

Global Growth: Another Upward Revision

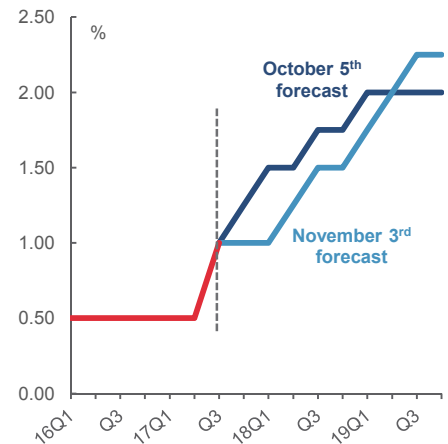
- Global momentum remains strong, with data received over the last month suggesting global growth in 2017 will be a touch stronger than we anticipated last month.
- Key changes include more robust US growth in the second half of 2017 and in 2018 owing to incoming data that suggest domestic demand is stronger than earlier thought. We are not yet including an impact from the ongoing efforts to cut taxes in the US given the range of uncertainties surrounding the proposed reforms. We remain of the view that the Federal Reserve will raise rates in December, followed by two additional increases in 2018. Powell's appointment as Chairman of the Federal Reserve suggests little change in Fed orientation once Yellen departs.
- Owing to stronger growth in the US, a weaker currency and more gradual rise in interest rates than we expected, we now think Canada will grow by 2.2% in 2018, following a very strong 3.1% rise in 2017. Though growth is expected to slow substantially in 2018, that pace of activity will remain well above the economy's potential growth rate, adding inflationary pressures and requiring higher interest rates. While we think the Bank of Canada should increase interest rates in December or January given the strength of the economy, we expect the Bank will next move in April. Governor Poloz has made it clear that he is closely watching: the state of the NAFTA negotiations and the potentially negative implications they have for confidence and investment; the impact of the 50 basis point rise in the policy rate so far; and the most recent measures announced by OSFI to cool the housing market. We are unlikely to have much clarity on any of these factors until the spring, and think this will make it difficult for the Governor to be comfortable enough to raise rates before April, followed by one more increase in 2018. Nevertheless, a compelling case exists to raise interest rates sooner, and we think incoming data will be supportive of a rate rise in December or January. At this time, we would place the odds of a move in those months at slightly less than 50%.
- With a more gradual pace of monetary tightening in Canada and increased certainty of higher rates in the US over the next 12 months, we now anticipate a weaker Canadian dollar than we predicted last month. By end-2017, we forecast a Canadian dollar of 1.28, followed by an appreciation to 1.25 through the end of 2018.

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Chart 1

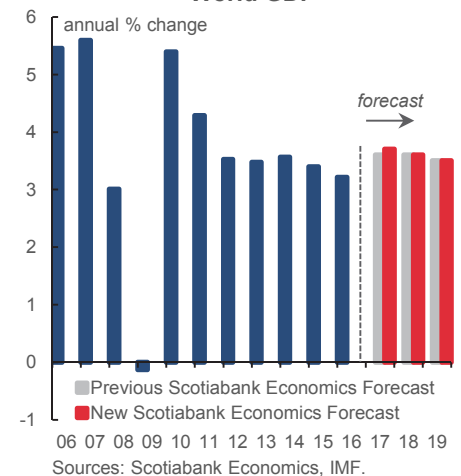
Forecast of Bank of Canada Rate



Sources: Scotiabank Economics, Bloomberg.

Chart 2

World GDP



Sources: Scotiabank Economics, IMF.

