Global Views

Weekly commentary on economic and financial market developments

March 21, 2014

Global Views **is available on scotiabank.com, Bloomberg at SCOT and Reuters at SM1C**

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More Clarity Needed From The Fed

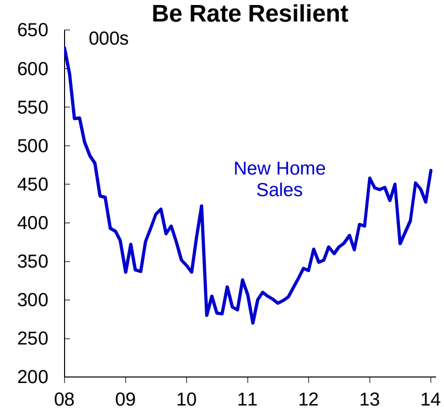
- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A9.**

US — On The Mend?

We didn't forecast the effects of bad weather terribly well this winter (go figure) or blatant Russian incursions onto the turf of another sovereign nation, but **we remain committed to our fairly upbeat view on the US economy over the full 2014-15 forecast horizon.** The lifting of temporary weather disruptions and the effects of shaking out inventory excesses may be in the early stages of transitioning the US economy toward a brighter outlook. As such, when asked for our core view on the US economy and the likelihood of a bear flattener over 2014-15, we remain very comfortable still referring to our outlook piece in January (here).

Chart 1

US New Home Sales Proving To Be Rate Resilient

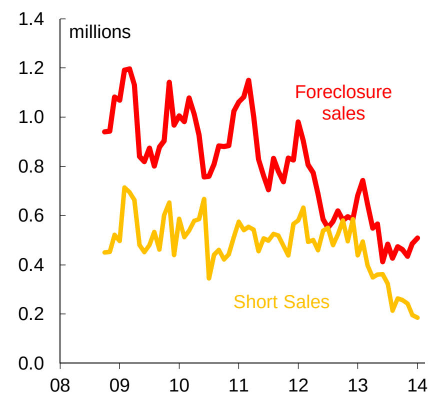


Source: US Census Bureau, Bloomberg, Scotiabank Economics.

To that effect, **the tone of recent readings on the US economy has been constructive** following a variety of more bearish readings in December and January. Recent readings for ISM-manufacturing, nonfarm payrolls, retail sales, total consumer spending, vehicle sales, industrial production and housing starts have all improved in the latest batch of prints while there have been few disappointments including ISM-services. **Next week will bring the next round of updates to test whether this latest batch of improved readings has legs to it.** One exception might be new home sales figures for February on Tuesday that might soften but remain along a very constructive trend. Recall that new home sales surged ahead by almost 10% m/m in January from December and rose to the highest level since July 2008 (chart 1). This is greater rate resilience than expected by more bearish views than ours on the US housing market and economy. Further, rising home prices have diminished the incentive to engage in short sales and foreclosure sales that are included in the total resale figures (chart 2). For this reason, the decline in resales since last Fall has been exaggerated by the drop in distressed selling which is actually a positive signal. That's also true of next Thursday's release of pending home sales that are 30-60 days away from showing up as completed resales once the paperwork has settled. Pending home sales had fallen from July through December also partly due to rising mortgage rates since last Spring but the declining role of short sales and foreclosure sales is an underreported influence here too.

Chart 2

Less Distressed Selling



Source: NAR, Bloomberg, Scotiabank Economics.

An already known gentle lift to retail sales in February after January's weather-affected decline should contribute toward a modest gain in February's total consumer spending next Friday. Note, however, that total consumer spending has been more resilient than retail sales and never contracted through winter in terms of the dollar value of spending, and only contracted marginally in December after stripping out price effects. **One reason for this is that consumer confidence has remained around its highest levels since before the crisis as a sign that consumers themselves are looking through temporary influences on the economy.** We'll see if that still holds in next week's update for the Conference Board's confidence measure.

A sharp rise in Boeing plane orders that almost doubled in February should carry a modestly positive influence on durable goods orders for February, and so should a weak hand-off from January's orders that fell 1% m/m. Working off excesses in the auto sector, however, could restrain the headline print.

Third time a charm? The next round of 2013Q4 GDP growth revisions on Thursday is expected to carry upside revision risk but still leave growth just north of 2.5% and heavily inventory-driven.

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Fed speak will reveal the range of opinions on altered Fed rate guidance when each of Plosser, Pianalto, Lockhart, Bullard, Evans, and George speak but note that only the first two vote this year. **Markets need clarity from individual Fed officials following Chair Yellen's confusing inaugural press conference that prompted sell-offs in equities and bonds during. We heard Yellen downplay the significance of individual FOMC members' volatile forecasts for the fed funds target (the 'dots'), advising markets to instead look toward a confusingly worded statement and with the surprise that rate hikes could come within six months after completing bond purchases with by our math could mean hikes as soon as next March.** In the wake of its stress testing results, the Federal Reserve also releases its annual 'comprehensive capital analysis and review results' on Wednesday. The US Treasury auctions 2s, 5s and 7s over the week.

Europe — A Return To (Soft) Fundamentals

With Ukraine licking its wounds and risks along the Crimean peninsula ebbing at least for now, the **attention across European markets should return to the fundamentals. Germany's economy will be the particular focal point** as the country releases CPI, retail sales, the purchasing managers' index for the manufacturing sector, and the IFO business confidence gauge. The tone of the readings could well be negative for a couple of reasons. One is that after a large 1.7% m/m rise in retail sales in January, German spending could have retrenched in February and this would continue a volatile oscillating pattern that has been in place for some time. The second risk is a Crimean hit to business confidence, but this could be relatively temporary and in the context of a strong upward trend over the past year and a half. The same risk likely faces Germany's PMI print. Whether German inflation bottoms in Friday's inflation reading will further inform the debate over further ECB policy steps, with the prior February inflation print tied with the lowest readings since 2010.

Inflation will be equally pertinent to BoE watchers as February's CPI print for the UK arrives. Recall that at 1.9% y/y, inflation was at its lowest in January since the end of 2009. This has been one factor tempering rate hike expectations while the central bank has shifted away from emphasizing unemployment rate targets and toward the equally muddled world of forecasting output gaps and inflation linkages. After riding above the 2% inflation target for about four years, the sudden softening in inflation readings over just the past four months has been capitalized upon as a dovish policy motivation.

Potential revisions to the UK's Q4 GDP, Italian retail sales, and French consumer spending round out the data risks next week.

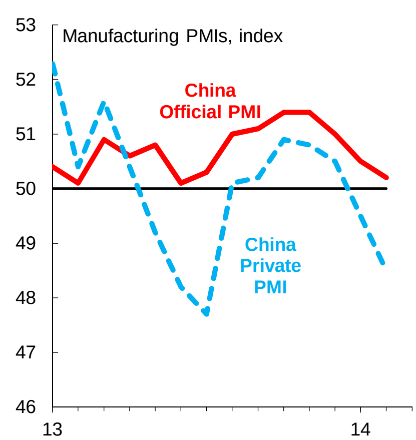
Asia — Japan Brought Forward, China Still Lagging?

Will China's manufacturing sector appear to be on the mend when next week's private sector version of the purchasing managers' index is released or will this development lag into the next month? The matter is key to potentially allaying concerns about a slowing Chinese economy. Unfortunately consensus doesn't expect an improvement just yet as the headline PMI is expected to be largely unchanged from last month and still in contraction territory. One reason for expecting an improved print would be if the Lunar new year effects shook off which is likely either in the March or April reading. Working against this, however, is that tightened credit conditions led by actions of the People's Bank of China have had a particularly harsh effect upon the smaller and more export-oriented manufacturers and they are weighing down the private PMI more so than the state's PMI (see chart).

Bangko Sentral ng Pilipinas issues a rate statement next week, and Governor Amanda Tetangco faces an increasingly skeptical market

Chart 3

Still Conflicting Chinese PMI Signals?



Source: Bloomberg, Scotiabank Economics.

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audience with respect to the risk of repeating Indonesia's 2012 experience when policy was tightened on the heels of strong growth at too late of a point in the cycle to pre-empt inflation risk. Over the past two years, the Philippines registered the strongest back-to-back years for growth since the mid-1950s. Against that backdrop, inflation currently stands at about its highest in two years but remains better behaved than during past break-outs.

Japan offers a round-up of household sector performance measures with each of retail sales, total household spending and CPI on tap for the month of February (March for Tokyo CPI). They will matter because **markets are on the watch for evidence that Japanese consumer spending is being brought forward into Q1 ahead of the planned three percentage point rise in the sales tax to 8% next month** and that by corollary will take an especially hard fall in Q2. So far, the brought-forward argument is working as retail sales climbed 1.6% m/m in January. Consensus expects consumer spending to take a bit of a step back in February. At stake is the Bloomberg consensus forecast for 2014Q1 GDP growth of 4.1% largely on this brought-forward argument before the economy is expected to contract by 3.7% in Q2. If thus far preliminary evidence of brought-forward demand is disappointed over the duration of Q1, then that would likely mean downward Q1 forecast revisions and upward Q2 forecast revisions.

Lesser releases will have markets watching for continued growth in South Korean industrial output, and trade figures from the Philippines and New Zealand.

Canada — Restoring Calm?

After a week when BoC Governor Poloz's comments hit CAD hard only to be followed by the resignation of Jim Flaherty as Finance Minister, some calm might be welcome. Indeed **Canadian markets will follow the global market tone with no apparent sources of domestic macro risk**. BoC Deputy Governor Lane delivers a speech on Monday in Toronto. His topic is "Building Trust in the Financial System" which is not suggestive of market risk. His focus is expected to be upon "how confidence in financial benchmarks such as LIBOR has recently been undermined, why that matters, and what is being done to restore it."

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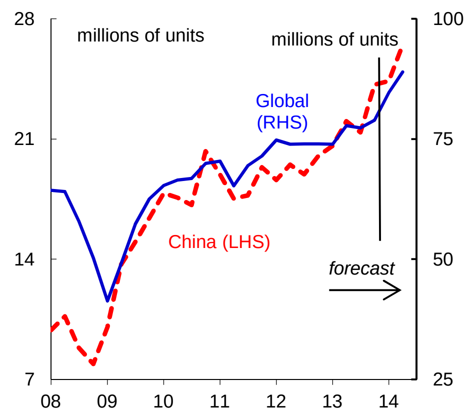
Record Global Auto Sales And Production In Early 2014

- **North American output schedules point to further gains.**

Global vehicle sales and production climbed to record highs in February, even as severe winter weather continued to hold back activity in North America. Sales gains accelerated to 7% y/y alongside a double-digit increase in Asia and an ongoing recovery in Western Europe. China led the way with volumes increasing 22% y/y, largely due to a 58% surge in purchases of crossover utility vehicles. Japan also posted the sixth consecutive double-digit gain, as households are buying new vehicles ahead of a three percentage point increase in the national sales tax in April.

Car sales in Western Europe also climbed above a year earlier for the sixth consecutive month, with gains in every major market, except France. Spain led the way, with volumes buoyed by the recent renewal of the vehicle scraping program. Meanwhile, purchases in Germany advanced for the third consecutive month, as the economic recovery has begun to unleash replacement demand.

Record Global Vehicle Production



Source: Scotiabank Global Auto Report.

Auto Production Buoys Economic Activity

After being dampened by inclement weather earlier this year, North American vehicle production has begun to rebound and is expected to strengthen significantly as automakers increase production in the second quarter. In fact, assemblies are expected to continue ramping up across the globe, providing a welcome boost to economic activity. Output gains will be strongest in Asia, partly due to capacity expansion, and will help calm financial market fears of an economic slowdown in China.

North American vehicle production is scheduled to climb to an annualized 16.9 million units in the April-June period, up from a weather-plagued 15.8 million in January. Despite high inventories, current second-quarter output plans are well above the full-year 2013 assemblies of 16.5 million units and are the highest since mid-2002. Rising production is expected to add 0.7 percentage points to economic growth in the United States in the second quarter — the largest increase in two years. The impact will be even greater in Mexico, with second-quarter assemblies scheduled to jump to a record annual rate of 3.2 million units. Sharper output gains in Mexico reflect the ramp up of production at new plants recently opened by Nissan, Mazda and Honda. Assemblies will also increase in Canada, but the gain will lag its NAFTA partners due to re-tooling at a facility in the Greater Toronto Area.

Increases in vehicle production are even greater outside of North America, and is being driven by capacity expansion and rising demand. For example, assemblies in China have surged 11% so far this year and the gains will accelerate, as automakers continue to invest in new plants. Vehicle assembly capacity in China is already more than double the North American total of nearly 18 million units, and will jump to more than 40 million by 2015. Most of the new capacity is being put in place by the major global automakers, which continue to gain share in the world's largest auto market.

Output is also rebounding in Western Europe, led by Germany and Spain. The increase reflects strengthening sales across the region. In fact, strong sales in the opening months have lifted new orders from assembly plants in Spain — a leading indicator of European auto production — to the highest level since late 2011.

