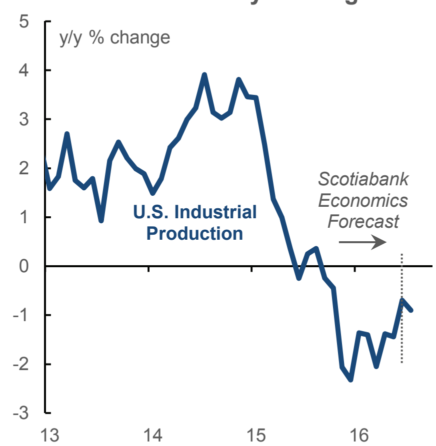
Weekly commentary on economic and financial market developments

August 12, 2016

Please see Scotiabank's Forecast Tables, August 3, 2016, for our latest economic, interest and exchange rate and commodity price forecasts.

This Week's Featured Chart

U.S. IP Slowly Turning?



Source: Scotiabank Economics, Bloomberg.

A Decisive Two Weeks For The Fed

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A8.**

UNITED STATES — WHAT DID THE FED REALLY MEAN?

The next two weeks may significantly inform market opinion on if and when the Federal Reserve might raise rates again and could be key to markets in this regard. That's because of next Wednesday's minutes to the July 27th FOMC meeting and Chair Yellen's speech at the annual Jackson Hole Symposium on August 26th. The July FOMC meeting occurred before material and highly mixed data on the US **economy's performance arrived and therefore the minutes risk being a little stale, but key will be to what degree the Fed truly wished to emphasize in hawkish fashion** its remark that "Near-term risks to the economic outlook have diminished".

We didn't interpret the July FOMC statement as hawkishly as some did for two main reasons. One is that the Fed continued to emphasize that inflation is underperforming its goals and that market-based measures of inflation expectations remain low. The latest reading on the Fed's preferred inflation gauge was 0.9% y/y with core prices at 1.6% while market-based 10 year inflation breakeven sits at about 1½%. Further, the Fed emphasized how it continues to monitor "global economic and financial developments." With the UK likely entering recession, China risks still lurking in the background and likely to resurface into early next year, and the USD having regained some of its weakness earlier this summer, international risks abound. The added kink in the debate is challenges facing global banks. Europe's banks suffer from weak governance and inadequate capital, and Japanese banks have been impacted by negative rates. US banks' funding costs are now under upward pressure (chart 1) due to money market changes that take effect on October 14th. Further, a number of foreign central banks from first through to third tier have embarked on renewed easing in such fashion as to alter the carry trade in favour of dollar-bloc assets. Oh, and did we mention a wave of elections in Europe and the US, the risk of further European referenda, and the need for a number of European parliaments to ratify any EU-UK 'article 50' agreement at some point? This US election is unlike any other in recent memory by way of the sharp differences on policy options that would be growth negative (GOP) to mildly positive (Democrats). Amidst such risks and uncertainties, why the rush to hike? This could be especially true in the near absence of economic growth after Q2 GDP came in at only 1.2% q/q and hence about half consensus expectations while Q1 growth was revised lower to 0.8%. While job growth (255k in July, 292k in June) has been strong recently, at some point it may well need stronger economic growth in order to maintain this pace of job creation.

Data risk will play a secondary role to Fed communications next week that also include speeches by FOMC officials such as James Bullard, Dennis Lockhart and John Williams. CPI, industrial production, and housing starts are all slated for July updates, and August versions of the Philadelphia Fed's business outlook metric and the Empire manufacturing gauge are all on the docket.

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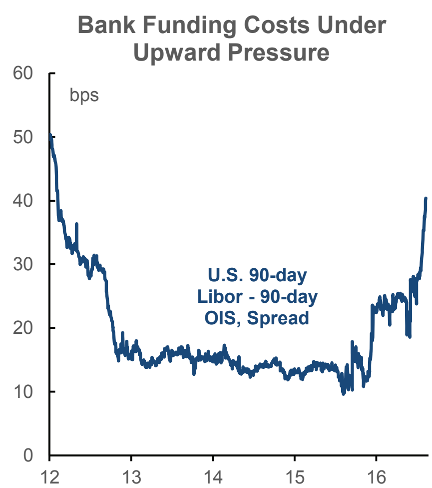
Next Week's Risk Dashboard

- FOMC minutes
- US CPI, industry data
- CDN CPI, retail, manufacturing, home resales
- UK post-Brexit data
- Q2 GDP: Japan, Philippines, Thailand
- Bank Indonesia
- RBA minutes
- Chinese property prices
- ECB meeting account
- German ZEW sentiment

Chart 1



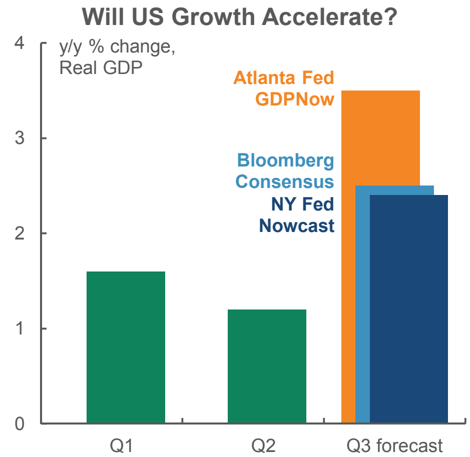
Source: Scotiabank Economics, Bloomberg.

CANADA — KEY DATA LIKELY TO PLAY SECOND FIDDLE TO THE FED

The final pieces of the puzzle to estimate Q2 GDP growth and momentum into Q3 will combine with the latest inflation reading to bring data risk back onto the domestic calendar. Most of the action arrives on Friday after which bank earnings will take over the following week's focus on the path to the month-end release of GDP for June and the full second quarter. **What complicates how the Canadian market may react to these developments is that markets are also entering what may be a critical period for determining the Federal Reserve's policy bias** over the duration of the year as argued in the US section of this article.

June estimates for **manufacturing** activity (Tuesday) and **retail sales** (Friday) plus **CPI** for July (Friday) will be the marquee releases over the coming week. Home resales during July (Monday) also arrive but never sway markets and feed into GDP estimates in de minimis fashion. That doesn't mean that housing observers should ignore the release, especially in the wake of two sizeable consecutive declines in home resales that ended the key Spring market on a soft note following a more promising start to the year. Key to the outlook for Canadian exporters and manufacturers is whether US growth improves and whether Canada can leverage that up in the context of competitiveness challenges as a weakened destination for business investment. On that note, US growth has been disappointing this year and Q3 signals are highly mixed. The US economy barely grew in the first half of this year with Q1 growth of 0.8% and Q2 growth of 1.2% that came in at about half of consensus expectations. Forecasts for Q3 range from 2.5% by the Bloomberg consensus up to 3.5% according to the Atlanta Fed's 'nowcast' model and down to 2.4% according to the NY Fed's 'nowcast' model that also attempts to track growth using higher frequency readings (chart 2). In all cases, there is clearly a paucity of hard data available at this juncture for Q3 and so all estimates are to be treated very cautiously.

Chart 2



Source: Scotiabank Economics, BEA, Bloomberg, FRBA, NYFRB.

On manufacturing, it will be important to dig beneath the headline given a potentially large divergence between the reported growth in the dollar value of sales versus the volume. Recall that exports climbed by 0.6% m/m in dollar terms and that was entirely due to a 2% jump in export prices as the volume of exports fell by 1.2%. A similar outcome is plausible for the manufacturing sector given strong export dependence. Retail sales are always a roll of the dice, but higher auto sales are expected to help drive an overall gain. **The real test of stimulus will arrive in coming months as increased Canada Child Benefit cheques began to be mailed out toward the end of July.** The pre-existing Canada Child Tax Benefit and the Universal Child Care Benefit have been rolled into one tax-free program with more generous payments that are now income-tested to eliminate payments to households earning over C$200,000 per year. If history is any guide, the increased child benefit payments will drive increased retail spending.

Inflation is expected to remain in a no-person's land with headline running around 1½%, and core at about 2%. It will take until toward year-end and into next year before headline and core converge upon one another around the BoC's 2% inflation target as the mid-point of the 1-3% policy band.

Also note that Canada auctions 5 year bonds on Wednesday.

ASIA — JAPAN WILL REMAIN AN EXAMPLE OF STIMULUS FAILURE

What do you get for spending the past two and a half decades driving public debt from about 65% of GDP to over 250%, creating among the world's finest infrastructure in key cities like Tokyo, and implementing endless rounds of monetary easing including negative interest rates? Practically zippo it would seem in the case of Japan's economy (chart 3). Next week's **Q2 Japanese GDP** print could bring more of the same. Within the spectrum of opinion across Japanese banks and securities dealers, estimates are widely variant and range from a slight contraction to annualized growth of around 2%. Western policymakers with similar policy leanings take note, especially those who believe with certainty that heavy fiscal stimulus can lift their economies out of the doldrums. Japan's trade figures for July also arrive next week and consensus thinks exports will contract at around the fastest year-ago pace witness since 2009.

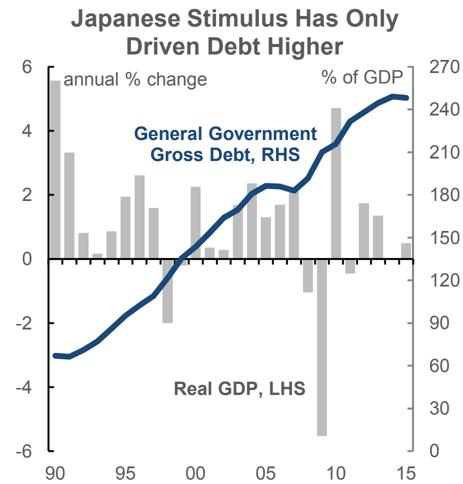
Other Asian economies are expected to post somewhat more encouraging results for Q2 GDP growth next week including Philippines and Thailand.

Other developments will include an expected rate cut by Bank Indonesia toward the end of the week, the release of minutes to the RBA's meeting on August 2nd, Chinese property prices, and trade figures from India and Indonesia.

