

- Global momentum remains robust, despite elevated geopolitical risks. Business and household activity is generally strengthening across the globe, though growth in the US underwhelmed in the first quarter. Our tracking of the global economy continues to suggest a solid acceleration relative to last year, with growth of 3.5% in 2017.
- In Canada, our forecast has been increased to 2.6% in 2017 following the strong first-quarter data. Household and business spending rose more rapidly than earlier anticipated. Most notably, business investment rose by 10% (annual rate), the result of broad-based increases in capital spending. First-quarter growth would have been much stronger were it not for a spike in imports of machinery and equipment, which reflects the increase in investment activity. The surge in imports was a reflection of the strength of the economy. We expect growth to stabilize around a 2% annualized rate for the remainder of the year, leading to annual growth of 2.6%, double the Bank of Canada's estimate of potential output growth. Since inflation as measured by the Bank of Canada's preferred inflation gauges has been moving further away from its 2% target, we do not think the strong economic growth forecast for this year will lead Governor Poloz to raise interest rates sooner than 2018Q2.
- The very strong growth registered in 2017Q1 combined with a large increase in the GDP deflator imply that nominal GDP growth this calendar year will significantly exceed the estimates used to prepare Canada's federal Budget. In addition, the stronger-than-expected federal revenue growth estimated for fiscal year 2016–17 just ended raises the baseline for revenue into 2017–18. These factors led us to narrow our federal deficit forecasts for the next two fiscal years. For the current fiscal year, fiscal 2017–18, we now anticipate a deficit of \$24.5 billion, followed by a deficit of \$23.5 billion in 2018–19. These are well below the Budget forecasts of \$28.5 billion in 2017–18 and \$27.4 in 2018–19.

CONTACTS

Jean-François Perrault, SVP & Chief Economist
416.866.4214
Scotiabank Economics
jean-francois.perrault@scotiabank.com

International	2000–15	2016	2017f	2018f	2000–15	2016	2017f	2018f
	Real GDP (annual % change)				Consumer Prices (y/y % change, year-end)			
World (based on purchasing power parity)	3.9	3.2	3.5	3.6				
Canada	2.2	1.5	2.6	2.0	1.9	1.4	1.8	2.1
United States	1.9	1.6	2.2	2.4	2.2	1.8	2.3	2.3
Mexico	2.4	2.3	2.0	2.5	4.5	3.4	6.1	4.3
United Kingdom	1.8	1.8	2.0	1.2	2.2	0.7	2.7	2.4
Euro zone	1.2	1.6	1.7	1.7	1.9	1.1	1.4	1.7
Germany	1.2	1.7	1.8	1.7	1.6	1.7	1.5	1.8
France	1.3	1.2	1.4	1.6	1.7	0.6	1.3	1.4
Russia	4.6	-0.2	1.2	1.4	11.4	5.4	5.5	5.0
China	9.8	6.7	6.6	6.1	2.4	2.1	2.2	2.5
India	7.0	7.6	7.5	7.8	7.2	3.4	5.5	5.7
Japan	0.9	1.0	1.2	0.7	0.0	0.3	0.8	1.1
South Korea	4.4	2.8	2.8	2.7	2.8	1.3	2.1	2.3
Indonesia	5.6	5.0	5.3	5.5	6.2	3.0	5.0	4.7
Australia	3.0	2.5	2.5	2.7	2.9	1.5	2.0	2.1
Thailand	4.2	3.2	3.2	3.2	2.7	1.1	1.3	2.0
Brazil	3.4	-3.6	0.3	2.5	6.5	6.3	4.0	4.5
Colombia	4.3	2.0	1.9	2.8	5.0	5.7	4.5	3.5
Peru	5.3	3.9	2.6	3.7	2.7	3.2	3.1	2.8
Chile	4.3	1.6	1.6	2.4	3.3	2.7	2.8	3.2
Commodities								
	(annual average)							
WTI Oil (USD/bbl)	64	43	53	56				
Brent Oil (USD/bbl)	67	45	56	59				
Nymex Natural Gas (USD/mmbtu)	5.09	2.55	3.10	3.05				
Copper (USD/lb)	2.36	2.21	2.50	2.65				
Zinc (USD/lb)	0.81	0.95	1.35	1.55				
Nickel (USD/lb)	7.45	4.36	5.00	5.50				
Aluminium (USD/lb)	0.87	0.73	0.85	0.85				
Iron Ore (USD/tonne)	68	58	65	55				
Metallurgical Coal (USD/tonne)	127	115	170	130				
Gold, London PM Fix (USD/oz)	845	1,251	1,200	1,250				