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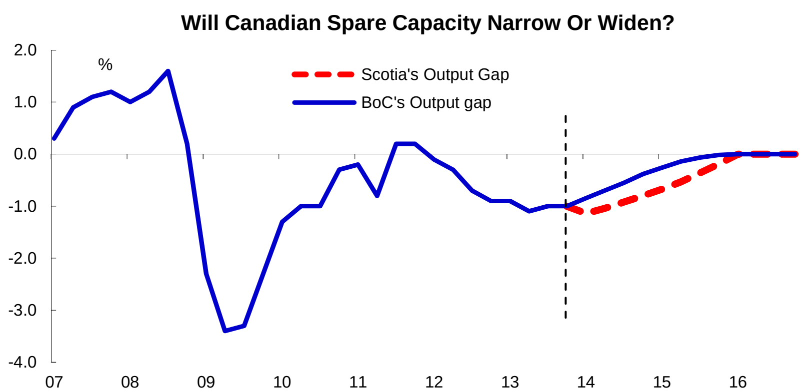
BoC Provides Dovish Long-Run Policy Guidance

- **By shooting down the risk of inflationary excess demand over the long-run, Governor Poloz tamped down rate expectations and weakened CAD.**

One of the major causes of recent C$ weakness has been dovish policy guidance from the Bank of Canada which has contrasted sharply with a more hawkish Federal Reserve – not only this year but over the past 9 months. The BoC went some ways toward explaining its policy bias this past week in a speech by Governor Poloz arguing that the Canadian economy will be operating below or at capacity over the next couple of years and, even after the output gap closes, will experience structural headwinds to growth. In what follows we assess this argument, and conclude that the Bank of Canada is likely to lag the Fed at least 1-2 quarters in normalizing its interest rate policy with the risks tilted towards a longer rate-pause from the BoC and a slower pace of policy normalization when rate hikes arrive.

BoC Assumes No Excess Demand After The Output Gap Closes

What was key to Poloz's speech **was that he signalled the expectation that the output gap will merely close within a couple of years and not subsequently trip into excess demand that would risk stoking inflation pressures beyond that time frame.** That's because Poloz's guidance on longer run potential growth (the economy's non-inflationary speed limit at which the supply side can grow) and actual GDP growth beyond 2015 match one another at around 2% which implies that once the gap closes, the Canadian economy will face a prolonged period of balanced supply and demand conditions that — insofar as output gaps tell you much about inflation — point to stable inflation rate expectations around the BoC's 2% target. **Poloz then went one step further and in response to a question said he could not rule out rate cuts.** That's a natural response given the multiple scenarios for what could conceivably go wrong, but markets took the words as a form of bias and CAD sank in response. Chart 1 takes our 2014-15 forecast for the output gap, combines it with the BoC's, and then extends it out into at least 2016 to show how this differs from pre-crisis periods of excess demand. Poloz's guidance would support going further out than that, but limitations on our bravery have us cutting out sooner. The BoC's formal print forecasts cut out at 2015Q4 and so this longer run guidance is material to a low for long dovish BoC bias beyond the printed forecast. It means we continue to view the risk to consensus as lying in favour of a longer BoC forecast in support of our 2015Q4 or later view accompanied by a slow pace of hikes beyond that point.



Source: Bank of Canada, Statistics Canada, Scotiabank Economics

Structural Headwinds To Growth

Against a view that Poloz is incorporating aggressive monetary policy hikes in order to get to the end point of actual growth riding in tandem with potential growth beyond 2015, he emphasizes demographic headwinds against economic growth and more aggressively tips his hat on a prolonged period of very low interest rates. The language Poloz uses to describe a low for long bias is not the language of a central banker forecasting balanced conditions in the economy over the longer run only through rate increases as opposed to structural growth challenges. He remarked that "the possibility of secular stagnation needs to be taken seriously" and references the combination of high savings, low demand, and low investment in the global economy as a powerful combination as a driver of low-for-long views. He points out that in this environment, "one specific consequence would be that even extraordinarily low policy interest rates could prove to be less stimulative than in normal circumstances."

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One way in which Poloz flags longer run growth concerns is through **revealing the BoC's estimate of how demographics will go from contributing half as much to potential GDP growth next year than it did in 2007.** I have to admit that I'm skeptical toward excess reliance upon demographics as a forecasting tool, but at the margin, it's reasonable to conclude that softer labour growth at elevated heights in Canadian housing markets is a combined cyclical and structural headwind against the economy.

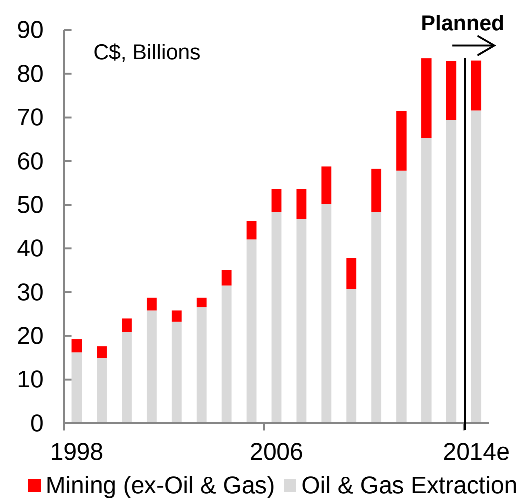
So why is Poloz so concerned about Canada's growth potential? He argues that growth is being limited by four factors:

- A 'hangover' from the financial crisis
- Weaker demographics
- An over-allocation of Canadian capital (our words) into the housing market as a result of post-financial crisis risk aversion resulting lower investment in productivity-enhancing capital (i.e. in infrastructure, etc.).
- A destruction of aggregate demand during the financial crisis (this is not that different from the crisis 'hangover' thesis)

A Top In Natural Resources?

We think one more should be added. The other medium-term concern for the Canadian economy is what the Reserve Bank of Australia has taken to calling 'the peak in natural resources investment.' Investment in Canada's natural resource sector was a major catalyst for growth for much of the past decade. As the chart to the right shows, capex in the Canadian natural resource space increased precipitously as natural resource prices boomed. The boom in prices is over, and so too, at least on the face of things, is capex in the mining and oil and gas space leveling off. The slowdown that we're already seeing in this space — and the structural possibly of more weakness to come — is a major headwind for the Canadian economy, one which the BoC would do well to factor into its projections.

Natural Resources Investment:
Capex Peaking Out?



Source: Scotiabank Economics, Statistics Canada

Near-Term Hiccup

Poloz also signalled a downward revision to 2014Q1 GDP growth mostly due to weather but says "it bears deeper analysis" which is a signal he remains to be convinced by future data before changing his mind on anything. **The combination of unchanged potential growth assumptions and a downward revision to near-term growth points to pushing out the closure of the output gap perhaps by a quarter compared to the January MPR.** What supports this is that he said the BoC now expects to close the output gap within "a couple of years" presumably from now to the end of 2016Q1 instead of by 2015Q4.

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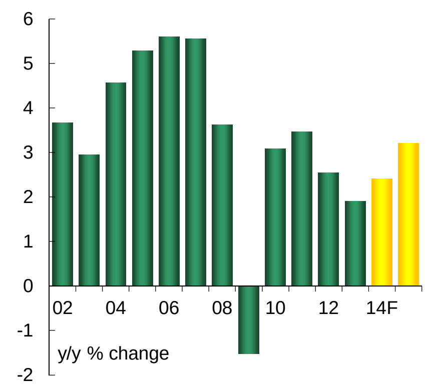
South Africa — Economic Outlook 2014-15

- **Fiscal consolidation plans and heightened inflationary pressures leave little policy room to respond to softer economic prospects in the case of continued labour unrest.**

Following a relatively weak economic performance in 2013 during which output advanced by 1.9% (the slowest rate since 1998, excluding the 2009 recession), the South African economy is expected to accelerate to around 2½% this year and 3¼% in 2015. The improving performance will be guided by strengthening external demand, gradually recuperating business and consumer confidence, and progressive infrastructure upgrades, including a new power station set to come on stream in the second half of 2014.

However, the pace of growth will likely remain below the estimated trend rate over the medium term given pronounced infrastructure constraints, particularly in electricity and transport, as well as skills shortages and labour market impediments that have sustained an unemployment rate of nearly 26% on average since 2001. The ongoing strike by platinum miners — now into its eighth week — will dent economic activity this year and may jeopardize the future of the country's mining industry.

South Africa Real GDP Growth



Source: IMF, Scotiabank Economics.

The inflation outlook has deteriorated, despite the fact that pass-through from substantial rand deprecation (19% versus the USD in 2013) to prices has been fairly limited thus far. Headline inflation — at 5.9% y/y in February — will likely exceed the central bank's 3-6% target range for much of the next two years. Economic growth concerns likely prevented the South African Reserve Bank from hiking the policy rate by more than 50 bps at its January meeting; however, further tightening may be necessarily before year-end, especially if core inflation begins to drift higher. High collective wage agreements add to price pressures.

The South African government remains committed to a program of steady fiscal consolidation and debt stabilization. The 2014 Budget aims to reduce the consolidated budget deficit from 4% of GDP in Fiscal Year 2013/14 (April-March) to 2.8% by 2016/17. Spending initiatives will be directed at infrastructure and education, respecting the expenditure ceiling introduced in 2012. The current account deficit widened in 2013 (to 5.8% of GDP), though by less than earlier anticipated due to a weaker trend in imports in the latter part of the year. The current account gap will shrink over the forecast horizon as demand for exports picks up, particularly from Europe and China which jointly take in over 40% of external shipments.

South Africa's sovereign credit ratings have remained unchanged over the last year. Low investment-grade credit ratings from all three major rating agencies are supported by the country's stable institutional framework, flexible monetary policy regime and robust banking system. Moody's ("Baa1") and Standard & Poor's ("BBB") hold "negative" outlooks on their ratings, while Fitch's ("BBB") assessment is "stable". Downside credit risks relate to subdued economic prospects and susceptibility to financial instability given large external imbalances and rising foreign ownership of government debt. Public sector debt is still rising (estimated at 46% of GDP in 2013), though it remains predominantly local-currency denominated. The yield on the 10-year benchmark government bond has risen by roughly 260 basis points (bps) from a cyclical low of 6% last May.

The South African rand (ZAR) has come off its late-January low by about 5% in US dollar (USD) terms, following a surprise interest rate hike by the central bank. However, the currency will remain vulnerable to the heightened volatility affecting emerging-market currencies given the country's large current account deficit, reliance on foreign capital inflows to fund external imbalances and modest growth outlook. The ongoing labour dispute in the mining sector and the muted outlook for certain key commodity prices will add downward pressure on the currency. We expect the ZAR to close 2014 at around 11 per USD.

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Alberta — Robust Expansion In 2014

- **Energy investments and production gains are driving its population and output growth.**

Further gains in oil output, continuing energy sector investment and a ramping up of public-sector infrastructure spending alongside post-flood reconstruction are expected to add to Alberta's momentum in 2014. Surging net in-migration to Alberta this year has helped meet its rising labour demand while containing wage inflation. It will also support housing construction and consumer spending going forward. Growth in 2015 is expected to top 3% for the sixth consecutive year.

Alberta's dominant oil industry is in high gear, led by crude bitumen (*middle chart*). In 2015, crude output is forecast to exceed 2013 production by about 15%. Boosting oil sands activity over the forecast period is rising production at Kearl Lake and Christina Lake, and the anticipated completion of several investments by year-end including at Foster Creek, Cold Lake and the Sunrise Thermal Project.

Though still at a fraction of their pre-recessionary level, gas well completions have picked up by more than 40% y/y from October 2013 to January 2014. After sliding a further 4.8% in 2013, natural gas production may be bottoming out, as cold weather boosts prices.

Business investment is outsized in Alberta representing roughly 23% of GDP, compared to 13% nationally. Further increases are expected over the next two years concentrated in energy projects including pipeline twinnings & expansions, further investment in rail terminals, the $8.5 billion North West Bitumen Upgrader and roughly a dozen oil-sands developments. The Province expects post-flood repairs and reconstruction to add about 0.4% to real GDP in 2013 and roughly double that in 2014, with a diminishing impact thereafter.

Despite the flooding last June, good growing conditions supported higher crop yields. As a result, double-digit output gains were seen for a number of crops including wheat (+35%), canola (+18%) and barley (+24%). Transportation bottlenecks have contributed to elevated grain inventories, leaving the potential for higher crop receipts in 2014.

Some moderation from last year's 3½% y/y population increase is expected over the next two years, though population growth should remain robust, with inflows from other provinces and countries supporting housing starts through 2015. Pointing to Alberta's tightening housing market are its rising sales-to-new-listings ratio and rental vacancy rates of roughly 1% in Edmonton and Calgary.

Private-sector services led Alberta's job creation in 2013, driven by a 23% surge in real estate & leasing employment from robust housing activity and a 12% jump in the professional, scientific and technical services job level to support the energy sector. In spite of job creation approaching 3%, population inflows kept Alberta's unemployment rate unchanged at 4.6% last year.

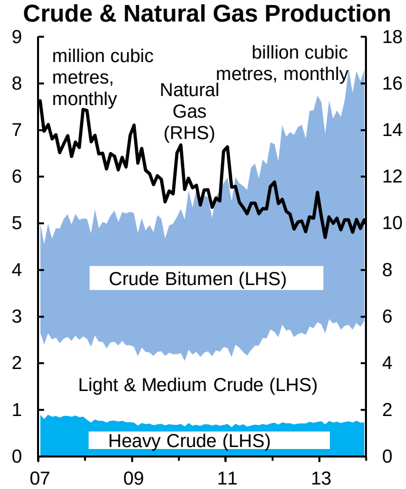
Led by motor vehicles & parts, retail sales grew by 6.6% in Alberta in 2013, fueled by a 7.3% surge in total labour compensation from higher employment, wages and other compensation (bottom chart).