EUROPE — POST-BREXIT DATA & THE DEBATE OVER NEXT STEPS

It's likely too early to expect big swings in the data to emerge, but a further hint or two of the post-Brexit downside risks to the UK economy could begin to emerge a little more clearly next week. Rightmove house prices fell by about 1% in July and so did the Markit/Halifax house price gauge, while expectations are for a further decline when the August Rightmove reading lands next week. CPI is expected to dip mildly in the July reading over June but the details will be closely scrutinized for signs of the drivers. Most of any influence from pound sterling movements likely lies further down the road given lagging effects. Retail sales are actually expected to bounce back from the sharp drop in June, but only tepidly so.

Chart 3



Source: Scotiabank Economics, IMF.

Amidst the trivialities of short-term data lies an ongoing and more profound longer-run debate over what must now unfold in Europe. Here is one such opinion that generally reflects a fairly longstanding consensus view on the need for institutional reform in Europe to accompany the introduction of the Euro lest the project be doomed to fail. I'll look forward to reading his entire work. What I have always found necessary in addressing this school of thought, however, is to ask an American economist how he would apply such advice to his own country's history. Always seek the opinions of the masses on complex issues and fully adhere to the democratic will of the populace no matter how slight the majority, how fair the contest, and how informed the opinions may be? Perhaps President Abraham Lincoln should have rolled over at the boots of Confederate soldiers. Perhaps the American Civil War should have never occurred. Never impose a common currency unless the conditions of an optimal currency area are satisfied? Perhaps the USD should have never been introduced, floated or fixed, gold and all. After all, the US banking system has been a mess for centuries from its regionalized unit-banking days to the Global Financial Crisis. Multiple overlapping regulators have driven the evolution of the US banking system in ways not terribly dissimilar to the multiple overlapping influences of European regulatory regimes. Regions of the US economy have been driven by a disparate array of economic factors that divided the more agrarian south from the historically more industrial north. Population migration and the degree of labour mobility have varied enormously across regions and history. And as far as the requirement of integrated, cohesive and sensible fiscal policy across regions of said optimal currency area is concerned, one would be hard pressed to make the case that a) this developed early in the US, or b) that it has been perfected to date! Many of these same arguments can be applied to other sub-optimal currency areas like Canada with its single currency. It took decades to centuries to develop the complementary policies necessary to make a single currency a success as the greenback has come to be among global reserve managers — and it is still a work in progress.

In that sense, **judging the Euro and its institutions is to be done with a strong sense of how premature it is to do so and relative to the alternative that could well be argued to entail a return to Europe's even more divisive past**. The currency was introduced on January 1st 1999. Blaming it for sub-standard growth in, say, Germany's economy since 2007 ignores the many influences on growth across countries in the era of the Global Financial Crisis and ignores the fact that German growth from the Euro's inception until just before the crisis averaged about four-times faster than following the crisis and notwithstanding the varying political and economic challenges the German economy has faced over the post-Cold War era. Europe needs institutional reform, but in some respects it has been occurring faster than it did for the US and Canada and it will remain a long-term project not measured within the confines of just s.e.v.e.n.t.e.e.n. years.

Miscellaneous European developments next week will include the account of the ECB's July 21st policy meeting, Germany's ZEW investment sentiment gauge for August, and French unemployment in Q2.

August 12, 2016

More Boom Than Bust For Canadian Homebuilders

- **Canadian homebuilders emboldened by the ongoing strength in B.C. and Ontario housing markets.**

Canadian homebuilding activity continues to be one of the most dynamic segments of the domestic economy. Defying widespread expectations of a slowdown, housing starts through the first seven months of the year have trended around 200,000 annual units (chart 1). The trend in building permits is only modestly lower at 190,000 units, pointing to continued elevated activity over the final five months of the year. We now expect housing starts to total close to 195,000 units this year, on par with 2015.

As with virtually all national economic indicators, the regional divide in residential construction is yawning. British Columbia is leading the charge, with housing starts averaging a record-setting 44,000 annualized units this year, a 40% surge over 2015. While led by multi-units (both condominiums and purpose-built rentals), single-family home construction also has picked up. B.C.'s residential construction boom extends beyond Vancouver and the Lower Mainland into other parts of the province, including Kelowna and Victoria.

Multi- and single-family construction also has picked up pace in Ontario this year. However, at an annualized 76,000 units year-to-date, the overall level of housing starts remains well shy of a record. Activity remains brisk in Toronto, but the momentum has shifted to more affordable centres, including Hamilton, St. Catharines, Kitchener, Guelph, London and Oshawa.

Homebuilding activity in Alberta is showing signs of stabilizing, albeit at levels well below normal. Provincial starts have averaged just 24,000 annualized units year-to-date, their lowest level since 2009, with a notable retrenchment in both Calgary and Edmonton. Activity in most other parts of the country is relatively steady.

There are signs of overbuilding in a few markets, primarily in Alberta, Saskatchewan and Newfoundland where home sales have slowed. For the most part, however, there is little evidence of problematic inventory conditions. Notwithstanding the ongoing high level of construction, unsold housing inventory as a share of the adult population remains in line with historical norms (chart 2). Absorption rates of recently completed units are high and stable. The resilience in new and resale home prices also is not indicative of a supply glut.

Low borrowing costs, healthy labour market conditions and solid population gains should continue to support housing demand and residential construction in B.C. and Ontario. Builder confidence is being bolstered by strong resale and new home sales, tight supply and rising home prices. The average price of new single- and semi-detached homes has jumped 15% and 8%, respectively, in Vancouver and Toronto over the past year. To the extent that tight supply is contributing to surging home prices in these two high-priced markets, the increase in new construction is a welcome development. At the same time, rising unemployment, interprovincial population outflows, increased housing supply and a soft pricing environment weigh against a near-term recovery in Alberta, notwithstanding rebuilding activity related to the devastating May wildfires in Fort McMurray.

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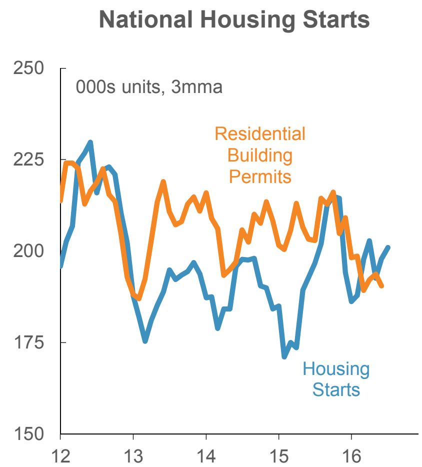
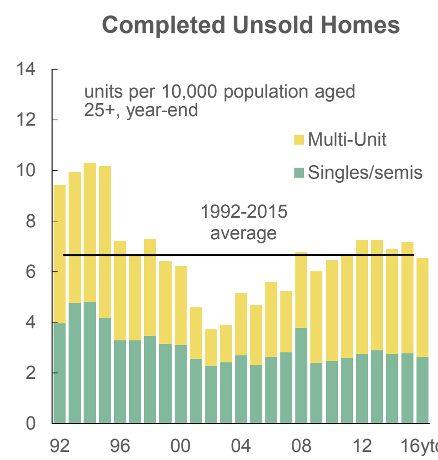
Chart 1



Source: CMHC, Scotiabank Economics

Chart 2



Source: CMHC, Statistics Canada, Scotiabank Economics

Costing The GOP's Proposals

- **Pre-existing challenges to US fiscal policy could be further aggravated by aggressive tax cuts and uncertainty over how to fund them.**

Although a fairly modest probability is assigned to seeing the light of day in totality, **preliminary analysis of US Presidential candidate Donald Trump's budget proposals may be insightful to financial market participants.** On balance, the conclusion is that the US Federal deficit could continue to rise over the next decade to over 5% of GDP (from about half that ratio at present) and Federal debt held by the public would increase by around US$10 trillion (more than it has over the crisis era) to over 85% of the economy (from about 75% now). These results are highly uncertain given required details and are to be treated as a very preliminary first pass pending further information. The core problem is two-fold: the starting point on already existing challenges to the long-run outlook for US government finances; and the uncertainties associated with costing the GOP's stimulus proposals and how to pay for them.

CBO BASELINE ALREADY PRESENTS CHALLENGES

To reach this conclusion, we start with the Congressional Budget Office's baseline budget projections issued in March and slated for an update on August 23rd at which point we'll refresh the math. There are many models for projecting revenue and expenditure plans and their effects on the economy but we've outsourced the first baseline step to the CBO with the obvious caveat being its past forecast inaccuracies due to difficult to foresee developments in the economy and policy priorities. A revised projection that attempts to incorporate Trump's proposals is then based upon the following points:

1. Total revenues are cut by a cumulative $2-3 trillion over ten years in keeping with mixed guidance over the past couple of days. For reasons that will be explored later in reviewing the individual policy proposals, we view this range of estimates as on the low side. Regardless, last Monday, the guidance was that the Trump camp wished to keep the cost "under US$3 trillion" over ten years and the day after they costed the plan at about US$2 trillion. Firmer independent cost estimates await greater detail on the proposals than is currently available and will be the subject of many think tank exercises over coming weeks. But we need rough estimates now, and so we've assumed the tax cuts are invoked immediately in 2017 and average to $200-300 billion per year. It is important to note that what we've done is subtract this amount from the CBO's baseline revenue projections that naturally rise with the economy over time.