North America	2000–15	2016	2017f	2018f	2000–15	2016	2017f	2018f
	Canada				United States			
	(annual % change, unless noted)				(annual % change, unless noted)			
Real GDP	2.2	1.5	2.6	2.0	1.9	1.6	2.2	2.4
Consumer Spending	2.9	2.3	2.9	1.8	2.3	2.7	2.5	2.7
Residential Investment	3.8	3.0	4.0	-1.3	-0.7	4.9	5.3	2.7
Business Investment	2.7	-7.8	-0.8	3.0	2.4	-0.5	4.2	3.3
Government	2.2	1.8	2.0	2.0	1.0	0.8	0.2	0.9
Exports	1.3	1.0	1.8	3.9	3.8	0.4	2.7	2.8
Imports	3.1	-0.9	2.1	2.7	3.5	1.1	4.2	3.5
Nominal GDP	4.4	2.1	5.2	4.1	4.0	3.0	4.3	4.5
GDP Deflator	2.2	0.6	2.5	2.2	2.0	1.3	2.0	2.0
Consumer Price Index	2.0	1.4	1.8	2.0	2.2	1.3	2.3	2.3
CPI Ex. Food & Energy	1.6	1.9	1.7	1.8	2.0	2.2	2.1	2.3
Pre-Tax Corporate Profits	3.9	-4.5	25.0	5.0	5.9	-0.1	4.5	3.5
Employment	1.4	0.7	1.4	0.8	0.6	1.8	1.5	1.3
Unemployment Rate (%)	7.1	7.0	6.6	6.5	6.3	4.9	4.5	4.4
Current Account Balance (CAD, USD bn)	-13.9	-67.0	-47.4	-33.4	-521	-481	-474	-505
Merchandise Trade Balance (CAD, USD bn)	28.2	-26.0	0.4	11.5	-668	-750	-822	-877
Federal Budget Balance (FY, CAD, USD bn)	-2.9	-1.0	-22.0	-24.5	-529	-585	-610	-650
percent of GDP	-0.2	0.0	-1.1	-1.1	-3.8	-3.2	-3.2	-3.2
Housing Starts (000s, mn)	199	198	202	188	1.27	1.18	1.25	1.33
Motor Vehicle Sales (000s, mn)	1,639	1,949	1,940	1,925	15.4	17.5	17.4	17.6
Industrial Production	0.5	-0.3	3.8	1.5	0.8	-1.2	1.5	2.0
	Mexico							
	(annual % change)							
Real GDP	2.4	2.3	2.0	2.5				
Consumer Price Index (year-end)	4.5	3.4	6.1	4.3				
Current Account Balance (USD bn)	-13.9	-27.9	-20.7	-28.1				
Merchandise Trade Balance (USD bn)	-6.8	-13.1	-4.5	-7.5				

Quarterly Forecasts	2016				2017				2018			
Canada	Q1	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Real GDP (q/q ann. % change)	2.8	-1.4	4.2	2.7	3.7	2.2	2.1	2.0	1.9	1.9	1.8	1.8
Real GDP (y/y % change)	1.3	1.1	1.5	2.0	2.3	3.2	2.7	2.5	2.0	2.0	1.9	1.9
Consumer Prices (y/y % change)	1.5	1.6	1.2	1.4	1.9	1.7	1.8	1.8	1.9	1.9	2.1	2.1
CPI Ex. Food & Energy (y/y % change)	1.7	2.0	2.0	1.8	2.0	1.5	1.5	1.6	1.7	1.7	1.9	1.9
Avg. of New Core CPIs (y/y % change)	1.8	2.0	1.8	1.7	1.5	1.4	1.5	1.5	1.6	1.7	1.7	1.8
United States												
Real GDP (q/q ann. % change)	0.8	1.4	3.5	2.1	1.2	3.0	2.5	2.4	2.4	2.4	2.3	2.3
Real GDP (y/y % change)	1.6	1.3	1.7	2.0	2.0	2.4	2.2	2.3	2.6	2.4	2.4	2.4
Consumer Prices (y/y % change)	1.1	1.1	1.1	1.8	2.6	2.2	2.3	2.3	2.2	2.4	2.4	2.3
CPI Ex. Food & Energy (y/y % change)	2.2	2.2	2.2	2.2	2.2	2.0	2.0	2.1	2.1	2.3	2.3	2.3