Alberta: Economic Outlook

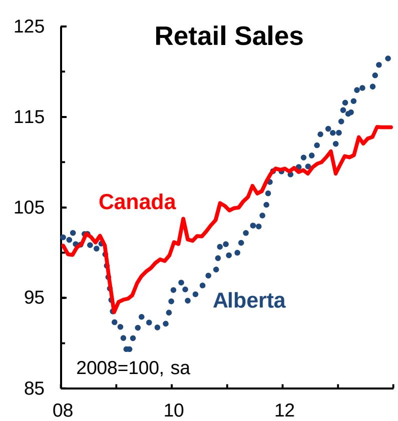
Population
July 1/13: 4.0 mn, 11.4% of Cda, 3.5% y/y
Net Immigration: +52,600*
Net Interprovincial Migration: +52,700*

	2000-12	13f	14f	15f
Real GDP, % change	3.2	3.5	3.7	3.3
Employment, % change	2.6	2.9	2.5	2.1
Employ/Pop.[t] Rate, %	69.8	69.7	70.0	70.2
Unemployment Rate, %	4.8	4.6	4.4	4.3
Housing Starts, 000s	34	36	37	36
Auto Sales, 000s	208	257	261	264

** Q3 2012 to Q2 2013. [t] Working-age population.*
Source: Statistics Canada, Scotiabank Economics.



Source: Alberta Energy Regulator.



Source: Statistics Canada.

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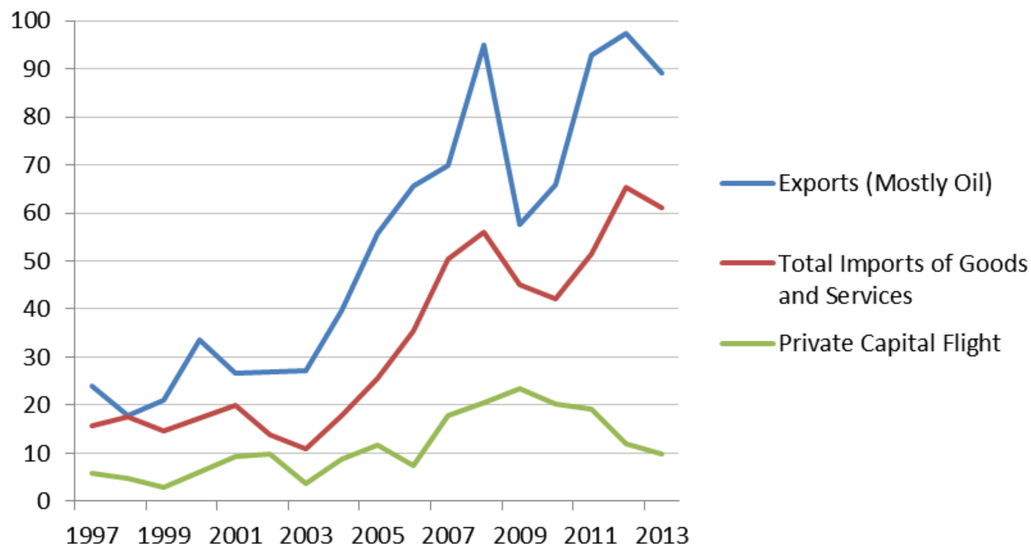
Where Does Venezuelan Oil Money Go?

In light of the shortage of hard currency in Venezuela, some investors worry that the government will eventually have to choose between ensuring the availability of basic consumer goods and paying the debt. We trace the trends in private and public imports of goods, capital flight, and debt service to understand under what scenarios the government might actually face such a trade-off.

The biggest threat to Venezuelan debt service these days is the chronic shortage of hard currency. While the Venezuelan government has prioritized debt service over other expenditures for the past twenty years, investors still worry that the lack of basic consumer goods may force the government to reconsider its priorities. For example, the Central Bank's scarcity index for basic consumer goods was 28% at the end of January. The problems experienced by Venezuela are particularly surprising given that hard currency revenue has increased five-fold since the late 1990s (Figure 1). How can it be that consumer shortages increased at a time when hard currency revenues are at record levels?

Figure 1. Revenues and expenditures (USD bn)



Source: Venezuelan Central Bank, Scotiabank

Interestingly, most of the increase in hard currency revenue has been absorbed by an increase in imports of goods and services, which have grown threefold over the past decade. Somehow, that increase has not been enough, however.

That the price of many goods, especially commodities, has increased is part of the explanation. We don't have good data on Venezuela, but we know that in other Latin American countries— Chile, Mexico, and Peru— prices of imports have increased by 40%, 48%, and 115%, respectively. In other words, some growth in imports was necessary just for Venezuelans to keep up with previous consumption patterns.

On a relative basis, however, imports in Venezuela have not risen enough, as shown in Figure 2. While the cumulative 10Y growth rate of imports was 305% in Venezuela, the same figure was around 370% for most Latin American countries. That growth likely reflects in part the changing demographics and rise of the middle-class in many of these countries. Nevertheless, imports per capita in Venezuela are still higher than those in Brazil, Colombia, and Peru.

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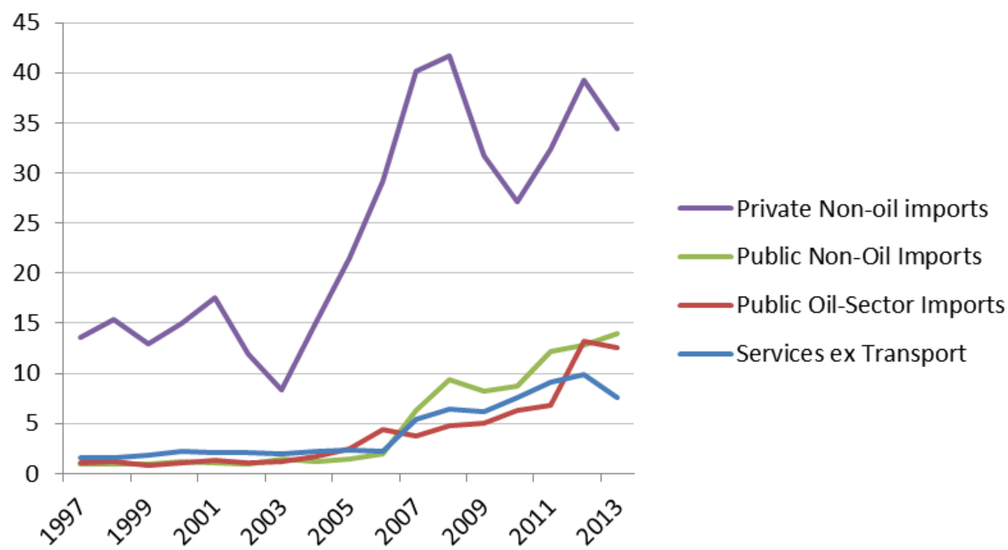
Figure 2. Comparison of merchandise imports across Latin America

	Imports 2012 (millions USD)	10Y growth (cumulative)	Imports per capita (USD)
Brazil	223,181	372%	1,136
Chile	74,855	374%	4,302
Colombia	59,111	365%	1,269
Mexico	370,751	120%	3,167
Peru	41,112	456%	1,364
Venezuela	47,310	305%	1,603

Source: Haver, Scotiabank. Mexican imports likely include a significant amount of parts imported for assembly and re-export—in that sense the trade structure is not comparable.

Thus, if Venezuelan imports are growing, and are larger per person than other Latin America countries, why are there shortages of basic goods? Figure 3 shows the composition of imports in more detail. Note the steady rise in both public oil and public non-oil imports.

Figure 3. Composition of imports (USD bn)



Source: Venezuelan Central Bank, Scotiabank

We suspect that even the imports in the public oil-sector category include some consumer goods, both because this category of imports has been rising much faster than oil production and because we observe the same quarterly seasonality pattern in this series as with the other types of imports. Overall, public imports have risen from 12% of total imports to 44% of total imports over the past ten years. Anecdotal evidence suggests such imports would be inefficient in providing goods that consumers actually want. Meanwhile, attacks on the private sector as well as price controls likely have made the private sector less efficient at importing as well.

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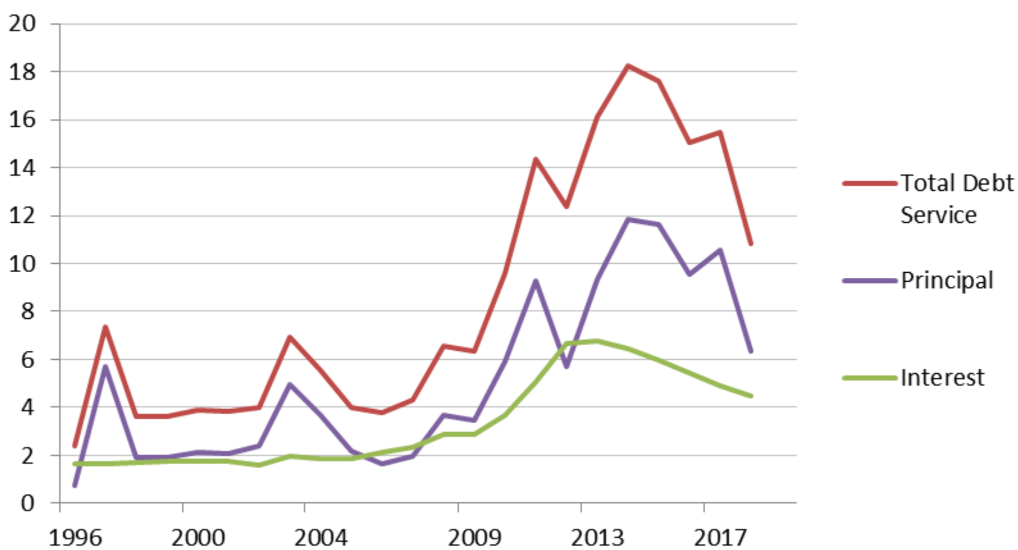
Many goods that had previously been produced locally must now be imported—that would explain why Venezuela needs to import more goods per capita than other Latin American countries. We see Venezuela's diminishing ability to produce anything other than oil in its dismal export performance. Non-petroleum exports have always been small but they have shrunk even further in recent years. Private sector non-oil exports reached a peak 5.6 billion USD in 2005, but have since fallen to below 2bn.

After financing imports, capital flight is the largest drain on available hard currency, having reached a peak of around $20bn a few years ago, but fallen somewhat recently. The government is right to point out that reducing capital flight would actually increase the amount of hard currency available for imports, to the extent that such capital flight has been as high as one-half of imports. The problem, of course, is that it is impossible for the government to differentiate between "legitimate" uses of hard currency and capital flight. As long as there is a drastically overvalued exchange rate, capital flight cannot easily be curtailed without also further limiting imports and worsening shortages.

Figure 4. Past and future debt service (USD bn)



Source: Sintesis Financiera. Includes government bonds, PDVSA bonds, and debt with China. Does not include new debt announced in March of 2014.

Relative to these amounts, interest on the debt has not been a large drain on hard currency reserves. As shown in Figure 4, the amounts have been increasing, however, totaling nearly $7bn per year in 2012 and in 2013. Since external debt has been increasing, actual outlays were even less than that. Thus, as long as new financing is available, the potential savings in hard currency from default must have seemed relatively small to the government.

Nevertheless, two developments may change the calculation going forwards. First, medium-term financing from China has started to replace longer-term financing from the bond market; as a result, principal coming due continues to increase. Second, that new debt is increasingly linked to specific uses, as opposed to previous lending that was available for general government purposes, including repaying maturing debt. For example, the recently-announced $2bn loan from Russia is actually a loan from Rosneft to PDVSA to be used only for oil projects. In that sense, the principal repayments may start to matter more in the allocation of hard currency going forwards. We are not predicting any intentional interruption in debt service, partly because such an interruption would impede further oil industry investment. Still, as the size of outlays for debt service grows, the possibility of mistakes increases.

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UK Budget 2014

Overview

The Chancellor had very limited wiggle room to play with at this Budget. The net result once again was a fiscally neutral plan, with plenty of micro measures. There was clearly a very political bias to the measures with the General Election almost a year away. Given early opinion poll evidence, it was a success. The headline grabbers were the improved growth outlook, support for savers, childcare costs, housing market initiatives, and a slightly lower borrowing estimate. Gilt issuance was also much lower than expected.

Budget 2014 Checklist:

- GDP forecast upgraded from 2.4% y/y to 2.7% y/y;
- Public Sector Net Borrowing estimate down cumulatively by GBP24bn over the next 5 years;
- Income tax threshold raised to £10,500 from April 2015;
- A £2000 helping hand with childcare costs;
- Help-to-Buy ‘phase one’ extended to 2020 (from 2016) previously;
- Plans for a new garden city in Ebbsfleet;
- Gilt issuance GBP128bn this year — much lower than expected;
- The OBR still sees the RPI-CPI gap widening to 190bp by 2018;
- Various measures to help savers…
- …in particular rules compelling pensioners to buy annuities modified.

Key Points:

Economic Projections

The upward revision to the OBR growth projection was very reasonable. The projection of 2.7% y/y (from 2.4% y/y previously) for 2014 is bang in line with consensus. It is less upbeat than the Bank of England’s 3.4% y/y projection, so the OBR has not gone out on a limb and there could be yet more good news for the Chancellor further down the road. Our forecast for growth is less upbeat than the OBR (we expect 2.5% y/y during 2014), but we fully accept that back-revisions to the historical data could easily lift the eventual outcome.

The OBR’s quarter-to-quarter growth profile assumes that the best news for growth was around the turn of the year and the pace will gradually ease off as this year progresses — though not much. This is broadly in line with our own estimate, though we assume a slightly bigger deceleration.