2. Total outlays are cut by 1% per year in accordance with the 'penny plan' that Trump advocates. Given that current outlays by the Federal Government are about $4 trillion and projected to exceed $6 trillion within ten years, this would knock $40-60 billion off of annual spending. That said, exactly what is meant by a 'penny plan' is highly uncertain. We've assumed a 1% expenditure cut from annual CBO baseline projections that show rising spending with a growing economy and given what is projected to occur in the context of current spending initiatives that have otherwise been largely unaddressed by the GOP plan. We've

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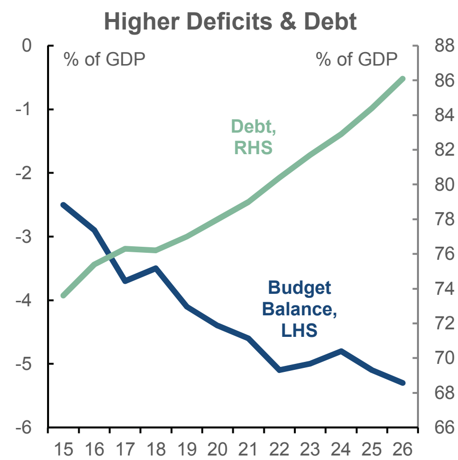
Chart 1



Source: Scotiabank Economics, U.S. Congressional Budget Office.

also assumed that an immediate spending cap is unlikely versus being a longer term goal, because capping spending outright at current levels and then cutting by 1% every year would be a massive contraction in spending tallying nearly US$3 trillion over the next ten years relative to the CBO's projection for spending to rise to about US$6 ½ trillion. What's the point of tax stimulus if expenditure cuts are so deep and they are unlikely to get by Congress.

3. The 1% plan would exclude the military that Trump targets for increased spending. Military spending is over 15% of the budget and so non-defense spending would have to be cut by an average of around 1.2% per year or more depending upon how fast military spending is allowed to rise. Again, a spending cap and then 1% annual cuts with the military exempt would be draconian cuts to core program spending.

4. We've assumed about 4% annual nominal GDP growth over the projection horizon which is roughly the figure used by both the CBO and Trump's advisers.

5. The result is shown in chart 1 and the accompanying table at the back of this article that includes three sections (CBO base line, one for the GOP plan using their US$2 trillion cost estimate, and another using their US$3 trillion cost estimate). By 2026, the deficit rises to around 5 ½% of GDP compared to the CBO's baseline projection of about 5%. The revenue plans could be funded by expenditure restraint at the margin, but this wouldn't offset other projected sources of upward pressure on the deficit over time. Debt held by the public would rise from about 75% of the economy now to around 86%. In short, the GOP's plans would have to more aggressively tackle CBO spending projections than we've assumed in order to flat line the deficit-to-GDP ratio, let alone return the budget to balance. Again, we caution that this could arise through a more aggressive interpretation of the 'penny plan' and spending caps than we've assumed but a) it's pure speculation to go further when proposals lack details, b) this could be offset if independent estimates of the cost to the tax proposals turn out higher, and c) the impact upon the economy from such spending cuts to make up for both revenue losses and to control projected baseline increases in outlays would be so damaging to the economy as to at least offset any stimulus effect from tax cuts.

Assessments of the GOP proposals are rolling in gradually from think tanks, fiscal agencies and respected periodicals have been gradually weighing in on US Presidential candidate Trump's economic proposals and they're generally skeptical. The Brookings Institution (here) has it right in my personal opinion, as does the Tax Policy Center (here), the Committee for a Responsible Federal Budget (here), and The Economist (here). A core problem with the proposals is that they give away long-term tax revenues for uncertain and largely regressive benefits when mounting pressures on deficits through areas like health and social security will pose the challenge of much bigger fiscal deficits and debt in future that will likely go far beyond spending restraint offered by a 'penny plan'. If you believe that fiscal policy stimulus is required and can be implemented to successful results, then it still leaves open the debate over what form is best and long-term regressive tax cuts may not be the best form especially if more protectionist trade policy damages employment and earnings prospects for the middle and lower income earners.

This article concludes with a summary of key aspects of the GOP proposals and caveats associated with each of them.

1. Tax brackets

Trump proposes reducing the number of individual tax brackets from seven at present to three- three and setting the rates at 12%, 25% and 33%. This essentially copies Paul Ryan's similar proposal that was estimated to cost about US$200 billion over 10 years.

In order to assess the cost of Trump's proposal, however, two critically important ingredients are missing. One is that we don't know the income ranges that would line up with the three tax brackets. That said, we can reasonably infer that middle-income households earning between US$75-150k would benefit little. Second is that we don't know the size of the standard deduction that Trump would implement. Previously, Trump had supported raising the standard deduction from US$6,300 at present to US$25,000 per tax filer but he has not repeated this.

An immediate puzzle is how Trump's advisers claim that the total cost of his proposals would be about US$2 trillion over 10 years when the Ryan plan alone was costed at a similar magnitude. This is where the missing details may be relevant, and where it is important to understand what kind of tax multiplier Trump's advisers are assuming. That, in turn, depends upon what assumptions are made regarding how much of a tax cut gets spent by households versus, say, hording the proceeds in an aging population that is still slightly down on the value of their prime retirement nest egg — their homes — on average compared to the peak.

2. Child care

Our ability to assess the effects of Trump's child care plans is limited by the paucity of details. There was only one child care reference in his Detroit speech: "My plan will also reduce the cost of child care by allowing parents to fully deduct the average cost of child care spending from their taxes."

From this, we learn a preference for a deduction over a tax credit, and that individuals will be allowed to deduct the 'average' cost of child care spending howsoever defined versus their individual costs in order to limit more extravagant expenses. Of course, the average child care expense itself may well drift higher as a result of the deduction. An advisor has guided that it could be a deduction of the full amount of child care expenses for households earning between US$30k-150k per year in income. Exemptions/limits are vague to non-existent. As a deduction and not a credit, one has to owe taxes to the federal government which means that higher income households are more likely to benefit than lower or middle income households. The Economic Policy Institute estimates that 44% of Americans currently don't pay federal income tax. Therefore, a child care deduction would not benefit them since they owe no federal tax. The deduction also arrives at tax filing season, not as the expenses are incurred, and so households would have to bridge finance the benefit.

3. Corporate income taxes

Trump proposes to cut the US corporate tax rate cut from 35% to 15%. The cost has been estimated by the Committee for a Responsible Federal Budget at about US$2.5 trillion over a decade excluding the growth it might generate. This large price tag questions the Trump camp's assertion that the overall stimulus package would cost only US$2 trillion over the next ten years.

4. Estate taxes

Trump proposes abolishing the estate tax. This is of minimal economic consequence as it is estimated to be only about a US$25 billion revenue loss to the federal government. The Urban-Brookings Tax Policy Center argues that just over 5,000 individuals paid estate tax last year that applies when the size of the estate gross of deductions exceeds about $5 ½ million. An unintended consequence could be to reduce charitable donations by wealthier households designed to come in under the estate tax exemption.

5. Repatriated profits

Trump proposes a 10% tax rate on repatriated profits estimated at US$2 trillion overseas, versus the current standard 35%. It isn't known for what period of time this would exist. The maximum benefit to government revenues would be US$200 billion. The true benefit is probably much lower as some of these profits will never be repatriated from offshore havens, revealing such practices may be an undesirable risk to some firms, and there are multiple ways of managing the tax burden across geographies regardless of profit booking points.

6. Investment write-offs

The GOP proposal would be to allow businesses to deduct the full cost of investment from corporation tax in the year the investment is made versus as they depreciate. This may incentivize business investment. Caveats include the fact that on average there remains spare capacity across industries as evidenced by a 75% aggregate industry capacity utilization rate and so many businesses would question adding to spare capacity just because of a tax break. Another caveat would be that investment activity could be brought forward into the period covered by the tax break after which an investment vacuum would re-emerge. If such a tax break is made permanent, however, then it risks encountering no sense of urgency to use it. Also consider that an incentive to purchase capital goods says nothing about where they will be installed; for instance, a US company could buy the equipment and install it in Mexico or Canada or China.

7. Carried interest elimination

In his Detroit speech, Trump stated "We will eliminate the carried interest deduction and other special interest loopholes that have been so good for Wall Street investors, and people like me, but unfair to American workers." Others dispute the portrayal of this deduction as a loophole (see more here). This is a policy designed to address how income is distributed by private equity and hedge funds among others. It is a relatively minor issue in the grand scheme of things and cutting the corporate income tax as proposed would make carried interest elimination a moot point in any event since it would be taxed at a higher rate than the new proposed corporate tax rate.

8. Pass-throughs and self-employment

Trump also proposed that the top rate on business income be cut to 15% from 35% for C Corps and pass-throughs like S Corps, partnerships and LLCs as well as freelancers. It's not clear what the foundation for such a relative distortion in tax treatment could be. It could be viewed as distorting the tax playing field in favour of more lifestyle businesses, smaller enterprises operating at reduced economies of scale, and distorting in favour of tax deadweight costs to revamping workplace arrangements in favour of outsourced consultants and freelancers. Kansas is often offered as an example of the likely outcome in the wake of a similar experiment. A top marginal personal rate of 33% versus a 15% business income tax rate for such firms would be a boon to tax planners and accountants advising generally better off clients on how to save a bundle in taxes by revamping their working arrangements. What it does for productivity and tax avoidance activities could be a very different matter.