International	2000–16	2016	2017f	2018f	2019f	2000–16	2016	2017f	2018f	2019f
	Real GDP (annual % change)					Consumer Prices (y/y % change, year-end)				
World (based on purchasing power parity)	3.9	3.2	3.7	3.6	3.5					
Canada	2.1	1.5	3.1	2.2	1.5	1.9	1.4	1.6	1.9	2.1
United States	1.9	1.5	2.2	2.4	1.7	2.2	1.8	2.0	2.2	2.4
Mexico	2.4	2.3	2.4	2.7	3.1	4.4	3.4	6.6	4.3	3.8
United Kingdom	1.8	1.8	1.5	1.2	2.0	2.0	0.7	3.0	1.9	1.9
Euro zone	1.3	1.6	2.3	2.0	1.8	1.7	1.1	1.6	1.5	1.7
Germany	1.3	1.7	2.3	2.6	2.2	1.5	1.7	1.7	1.5	1.9
France	1.3	1.2	1.8	2.0	1.8	1.6	0.6	1.0	1.0	1.4
China	9.4	6.7	6.8	6.4	6.1	2.3	2.1	2.0	2.5	2.6
India	7.0	7.6	6.5	7.4	7.6	6.9	3.4	3.9	4.9	5.7
Japan	0.9	1.0	1.6	1.0	0.8	0.1	0.3	0.6	1.1	2.3
South Korea	4.2	2.8	3.1	2.8	3.0	2.6	1.3	1.9	2.3	2.5
Australia	2.9	2.5	2.4	2.7	2.5	2.8	1.5	1.9	2.2	2.6
Thailand	4.0	3.2	3.5	3.3	3.4	2.0	1.1	0.7	1.6	2.0
Brazil	2.6	-3.6	0.6	2.5	2.7	6.7	6.3	4.0	4.1	2.6
Colombia	4.0	2.0	1.6	2.5	3.1	5.1	5.7	4.2	3.5	3.0
Peru	5.1	4.0	2.5	3.7	4.2	2.8	3.2	2.2	2.8	2.6
Chile	4.1	1.6	1.4	2.8	3.2	3.4	2.7	1.9	2.9	3.0
Commodities	(annual average)									
WTI Oil (USD/bbl)	63	43	50	52	56					
Brent Oil (USD/bbl)	66	45	53	56	60					
Nymex Natural Gas (USD/mmbtu)	4.94	2.55	3.06	2.85	3.00					
Copper (USD/lb)	2.35	2.21	2.73	2.85	3.00					
Zinc (USD/lb)	0.81	0.95	1.29	1.50	1.60					
Nickel (USD/lb)	7.26	4.36	4.65	5.00	5.50					
Aluminium (USD/lb)	0.86	0.73	0.88	0.90	0.90					
Iron Ore (USD/tonne)	67	58	70	60	60					
Metallurgical Coal (USD/tonne)	127	114	206	150	130					
Gold, London PM Fix (USD/oz)	869	1,251	1,265	1,300	1,300					

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

North America	2000–16	2016	2017f	2018f	2019f	2000–16	2016	2017f	2018f	2019f
	Canada					United States				
	(annual % change, unless noted)					(annual % change, unless noted)				
Real GDP	2.1	1.5	3.1	2.2	1.5	1.9	1.5	2.2	2.4	1.7
Consumer spending	2.9	2.3	3.5	2.3	1.7	2.4	2.7	2.7	2.6	2.1
Residential investment	3.7	3.0	3.0	-0.8	-1.2	-0.4	5.5	1.1	1.5	1.7
Business investment	2.1	-7.8	1.9	4.0	2.7	2.3	-0.6	4.4	3.6	2.2
Government	2.2	1.8	1.9	1.8	0.9	1.0	0.8	-0.1	0.5	0.5
Exports	1.3	1.0	1.7	2.6	3.2	3.6	-0.3	3.1	2.6	2.7
Imports	2.8	-0.9	3.2	2.4	2.7	3.4	1.3	3.3	2.8	3.2
Nominal GDP	4.2	2.1	5.5	4.4	4.0	3.9	2.8	4.0	4.2	3.7
GDP deflator	2.1	0.6	2.4	2.2	2.4	2.0	1.3	1.8	1.7	1.9
Consumer price index (CPI)	1.9	1.4	1.5	1.8	2.0	2.2	1.3	2.1	2.1	2.3
CPI ex. food & energy	1.6	1.9	1.6	1.8	1.9	2.0	2.2	1.8	2.0	2.2
Pre-tax corporate profits	3.3	-4.5	22.0	5.0	1.0	5.5	-2.1	4.0	3.5	0.5
Employment	1.3	0.7	1.7	1.0	0.8	0.7	1.8	1.5	1.2	1.1
Unemployment rate (%)	7.1	7.0	6.4	6.2	6.2	6.2	4.9	4.4	4.1	4.1
Current account balance (CAD, USD bn)	-17.0	-67.0	-65.2	-65.4	-58.9	-507	-452	-468	-504	-554
Merchandise trade balance (CAD, USD bn)	25.1	-26.0	-21.4	-24.3	-20.9	-673	-753	-795	-839	-906
Federal budget balance* (FY, CAD, USD bn)	-2.8	-1.0	-17.8	-19.9	-18.6	-532	-586	-666	-675	-715
percent of GDP	-0.2	0.0	-0.9	-0.9	-0.8	-3.7	-3.1	-3.4	-3.3	-3.4
Housing starts (000s, mn)	199	198	214	198	188	1.27	1.18	1.20	1.25	1.30
Motor vehicle sales (000s, mn)	1,657	1,949	2,030	2,000	1,950	15.5	17.5	17.1	17.4	17.3
Industrial production	0.5	-0.3	5.9	2.1	1.0	0.7	-1.2	1.4	1.7	1.1
	Mexico									
	(annual % change)									
Real GDP	2.4	2.3	2.4	2.7	3.1					
Consumer price index (year-end)	4.4	3.4	6.6	4.3	3.8					
Current account balance (USD bn)	-14.8	-27.9	-25.0	-36.0	-34.4					
Merchandise trade balance (USD bn)	-7.2	-13.1	-8.0	-11.5	-8.5					