Squeeze from austerity is pretty relaxed this year

The pace of fiscal consolidation is projected to average 1% of GDP over the coming years. Assuming a fiscal multiplier of 0.5 (i.e. each £1 spending cut reduces GDP by 50p) the austerity measures should be expected to subtract around 0.5 percentage points per year from GDP growth. That said, this is an average over the next 5 years. For 2014, the pace of fiscal consolidation is much slower — just 0.5% of GDP. The drag on GDP growth should be negligible this year — which is rather convenient in the lead up to the election.

Help for Savers

There was a cocktail of measures to encourage greater saving. The most market moving was the decision to remove the requirement to buy an annuity in retirement. At this stage this only applied to defined contribution pensions (accounting for around 13 million people). However, a consultation has started looking into applying this to defined benefit pensions. With pensioners given freedom to determine how their pension pot is invested and no longer compelled to buy annuities, the demand for long-end gilts has been harmed.

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Furthermore the Chancellor announced a new GBP10bn 'pensioner bond' scheme. This will provide 'market beating' interest rates (guidance was 2.8% for one year and 4% for 3 years). These will be available to savers over the age of 65. There were also various measures to reduce the tax burden and restrictions on pension drawdowns.

Help with the cost of childcare

According to the Family and Childcare Trust's annual report, the cost of part-time childcare is more than the average monthly mortgage. As a result, the upside for a parent to return to work after childbirth is reduced. While the government's previous childcare voucher scheme provided a helping hand, it was a token gesture, didn't help the self-employed and only around 5% of firms participated.

The Chancellor responded to this in the Budget by outlining a scheme covering up to GBP10k of childcare costs. At this upper limit a parent will pay GBP8k towards childcare costs, with the government providing a GBP2k subsidy. That is almost double the previous scheme and is much more readily available than the previous scheme.

Gilt Remit

The DMO remit showed much lower than expected gilt issuance for the coming year. We had the second lowest forecast in the consensus and even our estimate was GBP15bn too high. In total, the financing requirement is GBP145bn. Within the GBP145bn total there will be GBP128.4bn gilt issuance (down from GBP151bn in 2013-14) and GBP16.5bn T-bill issuance. The consensus was looking for gilt issuance of around GBP150bn-155bn. There were 3 key reasons why the gilt issuance projection was lower than most expected:

i) There was around GBP11bn of over-funding in 2013-14 — which reduces the need to issue in 2014-15;

ii) The new 'pensioner bonds' will generate around GBP10bn of cash inflows — again reducing the need to issue gilts; and

iii) T-bill issuance of GBP16bn was higher than we, and probably most, had expected.

Help to Buy Extension

The extension in the Help-to-Buy scheme is a low cost but effective pre-election strategy. Last year the Help-to-Buy scheme was a game changer. It changed what could have been a poor year for growth into a good year. We very much doubt that extending the cut-off of the Help-to-Buy scheme will re-inject any upside for prices. Survey indicators (particularly for London) suggest that some of the pent up demand is running out of steam. Hence the Help-t-o-Buy extension will probably just delay or avoid an abrupt fall-off in housing demand when the scheme was originally scheduled to end in 2016. The emphasis of this extension in Help-to-Buy has been the increase in supply of homes. Coupled with the announcement of a new garden city, the Chancellor is attempting to address the shortage of housing which critics have often cited.

Other measures:

- 15% stamp duty on some house purchases by companies. There was relatively little focus on the housing market — particularly addressing empty high-end properties.
- Increased support for export finance;
- Increased investment allowance of GBP500k — extended to 2015;
- Inheritance tax for service personnel. While the Chancellor's heart is in the right place, surely the threshold is sufficiently high already that this tax wouldn't affect many in this group in the first place?
- Bingo duty halved from 20% to 10%.
- Tobacco taxes continue to rise at 2% above inflation;
- Beer duty down by 1p, and frozen on Scotch and cider.

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Overall

This was a very political, yet skilful Budget that laid the foundations for next year's General Election. The measures should appeal to savers, pensioners, working mothers, service personnel (at a push) and lower income groups. All this, yet the measures were fiscally neutral. The icing on the cake is that economic growth has been stronger than previously anticipated, and the projections leave room for further upside. The bad news is that the squeeze from the austerity measures will intensify just after the election and there is still a long way to go.

Key Projection Tables

Table 1: Updated OBR Economic Projection

	GDP %y/y					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
OBR (Mar-14)	**1.8**	**2.7**	**2.3**	**2.6**	**2.6**	**2.5**
OBR (Dec-13)	1.4	2.4	2.2	2.6	2.7	2.7
OBR (Mar-13)	0.6	1.8	2.3	2.7		
Change	*0.4*	*0.3*	*0.1*	*0.0*	*-0.1*	*-0.2*
Consensus	2	2.7	2.2			

Table 2: Updated OBR Government Borrowing Metrics

	Public Sector Net Borrowing Ex-Royal Mail & Asset Purchase Facility (GBP bn)					
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
OBR (Mar-14)	**-107.8**	**-95.5**	**-75.2**	**-44.5**	**-16.5**	**4.9**
OBR (Dec-13)	-111.3	-96.0	-78.7	-51.1	-23.4	2.1
Change	*3.5*	*0.5*	*3.5*	*6.6*	*6.9*	*2.8*

Key Charts

Chart 1: PSNBx – Historical & Projected

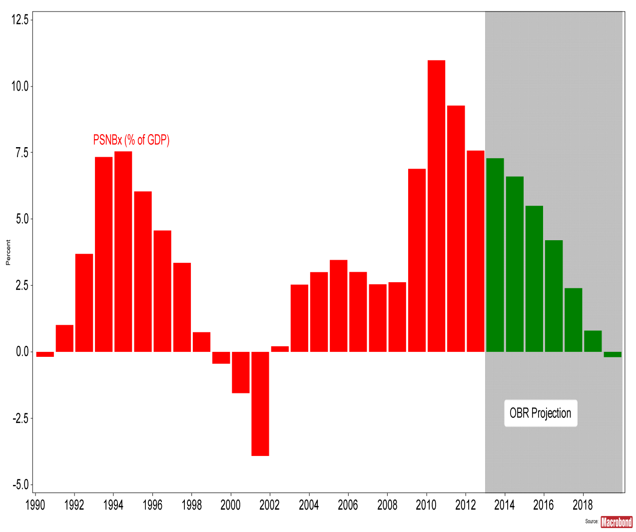
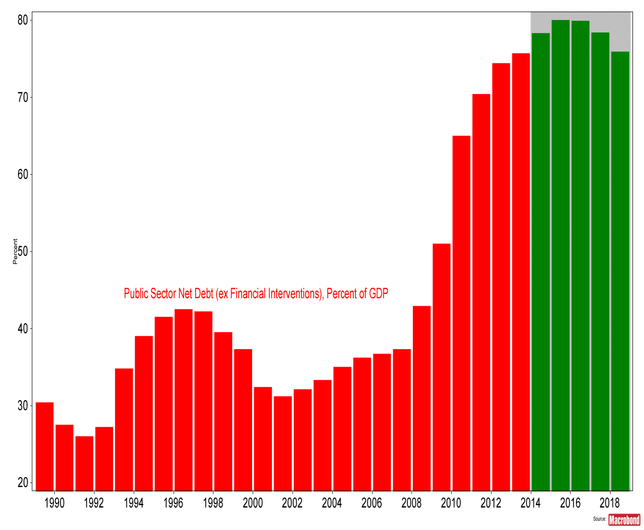


Chart 3: Public Sector Debt % of GDP



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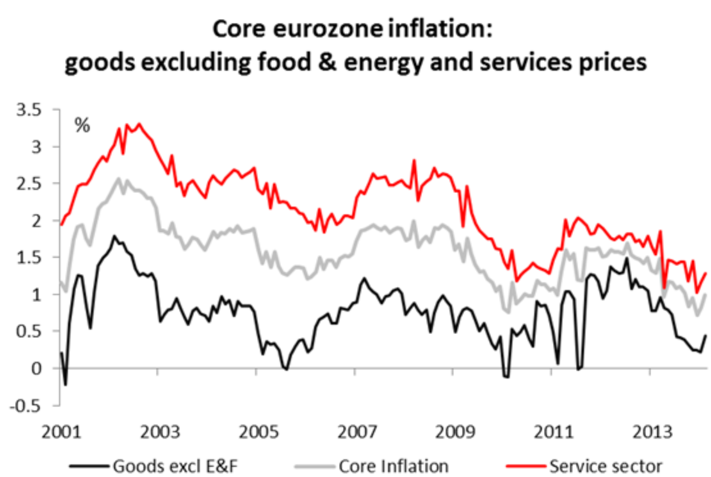
The Euro & Eurozone Deflation Risk

- The last monthly report from the European Central Bank (ECB) produced an interesting piece regarding the recent decline in eurozone core inflation. The main conclusions justified the current status quo on the ECB's monetary policy:

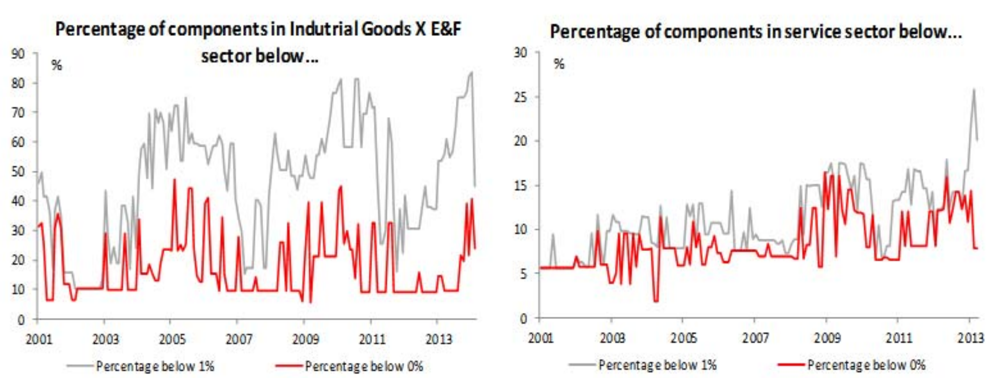
    - First: while lower core inflation reflects both softer goods excluding food & energy and services prices, the former reflects the impact of global growth while the latter is mainly linked to lower services prices in stressed countries. In the second case, it is therefore not a broad-based disinflationary development;

Chart 1: developments in Eurozone core inflation



- Second: While the movement towards lower underlying inflation has been broadly based across sub-items, the number of items with negative annual growth rates is not high compared to earlier disinflationary periods;

Chart 2: Measuring the deflationary trend



- As a result, as global growth is expected to strengthen, the ECB staff projections expect Eurozone core inflation to rise to 1.1% yoy in 2014, 1.4% in 2015 and 1.7% in 2016.

[1] "Impact of services and non-energy industrial goods prices on the recent decline in HICP inflation", ECB monthly report, March 2014

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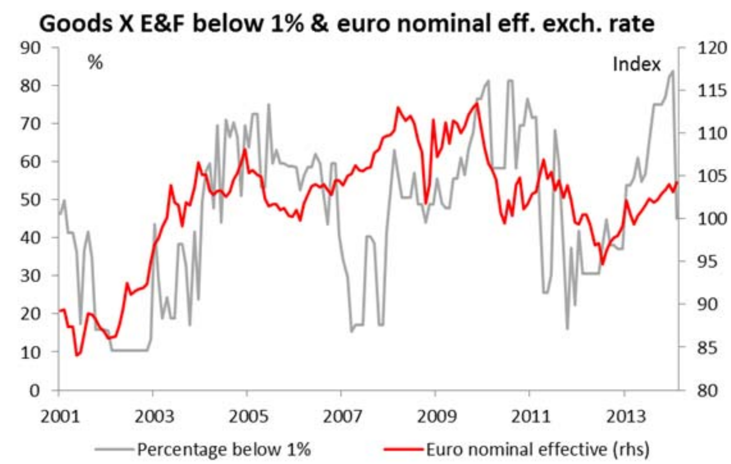
- We would be more cautious and compared to the ECB's assessment that the risks on "price stability" are balanced, we believe that there is still more downside than upside risks. It is true that Eurozone core inflation recovered in the first two months of the year, up to 1.0% yoy in February from a historical low at 0.7% in December. However, this improvement rather reflects changing seasonality patterns. There is a high chance to see a big downward correction as soon as the March inflation report (to be released on March 31th) with a possible figure down to 0.6/0.7% yoy. In this prospect, the possibility to see a 1.1% yoy average for the whole year could be compromised.

- Beyond this, it is true that the percentage of components, both in non-energy industrial and services sectors, reporting yoy price trends below the 0% line has not reached levels above the ones seen in previous disinflationary periods. For non-energy & food industrial goods, around 30% of the basket has a price trend below this 0% line. For services, it stands at around 10%. However, it is worth noticing that:

    - First: the percentage of components showing a price trend below the 1% yoy line is high, close to 80% for industrial goods; and even higher than past history in the service sector at 20% to 25%. So, there is a greater risk that the low inflation scenario becomes entrenched, disanchoring inflation expectations from the ECB's definition of price stability.

    - Second: Further strengthening in the euro exchange rate will exacerbate the risk of deflation, or at least of seeing below 1% yoy inflation trends, especially in non-energy industrial goods as history shows a positive correlation between the two.

Chart 3: The Euro and the risks on non-energy industrial goods



    - Third: a risk of rising deflation in non-energy industrial goods could spill over into service prices as the first appears to be leading.

- All in all, at a time when Eurozone inflation remains stuck below the 1% line, future fluctuations on the euro exchange rate are key to assessing the risk of deflation in the area. The latest comments from various ECB members seem to show a greater concern on this issue. However, the lack of action at last month's meeting has already contributed to push up the euro nominal effective exchange rate by 1% over the past week, creating more risk of additional downside surprises in the forthcoming inflation reports.