CBO Baseline Budget Projections, March 2016

	Actual	Forecast										
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenues	3250	3364	3508	3645	3772	3931	4082	4247	4423	4615	4825	5042
Outlays	3688	3897	4058	4194	4482	4729	4972	5290	5504	5709	6051	6385
Deficit	-438	-533	-550	-549	-710	-798	-890	-1043	-1081	-1094	-1226	-1343
Debt held by public	13117	13951	14572	15177	15934	16771	17692	18766	19880	21012	22280	23672
GDP	17810	18494	19297	20127	20906	21710	22593	23528	24497	25506	26559	27660
GDP growth (%)		3.8	4.3	4.3	3.9	3.8	4.1	4.1	4.1	4.1	4.1	4.1
Deficit as % of GDP	-2.5	-2.9	-2.9	-2.7	-3.4	-3.7	-3.9	-4.4	-4.4	-4.3	-4.6	-4.9
Debt as % of GDP	73.6	75.4	75.5	75.4	76.2	77.3	78.3	79.8	81.2	82.4	83.9	85.6

Budget Projections Amended For GOP Plan - Assuming US$2 trillion cost cumulative cost and 'penny plan'

	Actual	Forecast										
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenues	3250	3364	3308	3445	3572	3731	3882	4047	4223	4415	4625	4842
Outlays	3688	3897	4017	4152	4437	4682	4922	5237	5449	5652	5990	6321
Deficit	-438	-533	-709	-707	-865	-951	-1040	-1190	-1226	-1237	-1365	-1479
Debt held by public	13117	13951	14731	15335	16089	16924	17842	18913	20025	21155	22419	23808
GDP	17810	18494	19297	20127	20906	21710	22593	23528	24497	25506	26559	27660
		3.8	4.3	4.3	3.9	3.8	4.1	4.1	4.1	4.1	4.1	4.1
Deficit as % of GDP	-2.5	-2.9	-3.7	-3.5	-4.1	-4.4	-4.6	-5.1	-5.0	-4.8	-5.1	-5.3
Debt as % of GDP	73.6	75.4	76.3	76.2	77.0	78.0	79.0	80.4	81.7	82.9	84.4	86.1

Budget Projections Amended For GOP Plan - Assuming US$3 trillion cumulative cost and 'penny plan'

	Actual	Forecast										
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenues	3250	3364	3208	3345	3472	3631	3782	3947	4123	4315	4525	4742
Outlays	3688	3897	4017	4152	4437	4682	4922	5237	5449	5652	5990	6321
Deficit	-438	-533	-809	-807	-965	-1051	-1140	-1290	-1326	-1337	-1465	-1579
Debt held by public	13117	13951	14831	15435	16189	17024	17942	19013	20125	21255	22519	23908
GDP	17810	18494	19297	20127	20906	21710	22593	23528	24497	25506	26559	27660
		3.8	4.3	4.3	3.9	3.8	4.1	4.1	4.1	4.1	4.1	4.1
Deficit as % of GDP	-2.5	-2.9	-4.2	-4.0	-4.6	-4.8	-5.0	-5.5	-5.4	-5.2	-5.5	-5.7
Debt as % of GDP	73.6	75.4	76.9	76.7	77.4	78.4	79.4	80.8	82.2	83.3	84.8	86.4

Sources: Congressional Budget Office's 'Updated Budget Projections 2016-2017' from March 2016, latest GOP proposals, Scotiabank Economics

Is U.S. Manufacturing Turning Around?

- **A solid start to the third quarter may signal that the U.S. industrial sector is turning a corner.**

Manufacturing output in the United States has picked up to its fastest rate of expansion since October of last year (chart 1), mainly on the back of the U.S. consumer. The labour market has added almost 200k jobs per month in 2016, alongside a 2½% y/y increase in wages. Combined with low prices at the pump and record-low interest rates, big-ticket purchases of houses, cars and appliances will remain elevated, and should continue to benefit consumer- and construction-facing manufacturers, which account for about half of the sector's output. Conversely, industrial-oriented manufacturers — primarily in the oil & gas, metals & minerals, and chemicals sectors — have underperformed, and will likely continue to do so against a backdrop of low commodity prices and ongoing reluctance from businesses to invest in longer-term capital projects.

Manufacturing employment has picked up in recent months as the introduction of new products and increasing order books have necessitated higher staffing at select factories, although employment has been largely flat year-to-date in the sector, and well below historical levels. It has been a slow recovery for U.S. industry with only 850k factory jobs created in the seven years since the recession (roughly the same number of jobs that were lost in the first four months of 2009), bringing total employment in the sector to around 12½ million. It is unlikely there will be any significant, continuing job gains going forward as offshoring and automation have structurally shifted the nature of production in the United States. Nonetheless, output in the sector will continue to advance alongside improving productivity despite diminished employment prospects.

Weak foreign demand has been a drag on U.S. factories over the last two years, due to a strong U.S. dollar and weak growth globally, but has rebounded modestly in the first half of the year with incremental improvements in shipments of vehicles and industrial machinery. Both export orders and sales have expanded in five consecutive months alongside improving demand from Canada and Europe, and grew in July at their fastest pace since late 2014. In addition, backlogs of work are rising, signaling that exports are rebounding from a cycle low in the fourth quarter of 2015. Goods exports will likely be a net drag on U.S. output this year (chart 2), but are set to improve in 2017 with renewed demand from Mexico and Canada, which represent nearly half of overall U.S. shipments.

Risks to the outlook for the U.S. industrial sector include slowing growth across the Eurozone, and heightened uncertainty surrounding several key U.S. trading partners, especially the U.K., which is working through the aftermath of the Brexit vote, and China, which is shifting away from industrial activity as the primary driver of growth. Against a backdrop of anaemic global trade and increasing protectionism, domestic-facing manufacturers will likely be the leaders in U.S. factory activity in the near future. It is also possible that the worst of the restructuring for U.S. oil and gas extractors is over, and that the sector could rebound with a sustained increase in energy prices — which would provide the added benefit of tempering U.S. dollar strength and revitalizing exports.

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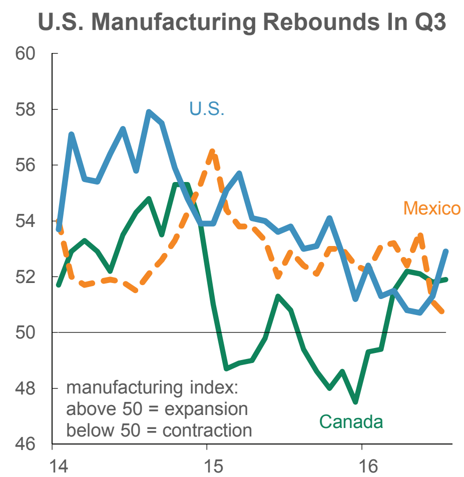
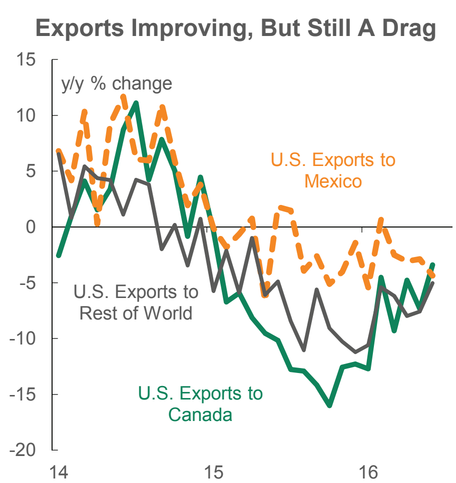
Chart 1



Source: Markit, Scotiabank Economics.

Chart 2



Source: U.S. Census Bureau, Scotiabank Economics.

UK: Fiscal Update

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SUMMARY

When Philip Hammond presents his first Budget Statement towards the end of the year, he is very likely to announce a substantial increase in the level of government borrowing over the coming years. There are two key reasons for this:

1) **Slippage —** The outlook for GDP growth has been downgraded substantially. There is a reasonable trade-off between economic growth and government borrowing so that we know roughly how much higher borrowing will be for a given downgrade in the growth outlook.

2) **Discretionary Measures** — The new government has abandoned plans to turn the budget deficit into a surplus by the end of the parliament. This means that a package of measures is likely to be announced to help alleviate the downside risks to growth stemming from Brexit.

SLIPPAGE

In a nutshell, for every 1% the Office for Budget Responsibility (OBR) revises down its GDP growth projection, the level of government borrowing should rise by approximately GBP10bn in the first year and a further GBP3bn the following year.

The BoE recently downgraded its GBP forecast for 2017 from 2.3% y/y to 0.8% y/y. That 1.5% point downgrade should:

- add around GBP15bn to the 2017 borrowing estimate;
- and a further GBP5bn to the 2018 borrowing estimate.

Our own GDP forecast for 2017 is zero. This assumes a very mild recession. The PMI surveys point to a deeper recession than the one we have assumed. The first clues from the hard economic data that feed into GDP will begin to emerge in around 1 month from now. But if our GDP forecast is right, then government borrowing will be at least GBP20bn higher in 2017 than previously thought. In fact, given that we have also revised down our 2016 GDP forecast, that will add even more to the borrowing estimate for 2017 (see table below).

Table 1: Likely Revisions to Borrowing Due to Weaker GDP

	2016/17	2017/18	2018/19	2019/20
PSNBx Before	55.5	38.8	21.5	-10
Slippage Due to GDP Revision	7	25	19	10
PSNB After	62.5	63.8	40.5	0
PSNBx % of GDP Before	2.9	1.9	1.0	-0.5
PSNBx % of GDP After	3.2	3.2	1.9	0.0

In summary — the borrowing estimate for 2017/18 from the March Budget was GBP38.8bn. Given our expectation for a slashing in the GDP outlook, borrowing could be as high as GBP64bn in 2017/18. That would be 3.2% of GDP instead of the current forecast of 1.9% of GDP. The revisions are less severe if we use the BoE estimates instead — probably around GBP55bn for 2017/18.

DISCRETIONARY MEASURES

The Treasury Ready Reckoner is essentially a menu showing the cost / revenue of changing each of the key tax or revenue streams.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508120/Mar16_Direct_effects_illustrative_tax_changes_bulletin_v5_final.pdf

Our working assumption is that the Chancellor has around GBP15bn to play with at the Autumn Statement. The way we come up with this is as follows:

- The current budget measures amount to fiscal tightening of 0.7 - 0.8% of GDP per year.
- That is equivalent to close to GBP15bn.
- The new Chancellor has said the government will scale back austerity. So a decent starting point is to assume that rather than 0.7% of GDP of fiscal tightening per year, fiscal policy does not tighten for at least the next two years.
- GBP15bn may be an underestimate given that the Chancellor may increase other taxes or find money down the back of the sofa (see below).

WHAT DOES GBP15BN BUY YOU THESE DAYS?

- **VAT — GBP6bn per 1% move**. 1% would be a bit limp-wristed, so if they are going to cut VAT then 2% is probably the most likely. This would be well targeted economically. The consumer is likely to be the main source of weakness in GDP growth and a VAT cut would certainly cushion the downside. The main downside is that a 2% VAT cut would cost GBP12bn per year — a big chunk of the GBP15bn we have assumed that Hammond has to play with.
- **Corporation tax — almost GBP2.0bn per 1% cut.** The rate is already hard-wired to fall from 20% to 17% by 2020. Why not promise to extrapolate that trend and fall to 15% in the following two years? It postpones the cost to the treasury and should be an incentive for multi-national companies to remain in the UK.
- **Income tax — basic rate — GBP4.5bn per 1% reduction.** Powerful, although delayed effects until at least the following April.
- **Income tax — higher rate — GBP1.1bn per 1% reduction.** Address the squeezed middle, but again, effects at least 6 months after the Autumn Statement.

