5.5	5.3	2.5	4.6 (Jun)	Retail Sales	6.8	8.1	8.6	8.9 (Jul)
Auto Sales (000s)	1560	1553	1573	726 (Jun)	Auto Sales (millions)	11.6	12.3	13.0	12.2 (Jul)
CPI	1.8	2.3	2.6	2.7 (Jul)	CPI	1.6	1.3	2.1	3.6 (Jul)
IPPI	1.0	2.6	4.1	-5.1 (Jul)	PPI	4.2	3.8	4.9	7.2 (Jul)
Pre-tax Corp. Profits	21.2	19.1	12.9		Pre-tax Corp. Profits	25.0	1.1	2.8	
Mexico					Brazil				
Real GDP	5.4	4.4	4.6		Real GDP	6.7	4.2	3.8	
Current Acc. Bal. (US\$B, ar)	-5.7	-13.8	-4.2		Current Acc. Bal. (US\$B, ar)	-47.4	-48.0	-58.3	
Merch. Trade Bal. (US\$B, ar)	-3.0	-4.2	7.6	-14.1 (Jul)	Merch. Trade Bal. (US\$B, ar)	20.2	29.9	12.6	46.5 (Aug)
Industrial Production	6.0	4.8	5.2	3.7 (Jun)	Industrial Production	10.5	3.6	2.6	1.4 (Jul)
CPI	4.2	4.2	3.5	3.5 (Jul)	CPI	5.1	6.1	6.8	6.8 (Jul)
Chile					Italy				
Real GDP	5.2	5.8	10.0		Real GDP	1.2	1.5	1.0	
Current Acc. Bal. (US\$B, ar)	3.1	4.9	0.7		Current Acc. Bal. (US\$B, ar)	-0.07	-0.07	-0.12	-0.07 (Jun)
Merch. Trade Bal. (US\$B, ar)	11.6	17.7	16.5	14.6 (Jul)	Merch. Trade Bal. (US\$B, ar)	-39.1	-46.3	-77.2	-31.6 (Jun)
Industrial Production	0.5	2.7	11.7	0.7 (Jul)	Industrial Production	6.5	5.3	2.3	0.3 (Jun)
CPI	1.4	2.5	2.9	2.9 (Jul)	CPI	1.6	1.8	2.3	2.7 (Jul)
Germany					France				
Real GDP	3.6	3.8	4.6		Real GDP	1.4	1.4	2.1	
Current Acc. Bal. (US\$B, ar)	187.6	251.7	194.8	205.8 (Jun)	Current Acc. Bal. (US\$B, ar)	-44.5	-86.6	-59.7	-97.3 (Jun)
Merch. Trade Bal. (US\$B, ar)	201.5	219.8	209.3	198.4 (Jun)	Merch. Trade Bal. (US\$B, ar)	-39.5	-39.7	-54.5	-46.7 (Jun)
Industrial Production	10.1	11.7	12.8	6.6 (Jun)	Industrial Production	5.1	4.7	4.8	2.3 (Jun)
Unemployment Rate (%)	7.7	7.4	7.3	7.0 (Aug)	Unemployment Rate (%)	9.8	9.7	9.7	9.9 (Jul)
CPI	1.1	1.5	2.1	2.3 (Aug)	CPI	1.5	1.6	1.8	1.9 (Jul)
Euro Zone					United Kingdom				
Real GDP	1.7	1.9	2.4		Real GDP	1.4	1.5	1.6	
Current Acc. Bal. (US\$B, ar)	-77	-41	-169	-57 (Jun)	Current Acc. Bal. (US\$B, ar)	-71.6	-72.2	-74.0	
Merch. Trade Bal. (US\$B, ar)	32.0	53.2	-68.5	16.0 (Jun)	Merch. Trade Bal. (US\$B, ar)	-153.0	-171.9	-142.4	-172.6 (Jun)
Industrial Production	7.4	8.1	6.5	2.9 (Jun)	Industrial Production	2.1	3.3	2.0	-0.3 (Jun)
Unemployment Rate (%)	10.1	10.0	9.9	9.9 (Jul)	Unemployment Rate (%)	7.9	7.9	7.7	7.9 (May)
CPI	1.6	2.0	2.5	2.5 (Jul)	CPI	3.3	3.4	4.1	4.5 (Jul)
Japan					Australia				
Real GDP	4.0	2.5	-0.7		Real GDP	2.7	2.7	1.0	
Current Acc. Bal. (US\$B, ar)	195.9	176.8	193.9	78.5 (Jun)	Current Acc. Bal. (US\$B, ar)	-31.8	-37.4	-37.9	
Merch. Trade Bal. (US\$B, ar)	74.8	60.7	32.0	-19.7 (Jul)	Merch. Trade Bal. (US\$B, ar)	19.3	26.1	21.9	39.6 (Jun)
Industrial Production	16.6	6.8	-2.5	-1.5 (Jul)	Industrial Production	4.3	0.0	-5.4	
Unemployment Rate (%)	5.1	5.0	4.7	4.7 (Jul)	Unemployment Rate (%)	5.2	5.2	5.0	5.1 (Jul)
CPI	-0.7	-0.3	-0.5	0.2 (Jul)	CPI	2.8	2.7	3.3	
China					South Korea				
Real GDP	10.3	9.8	9.7		Real GDP	6.2	4.7	4.2	
Current Acc. Bal. (US\$B, ar)	305.4				Current Acc. Bal. (US\$B, ar)	28.2	36.6	10.4	59.3 (Jul)
Merch. Trade Bal. (US\$B, ar)	181.5	246.8	-7.4	377.8 (Jul)	Merch. Trade Bal. (US\$B, ar)	41.2	52.1	29.3	9.9 (Aug)
Industrial Production	13.5	13.5	14.8	14.0 (Jul)	Industrial Production	16.6	9.9	11.2	5.4 (Jul)
CPI	4.6	4.6	5.4	6.5 (Jul)	CPI	3.0	3.6	4.5	5.3 (Aug)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (% , end of period)