Sources: Scotiabank Economics, Statistics Canada, CMHC, BEA, BLS, Bloomberg. * Finance Canada forecast for FY18 and FY19.

Quarterly Forecasts	2017		2018				2019			
	Q3e	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Canada										
Real GDP (q/q ann. % change)	1.8	2.4	2.2	1.9	1.7	1.7	1.5	1.5	1.4	1.4
Real GDP (y/y % change)	3.1	3.1	2.7	2.1	2.0	1.8	1.7	1.6	1.5	1.4
Consumer prices (y/y % change)	1.4	1.6	1.7	1.9	1.9	1.9	2.0	2.0	2.1	2.1
CPI ex. food & energy (y/y % change)	1.4	1.5	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Avg. of new core CPIs (y/y % change)	1.5	1.6	1.7	1.8	1.8	1.9	1.9	1.9	1.9	1.9
United States										
Real GDP (q/q ann. % change)	3.0	2.8	2.3	2.0	2.0	1.8	1.6	1.6	1.6	1.6
Real GDP (y/y % change)	2.3	2.5	2.8	2.5	2.3	2.0	1.9	1.8	1.7	1.6
Consumer prices (y/y % change)	2.0	2.0	1.9	2.2	2.2	2.2	2.2	2.3	2.4	2.4
CPI ex. food & energy (y/y % change)	1.7	1.8	1.8	2.1	2.1	2.2	2.2	2.2	2.3	2.3