THE BACK OF THE SOFA PHENOMENON

The former Chancellor hit the jackpot in the 2015 Autumn Statement by finding GBP23bn down the back of the sofa. Hammond has inherited that same sofa and has every chance of having the same good fortune.

Osborne gained GBP23bn because the OBR downgraded its profile for interest rates. At that time, the 10-year gilt yield was close to 2% and assumed to rise to around 3% by 2020. That profile was revised down by ½% compared with the prior assumption (Jul-2015) — yielding the Chancellor a massive windfall because the interest burden on the national debt was reduced.

Right now, the 10-year gilt yield is 0.65% and falling. With QE ongoing, the gilt yield forecast for future years is also likely to be slashed. Given this, the new Chancellor could find an even bigger fortune down the back of that infamous sofa.

The flipside is that inflation forecasts have been nudged higher in light of Brexit on the back of the weaker GBP exchange rate. This increases the cost to the public finances for the inflation-linked portion of the national debt. Nonetheless, there is a very good chance that the Chancellor has even more money to play with than the GBP15bn he would get from abandoning austerity. Our ballpark guess would be that the Chancellor has something like GBP20-25bn to play with.

Key Data Preview

CANADA

Manufacturing sales figures for June should be on the so-so side in volume terms after export volumes were quite weak. That said, we think that nominal manufacturing sales should be modestly positive on the order of +0.5% m/m. Our forecast is driven by: a) An assumption of some positive trend reversion in manufacturing sales. b) Soft figures in terms of exports of industrial machinery (-0.6% m/m) — note that while exports were positive overall in nominal terms, this was simply a function of a 2% m/m increase in export prices. c) A weak trend in new orders.

CPI figures for July should show a -0.1% m/m drop in headline CPI which we think will leave year-on-year CPI at +1.3% y/y. Our forecast for core CPI is stronger at 0% m/m and 2.1% y/y. Our forecast for monthly CPI is largely driven by typical seasonal swings, in particular a pretty severe drop in clothing prices and an uptick in recreation prices which tend to balance one another out in July. Gasoline pump prices were lower by 4.4% m/m driven by a mix of seasonality and the post-Brexit swing in crude costs. Statistics Canada's New House Price Index continues to move higher (+0.86% m/m in terms of the most recent print), albeit at a rate that is slower than the surge in home prices that Canadians might anecdotally see.

Retail sales numbers for June will likely show a modest increase and we're forecasting a +0.4% m/m number. The main contributors to our positive forecast are: a) Trend reversion after a fairly soft first couple of months of Q2. b) A decent gasoline price increase in June (+5.4% m/m) which should boost spending at gasoline stations. c) An expected increase in motor vehicle dealer sales (2m annualized vs. 1.87m annualized according to Scotiabank's Carlos Gomes).

UNITED STATES

US housing starts should be solid in July and we expect a print on the order of 1,190k seasonally adjusted starts, little changed from June. Housing starts might take somewhat of a breather following a strong June but there seems to be quite a bit of momentum underlying the housing sector as almost all housing related data (existing and new home sales, mortgage applications, etc.) seem strong.

CPI in July should be flat in terms of headline and should rise by +0.2% m/m in terms of core inflation, leaving year-on-year core CPI at 2.3%. The major factors impacting our forecast are: a) Weakness in gasoline pump prices in July (-5.7% m/m) some of which was seasonal but some of which reflected the drop in crude prices in June and July. b) Ongoing momentum in core CPI as a result of still-strong (and likely to persevere) owners' equivalent rent. c) The soft trend in food prices, which we think will weigh a little bit on headline CPI as well.

We're forecasting a +0.4% m/m increase in **industrial production** on the basis of three factors: a) Cooling degree days were somewhat higher than the seasonal norm in July (387 vs. 321 on average in July) and should lift utility output. b) Our autos economists think that auto production should rebound after slipping earlier this year. c) We continue to expect some improvement in the trend in manufacturing output: the +0.4% y/y increase in manufacturing output seems low.

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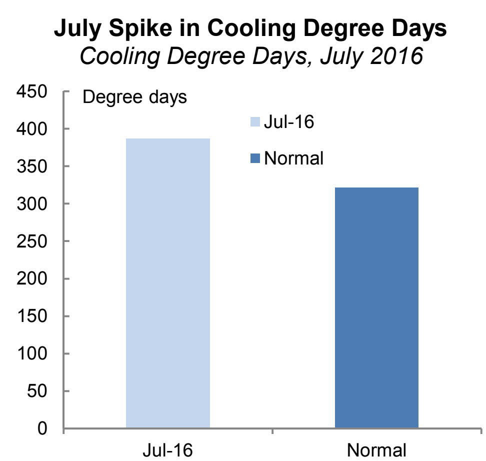
Chart 1

Source: Statistics Canada, Scotiabank Economics

Chart 2



Source: Scotiabank Economics, NOAA

EUROPE

UK CPI inflation for July will be released on Tuesday, August 16th and is expected to remain steady at 0.5% y/y. Looking ahead, the sharp depreciation in the GBP exchange rate following the UK's vote to exit the European Union points to upward pressure on headline inflation from core goods components, with UK CPI forecast to reach 1.4% y/y by year end. However, given that we suspect that firms will lack the pricing power to fully pass on the increase in costs and that domestically generated inflation, particularly for services, is unlikely to accelerate as the UK slips into recession, our outlook for UK inflation is on the lower end of market expectations. We believe that UK CPI inflation will hit the Bank of England's 2% inflation target by mid-2018, which is roughly a year sooner than we had anticipated prior to the UK's EU referendum.

LATIN AMERICA

Chile will publish second quarter GDP figures on Tuesday. We forecast Chilean growth to markedly slow down to 1.2% y/y versus 2% y/y in Q1. The monthly economic activity index, capturing almost all of the country's output, averaged 1.1% y/y growth in the April-June period, with losses concentrated in the mining sector (-5.8%) somewhat compensated by a non-mining gain of 1.9%. The country's economy remains on a weak expansion trend, with depressed business confidence readings suggesting further weakness in investment and hiring plans. We forecast Chilean GDP to grow by 1.7% y/y this year, significantly under our potential growth estimate of around 3.0%. Neighbouring Peru releases June economic activity index data on Monday, forecast to show a 3.7% increment from last year, thus averaging 3.7% y/y for the quarter. The decrease in growth from the 4.9% y/y figure in May is likely due to softer mining readings in June, particularly in non-copper minerals.

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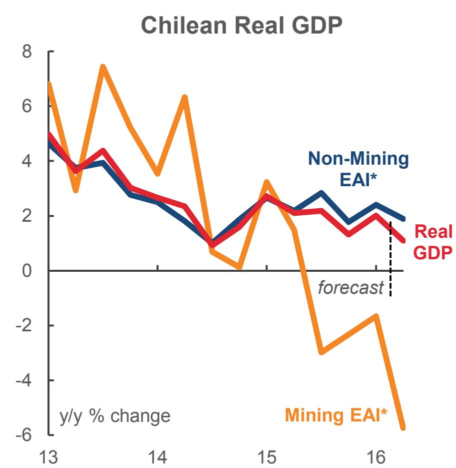
Chart 1



Source: Scotiabank Economics, Banco Central de Chile. *Economic Activity Index.

August 12, 2016

Key Indicators for the week of August 15 – 19

NORTH AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08/15	08:30	Empire State Manufacturing Index	Aug	--	2.0	0.6
CA	08/15	09:00	Existing Home Sales (m/m)	Jul	--	--	-0.9
US	08/15	10:00	NAHB Housing Market Index	Aug	--	60.0	59.0
US	08/15	16:00	Total Net TIC Flows (US$ bn)	Jun	--	--	-11.0
US	08/15	16:00	Net Long-term TIC Flows (US$ bn)	Jun	--	--	41.1
CA	08/16	08:30	Manufacturing Shipments (m/m)	Jun	0.5	0.5	-1.0
US	08/16	08:30	Building Permits (000s a.r.)	Jul	--	1160	1153
US	08/16	08:30	CPI (m/m)	Jul	0.0	0.0	0.2
US	08/16	08:30	CPI (y/y)	Jul	0.9	0.9	1.0
US	08/16	08:30	CPI (index)	Jul	240.8	240.9	241.0
US	08/16	08:30	CPI ex. Food & Energy (m/m)	Jul	0.2	0.2	0.2
US	08/16	08:30	CPI ex. Food & Energy (y/y)	Jul	2.3	2.3	2.3
US	08/16	08:30	Housing Starts (000s a.r.)	Jul	1190	1180	1189
US	08/16	08:30	Housing Starts (m/m)	Jul	--	-0.8	4.8
US	08/16	09:15	Capacity Utilization (%)	Jul	--	75.6	75.4
US	08/16	09:15	Industrial Production (m/m)	Jul	0.4	0.2	0.6
US	08/17	07:00	MBA Mortgage Applications (w/w)	AUG 12	--	--	7.1
CA	08/18	08:30	International Securities Transactions (C$ bn)	Jun	--	--	14.7
US	08/18	08:30	Initial Jobless Claims (000s)	AUG 13	270	265	266
US	08/18	08:30	Continuing Claims (000s)	AUG 6	2150	--	2155
US	08/18	08:30	Philadelphia Fed Index	Aug	3.0	1.5	-2.9
US	08/18	10:00	Leading Indicators (m/m)	Jul	--	0.3	0.3
CA	08/19	08:30	CPI, All items (m/m)	Jul	-0.1	0.1	0.2
CA	08/19	08:30	CPI, All items (y/y)	Jul	1.3	1.5	1.5
CA	08/19	08:30	Core X8 CPI (m/m)	Jul	0.0	0.0	0.0
CA	08/19	08:30	Core X8 CPI (y/y)	Jul	2.1	2.1	2.1
CA	08/19	08:30	CPI, All items (index)	Jul	--	129.2	129.1
CA	08/19	08:30	CPI SA, All items (m/m)	Jul	--	0.2	0.2
CA	08/19	08:30	Core CPI SA, All items (m/m)	Jul	--	0.2	0.2
CA	08/19	08:30	Retail Sales (m/m)	Jun	0.4	0.6	0.2
CA	08/19	08:30	Retail Sales ex. Autos (m/m)	Jun	0.3	0.4	0.9