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Latin America Week Ahead: For The Week Of March 24 - 28

After a sharp USD rally on the back of Wednesday's conference by Chair Yellen, the USD is trading sideways as markets await for more Fed speakers to provide additional guidance on the Fed's intentions. In terms of data, US Markit PMIs and regional Fed manufacturing indices will be closely watched as we try to continue assessing the state of the US economy, and how much of the recent weakness was "weather driven". Still relevant, but more backward looking will be the US Q4 GDP release. As markets continue to face the risks derived from Chinese financial system uncertainty, and what the Fed plans to do in terms of monetary policy going forward, at the same time as a number of potential trouble spots in EM loom as risks that could ignite at any time, our bias remains to avoid directional bets, and focus instead on intra-region crosses. We still like CLP as a "funding currency" and would pair it up with either PEN, COP, or MXN.

Week-ahead views:

Brazil: Next week's current account and trade balance releases will likely be closely watched for signs that the weakening of the real has helped reduce the country's external deficits, and if the trend is positive (smaller deficits), it could help start reducing concerns over the country's "fragility" (although in our view, public finances and household indebtedness are larger concerns). On the political front, despite rumours earlier this week that President Roussef was losing ground in the polls, the latest IBOPE poll showed President Rousseff maintains 43% of voter intentions, which would be marginally enough to secure a first round victory (ignoring undecided voters and those who did not show a preference). However, Aecio Neves's popularity marginally closed the gap with regard to President Rousseff by moving from 14% to 15% of voter intentions. Campos' voter intentions were flat at 7%. In our view, the most "market positive scenarios" are: a victory by Neves or Campos, or a Rousseff victory where the new government strongly signals a step back in the government's role in the economy, as well as greater efforts on fiscal prudence. We remain neutral on the BRL.

Chile: BCCh Governor Vergara gave an interview where he was quite clear regarding the BCCh's interest rate adjustment outlook. Vergara said the stance retains its "easing bias", but also said it has become more data dependent from the last meeting. According to the governor, the economy continues to slow, and underperform the central bank's expectations, while on the other hand inflation expectations remain anchored. The governor seemed to brush off the rise in inflation by stating that it resulted from CLP's weakness and fuel costs, which should be unwound as inflation converges to the central bank's target over the medium term. The governor's clear statement is likely to steal some of the spot light from next week's BCCh MPC meeting minutes, which given the relatively shallow data pipeline, should leave CLP at the mercy of broad USD moves and China centric developments. Our view is that the BCCh will likely pause in its next meeting as it assesses the impact of the cuts delivered to date, as well as the evolution of external factors.

Colombia: Next week is relatively heavy in terms of tier-1 data, with the top releases being the current account and GDP in our view. More importantly, we think the week's direction will be dictated by flows, following the increase in the weightings of the country's local bonds in the GBI-EM index, which we perceive consensus to expect to drive inflows of somewhere in the neighbourhood of US$6bn to US$10bn into local markets.

MXN: Pemex is set to submit the list of the fields it currently holds that will be offered to private players (as part of the round 0 process), but also said the contents will be withheld for 6 months, as disclosing the information would put it at a disadvantage to other players. We had hoped that the publication of the list would start the process of discovering which private players will be more likely to enter the Mexican energy market, but that seems to be on standby. However, other news on the energy front this week has been good as of March 20th, US energy regulators approved plans to build a natural gas pipeline from Texas into Mexico, which should help set the stage for some of the expected investment flows we anticipate to take place in Mexico's power sector.

In terms of indicators to watch for, the US Markit manufacturing PMI (which will be our first glimpse into March data), as well as the regional Fed manufacturing indices will be worth watching. On the domestic front, unemployment and the monthly economic activity index will serve as gauges of how the economy's rebound is progressing. In addition, next week's bi-weekly CPI release will be important to track, for confirmation that inflation's declining trend is on track. Banxico's Cortina said he expects inflation to drop back below 4% by March.

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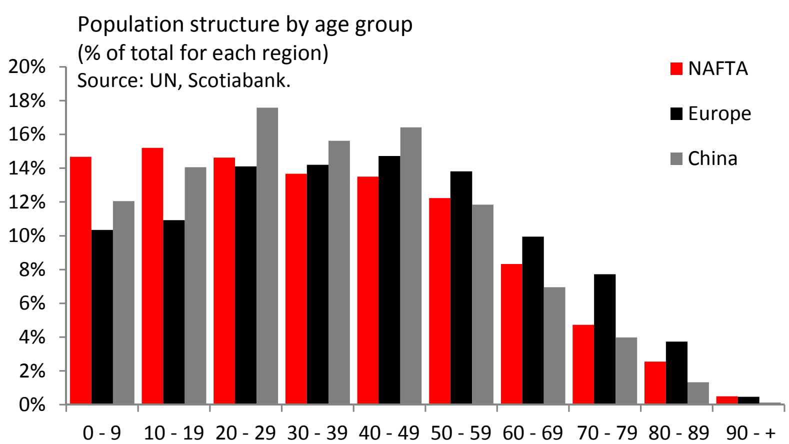
PEN: Next week looks very quiet on the data pipeline, leaving the sol at the mercy of global events, and the central bank's rolling of CDRs (reverse swaps). Our local FX desk highlighted that the BCRP will likely issue 1.5yrs reverse swaps today, which would inject PEN into the market, as the central banks seeks to satisfy the bank's PEN cash needs. As a consequence, our desk expects FWD points to contract along the curve, especially in the longer tenors in the FWD curve.

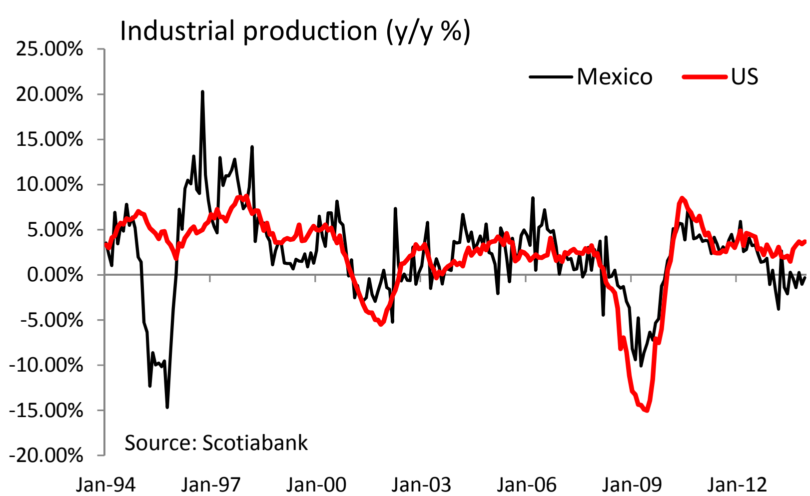
Chart of the week: Mexico outlook supported by NAFTA partners

- Much has been said of Mexico's reform progress and how that has improved the country's outlook. However, we believe the country's outlook is also supported by a much more favourable external environment. In particular, over much of the past 13 years, Mexico struggled to adjust to the headwinds that China's WTO entry represented to global manufacturers. At the same time, the country did not fully benefit from the rise in commodity prices as its oil exports are offset by refined product imports, leading to basically flat terms of trade. Now that the US looks set to rebound, and arguably lead the global recovery, Mexico's highly synchronized manufacturing sector should benefit. In addition, the long-term prospects for Mexico, and its NAFTA partners looks rosy if we look at the demographics of the block relative to competing economic powers.

Long term, NAFTA's demographics look "growth-supportive" relative to major competitors



..... while links to the rebounding US economy are short term positives in our view



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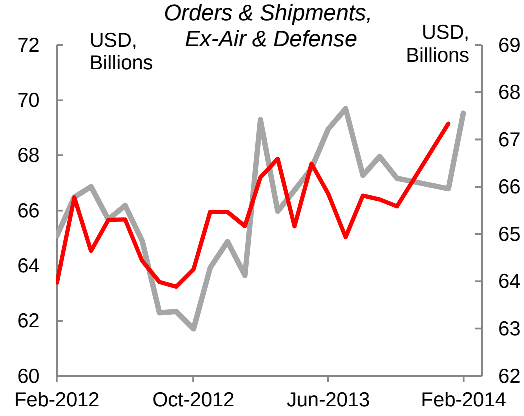
Key Data Preview

UNITED STATES

U.S. durable goods orders for February offer some upside potential as most leading indicators are looking fairly solid. The ISM manufacturing index was up on the month, the ISM new orders index was up on the month, orders at Boeing were up on the month, vehicle assemblies were up on the month… you get the idea. The negatives here, and the reason that we're forecasting a 1% m/m uptick and not something stronger, are: a) poor weather in the Northeast, and b) the limited magnitude of most of the upticks, which point to an improvement but not a dramatic one. Watch out for the capital goods and shipments figures (ex-air and defense), which have been trending up of late, implying better things ahead for U.S. investment overall (see chart).

Better Things Ahead for U.S. Capital Goods?

Orders & Shipments, Ex-Air & Defense

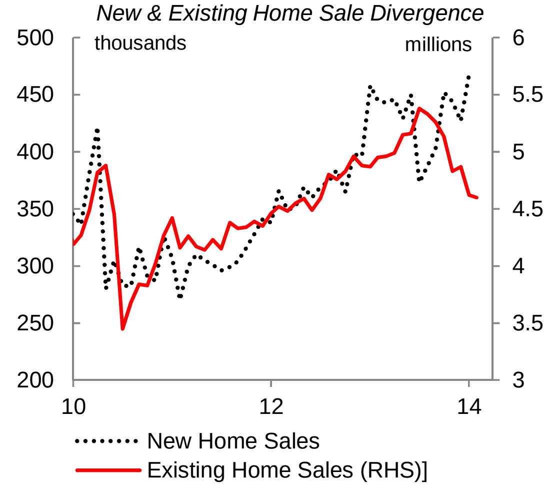


Source: US Census Bureau, Scotiabank Economics

New home sales for February are a question mark, as the leading indicators are pointing to firmness, with foot traffic at model homes positive and both pending home sales for January and existing home sales for February having come in flat, implying stability with some upside. The question mark is that existing home sales have been on a six-month negative trajectory while new home sales have thrived (see chart). Can the disjunction continue? Our view is that new home sales will likely hold steady on the month, printing an annualized rate of growth of 460k vs. 468k in January.

U.S. Home Sales

New & Existing Home Sale Divergence



Source: Census Bureau, NAR, Scotiabank Economics

Personal income and spending both look firm in February. Retail sales notched a 0.3% m/m gain on the month, and we're expecting a comparable 0.2% m/m pace of expansion on the consumer spending front. Incomes could be firmer after aggregate wages increased by 0.3% m/m, and we're anticipating a matching number when it comes to personal income. Fairly soft inflation for February on the order of 0.1% m/m has us expecting a comparable print on the PCE deflator both in terms of the headline number and the core print, which would leave the year-on-year deflator tracking in the 1% range both in terms of headline and core. Watch out for the savings rate figures, which have been declining of late (see chart).

US: Personal Savings as a % of Income

Reverting to Pre-Crisis Levels?

Source: BEA, Scotiabank Economics

The **Q4 2013 second GDP revision** should not be a major event. We see the possibility of upside revisions as residential construction spending data put out by the Census Bureau pointed to a larger contribution to GDP than was actually realized in the BEA's GDP figures. Volatility in the trade figures and in the inventory account also present the possibility to add a little bit to growth after fairly extreme downside revisions to GDP on the second round. We anticipate a revision to 2.6% q/q SAAR form the current 2.4% q/q SAAR level.

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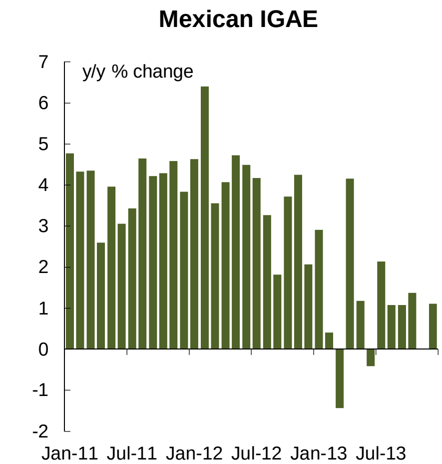
EUROPE

A few key euro area business surveys for March will be released next week, including preliminary PMI estimates and the German IFO. Continuing the trend of last month (as well as the outcomes observed in the already released March ZEW survey of market analysts), we project that the expectations component of the IFO will fall, to around 107.5, while the current assessment index should edge slightly higher, to around 114.5. Overall, this implies a modest dip in the headline figure, from 111.3 to 111.0. The first quarter is shaping up to produce a relatively strong output gain for Germany, with January export, industrial production and factory order data performing fairly well. However, we anticipate a subsequent slowing in the second quarter given persistent euro strength and heightened geopolitical and financial market concerns. Although the manufacturing PMIs lost steam in February, this was more than offset by a pick-up on the services side, which lifted the EU composite PMI slightly higher from 52.9 to 53.3 (its highest level since mid-2011). This month, we anticipate a slight deterioration on all fronts, though conditions on aggregate will remain solidly in expansionary territory — albeit, with a still pronounced disparity across the region's various economies.