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

Central Bank Rates	2017		2018				2019			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas	(% , end of period)									
Bank of Canada	1.00	1.00	1.00	1.25	1.50	1.50	1.75	2.00	2.25	2.25
US Federal Reserve (upper bound)	1.25	1.50	1.50	1.75	1.75	2.00	2.00	2.00	2.25	2.25
Bank of Mexico	7.00	7.25	7.50	7.50	7.50	7.50	7.25	6.75	6.75	6.75
Central Bank of Brazil	8.25	7.25	7.25	7.25	7.50	7.75	8.00	8.25	8.50	8.50
Bank of the Republic of Colombia	5.25	5.00	4.75	4.75	4.75	4.75	4.75	5.00	5.25	5.25
Central Reserve Bank of Peru	3.50	3.50	3.50	3.50	3.50	3.50	3.75	3.75	4.00	4.00
Central Bank of Chile	2.50	2.50	2.50	2.75	3.00	3.25	3.50	3.50	3.75	3.75
Europe										
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50
Bank of England	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50
Asia/Oceania										
Reserve Bank of Australia	1.50	1.50	1.50	1.50	1.50	1.75	1.75	2.00	2.00	2.25
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
People's Bank of China	4.35	4.35	4.35	4.35	4.35	4.35	4.60	4.60	4.85	4.85
Reserve Bank of India	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.25	6.50	6.50
Bank of Korea	1.25	1.25	1.50	1.50	1.75	1.75	2.00	2.00	2.25	2.25
Bank of Thailand	1.50	1.50	1.50	1.75	1.75	2.00	2.00	2.00	2.25	2.25
Currencies and Interest Rates										
Americas	(end of period)									
Canadian Dollar (USDCAD)	1.25	1.28	1.28	1.27	1.26	1.25	1.25	1.22	1.22	1.25
Canadian Dollar (CADUSD)	0.80	0.78	0.78	0.79	0.79	0.80	0.80	0.82	0.82	0.80
Mexican Peso (USDMXN)	18.25	18.99	19.19	19.04	19.10	19.36	19.46	19.28	19.34	19.61
Brazilian Real (USDBRL)	3.16	3.35	3.45	3.50	3.55	3.60	3.55	3.55	3.50	3.50
Colombian Peso (USDCOP)	2,938	3,005	3,100	3,100	3,050	3,000	3,000	3,050	3,100	3,100
Peruvian Nuevo Sol (USDPEN)	3.27	3.22	3.20	3.19	3.17	3.18	3.19	3.15	3.16	3.13
Chilean Peso (USDCLP)	639	640	639	639	638	638	635	631	628	625
Europe										
Euro (EURUSD)	1.18	1.18	1.18	1.18	1.20	1.20	1.24	1.24	1.28	1.28
UK Pound (GBPUSD)	1.34	1.33	1.35	1.35	1.37	1.37	1.38	1.38	1.40	1.40
Asia/Oceania										
Japanese Yen (USDJPY)	113	112	114	114	115	115	118	118	120	120
Australian Dollar (AUDUSD)	0.78	0.79	0.79	0.79	0.80	0.80	0.81	0.81	0.82	0.82
Chinese Yuan (USDCNY)	6.65	6.60	6.55	6.55	6.50	6.50	6.45	6.45	6.40	6.40
Indian Rupee (USDINR)	65.3	66.0	65.5	65.5	65.0	65.0	64.5	64.5	64.0	64.0
South Korean Won (USDKRW)	1,145	1,160	1,140	1,140	1,120	1,120	1,100	1,100	1,080	1,080
Thai Baht (USDTHB)	33.3	33.6	33.4	33.4	33.2	33.2	33.0	33.0	32.8	32.8
Canada (Yields, %)										
3-month T-bill	1.00	1.05	1.10	1.30	1.50	1.60	1.80	2.10	2.35	2.40
2-year Canada	1.52	1.50	1.65	1.80	1.95	2.05	2.10	2.25	2.40	2.45
5-year Canada	1.75	1.75	1.90	1.95	2.05	2.20	2.30	2.40	2.50	2.60
10-year Canada	2.10	2.10	2.20	2.25	2.35	2.45	2.55	2.60	2.65	2.80
30-year Canada	2.48	2.45	2.55	2.60	2.75	2.90	3.00	3.10	3.15	3.20
United States (Yields, %)										
3-month T-bill	1.04	1.30	1.40	1.60	1.70	2.00	2.05	2.05	2.30	2.30
2-year Treasury	1.48	1.65	1.75	1.85	1.95	2.10	2.20	2.30	2.35	2.45
5-year Treasury	1.93	2.10	2.15	2.20	2.25	2.30	2.40	2.50	2.55	2.60
10-year Treasury	2.34	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.90	3.00
30-year Treasury	2.86	2.90	2.95	3.00	3.05	3.10	3.10	3.15	3.20	3.30

Sources: Scotiabank Economics, Bloomberg.