Canada	11Q1	11Q2	Aug/26	Sep/02*	United States	11Q1	11Q2	Aug/26	Sep/02*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.95	0.90	0.88	0.86	3-mo. T-bill	0.09	0.01	-0.01	0.02
10-yr Gov't Bond	3.35	3.11	2.40	2.31	10-yr Gov't Bond	3.47	3.16	2.19	2.06
30-yr Gov't Bond	3.76	3.55	3.01	2.97	30-yr Gov't Bond	4.51	4.37	3.54	3.40
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	60.4	62.3	63.1	(Jul)	FX Reserves (US\$B)	128.3	136.6	138.7	(Jul)
Germany					France				
3-mo. Interbank	1.26	1.51	1.50	1.51	3-mo. T-bill	0.80	1.18	0.56	0.62
10-yr Gov't Bond	3.35	3.03	2.16	2.02	10-yr Gov't Bond	3.71	3.41	2.82	2.77
FX Reserves (US\$B)	64.8	66.0	66.9	(Jul)	FX Reserves (US\$B)	61.0	60.3	59.5	(Jul)
Euro-Zone					United Kingdom				
Refinancing Rate	1.00	1.25	1.50	1.50	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.90	1.72	0.89	0.88	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	319.9	317.2	321.3	(Jul)	10-yr Gov't Bond	3.69	3.38	2.46	2.45
Japan					FX Reserves (US\$B)	75.3	79.7	81.2	(Jul)
Discount Rate	0.30	0.30	0.30	0.30	Australia				
3-mo. Libor	0.14	0.13	0.13	0.13	Cash Rate	4.75	4.75	4.75	4.75
10-yr Gov't Bond	1.26	1.14	1.04	1.03	10-yr Gov't Bond	5.49	5.21	4.40	4.41
FX Reserves (US\$B)	1080.6	1100.8	1110.8	(Jul)	FX Reserves (US\$B)	33.3	40.3	40.4	(Jul)

Exchange Rates (end of period)

USDCAD	0.97	0.96	0.98	0.98	¥/US\$	83.13	80.56	76.64	76.79
CADUSD	1.03	1.04	1.02	1.02	US\$/Australian\$	103.29	107.22	105.73	106.75
GBPUSD	1.603	1.605	1.637	1.621	Chinese Yuan/US\$	6.55	6.46	6.39	6.38
EURUSD	1.416	1.450	1.450	1.421	South Korean Won/US\$	1097	1068	1082	1063
JPYEUR	0.85	0.86	0.90	0.92	Mexican Peso/US\$	11.905	11.714	12.455	12.373
USDCHF	0.92	0.84	0.81	0.79	Brazilian Real/US\$	1.632	1.563	1.603	1.632

Equity Markets (index, end of period)

United States (DJIA)	12320	12414	11285	11311	U.K. (FT100)	5909	5946	5131	5284
United States (S&P500)	1326	1321	1177	1184	Germany (Dax)	7041	7376	5537	5517
Canada (S&P/TSX)	14116	13301	12328	12634	France (CAC40)	3989	3982	3088	3145
Mexico (Bolsa)	37441	36558	34042	35436	Japan (Nikkei)	9755	9816	8798	8951
Brazil (Bovespa)	68587	62404	53351	57115	Hong Kong (Hang Seng)	23528	22398	19583	20213
Italy (BCI)	1120	1039	801	831	South Korea (Composite)	2107	2101	1779	1868

Commodity Prices (end of period)

Pulp (US\$/tonne)	990	1035	1020	1020	Copper (US\$/lb)	4.26	4.22	4.12	4.11
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.05	1.05	1.00	0.99
Lumber (US\$/mfbm)	290	237	230	245	Gold (US\$/oz)	1439.00	1505.50	1788.00	1875.25
WTI Oil (US\$/bbl)	106.72	95.42	85.37	86.69	Silver (US\$/oz)	37.87	35.02	41.06	42.50
Natural Gas (US\$/mmbtu)	4.39	4.37	3.93	4.01	CRB (index)	359.43	338.05	335.25	338.25

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

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