LATIN AMERICA

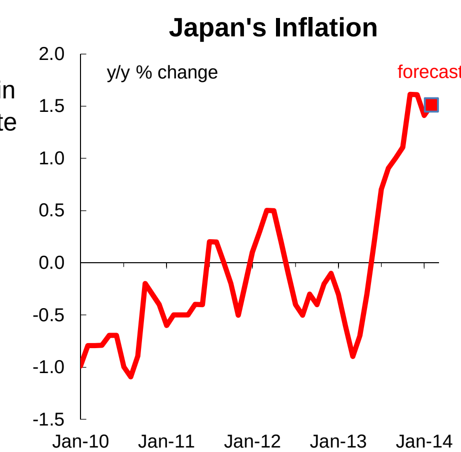
After a very disappointing economic performance in Mexico last year (fourth-quarter GDP expanded by only 0.7% y/y, the second lowest quarterly gain since 2009), January's economic activity index (IGAE, to be released next week) will likely confirm that economic weakness continued through the beginning of the year. In our view, in addition to the deceleration in construction, economic activity has been dampened by lower local consumption due to higher taxes approved at the end of 2013 as part of the fiscal reform. We do not anticipate that the effect will last more than one quarter as we expect economic activity to regain strength in the second quarter of the year, returning to rates of growth above 3% y/y by year-end. Nevertheless, the risks to our forecast are on the downside, particularly if local consumption continues to recover at a subdued pace. In the construction sector, we expect a rebound to be more noticeable by the second half of the year, following the implementation of government's infrastructure plan.



Source: Thomson Reuters, Scotiabank Economics.

ASIA

Japan will release nation-wide inflation data for February on March 27th (EST). Inflation is slowly approaching the Bank of Japan's (BoJ) 2% inflation target. The headline consumer price index increased by 1.4% y/y in January, after emerging from deflationary territory in mid-2013. We estimate that the rate reached 1.5% y/y in February. The April consumption tax rate increase, which will take the rate from 5% to 8%, will temporarily bring inflation to the BoJ's target in mid-2014. Apart from this, significant yen depreciation combined with the central bank's monetary stimulus efforts should translate into modest price gains in the coming quarters, though inflation will likely hover around 1½% y/y at the end of 2014. The BoJ will continue its quantitative and qualitative monetary easing scheme in the coming quarters, expanding the nation's monetary base at an annual pace of ¥60-70 trillion (by 30-35% in 2014 as a whole). In our view, there is potential for further easing measures in the second quarter of 2014 if the tax hike leads to a stalling of ongoing economic momentum.



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of March 24 – 28

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	03/24	10:00	Bi-Weekly Core CPI (% change)	Mar 15	--	0.2	0.1
MX	03/24	10:00	Bi-Weekly CPI (% change)	Mar 15	--	0.2	0.2
MX	03/24	10:00	Unemployment Rate (%)	Feb	--	4.9	5.1
US	03/25	09:00	S&P/Case-Shiller Home Price Index (m/m)	Jan	0.3	0.6	0.8
US	03/25	09:00	S&P/Case-Shiller Home Price Index (y/y)	Jan	--	13.3	13.4
MX	03/25	10:00	Global Economic Indicator IGAE (y/y)	Jan	1.1	1.3	1.1
US	03/25	10:00	Consumer Confidence Index	Mar	--	78.5	78.1
US	03/25	10:00	New Home Sales (000s a.r.)	Feb	460	445	468
US	03/25	10:00	Richmond Fed Manufacturing Index	Mar	--	3.0	-6.0
US	03/26	07:00	MBA Mortgage Applications (w/w)	MAR 21	--	--	-1.2
US	03/26	08:30	Durable Goods Orders (m/m)	Feb	1.0	0.8	-1.0
US	03/26	08:30	Durable Goods Orders ex. Trans. (m/m)	Feb	0.3	0.3	1.1
US	03/27	08:30	Continuing Claims (000s)	MAR 15	2875	2883	2889
US	03/27	08:30	Initial Jobless Claims (000s)	MAR 22	320	325	320
US	03/27	08:30	GDP (q/q a.r.)	4Q T	2.6	2.7	2.4
US	03/27	08:30	GDP Deflator (q/q a.r.)	4Q T	--	1.6	1.6
MX	03/27	10:00	Trade Balance (US$ mn)	Feb P	--	--	-3195.1
US	03/27	10:00	Pending Home Sales (m/m)	Feb	--	0.1	0.1
US	03/28	08:30	PCE Deflator (m/m)	Feb	0.1	0.1	0.1
US	03/28	08:30	PCE Deflator (y/y)	Feb	0.9	0.9	1.2
US	03/28	08:30	PCE ex. Food & Energy (m/m)	Feb	0.1	0.1	0.1
US	03/28	08:30	PCE ex. Food & Energy (y/y)	Feb	1.1	1.1	1.1
US	03/28	08:30	Personal Spending (m/m)	Feb	0.2	0.3	0.4
US	03/28	08:30	Personal Income (m/m)	Feb	0.3	0.3	0.3
US	03/28	09:55	U. of Michigan Consumer Sentiment	Mar F	80.0	80.5	79.9

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
FR	03/24	04:00	Manufacturing PMI	Mar P	--	49.6	49.7
FR	03/24	04:00	Services PMI	Mar P	--	47.5	47.2
GE	03/24	04:30	Manufacturing PMI	Mar A	--	54.5	54.8
GE	03/24	04:30	Services PMI	Mar A	--	55.5	55.9
EC	03/24	05:00	Composite PMI	Mar A	53.0	53.2	53.3
EC	03/24	05:00	Manufacturing PMI	Mar A	53.0	--	53.2
EC	03/24	05:00	Services PMI	Mar A	52.2	--	52.6
UK	03/24		Nationwide House Prices (m/m)	Mar	1.0	0.8	0.6
GE	03/25	05:00	IFO Business Climate Survey	Mar	111.0	110.9	111.3
GE	03/25	05:00	IFO Current Assessment Survey	Mar	114.5	114.5	114.4
GE	03/25	05:00	IFO Expectations Survey	Mar	107.5	107.7	108.3
UK	03/25	05:30	CPI (m/m)	Feb	0.5	0.5	-0.6
UK	03/25	05:30	CPI (y/y)	Feb	1.7	1.7	1.9
UK	03/25	05:30	DCLG House Prices (y/y)	Jan	7.3	6.6	5.5
UK	03/25	05:30	RPI (y/y)	Feb	2.7	2.6	2.8
HU	03/25	09:00	**Base Rate (%)**	**Mar 25**	**2.60**	**2.60**	**2.70**
GE	03/26	03:00	GfK Consumer Confidence Survey	Apr	--	8.5	8.5
FR	03/26	13:00	Jobseekers Net Change (000s)	Feb	0.0	3.3	8.9

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

Key Indicators for the week of March 24 – 28

Europe *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
NO	03/27	05:00	**Norwegian Deposit Rates (%)**	**Mar 27**	**1.50**	**1.50**	**1.50**
UK	03/27	05:30	Retail Sales ex. Auto Fuel (m/m)	Feb	0.1	0.3	-1.5
UK	03/27	05:30	Retail Sales with Auto Fuel (m/m)	Feb	0.2	0.5	-1.5
GE	03/27		Retail Sales (m/m)	Feb	--	-0.5	1.7
FR	03/28	03:45	Consumer Spending (m/m)	Feb	--	0.8	-2.1
SP	03/28	04:00	CPI (y/y)	Mar P	--	0.0	0.0
SP	03/28	04:00	CPI - EU Harmonized (y/y)	Mar P	0.0	0.1	0.1
UK	03/28	05:30	Current Account (£ bn)	4Q	--	-13.8	-20.7
UK	03/28	05:30	GDP (q/q)	4Q F	0.7	0.7	0.7
UK	03/28	05:30	Index of Services (m/m)	Jan	0.3	0.3	0.2
EC	03/28	06:00	Business Climate Indicator	Mar	--	0.4	0.4
EC	03/28	06:00	Economic Confidence	Mar	100.9	101.3	101.2
EC	03/28	06:00	Industrial Confidence	Mar	-4.0	-3.5	-3.4
GE	03/28	09:00	CPI (y/y)	Mar P	1.0	1.1	1.2
GE	03/28	09:00	CPI - EU Harmonized (m/m)	Mar P	0.3	0.4	0.5
GE	03/28	09:00	CPI - EU Harmonized (y/y)	Mar P	0.8	0.9	1.0

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
TA	03/23	20:30	Unemployment Rate (%)	Feb	4.1	4.1	4.1
CH	03/23	21:45	HSBC Flash China Manufacturing PMI	Mar		--	48.3
JN	03/24	01:00	Supermarket Sales (y/y)	Feb	--	--	-0.2
SI	03/24	01:00	CPI (y/y)	Feb	--	0.8	1.4
TA	03/24	04:00	Commercial Sales (y/y)	Feb	--	3.4	2.1
TA	03/24	04:00	Industrial Production (y/y)	Feb	--	4.3	-1.8
PH	03/24	21:00	Imports (y/y)	Jan	--	--	-0.1
PH	03/24	21:00	Trade Balance (US$ mn)	Jan	--	--	-695.0
SK	03/24		Department Store Sales (y/y)	Feb	--	--	6.8
TH	03/24		Customs Exports (y/y)	Feb	--	0.2	-2.0
TH	03/24		Customs Imports (y/y)	Feb	--	-2.0	-15.5
TH	03/24		Customs Trade Balance (US$ mn)	Feb	--	-1578.0	-2520.6
HK	03/25	04:30	Exports (y/y)	Feb	--	8.0	-0.4
HK	03/25	04:30	Imports (y/y)	Feb	--	9.0	-2.7
HK	03/25	04:30	Trade Balance (HKD bn)	Feb	--	-39.0	-20.0
SK	03/25	19:00	GDP (y/y)	4Q F	4.0	--	3.9
SI	03/26	01:00	Industrial Production (y/y)	Feb	--	12.9	3.9
SK	03/26	17:00	Consumer Confidence Index	Mar	--	--	108.0
NZ	03/26	17:45	Trade Balance (NZD mn)	Feb	--	600.0	305.8
NZ	03/26	17:45	Exports (NZD bn)	Feb	--	4.4	4.1
NZ	03/26	17:45	Imports (NZD bn)	Feb	--	3.8	3.8
CH	03/26	21:30	Industrial Profits YTD (y/y)	Feb	--	--	12.2
PH	03/27	04:00	**Overnight Borrowing Rate (%)**	**Mar 27**	**3.50**	**3.50**	**3.50**
TA	03/27	04:00	Leading Index (m/m)	Feb	--	--	0.1
TA	03/27	04:00	Coincident Index (m/m)	Feb	--	--	0.6
TA	03/27	04:30	**Benchmark Interest Rate**	**Mar 27**	**1.88**	**1.88**	**1.88**
SK	03/27	17:00	Business Survey- Manufacturing	Apr	--	--	85.0
SK	03/27	17:00	Business Survey- Non-Manufacturing	Apr	--	--	76.0
SK	03/27	19:00	Industrial Production (y/y)	Feb	--	3.5	-3.8
SK	03/27	19:00	Cyclical Leading Index Change	Feb	--	--	0.0

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

Key Indicators for the week of March 24 – 28

Asia Pacific *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	03/27	19:30	Household Spending (y/y)	Feb	--	0.1	1.1
JN	03/27	19:30	Jobless Rate (%)	Feb	3.7	3.7	3.7
JN	03/27	19:30	National CPI (y/y)	Feb	1.5	1.5	1.4
JN	03/27	19:30	Tokyo CPI (y/y)	Mar	--	1.2	1.1
JN	03/27	19:50	Large Retailers' Sales (y/y)	Feb	--	0.7	0.0
JN	03/27	19:50	Retail Trade (y/y)	Feb	--	3.5	4.4
CH	03/28		Leading Index	Feb	--	--	99.5

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
BZ	03/24	09:30	Current Account (US$ mn)	Feb	--	-8166.0	-11591.0
BZ	03/27	08:00	Unemployment Rate (%)	Feb	--	5.2	4.8

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

Global Auctions for the week of March 24 – 28

North America

Country	Date	Time	Event
US	03/24	11:00	U.S. Fed to Purchase USD0.50-0.75 Bln Notes
US	03/24	11:30	U.S. to Sell 3-Month Bills
US	03/24	11:30	U.S. to Sell 6-Month Bills
CA	03/25	10:30	Canada to Sell CAD4.2 Bln 98-Day Bills
CA	03/25	10:30	Canada to Sell CAD1.650 Bln 168-Day Bills
CA	03/25	10:30	Canada to Sell CAD1.650 Bln 350-Day Bills
US	03/25	11:00	U.S. Fed to Purchase USD1.00-1.25 Bln Notes
US	03/25	11:30	U.S. to Sell 4-Week Bills
US	03/25	13:00	U.S. to Sell 2-Year Notes
US	03/26	11:00	U.S. Fed to Purchase USD2.25-2.75 Bln Notes
US	03/26	11:30	U.S. to Sell 2-Year Floating Rate Notes Reopening
US	03/26	13:00	U.S. to Sell 5-Year Notes
US	03/27	11:00	U.S. Fed to Purchase USD3.75-4.50 Bln Notes
US	03/27	13:00	U.S. to Sell 7-Year Notes
US	03/28	11:00	U.S. Fed to Purchase USD1.00-1.25 Bln Notes

Europe

Country	Date	Time	Event
GE	03/24	06:30	Germany to Sell 364-Day Bills
NE	03/25	05:00	Netherlands to Sell Minimum of EUR5 Bln 2024 Bonds
NO	03/25	06:00	Norway to Sell NOK4 Bln 3% 2024 Bonds
IT	03/26	06:00	Italy to Sell I/L and Zero Coupon Bonds
SW	03/26	06:03	Sweden to Sell SEK1.75 Bln 2.5% 2025 Bonds
IT	03/27	06:00	Italy to Sell 6-Month Bills
UK	03/27	06:30	U.K. to Sell GBP900 Mln 0.25% I/L 2052 Bonds
IT	03/28	06:00	Italy to Sell 5-Year and 10-Year Bonds
IC	03/28	07:00	Iceland to Sell Bonds