Central Bank Rates	2016		2017				2018			
	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas	(%, end of period)									
Bank of Canada	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00
US Federal Reserve (upper bound)	0.50	0.75	1.00	1.25	1.25	1.50	1.50	1.75	1.75	2.00
Bank of Mexico	4.75	5.75	6.50	6.75	7.00	7.25	7.50	7.50	7.50	7.50
Central Bank of Brazil	14.25	13.75	12.25	10.25	9.50	9.00	9.00	9.25	9.50	9.50
Bank of the Republic of Colombia	7.75	7.50	7.00	6.25	6.00	5.75	5.50	5.50	5.25	5.25
Central Reserve Bank of Peru	4.25	4.25	4.25	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Central Bank of Chile	3.50	3.50	3.00	2.50	2.50	2.50	3.00	3.25	3.50	3.75
Europe										
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of England	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Swiss National Bank	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
Asia/Oceania										
Reserve Bank of Australia	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
People's Bank of China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Reserve Bank of India	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Bank of Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.75
Bank Indonesia	5.00	4.75	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.25
Bank of Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75	2.00
Currencies and Interest Rates										
Americas	(end of period)									
Canadian Dollar (USDCAD)	1.31	1.34	1.33	1.40	1.38	1.36	1.36	1.34	1.32	1.30
Canadian Dollar (CADUSD)	0.76	0.74	0.75	0.71	0.72	0.74	0.74	0.75	0.76	0.77
Mexican Peso (USDMXN)	19.39	20.73	18.72	19.27	19.86	20.39	20.60	20.45	20.51	20.79
Brazilian Real (USDBRL)	3.26	3.26	3.12	3.25	3.30	3.35	3.45	3.45	3.50	3.45
Colombian Peso (USDCOP)	2,882	3,002	2,874	3,100	3,125	3,100	3,125	3,150	3,100	3,125
Peruvian Nuevo Sol (USDPEN)	3.38	3.36	3.25	3.27	3.26	3.25	3.26	3.22	3.23	3.20
Chilean Peso (USDCLP)	657	670	660	649	653	658	655	652	649	647
Europe										
Euro (EURUSD)	1.12	1.05	1.07	1.02	1.05	1.10	1.12	1.12	1.15	1.15
U.K. Pound (GBPUSD)	1.30	1.23	1.26	1.20	1.25	1.25	1.30	1.30	1.35	1.35
Swiss Franc (USDCHF)	0.97	1.02	1.00	1.09	1.07	1.02	1.00	1.00	0.97	0.98
Swedish Krona (USDSEK)	8.58	9.10	8.97	9.32	9.00	8.55	8.37	8.35	8.11	8.09
Norwegian Krone (USDNOK)	7.98	8.64	8.60	8.20	8.00	8.00	7.80	7.60	7.40	7.20
Russian Ruble (USDRUB)	62.9	61.5	56.2	57.5	58.0	58.3	58.7	59.0	59.2	59.3
Asia/Oceania										
Japanese Yen (USDJPY)	101	117	111	115	117	117	121	121	122	122
Australian Dollar (AUDUSD)	0.77	0.72	0.76	0.76	0.75	0.75	0.75	0.75	0.78	0.78
Chinese Yuan (USDCNY)	6.67	6.95	6.89	6.90	6.95	7.00	6.95	6.95	6.90	6.90
Indian Rupee (USDINR)	66.6	67.9	64.9	65.5	66.0	67.0	66.0	66.0	65.5	65.5
South Korean Won (USDKRW)	1,101	1,208	1,118	1,140	1,150	1,160	1,150	1,150	1,140	1,140
Indonesian Rupiah (USDIDR)	13,042	13,473	13,326	13,400	13,450	13,500	13,450	13,450	13,400	13,400
Thai Baht (USDTHB)	34.6	35.8	34.4	34.5	34.8	35.2	34.8	34.8	34.5	34.5
Canada (Yields, %)										
3-month T-bill	0.53	0.46	0.55	0.50	0.50	0.50	0.60	0.80	0.90	1.10
2-year Canada	0.52	0.75	0.75	0.70	0.90	1.05	1.20	1.35	1.45	1.60
5-year Canada	0.62	1.11	1.12	0.95	1.10	1.30	1.50	1.65	1.80	1.90
10-year Canada	1.00	1.72	1.63	1.40	1.60	1.80	1.90	2.10	2.20	2.30
30-year Canada	1.66	2.31	2.30	2.00	2.20	2.40	2.50	2.60	2.70	2.80
United States (Yields, %)										
3-month T-bill	0.27	0.50	0.75	1.00	1.05	1.25	1.30	1.55	1.60	1.80
2-year Treasury	0.76	1.19	1.25	1.25	1.50	1.65	1.75	1.85	1.95	2.10
5-year Treasury	1.15	1.93	1.92	1.65	1.85	2.10	2.25	2.40	2.55	2.60
10-year Treasury	1.59	2.44	2.39	2.05	2.30	2.60	2.75	2.90	2.95	3.00
30-year Treasury	2.31	3.07	3.01	2.75	3.00	3.25	3.35	3.40	3.45	3.50