EUROPE

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
UK	08/16	04:30	CPI (m/m)	Jul	-0.1	-0.1	0.2
UK	08/16	04:30	CPI (y/y)	Jul	0.5	0.5	0.5
UK	08/16	04:30	PPI Input (m/m)	Jul	--	1.0	1.8
UK	08/16	04:30	PPI Output (m/m)	Jul	--	0.2	0.2
UK	08/16	04:30	RPI (m/m)	Jul	--	-0.1	0.4
UK	08/16	04:30	RPI (y/y)	Jul	1.6	1.7	1.6
EC	08/16	05:00	Trade Balance (€ mn)	Jun	--	26.0	24559.4
EC	08/16	05:00	ZEW Survey (Economic Sentiment)	Aug	--	--	-14.7
GE	08/16	05:00	ZEW Survey (Current Situation)	Aug	--	50.2	49.8
GE	08/16	05:00	ZEW Survey (Economic Sentiment)	Aug	--	2.0	-6.8
UK	08/17	04:30	Average Weekly Earnings (3-month, y/y)	Jun	--	2.4	2.3
UK	08/17	04:30	Employment Change (3M/3M, 000s)	Jun	--	153	176
UK	08/17	04:30	Jobless Claims Change (000s)	Jul	--	9.0	0.4
UK	08/17	04:30	ILO Unemployment Rate (%)	Jun	--	4.9	4.9
EC	08/18	04:00	Current Account (€ bn)	Jun	--	--	30.8
IT	08/18	04:30	Current Account (€ mn)	Jun	--	--	3189
UK	08/18	04:30	Retail Sales ex. Auto Fuel (m/m)	Jul	--	0.3	-0.9
UK	08/18	04:30	Retail Sales with Auto Fuel (m/m)	Jul	--	0.1	-0.9
EC	08/18	05:00	CPI (m/m)	Jul	-0.5	-0.5	-0.5
EC	08/18	05:00	CPI (y/y)	Jul F	0.2	0.2	0.2
EC	08/18	05:00	Euro zone Core CPI Estimate (y/y)	Jul F	0.9	0.9	0.9

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

Key Indicators for the week of August 15 – 19

EUROPE *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	08/19	02:00	Producer Prices (m/m)	Jul	--	0.1	0.4
UK	08/19	04:30	PSNB ex. Interventions (£ bn)	Jul	--	-1.9	7.8
UK	08/19	04:30	Public Finances (PSNCR) (£ bn)	Jul	--	--	14.9
UK	08/19	04:30	Public Sector Net Borrowing (£ bn)	Jul	--	-2.4	7.3

ASIA-PACIFIC

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	08/14	19:50	GDP (q/q)	2Q P	--	0.2	0.5
JN	08/14	19:50	GDP Deflator (y/y)	2Q P	--	0.7	0.9
TH	08/14	22:30	GDP (q/q)	2Q	--	0.5	0.9
TH	08/14	22:30	GDP (y/y)	2Q	--	3.3	3.2
JN	08/15	00:30	Capacity Utilization (m/m)	Jun	--	--	-2.4
JN	08/15	00:30	Industrial Production (m/m)	Jun F	--	--	1.9
JN	08/15	00:30	Industrial Production (y/y)	Jun F	--	--	-1.9
SI	08/15	01:00	Retail Sales (m/m)	Jun	--	0.5	1.4
SI	08/15	01:00	Retail Sales (y/y)	Jun	--	2.0	3.0
TH	08/15	03:30	Foreign Reserves (US$ bn)	Aug 5	--	--	182.5
AU	08/15	21:30	New Motor Vehicle Sales (m/m)	Jul	--	--	3.1
ID	08/15		Exports (y/y)	Jul	--	1.9	-4.4
ID	08/15		Imports (y/y)	Jul	--	6.9	-7.4
ID	08/15		Trade Balance (US$ mn)	Jul	--	654.0	900.2
PH	08/15		Overseas Remittances (y/y)	Jun	--	1.8	1.9
IN	08/16	02:30	Monthly Wholesale Prices (y/y)	Jul	--	2.8	1.6
NZ	08/16	18:45	Unemployment Rate (%)	2Q	--	5.3	5.2
NZ	08/16	18:45	Employment Change (y/y)	2Q	--	2.3	2.0
NZ	08/16	18:45	Producer Price - Inputs (q/q)	2Q	--	--	-1.0
NZ	08/16	18:45	Producer Price - Outputs (q/q)	2Q	--	--	-0.2
SI	08/16	20:30	Exports (y/y)	Jul	--	-1.8	-2.3
AU	08/16	21:30	Wage Cost Index (q/q)	2Q	--	0.5	0.4
NZ	08/17	18:00	ANZ Job Ads (m/m)	Jul	--	--	0.5
JN	08/17	19:50	Merchandise Trade Balance (¥ bn)	Jul	--	234.5	693.1
JN	08/17	19:50	Adjusted Merchandise Trade Balance (¥ bn)	Jul	--	142.2	335.0
JN	08/17	19:50	Merchandise Trade Exports (y/y)	Jul	--	-13.8	-7.4
JN	08/17	19:50	Merchandise Trade Imports (y/y)	Jul	--	-20.0	-18.8
NZ	08/17	21:00	ANZ Consumer Confidence Index	Aug	--	--	118.2
AU	08/17	21:30	Employment (000s)	Jul	--	10.0	7.9
AU	08/17	21:30	Unemployment Rate (%)	Jul	--	5.8	5.8
PH	08/17	22:00	Real GDP (q/q)	2Q	--	1.8	1.1
PH	08/17	22:00	Real GDP (y/y)	2Q	--	6.6	6.9
JN	08/18	02:00	Machine Tool Orders (y/y)	Jul F	--	--	-19.6
HK	08/18	04:30	Unemployment Rate (%)	Jul	--	--	3.4
SK	08/18	17:00	PPI (y/y)	Jul	--	--	-2.7
HK	08/18		Composite Interest Rate (%)	Jul	--	--	0.3
JN	08/19	00:30	All Industry Activity Index (m/m)	Jun	--	0.9	-1.0
JN	08/19	01:30	Nationwide Department Store Sales (y/y)	Jul	--	--	-3.5
TA	08/19	04:20	Current Account Balance (US$ mn)	2Q	--	--	20716
TA	08/19	04:30	Real GDP (y/y)	2Q F	--	0.7	0.7
ID	08/19		**BI 7-Day Reverse Repo Rate (%)**	**Aug 19**	**--**	**5.00**	**5.25**
PH	08/19		Balance of Payments (US$ mn)	Jul	--	--	418.0

LATIN AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	08/15		Economic Activity Index NSA (y/y)	Jun	3.7	3.7	4.9
PE	08/15		Unemployment Rate (%)	Jul	--	--	7.0
CO	08/16	15:00	Retail Sales (y/y)	Jun	2.2	2.0	-0.5
CL	08/18	07:30	GDP (q/q)	2Q	--	-0.6	1.3
CL	08/18	07:30	GDP (y/y)	2Q	1.1	1.2	2.0
CO	08/19	15:00	Trade Balance (US$ mn)	Jun	--	-709.5	-743.9

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

Global Auctions for the week of August 15 – 19

NORTH AMERICA

Country	Date	Time	Event
US	08/15	11:30	U.S. to Sell USD40 Bln 3-Month Bills
US	08/15	11:30	U.S. to Sell USD34 Bln 6-Month Bills
US	08/16	11:30	U.S. to Sell USD20 Bln 52-Week Bills
US	08/16	11:30	U.S. to Sell 4-Week Bills
CA	08/17	12:00	Canada to Sell CAD3.7 Bln 0.75% 2021 Bonds
US	08/18	13:00	U.S. to Sell USD14 Bln 5-Year TIPS Reopening

EUROPE

Country	Date	Time	Event
NE	08/15	05:00	Netherlands to Sell Up to EUR2 Bln 75-Day Bills
NE	08/15	05:00	Netherlands to Sell Up to EUR2 Bln 167-Day Bills
NE	08/15	05:30	Netherlands to Sell Bills
SP	08/16	04:30	Spain to Sell 182-Day Bills
SP	08/16	04:30	Spain to Sell 364-Day Bills
MB	08/16	05:00	Malta to Sell 91-Day Bills
SZ	08/16	05:15	Switzerland to Sell 182-Day Bills
EC	08/16	06:30	ESM to Sell Up to EUR1.5 Bln 189-Day Bills
FR	08/16	08:50	France to Sell Up to EUR3.2 Bln 90-Day Bills
FR	08/16	08:50	France to Sell Up to EUR900 Mln 153-Day Bills
FR	08/16	08:50	France to Sell Up to EUR900 Mln 335-Day Bills
DE	08/17	04:30	Denmark to Sell 0.25% 2018 Bonds
DE	08/17	04:30	Denmark to Sell 1.75% 2025 Bonds
SW	08/17	05:03	Sweden to Sell SEK10 Bln 89-Day Bills
SW	08/17	05:03	Sweden to Sell SEK5 Bln 124-Day Bills
UK	08/17	05:30	U.K. to Sell GBP1.25 Bln 4.25% 2055 Bonds
PO	08/17	05:30	Portugal to Sell 91-Day Bills
PO	08/17	05:30	Portugal to Sell 336-Day Bills
SW	08/18	05:03	Sweden to Sell SEK700 Mln 1% I/L 2025 Bonds
SW	08/18	05:03	Sweden 10yr and 15yr I/L Bond Auction
SW	08/18	05:03	Sweden to Sell SEK300 Mln 0.125% I/L 2032 Bonds
NO	08/18	06:00	Norway Bills Auction Announcement
IC	08/19	06:00	Iceland to Sell Bonds
UK	08/19	06:00	U.K. to Sell GBP500 Mln 28-Day Bills
UK	08/19	06:00	U.K. to Sell GBP2.5 Bln 91-Day Bills
UK	08/19	06:00	U.K. to Sell GBP3 Bln 182-Day Bills

Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of August 15 – 19

ASIA-PACIFIC

Country	Date	Time	Event
AU	08/14	21:00	Australia Plans to Sell AUD400 Mln 4.5% 2033 Bonds
JN	08/16	04:00	Japan Auction for Enhanced-Liquidity
AU	08/16	21:00	Australia Plans to Sell AUD900 Mln 2.75% 2024 Bonds
CH	08/16	22:35	China to Sell CNY35 Bln 7-Yr Upsized Bonds
JN	08/16	23:35	Japan to Sell 1-Year Bills
NZ	08/17	22:05	New Zealand Plans to Sell NZD150 Mln 2.75% 2025 Bonds
JN	08/17	23:35	Japan to Sell 3-Month Bills
JN	08/17	23:45	Japan to Sell 5-Year Bonds
CH	08/18	02:00	Shanghai to Sell General Bonds
AU	08/18	21:00	Australia Plans to Sell AUD900 Mln 2.25% 2028 Bonds
CH	08/18	22:35	China To Sell CNY26 Bln 30-Yr Bonds

LATIN AMERICA

Country	Date	Time	Event
BZ	08/16	11:00	Brazil to Sell I/L Bonds - 05/15/2021
BZ	08/16	11:00	Brazil to Sell I/L Bonds - 05/15/2035
BZ	08/16	11:00	Brazil to Sell I/L Bonds - 05/15/2055
BZ	08/16	11:00	Brazil to Sell I/L Bonds - 08/15/2026
BZ	08/18	11:00	Brazil to Sell LFT - 09/01/2022
BZ	08/18	11:00	Brazil to Sell Bills LTN - 10/01/2017
BZ	08/18	11:00	Brazil to Sell Bills LTN - 10/01/2018
BZ	08/18	11:00	Brazil to Sell Bills LTN - 07/01/2020

Source: Bloomberg, Scotiabank Economics.

Events for the week of August 15 – 19

NORTH AMERICA

Country	Date	Time	Event
US	08/16	12:30	Fed's Lockhart Speaks to Rotary Club of Knoxville
US	08/17	13:00	Fed's Bullard Speaks in St. Louis
US	08/17	14:00	U.S. Fed Releases Minutes from July 26-27 FOMC Meeting
US	08/18	10:00	Fed's Dudley Answers Questions at Press Briefing in New York
US	08/18	16:00	Fed's Williams Speaks in Anchorage

EUROPE

Country	Date	Time	Event
EC	08/18	07:30	ECB account of the monetary policy meeting
SW	08/19	06:00	Riksbank First Deputy Governor Af Jochnick Speaks
PO	08/19		Portugal Sovereign Debt to Be Rated by Fitch
TU	08/19		Turkey Sovereign Debt to Be Rated by Fitch

ASIA-PACIFIC

Country	Date	Time	Event
NZ	08/15	16:30	RBNZ Governor Wheeler Speaks in Tauranga (Not Public)
AU	08/15	21:30	RBA August Meeting Minutes
HK	AUG 17-18		Composite Interest Rate
AU	08/18	00:10	RBA's Hancock in Panel Participation in Sydney
ID	AUG 18-19		**Bank Indonesia Reference Rate**
ID	AUG 18-19		**Bank Indonesia 7D Reverse Repo**

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	0.50	September 7, 2016	0.50	0.50
Federal Reserve – Federal Funds Target Rate	0.50	September 21, 2016	0.50	0.50
Banco de México – Overnight Rate	4.25	September 29, 2016	4.25	--

BoC: A trio of economic data releases will keep BoC watchers busy during the week of the 15th. CPI figures for July are expected to show stability in core inflation, while retail and manufacturing figures for June will help round out Canada GDP forecasts. We expect a soft Q2, and the key question for BoC watchers at this juncture pertains to the extent of the bounce-back in Q3 – and information on that front won't be available for a number of weeks. **Fed:** Fed watchers will get an inflation print for July which is expected to show core CPI stable in the 2.2% y/y area. This shouldn't impact the monetary policy outlook one way or the other as the larger questions for the FOMC at the moment pertain to the slow-down in economic growth and a mix of international and political risks.

EUROPE

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.00	September 8, 2016	0.00	--
Bank of England – Bank Rate	0.25	September 15, 2016	0.50	--
Swiss National Bank – Libor Target Rate	-0.75	September 15, 2016	-0.75	--
Central Bank of Russia – One-Week Auction Rate	10.50	September 16, 2016	10.50	--
Sweden Riksbank – Repo Rate	-0.50	September 7, 2016	-0.50	--
Norges Bank – Deposit Rate	0.50	September 22, 2016	0.50	--

ASIA PACIFIC

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Policy Rate	-0.10	September 21, 2016	-0.20	--
Reserve Bank of Australia – Cash Target Rate	1.50	September 6, 2016	1.50	1.50
Reserve Bank of New Zealand – Cash Rate	2.00	September 21, 2016	2.00	2.00
People's Bank of China – Lending Rate	4.35	TBA	--	--
Reserve Bank of India – Repo Rate	6.50	October 4, 2016	6.50	--
Bank of Korea – Bank Rate	1.25	September 9, 2016	1.25	--
Bank of Thailand – Repo Rate	1.50	September 14, 2016	1.50	1.50
Bank Indonesia – 7-Day Reverse Repo Rate	5.25	August 19, 2016	5.00	5.00

LATIN AMERICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	14.25	August 31, 2016	14.25	--
Banco Central de Chile – Overnight Rate	3.50	September 15, 2016	3.50	--
Banco de la República de Colombia – Lending Rate	7.75	August 31, 2016	7.75	--
Banco Central de Reserva del Perú – Reference Rate	4.25	September 8, 2016	4.25	--

AFRICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	7.00	September 22, 2016	7.00	--

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

Economic Statistics

NORTH AMERICA

Canada	2015	16Q1	16Q2	Latest	
Real GDP (annual rates)	1.1	2.4			
Current Acc. Bal. (C$B, ar)	-62.6	-67.1			
Merch. Trade Bal. (C$B, ar)	-22.5	-25.7	-42.7	-43.6	(Jun)
Industrial Production	-0.8	-0.4	-1.1	-0.8	(Jun)
Housing Starts (000s)	194	198	198	198	(Jul)
Employment	0.8	0.7	0.7	0.3	(Jul)
Unemployment Rate (%)	6.9	7.2	6.9	6.9	(Jul)
Retail Sales	1.7	5.5		3.6	(May)
Auto Sales (000s)	1897	1991		1865	(May)
CPI	1.1	1.5	1.6	1.5	(Jun)
IPPI	-0.8	-0.4	-1.1	0.8	(Jun)
Pre-tax Corp. Profits	-15.8	-9.1			

United States	2015	16Q1	16Q2	Latest	
Real GDP (annual rates)	2.6	0.8	1.2		
Current Acc. Bal. (US$B, ar)	-463	-499			
Merch. Trade Bal. (US$B, ar)	-763	-746	-747	-792	(Jun)
Industrial Production	0.3	-1.9	-0.9	-0.4	(Jun)
Housing Starts (millions)	1.11	1.15	1.16	1.19	(Jun)
Employment	2.1	1.9	1.8	1.7	(Jul)
Unemployment Rate (%)	5.3	4.9	4.9	4.9	(Jul)
Retail Sales	1.6	2.2	2.3	1.9	(Jul)
Auto Sales (millions)	17.4	17.3	17.1	17.8	(Jul)
CPI	0.1	1.1	1.1	1.0	(Jun)
PPI	-3.3	-1.8	-1.9	-2.2	(Jul)
Pre-tax Corp. Profits	-5.5	-5.7			

Mexico					
Real GDP	2.5	2.6			
Current Acc. Bal. (US$B, ar)	-31.9	-28.0			
Merch. Trade Bal. (US$B, ar)	-14.6	-15.9	-12.5	-6.3	(Jun)
Industrial Production	0.9	0.3	1.0	0.6	(Jun)
CPI	2.7	2.7	2.6	2.7	(Jul)

EUROPE

Euro Zone	2015	16Q1	16Q2	Latest	
Real GDP	1.3	1.3			
Current Acc. Bal. (US$B, ar)	366	267	233	209	(May)
Merch. Trade Bal. (US$B, ar)	393.1	358.5	297.4	422.8	(May)
Industrial Production	2.1	1.2	0.8	0.4	(Jun)
Unemployment Rate (%)	10.9	10.4		10.2	(Apr)
CPI	0.0	0.0	-0.1	0.2	(Jul)

Germany	2015	16Q1	16Q2	Latest	
Real GDP	1.5	1.8	1.7		
Current Acc. Bal. (US$B, ar)	256.1	324.9	333.6	354.5	(Jun)
Merch. Trade Bal. (US$B, ar)	274.7	262.6	323.2	334.2	(Jun)
Industrial Production	0.5	1.5	0.2	0.5	(Jun)
Unemployment Rate (%)	6.4	6.2	6.1	6.1	(Jul)
CPI	0.2	0.3	0.1	0.4	(Jul)

France					
Real GDP	1.2	1.3	1.4		
Current Acc. Bal. (US$B, ar)	-4.8	-23.9	-6.2	43.1	(Jun)
Merch. Trade Bal. (US$B, ar)	-40.8	-47.2	-38.9	-36.8	(Jun)
Industrial Production	1.6	0.6	0.4	-1.3	(Jun)
Unemployment Rate (%)	10.4	10.1	9.9	9.9	(Jun)
CPI	0.0	0.0	0.0	0.2	(Jul)

United Kingdom					
Real GDP	2.2	2.0	2.2		
Current Acc. Bal. (US$B, ar)	-100.3	-130.4			
Merch. Trade Bal. (US$B, ar)	-193.1	-196.3	-197.2	-211.4	(Jun)
Industrial Production	1.3	0.3	1.8	1.6	(Jun)
Unemployment Rate (%)	5.4	5.1		4.9	(Apr)
CPI	0.0	0.3	0.4	0.5	(Jun)

Italy					
Real GDP	0.6	1.0	0.7		
Current Acc. Bal. (US$B, ar)	36.0	19.7	31.3	38.3	(May)
Merch. Trade Bal. (US$B, ar)	49.8	40.5	64.2	62.8	(Jun)
Industrial Production	1.0	1.5	0.2	-0.2	(Jun)
CPI	0.0	-0.1	-0.4	-0.1	(Jul)

Russia					
Real GDP					
Current Acc. Bal. (US$B, ar)	69.0				
Merch. Trade Bal. (US$B, ar)	12.4	7.5	7.5	8.1	(Jun)
Industrial Production	-3.7	-0.7	1.0	1.7	(Jun)
CPI	15.5	8.3	7.4	7.2	(Jul)

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

Source: Bloomberg, IHS Global, Scotiabank Economics.