Asia Pacific

Country	Date	Time	Event
CH	03/23	23:30	Agricul Dev Bank China To Sell CNY6 Bln 3-Year Bond
CH	03/23	23:30	Agricul Dev Bank China To Sell CNY4 Bln 10-Year Bond
AU	03/24	20:00	Australia Plans to Sell Index Link Bonds
JN	03/25	04:00	Japan Auction for Enhanced-Liquidity
JN	03/25	23:35	Japan to Sell 3-Month Bill
NZ	03/26	21:05	New Zealand Plans to Sell NZD200 Mln Nominal Bond
JN	03/26	23:45	Japan to Sell 2-Year Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of March 24 – 28

North America

Country	Date	Time	Event
CA	03/22		Canadian Prime Minister Harper Visits Ukraine
CA	03/24	12:30	Bank of Canada Deputy Governor Lane Speaks at York University
US	03/25	16:00	Fed's Lockhart Speaks on the Economy in Atlanta
US	03/25	19:00	Fed's Plosser Speaks on Economy and Monetary Policy in New York
US	03/26	02:00	Fed's Bullard to Speak on Monetary Policy in Hong Kong
US	03/26	16:00	Fed Releases Comprehensive Capital Analysis and Review Results
US	03/26	20:20	Fed's Bullard Speaks on U.S. Monetary Policy in Hong Kong
US	03/26		U.S. President Obama Meets NATO Secretary General
CA	03/26		Canadian Prime Minister Harper Visits Germany
IT	03/27	07:00	Obama Meets Renzi in Rome
US	03/27	08:30	Fed's Pianalto Speaks at Conference in Dayton, Ohio
US	03/27	21:30	Fed's Evans to Speak in Hong Kong
US	03/27		U.S. President Obama Visits Italy
US	03/28	12:45	Fed's George Speaks on U.S. Economic Outlook in Kansas City

Europe

Country	Date	Time	Event
FI	03/22	04:05	ECB's Erkki Liikanen Speaks in Interview on Finland's YLE TV1
EC	03/22	13:30	ECB's Constancio Speaks in Washington DC
IT	03/22		Italy Finance Minister Padoan Speaks in Cernobbio
NE	03/23	11:00	Dutch PM Rutte Gives Press Conference at Opening NSS
NE	03/24	03:00	Netherlands Hosts The Nuclear Security Summit
FI	03/24	05:00	ECB's Liikanen Speaks at Bank of Finland Briefing in Helsinki
EC	03/24	07:00	EU's Fule Briefs Press on Ties With East, North Africa
SP	03/24	11:00	ECB's Linde Speaks in Spain Senate
GE	03/24	00:00	German-Russian Relations Coordinator Erler Visits Moscow
IT	03/25	04:30	Bank of Italy Governor Visco Speaks in Pavia
GE	03/25	05:30	Germany's Schaeuble Speaks at Skilled Trades Event, Berlin
HU	03/25	09:00	**Central Bank Rate Decision**
EC	03/25	12:00	ECB President Mario Draghi Gives Lecture in Paris
GE	03/25	12:30	Bundesbank Head Jens Weidmann Meets Foreign Press in Berlin
SP	03/26	09:00	Bank of Spain's Linde Speaks in Madrid
UK	03/26	15:00	Clegg, Farage Debate Britain in EU on LBC Radio
EC	03/26		U.S.-EU Summit Held in Brussels
EC	03/27	04:30	European Defense Agency Holds Conference; Ashton Speaks
NO	03/27	05:00	**Deposit Rates**
NO	03/27	05:00	Norges Bank Holds Press Conference on Rate Decision
UK	03/27	05:30	BOE Publishes Statement From March FPC Meeting
IT	03/27	07:00	Obama Meets Renzi in Rome
SZ	03/27	13:00	SNB's Zurbruegg Holds Speech at Zurich Money Market Reception
IT	03/28	04:45	BOI's Visco, Finance Min Padoan Speak at Conference in Rome
EC	03/28	07:00	ECB Announces 3-Year LTRO Repayment
UK	03/28	11:45	U.K. Minister Livingston Speaks at Economic Club of Canada
EC	03/28	13:30	ECB's Weidmann Speaks in Frankfurt

Source: Bloomberg, Scotiabank Economics.

Events for the week of March 24 – 28

Asia Pacific

Country	Date	Time	Event
NE	03/22	05:00	Chinese President Xi Jinping Starts State Visit to Netherlands
JN	03/22	12:30	BOJ Governor Kuroda Speaks at LSE
JN	03/23		BoJ Deputy Governor Iwata Speaks at ICSEAD
JN	03/23		Japan-Canada Economic Partnership Agreement Negotiations
SK	03/24		South Korean President Park Visits Germany
AU	03/25	00:45	RBA's Philip Lowe Speaks at ASIC Forum in Sydney
AU	03/25	18:30	RBA's Philip Lowe Speaks at CIFR Conference in Sydney
AU	03/25	20:30	RBA Financial Stability Review
NZ	03/25	22:00	RBNZ Publishes Data on Low-Deposit Home Lending
NZ	03/25	23:00	N.Z. Government Publishes Investment Statement
AU	03/25		RBA's Glenn Stevens speaks at Credit Suisse forum in Hong Kong
US	03/26	02:00	Fed's Bullard to Speak on Monetary Policy in Hong Kong
US	03/26	20:20	Fed's Bullard Speaks on U.S. Monetary Policy in Hong Kong
PH	03/27	04:00	**BSP Overnight Borrowing Rate**
TA	03/27	04:30	**CBC Benchmark Interest Rate**
US	03/27	21:30	Fed's Evans to Speak in Hong Kong

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	April 16, 2014	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	April 30, 2014	0.25	--
Banco de México – Overnight Rate	3.50	April 25, 2014	3.50	--

Fed: New Fed Chair Yellen's first FOMC meeting and statement on March 19 caused a shift in the market's expectations for Fed interest rate hikes. Yellen's implication that interest rate hikes could come as soon as March 2015, and forecasts from meeting participants implying higher levels of rates in 2015 and 2016 than previously thought, was different from the FOMC's prior calendar based guidance that rate hikes would not happen until "at least mid-2015" and its statement that its guidance using economic thresholds was "consistent with its earlier date-based guidance." **BoC:** In contrast to the Fed, the BoC is sounding more dovish than it previously had, with Governor Poloz implying that Canada could be functioning with more spare capacity than expected for longer than anticipated. Higher than expected CPI during the first two months of Q1 will put a small damper on the BoC's dovishness.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.25	April 3, 2014	0.25	--
Bank of England – Bank Rate	0.50	April 10, 2014	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	June 19, 2014	0.00	--
Central Bank of Russia – One-Week Auction Rate	7.00	April 25, 2014	7.00	--
Hungarian National Bank – Base Rate	2.70	March 25, 2014	2.60	2.60
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	10.00	April 24, 2014	10.00	--
Sweden Riksbank – Repo Rate	0.75	April 9, 2014	0.75	--
Norges Bank – Deposit Rate	1.50	March 27, 2014	1.50	1.50

The central bank of **Hungary** will lower rates once again on March 25th, marking the 20th consecutive cut since mid-2012. We expect a smaller cut than those of recent months (only 10 basis points instead of 15) and a stronger signal from the authorities that the bottom of the easing cycle is approaching. They hinted at a possible end to cuts at the last meeting, but given that inflation remains very close to negative territory (at 0.1% y/y in February), we think that price stability concerns will offset the risks stemming from externally-generated financial instability, swaying the Monetary Council in favour of additional modest easing. Heading into the first policy-setting meeting of 2014 next week, the **Norwegian** monetary authorities will have little cause to alter monetary conditions. For now, headline and underlying inflation remain roughly in line with (slightly below) the 2.5% target, though renewing broad-based USD strength due to shifting Fed policy expectations poses an upside risk to prices over the medium term. Barring any significant change in the inflation outlook, we expect interest rate hikes to start in the first half of 2015.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Reserve Bank of Australia – Cash Target Rate	2.50	March 31, 2014	2.50	--
Reserve Bank of New Zealand – Cash Rate	2.75	April 23, 2014	2.75	--
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	April 1, 2014	8.00	8.00
Bank of Korea – Bank Rate	2.50	April 9, 2014	2.50	--
Bank of Thailand – Repo Rate	2.00	April 23, 2014	2.00	--
Bank Indonesia – Reference Interest Rate	7.50	April 8, 2014	7.50	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	10.75	April 2, 2014	10.75	--
Banco Central de Chile – Overnight Rate	4.00	April 17, 2014	4.00	--
Banco de la República de Colombia – Lending Rate	3.25	April 25, 2014	3.25	3.25
Banco Central de Reserva del Perú – Reference Rate	4.00	April 10, 2014	4.00	4.00

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	March 27, 2014	5.50	5.50

We expect the **South African** Reserve Bank to leave the key policy rate unchanged at 5.50% after the meeting on March 27th. Headline inflation has picked up in recent months, reaching 5.9% y/y in February, and will likely exceed the central bank's 3-6% target range for much of the next two years. However, economic growth concerns will probably prevent the central bank from hiking rates further for the time being, especially considering the exchange-rate stabilization witnessed following the surprise rate hike in January. Nevertheless, further tightening may be necessarily before year-end, especially if core inflation begins to drift higher.

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

Forecasts as at February 28, 2014*	2000-12	2013e	2014f	2015f	2000-12	2013e	2014f	2015f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	2.9	3.4	3.6				
Canada	2.2	2.0	2.2	2.5	2.1	0.9	1.2	1.9
United States	1.9	1.9	2.8	3.0	2.5	1.5	1.6	1.9
Mexico	2.4	1.1	2.7	3.7	4.7	4.0	4.2	4.0
United Kingdom	1.7	1.9	2.5	1.8	2.3	2.0	2.1	2.4
Euro Zone	1.3	-0.4	1.0	1.3	2.1	0.8	1.1	1.3
Japan	0.9	1.6	1.4	1.2	-0.3	1.6	1.5	2.1
Australia	3.1	2.4	2.7	2.9	3.0	2.7	3.0	2.9
China	9.3	7.7	7.3	7.0	2.4	2.5	2.8	3.5
India	7.2	4.7	5.2	5.7	6.7	6.2	6.6	6.3
South Korea	4.3	2.8	3.4	3.5	3.1	1.1	2.2	2.5
Thailand	4.2	2.8	3.5	4.5	2.7	1.7	2.5	2.8
Brazil	3.4	2.3	2.0	2.5	6.5	6.0	6.0	5.5
Chile	4.5	4.0	4.1	4.5	2.9	3.0	3.1	3.0
Peru	5.7	5.1	5.4	5.6	2.6	2.9	3.0	2.5
Central Bank Rates (%, end of period)	13Q4	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Bank of England	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserve Bank of Australia	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.06	1.13	1.15	1.12	1.11	1.10	1.10	1.10
Canadian Dollar (CADUSD)	0.94	0.88	0.87	0.89	0.90	0.91	0.91	0.91
Euro (EURUSD)	1.37	1.40	1.37	1.33	1.30	1.28	1.26	1.25
Sterling (GBPUSD)	1.66	1.65	1.66	1.65	1.64	1.64	1.63	1.61
Yen (USDJPY)	105	102	104	107	109	110	111	112
Australian Dollar (AUDUSD)	0.89	0.87	0.86	0.88	0.88	0.89	0.89	0.89
Chinese Yuan (USDCNY)	6.1	6.1	6.1	6.0	6.0	5.9	5.9	5.9
Mexican Peso (USDMXN)	13.0	13.5	13.1	13.2	13.4	13.4	13.4	13.5
Brazilian Real (USDBRL)	2.36	2.55	2.40	2.45	2.50	2.52	2.55	2.55

Commodities (annual average)	2000-12	2013	2014f	2015f
WTI Oil (US$/bbl)	60	98	95	92
Brent Oil (US$/bbl)	62	109	108	108
Nymex Natural Gas (US$/mmbtu)	5.45	3.73	5.20	4.75
Copper (US$/lb)	2.22	3.32	3.18	3.10
Zinc (US$/lb)	0.78	0.87	0.98	1.40
Nickel (US$/lb)	7.64	6.80	6.90	8.00
Gold, London PM Fix (US$/oz)	745	1,410	1,320	1,375
Pulp (US$/tonne)	730	941	985	985
Newsprint (US$/tonne)	585	608	616	635
Lumber (US$/mfbm)	274	356	390	400

[1] World GDP for 2003-12 are IMF PPP estimates; 2013-15f are Scotiabank Economics' estimates based on a 2012 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.

* See Scotiabank Economics 'Global Forecast Update' report for additional forecasts & commentary.