The Provinces

(annual % change, except where noted)

Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2000–15	2.2	2.5	1.8	1.4	1.2	1.7	2.0	2.4	2.1	3.1	2.7
2016p*	1.5	1.9	2.4	0.9	1.4	1.7	2.6	2.4	-1.0	-3.8	3.7
2017f	2.6	-1.9	1.3	1.4	0.8	2.2	2.8	2.3	1.8	2.9	2.8
2018f	2.0	-0.2	1.2	1.2	0.6	1.7	2.2	2.0	2.0	2.3	2.3
Nominal GDP											
2000–15	4.4	5.7	4.3	3.3	3.3	3.6	3.8	4.5	6.0	6.5	4.5
2016e	2.1	-0.1	3.7	2.4	2.5	3.0	4.2	3.7	-3.5	-6.0	5.4
2017f	5.2	2.4	3.1	3.3	2.6	4.4	5.1	4.4	5.2	7.0	5.2
2018f	4.1	2.8	2.7	2.8	2.2	3.5	4.1	3.8	4.4	5.2	4.2
Employment											
2000–15	1.4	1.0	1.2	0.7	0.5	1.3	1.3	1.0	1.3	2.5	1.2
2016	0.7	-1.5	-2.3	-0.4	-0.1	0.9	1.1	-0.4	-0.9	-1.6	3.2
2017f	1.4	-2.1	1.1	0.5	0.5	1.4	1.4	0.8	0.4	0.7	2.4
2018f	0.8	-1.1	0.4	0.3	0.2	0.7	1.1	0.6	0.6	0.9	1.2
Unemployment Rate (%)											
2000–15	7.1	14.3	11.2	8.9	9.6	8.1	7.2	5.1	4.9	4.9	6.6
2016	7.0	13.4	10.7	8.3	9.5	7.1	6.5	6.1	6.3	8.1	6.0
2017f	6.6	14.3	10.2	8.1	8.8	6.4	6.2	5.8	6.1	8.2	5.5
2018f	6.5	14.7	10.1	7.9	8.7	6.3	6.2	5.7	6.0	8.0	5.4
Housing Starts (units, 000s)											
2000–15	199	2.7	0.8	4.3	3.6	44	71	5.1	5.2	35	28
2016	198	1.4	0.6	3.8	1.8	39	75	5.3	4.8	25	42
2017f	202	1.1	0.6	4.0	1.7	42	80	6.4	4.5	26	36
2018f	188	1.3	0.5	3.7	1.8	39	73	5.5	4.6	26	33
Motor Vehicle Sales (units, 000s)											
2000–15	1,639	28	6	48	37	410	624	47	45	216	178
2016	1,949	33	9	54	44	458	807	55	51	220	218
2017f	1,940	31	8	54	42	456	800	56	52	223	218
2018f	1,925	30	7	54	41	452	792	55	53	226	215
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2000–15	-2,917	59	-39	-31	-146	-1,009	-5,215	-84	425	1,746	291
2016	-987	-2,207	-13	-11	-261	2,191	-3,514	-846	-675	-6,442	730
2017f**	-22,000	-1,080	-18	41	-231	250	-1,524	-872	-1,289	-10,806	1,458
2018f**	-24,500	-778	1	136	-192	0	0	-840	-685	-10,344	295

* Real GDP by industry at basic prices. ** FY17f & FY18f: Provinces' estimates, SK:FY15–FY18f excluding pension accrual adjustment; history: MB:FY04–FY15 and AB:FY05–FY15.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.