Economic Statistics

ASIA-PACIFIC

Australia	2015	16Q1	16Q2	Latest
Real GDP	2.5	3.1		
Current Acc. Bal. (US$B, ar)	-58.9	-57.0		
Merch. Trade Bal. (US$B, ar)	-12.9	-13.9	-5.1	-14.7 (Jun)
Industrial Production	1.6	4.8		
Unemployment Rate (%)	6.1	5.8	5.7	5.8 (Jun)
CPI	1.5	1.3	1.0	

Japan	2015	16Q1	16Q2	Latest
Real GDP	0.6	0.0		
Current Acc. Bal. (US$B, ar)	135.5	206.9	172.6	110.8 (Jun)
Merch. Trade Bal. (US$B, ar)	-23.1	19.2	38.5	38.1 (Jun)
Industrial Production	-1.2	-3.2	-1.9	-1.8 (Jun)
Unemployment Rate (%)	3.4	3.2	3.2	3.1 (Jun)
CPI	0.8	0.1	-0.4	-0.5 (Jun)

South Korea	2015	16Q1	16Q2	Latest
Real GDP	2.6	2.8	3.2	
Current Acc. Bal. (US$B, ar)	105.9	96.3	103.6	146.0 (Jun)
Merch. Trade Bal. (US$B, ar)	90.3	87.9	109.3	93.5 (Jul)
Industrial Production	-0.9	-0.2	1.2	1.1 (Jun)
CPI	0.7	1.0	0.9	0.7 (Jul)

China	2015	16Q1	16Q2	Latest
Real GDP	6.9	6.7	6.7	
Current Acc. Bal. (US$B, ar)	330.6			
Merch. Trade Bal. (US$B, ar)	593.9	475.1	553.2	627.7 (Jul)
Industrial Production	5.9	6.8	6.2	6.0 (Jul)
CPI	1.6	2.3	1.9	1.8 (Jul)

Thailand	2015	16Q1	16Q2	Latest
Real GDP	2.8			
Current Acc. Bal. (US$B, ar)	31.7	16.6	8.4	
Merch. Trade Bal. (US$B, ar)	2.9	4.4	3.2	3.8 (Jun)
Industrial Production	0.4	-1.0	1.5	0.8 (Jun)
CPI	-0.9	-0.5	0.3	0.1 (Jul)

India	2015	16Q1	16Q2	Latest
Real GDP	6.9			
Current Acc. Bal. (US$B, ar)	-22.4			
Merch. Trade Bal. (US$B, ar)	-10.5	-6.2	-6.4	-7.8 (Jul)
Industrial Production	3.2	0.2	0.6	2.1 (Jun)
WPI	-2.7	-0.8	1.1	1.6 (Jun)

Indonesia	2015	16Q1	16Q2	Latest
Real GDP	4.8			
Current Acc. Bal. (US$B, ar)	-17.7			
Merch. Trade Bal. (US$B, ar)	0.6	0.6	0.6	0.9 (Jun)
Industrial Production	4.8	4.1	5.5	9.1 (Jun)
CPI	6.4	4.3	3.5	3.2 (Jul)

LATIN AMERICA

Brazil	2015	16Q1	16Q2	Latest
Real GDP	-3.8	-5.4		
Current Acc. Bal. (US$B, ar)	-59.3	-30.5	-3.5	
Merch. Trade Bal. (US$B, ar)	19.7	33.5	61.1	54.9 (Jul)
Industrial Production	-8.2	-11.6	-7.7	-5.8 (Jun)
CPI	9.0	10.1	9.1	8.7 (Jul)

Chile	2015	16Q1	16Q2	Latest
Real GDP	2.1	2.0		
Current Acc. Bal. (US$B, ar)	-15.9	2.1		
Merch. Trade Bal. (US$B, ar)	-3.0	8.4	5.1	-1.1 (Jul)
Industrial Production	-0.3	-0.8	-3.1	-3.8 (Jun)
CPI	4.3	4.6	4.2	4.0 (Jul)

Peru	2015	16Q1	16Q2	Latest
Real GDP	3.3			
Current Acc. Bal. (US$B, ar)	-8.4			
Merch. Trade Bal. (US$B, ar)	-0.2	-0.2	-0.1	-0.3 (Jun)
Unemployment Rate (%)	6.4	6.9	7.0	7.0 (Jun)
CPI	3.5	4.5	3.6	3.0 (Jul)

Colombia	2015	16Q1	16Q2	Latest
Real GDP	3.1			
Current Acc. Bal. (US$B, ar)	-18.8			
Merch. Trade Bal. (US$B, ar)	-1.3	-1.2		-0.7 (May)
Industrial Production	0.9	5.4		4.5 (May)
CPI	5.0	7.7	8.2	9.0 (Jul)

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

Source: Bloomberg, IHS Global, Scotiabank Economics.

Financial Statistics

Interest Rates (%, end of period)

Canada	16Q1	16Q2	Aug/05	Aug/12*	United States	16Q1	16Q2	Aug/05	Aug/12*
BoC Overnight Rate	0.50	0.50	0.50	0.50	Fed Funds Target Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	0.45	0.49	0.51	0.50	3-mo. T-bill	0.20	0.26	0.26	0.27
10-yr Gov't Bond	1.23	1.06	1.07	0.99	10-yr Gov't Bond	1.77	1.47	1.59	1.49
30-yr Gov't Bond	2.01	1.72	1.68	1.61	30-yr Gov't Bond	2.61	2.28	2.31	2.22
Prime	2.70	2.70	2.70	2.70	Prime	3.50	3.50	3.50	3.50
FX Reserves (US$B)	82.2	83.5	83.5	(Jun)	FX Reserves (US$B)	108.7	109.2	109.2	(Jun)
Germany					**France**				
3-mo. Interbank	-0.24	-0.27	-0.29	-0.29	3-mo. T-bill	-0.42	-0.57	-0.59	-0.60
10-yr Gov't Bond	0.15	-0.13	-0.07	-0.11	10-yr Gov't Bond	0.49	0.18	0.16	0.12
FX Reserves (US$B)	60.8	61.8	61.8	(Jun)	FX Reserves (US$B)	57.2	54.8	54.8	(Jun)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.00	0.00	0.00	0.00	Repo Rate	0.50	0.50	0.25	0.25
Overnight Rate	-0.30	-0.29	-0.34	-0.33	3-mo. T-bill	0.48	0.45	0.28	0.27
FX Reserves (US$B)	340.7	344.3	344.3	(Jun)	10-yr Gov't Bond	1.42	0.87	0.67	0.52
					FX Reserves (US$B)	125.2	128.7	128.7	(Jun)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	2.00	1.75	1.50	1.50
3-mo. Libor	-0.07	-0.08	-0.08	-0.08	10-yr Gov't Bond	2.49	1.98	1.87	1.91
10-yr Gov't Bond	-0.03	-0.22	-0.09	-0.10	FX Reserves (US$B)	46.1	48.3	48.3	(Jun)
FX Reserves (US$B)	1231.6	1232.9	1232.9	(Jun)					

Exchange Rates (end of period)

USDCAD	1.30	1.29	1.32	1.29	¥/US$	112.57	103.20	101.82	101.04
CADUSD	0.77	0.77	0.76	0.77	US¢/Australian$	0.77	0.75	0.76	0.77
GBPUSD	1.436	1.331	1.307	1.293	Chinese Yuan/US$	6.45	6.65	6.66	6.64
EURUSD	1.138	1.111	1.109	1.118	South Korean Won/US$	1143	1152	1111	1103
JPYEUR	0.78	0.87	0.89	0.89	Mexican Peso/US$	17.279	18.280	18.754	18.215
USDCHF	0.96	0.98	0.98	0.97	Brazilian Real/US$	3.592	3.213	3.166	3.157

Equity Markets (index, end of period)

United States (DJIA)	17685	17930	18544	18600	U.K. (FT100)	6175	6504	6793	6921
United States (S&P500)	2060	2099	2183	2185	Germany (Dax)	9966	9680	10367	10716
Canada (S&P/TSX)	13494	14065	14649	14777	France (CAC40)	4385	4237	4411	4503
Mexico (IPC)	45881	45966	47194	48196	Japan (Nikkei)	16759	15576	16254	16920
Brazil (Bovespa)	50055	51527	57661	58620	Hong Kong (Hang Seng)	20777	20794	22146	22767
Italy (BCI)	1056	949	981	1000	South Korea (Composite)	1996	1970	2018	2050

Commodity Prices (end of period)

Pulp (US$/tonne)	950	1000	1000	1000	Copper (US$/lb)	2.20	2.19	2.17	2.15
Newsprint (US$/tonne)	545	560	575	575	Zinc (US$/lb)	0.81	0.95	1.03	1.02
Lumber (US$/mfbm)	303	316	329	330	Gold (US$/oz)	1237.00	1320.75	1340.40	1352.20
WTI Oil (US$/bbl)	38.34	48.33	41.80	44.40	Silver (US$/oz)	15.38	18.36	20.22	19.87
Natural Gas (US$/mmbtu)	1.96	2.92	2.77	2.62	CRB (index)	170.52	192.57	181.80	183.15

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

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