North America

Canada

Canada	2013	13Q3	13Q4	Latest	
Real GDP (annual rates)	2.0	2.7	2.9		
Current Acc. Bal. (C$B, ar)	-60.7	-59.2	-64.0		
Merch. Trade Bal. (C$B, ar)	-7.4	-5.1	-10.6	-2.1	(Jan)
Industrial Production	0.4	0.8	0.5	2.3	(Jan)
Housing Starts (000s)	187	195	195	192	(Feb)
Employment	1.3	1.3	1.0	0.5	(Feb)
Unemployment Rate (%)	7.1	7.1	7.0	7.0	(Feb)
Retail Sales	2.5	3.2	3.1	3.7	(Jan)
Auto Sales (000s)	1745	1786	1758	1688	(Jan)
CPI	0.9	1.1	0.9	1.1	(Feb)
IPPI	0.4	0.8	0.5	-2.3	(Jan)
Pre-tax Corp. Profits	-2.6	1.2	2.9		

United States

United States	2013	13Q3	13Q4	Latest	
Real GDP (annual rates)	1.9	4.1	2.4		
Current Acc. Bal. (US$B, ar)	-379	-385	-324		
Merch. Trade Bal. (US$B, ar)	-704	-714	-687	-712	(Jan)
Industrial Production	2.6	2.4	3.4	3.2	(Feb)
Housing Starts (millions)	0.93	0.88	1.01	0.91	(Feb)
Employment	1.7	1.8	1.8	1.5	(Feb)
Unemployment Rate (%)	7.4	7.2	7.0	6.7	(Feb)
Retail Sales	4.4	4.7	3.8	1.3	(Feb)
Auto Sales (millions)	15.5	15.7	15.6	15.3	(Feb)
CPI	1.5	1.6	1.2	1.1	(Feb)
PPI	1.2	1.2	0.8	1.3	(Feb)
Pre-tax Corp. Profits		3.5			

Mexico

Mexico	2013	13Q3	13Q4	Latest	
Real GDP	1.1	1.4	0.7		
Current Acc. Bal. (US$B, ar)	-22.3	-22.5	-18.6		
Merch. Trade Bal. (US$B, ar)	-1.0	-4.1	7.4	-38.3	(Jan)
Industrial Production	-0.7	-0.5	-0.4	0.7	(Jan)
CPI	3.8	3.4	3.7	4.2	(Feb)

Europe

Euro Zone

Euro Zone	2013	13Q3	13Q4	Latest	
Real GDP	-0.4	-0.3	0.5		
Current Acc. Bal. (US$B, ar)	288	259	474	104	(Jan)
Merch. Trade Bal. (US$B, ar)	230.3	209.1	283.3	15.6	(Jan)
Industrial Production	-0.7	-1.1	1.5	1.6	(Jan)
Unemployment Rate (%)	12.0	12.1	12.0	12.0	(Jan)
CPI	1.4	1.3	0.8	0.7	(Feb)

Germany

Germany	2013	13Q3	13Q4	Latest	
Real GDP	0.5	0.6	1.4		
Current Acc. Bal. (US$B, ar)	273.9	239.8	342.5	265.3	(Jan)
Merch. Trade Bal. (US$B, ar)	265.7	261.6	288.0	281.1	(Jan)
Industrial Production	0.0	-0.1	2.9	5.0	(Jan)
Unemployment Rate (%)	6.9	6.8	6.9	6.8	(Feb)
CPI	1.5	1.6	1.3	1.2	(Feb)

France

France	2013	13Q3	13Q4	Latest	
Real GDP	0.3	0.3	0.8		
Current Acc. Bal. (US$B, ar)	-44.1	-49.7	-41.2	-67.0	(Jan)
Merch. Trade Bal. (US$B, ar)	-46.8	-49.1	-46.4	-50.5	(Jan)
Industrial Production	-0.5	-1.3	0.5	-0.1	(Jan)
Unemployment Rate (%)	10.8	10.9	10.8	10.9	(Jan)
CPI	0.9	0.9	0.6	0.9	(Feb)

United Kingdom

United Kingdom	2013	13Q3	13Q4	Latest	
Real GDP	1.8	1.9	2.7		
Current Acc. Bal. (US$B, ar)		-167.6			
Merch. Trade Bal. (US$B, ar)	-168.5	-184.2	-172.8	-193.6	(Jan)
Industrial Production	-0.3	-0.4	2.3	2.9	(Jan)
Unemployment Rate (%)	7.6	7.6	7.2	7.2	(Dec)
CPI	2.6	2.7	2.1	1.8	(Jan)

Italy

Italy	2013	13Q3	13Q4	Latest	
Real GDP	-1.8	-1.9	-0.9		
Current Acc. Bal. (US$B, ar)	16.2	28.5	47.0	-20.5	(Jan)
Merch. Trade Bal. (US$B, ar)	40.3	41.4	58.6	6.0	(Jan)
Industrial Production	-2.9	-3.7	0.0	0.3	(Jan)
CPI	1.2	1.0	0.6	0.5	(Feb)

Russia

Russia	2013	13Q3	13Q4	Latest	
Real GDP		1.2			
Current Acc. Bal. (US$B, ar)	33.0	0.6	4.7		
Merch. Trade Bal. (US$B, ar)	14.9	14.4	15.0	18.9	(Jan)
Industrial Production	0.4	0.6	1.4	2.1	(Feb)
CPI	6.8	6.4	6.4	6.2	(Feb)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2013	13Q3	13Q4	Latest	
Real GDP	2.4	2.4	2.8		
Current Acc. Bal. (US$B, ar)	-44.0	-54.9	-41.6		
Merch. Trade Bal. (US$B, ar)	20.2	12.6	20.8	8.0	(Jan)
Industrial Production	3.6	2.1	2.8		
Unemployment Rate (%)	5.7	5.7	5.8	6.0	(Feb)
CPI	2.4	2.2	2.7		

Japan	2013	13Q3	13Q4	Latest	
Real GDP	1.5	2.4	2.5		
Current Acc. Bal. (US$B, ar)	34.3	54.5	-53.6	-183.5	(Jan)
Merch. Trade Bal. (US$B, ar)	-117.0	-119.4	-146.1	-133.2	(Feb)
Industrial Production	-0.6	1.9	5.7	10.4	(Jan)
Unemployment Rate (%)	4.0	4.0	3.9	3.7	(Jan)
CPI	0.4	0.9	1.4	1.4	(Jan)

South Korea	2013	13Q3	13Q4	Latest	
Real GDP	2.8	3.3	3.9		
Current Acc. Bal. (US$B, ar)	70.7	75.9	87.8	43.3	(Jan)
Merch. Trade Bal. (US$B, ar)	44.1	43.1	53.2	11.2	(Feb)
Industrial Production	0.2	1.0	0.7	1.6	(Jan)
CPI	1.3	1.4	1.1	1.0	(Feb)

China	2013	13Q3	13Q4	Latest	
Real GDP	7.7	7.8	7.7		
Current Acc. Bal. (US$B, ar)	193.1				
Merch. Trade Bal. (US$B, ar)	259.2	244.2	360.3	-275.9	(Feb)
Industrial Production	9.7	10.2	9.7	9.7	(Dec)
CPI	2.5	3.1	2.5	2.0	(Feb)

Thailand	2013	13Q3	13Q4	Latest	
Real GDP	2.9	2.7	0.6		
Current Acc. Bal. (US$B, ar)	-2.8	-0.9	5.2		
Merch. Trade Bal. (US$B, ar)	0.5	1.7	1.3	-0.7	(Jan)
Industrial Production	-3.0	-3.9	-6.7	-6.6	(Jan)
CPI	2.2	1.7	1.7	2.0	(Feb)

India	2013	13Q3	13Q4	Latest	
Real GDP	4.6	4.8	4.7		
Current Acc. Bal. (US$B, ar)	-49.3	-5.2	-4.2		
Merch. Trade Bal. (US$B, ar)	-12.9	-9.8	-10.2	-8.1	(Feb)
Industrial Production	0.6	1.9	-0.9	0.1	(Jan)
WPI	6.3	6.6	7.1	4.7	(Feb)

Indonesia	2013	13Q3	13Q4	Latest	
Real GDP	5.8	5.6	5.7		
Current Acc. Bal. (US$B, ar)	-28.5	-8.5	-4.0		
Merch. Trade Bal. (US$B, ar)	-0.3	-1.0	0.8	-0.4	(Jan)
Industrial Production	5.8	7.2	0.9	0.9	(Jan)
CPI	6.4	8.0	8.0	7.7	(Feb)

Latin America

Brazil	2013	13Q3	13Q4	Latest	
Real GDP	2.1	1.9	1.7		
Current Acc. Bal. (US$B, ar)	-81.4	-68.5	-83.8		
Merch. Trade Bal. (US$B, ar)	2.6	5.9	16.7	-25.5	(Feb)
Industrial Production	1.4	0.5	0.1	-3.1	(Jan)
CPI	6.2	6.1	5.8	5.7	(Feb)

Chile	2013	13Q3	13Q4	Latest	
Real GDP	4.1	5.0	2.7		
Current Acc. Bal. (US$B, ar)		-13.7	-9.7		
Merch. Trade Bal. (US$B, ar)	9.0	-2.0	3.1	14.8	(Feb)
Industrial Production	3.0	4.9	2.5	-1.7	(Jan)
CPI	1.9	2.2	2.3	3.2	(Feb)

Peru	2013	13Q3	13Q4	Latest	
Real GDP	2.2	4.5	5.1		
Current Acc. Bal. (US$B, ar)	-10.2	-2.5	-2.2		
Merch. Trade Bal. (US$B, ar)	0.0	0.1	0.1	-0.7	(Jan)
Unemployment Rate (%)	5.9	5.8	5.8	7.0	(Feb)
CPI	2.8	3.1	2.9	3.8	(Feb)

Colombia	2013	13Q3	13Q4	Latest	
Real GDP	4.5	5.4	4.9		
Current Acc. Bal. (US$B, ar)		-3.6			
Merch. Trade Bal. (US$B, ar)	0.2	0.0	0.1	0.2	(Jan)
Industrial Production	-1.7	-1.3	0.5	0.1	(Jan)
CPI	2.0	2.3	1.8	2.3	(Feb)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	13Q3	13Q4	Mar/14	Mar/21*	United States	13Q3	13Q4	Mar/14	Mar/21*
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	0.97	0.92	0.82	0.86	3-mo. T-bill	0.01	0.07	0.05	0.05
10-yr Gov't Bond	2.54	2.76	2.39	2.51	10-yr Gov't Bond	2.61	3.03	2.65	2.76
30-yr Gov't Bond	3.07	3.23	2.93	2.98	30-yr Gov't Bond	3.68	3.97	3.60	3.63
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	71.3	71.8	72.7	(Jan)	FX Reserves (US$B)	136.7	133.5	133.4	(Jan)
Germany					**France**				
3-mo. Interbank	0.15	0.24	0.24	0.28	3-mo. T-bill	0.06	0.15	0.18	0.20
10-yr Gov't Bond	1.78	1.93	1.55	1.63	10-yr Gov't Bond	2.32	2.56	2.12	2.16
FX Reserves (US$B)	65.7	67.4	66.9	(Jan)	FX Reserves (US$B)	54.6	50.8	54.5	(Jan)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.50	0.25	0.25	0.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.18	0.45	0.16	0.16	3-mo. T-bill	0.40	0.40	0.39	0.38
FX Reserves (US$B)	332.5	331.2	337.9	(Jan)	10-yr Gov't Bond	2.72	3.02	2.66	2.76
					FX Reserves (US$B)	93.3	92.4	92.6	(Jan)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	2.50	2.50	2.50	2.50
3-mo. Libor	0.09	0.09	0.08	0.08	10-yr Gov't Bond	3.81	4.24	4.04	4.16
10-yr Gov't Bond	0.69	0.74	0.63	0.60	FX Reserves (US$B)	45.9	49.7	43.4	(Jan)
FX Reserves (US$B)	1240.8	1237.2	1246.2	(Jan)					

Exchange Rates (end of period)

USDCAD	1.03	1.06	1.11	1.12	¥/US$	98.27	105.31	101.36	102.29
CADUSD	0.97	0.94	0.90	0.89	US¢/Australian$	0.93	0.89	0.90	0.91
GBPUSD	1.619	1.656	1.665	1.649	Chinese Yuan/US$	6.12	6.05	6.15	6.23
EURUSD	1.353	1.374	1.391	1.380	South Korean Won/US$	1075	1050	1073	1080
JPYEUR	0.75	0.69	0.71	0.71	Mexican Peso/US$	13.091	13.037	13.211	13.217
USDCHF	0.90	0.89	0.87	0.88	Brazilian Real/US$	2.217	2.362	2.347	2.321

Equity Markets (index, end of period)

United States (DJIA)	15130	16577	16066	16443	U.K. (FT100)	6462	6749	6528	6564
United States (S&P500)	1682	1848	1841	1881	Germany (Dax)	8594	9552	9056	9346
Canada (S&P/TSX)	12787	13622	14228	14392	France (CAC40)	4143	4296	4216	4342
Mexico (IPC)	40185	42727	37951	39977	Japan (Nikkei)	14456	16291	14328	14224
Brazil (Bovespa)	52338	51507	44966	47601	Hong Kong (Hang Seng)	22860	23306	21539	21437
Italy (BCI)	950	1041	1112	1145	South Korea (Composite)	1997	2011	1920	1935

Commodity Prices (end of period)

Pulp (US$/tonne)	945	990	1010	1010	Copper (US$/lb)	3.31	3.35	2.94	2.97
Newsprint (US$/tonne)	605	605	605	605	Zinc (US$/lb)	0.85	0.95	0.90	0.89
Lumber (US$/mfbm)	359	372	368	366	Gold (US$/oz)	1326.50	1204.50	1385.00	1336.00
WTI Oil (US$/bbl)	102.33	98.42	98.89	99.99	Silver (US$/oz)	21.68	19.50	21.36	20.55
Natural Gas (US$/mmbtu)	3.56	4.23	4.43	4.30	CRB (index)	285.54	280.17	302.88	299.96

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

Emerging Markets Strategy

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