The Provinces	(annual % change except where noted)											
Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	
2000–16	2.1	2.5	1.8	1.3	1.2	1.7	2.0	2.4	1.9	2.6	2.7	
2016p*	1.5	1.9	2.4	0.9	1.4	1.7	2.6	2.4	-1.0	-3.8	3.7	
2017f	3.1	-1.5	1.7	1.6	1.4	2.7	3.0	2.4	2.0	4.1	3.5	
2018f	2.2	-0.2	1.4	1.2	1.1	1.9	2.3	2.0	1.9	2.3	2.5	
2019f	1.5	0.7	1.1	0.8	0.5	1.5	1.7	1.5	1.6	1.7	1.7	
Nominal GDP												
2000–16	4.2	5.4	4.3	3.3	3.2	3.6	3.9	4.4	5.4	5.7	4.5	
2016e	2.1	-0.1	3.7	2.4	2.5	3.0	4.2	3.7	-3.5	-6.0	5.4	
2017f	5.5	2.9	3.6	3.4	3.2	3.9	5.5	4.4	5.2	8.1	6.0	
2018f	4.4	3.0	3.3	3.0	3.0	3.7	4.5	3.9	4.2	4.9	4.6	
2019f	4.0	3.7	2.9	2.6	2.3	3.3	4.0	3.5	4.1	4.8	4.0	
Employment												
2000–16	1.3	0.8	1.0	0.6	0.4	1.3	1.3	0.9	1.1	2.3	1.4	
2016	0.7	-1.5	-2.3	-0.4	-0.1	0.9	1.1	-0.4	-0.9	-1.6	3.2	
2017f	1.7	-3.9	2.8	0.6	0.4	2.1	1.6	1.4	0.0	0.9	3.6	
2018f	1.0	-0.9	0.3	0.2	0.2	0.9	1.1	0.7	0.5	1.0	1.4	
2019f	0.8	-0.3	0.4	0.2	0.2	0.8	0.9	0.5	0.6	0.9	1.1	
Unemployment Rate (%)												
2000–16	7.1	14.3	11.2	8.8	9.6	8.0	7.1	5.1	5.0	5.1	6.6	
2016	7.0	13.4	10.7	8.3	9.5	7.1	6.5	6.1	6.3	8.1	6.0	
2017f	6.4	14.8	9.9	8.3	8.1	6.1	6.1	5.4	6.3	8.0	5.2	
2018f	6.2	15.1	9.8	8.1	8.0	6.0	5.9	5.3	6.1	7.7	5.1	
2019f	6.2	15.0	9.7	7.9	8.0	5.9	5.9	5.2	6.0	7.6	5.0	
Housing Starts (units, 000s)												
2000–16	199	2.6	0.7	4.3	3.5	44	71	5.1	5.2	34	28	
2016	198	1.4	0.6	3.8	1.8	39	75	5.3	4.8	25	42	
2017f	214	1.2	1.0	4.3	1.9	42	81	7.5	5.0	29	40	
2018f	198	1.2	0.7	4.0	1.7	39	74	6.4	5.0	28	38	
2019f	188	1.2	0.7	3.8	1.8	37	70	6.1	4.8	28	35	
Motor Vehicle Sales (units, 000s)												
2000–16	1,657	29	6	48	38	413	635	47	45	216	180	
2016	1,949	33	9	54	44	458	807	55	51	220	218	
2017f	2,030	34	8	58	42	450	845	60	55	248	230	
2018f	2,000	32	8	57	41	444	825	59	56	251	227	
2019f	1,950	30	7	56	40	433	795	58	56	253	222	
Budget Balances, Fiscal Year Ending March 31 (CAD mn)												
2000–16**	-2,803	-75	-38	-30	-153	-821	-5,115	-142	360	1,064	319	
2016	-987	-2,207	-13	-13	-261	2,191	-3,515	-839	-675	-6,442	811	
2017f	-17,770	-1,080	-18	150 [†]	-119 [†]	250	-991 [†]	-764 [†]	-1,354 [†]	-10,784 [†]	2,737 [†]	
2018f***	-19,900	-778	1	132	-156	0	0	-840	-685	-10,288	246	
2019f***	-18,600	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	

Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents. * Real GDP by industry at basic prices. ** MB:FY04–FY15; AB:FY05–FY15; SK:FY15–FY18f: ex. accrual adjustment for pension expense. *** Finance Canada forecast for FY18 & FY19. † Final FY17; other FY17 & FY18: Provinces' estimates.

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