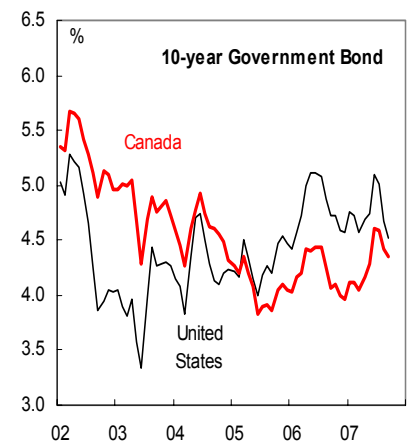
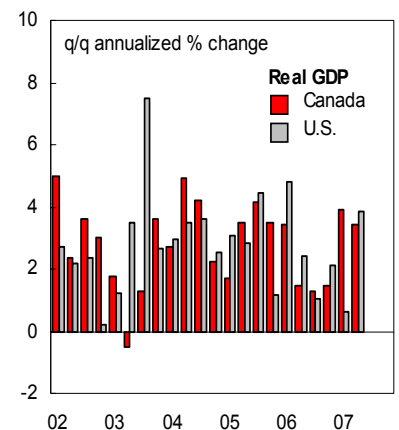
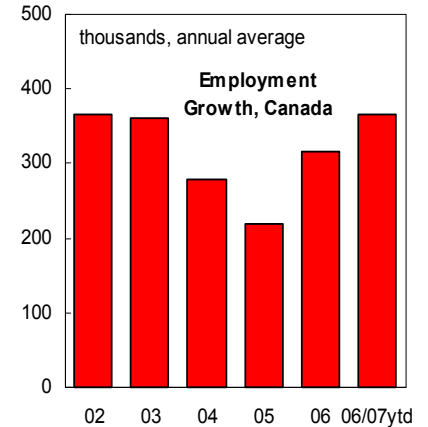




Forecast Update

- Scotia Economics has lowered its forecast for U.S. GDP growth for 2008 to 2.0% while leaving our estimate for 2007 unchanged at 1.9%. The ongoing tightening in global credit conditions and the deepening downturn in the U.S. housing market are expected to lead to a more pronounced and protracted period of weakness in consumer spending, particularly for 'big-ticket' durable goods purchases.
- Reflecting this weaker growth profile, we now expect the U.S. Federal Reserve to lower the fed funds rate another 75 bps by mid-winter (to 4.00%) as growth concerns overtake inflation risks. In fact, deteriorating domestic demand could push the underlying consumer inflation rate in the United States slightly below 2% by early next year as wage trends lose momentum, housing prices erode, energy prices plateau and retailers resort to deeper discounting.
- Weaker U.S. growth combined with the recent sharp move up in the Canadian dollar has led us to adjust our Canadian growth sights lower as well. We still peg 2007's advance at 2.5%, but now expect output growth to slow to 2.2% in 2008, with weaker exports accounting for much of the downward revision. The U.S. slowdown will have a less direct impact on Europe and Japan, but the negative market fallout from increased volatility, tighter credit and reduced investor risk tolerance have prompted minor downward growth adjustments for next year.
- Tighter credit conditions, slower domestic growth and the high-flying Canadian dollar are expected to trigger a half percentage point reduction in the Bank of Canada's overnight target rate to 4.00% by early 2008. The cumulative reduction is still significantly less than south of the border, reflecting relatively more buoyant domestic demand in Canada, particularly in the resource-rich regions of the country, and a lower tolerance for 2%-plus inflation.
- The loss of U.S. economic momentum alongside additional easing by the Fed points to modest further declines in U.S. Treasury yields by year-end. However, we still expect longer-term borrowing costs to move gradually higher in 2008 as U.S.-dollar weakness continues and inflation concerns build. This will work to steepen the yield curve.



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Forecast Update

CANADA	1990-2003 (ann.avg.)	2004	2005	2006	2007f	2008f
Real GDP (% change)	2.6	3.1	3.1	2.8	2.5	2.2 ↓
Consumer Prices (% change)	2.3	1.8	2.2	2.0	2.3 ↓	2.2 ↓
Core CPI (% change)	2.0	1.6	1.6	1.9	2.3 ↓	2.0 ↓
Pre-Tax Profits (% change)	6.5	17.1	11.9	5.0	4.8 ↓	-2.0 ↓
Employment (% change)	1.4	1.8	1.4	1.9	2.1	1.2
thousands of jobs created	191	275	223	315	350	200
Unemployment Rate (%)	8.9	7.2	6.8	6.3	6.1	6.2
Current Account Balance (C\$ bn.)	-3.8	29.0	27.9	23.6	29.0 ↑	12.0 ↓
per cent of GDP	-0.8	2.3	2.0	1.6	1.9 ↑	0.7 ↓
Merchandise Trade Balance (C\$ bn.)	34.4	65.8	63.5	51.3	61.0 ↑	45.0 ↓
Federal Budget Balance (C\$ bn.)	-10.9	1.5	13.2	13.8	7.0	4.0 ↓
Housing Starts (thousands)	159	233	225	227	217 ↑	195
Motor Vehicle Sales (thousands)	1,367	1,534	1,583	1,614	1,650	1,610
WTI Oil (US\$/bbl)	22.2	41.4	56.6	66.2	69 ↑	70 ↑
Nymex Natural Gas (US\$/mmbtu)	2.69	6.19	9.00	6.99	6.95 ↓	6.95 ↓
UNITED STATES						
Real GDP (% change)	2.8	3.6	3.1	2.9	1.9	2.0 ↓
Consumer Prices (% change)	2.9	2.7	3.4	3.2	2.7 ↓	2.3 ↓
Core CPI (% change)	2.9	1.8	2.2	2.5	2.3	1.9 ↓
Pre-Tax Profits (% change)	6.2	24.0	11.5	13.2	4.0 ↓	-4.0 ↓
Employment (% change)	1.3	1.1	1.7	1.9	1.3 ↓	1.0
millions of jobs created	1.57	1.43	2.27	2.48	1.75 ↓	1.35 ↓
Unemployment Rate (%)	5.6	5.5	5.1	4.6	4.6 ↑	4.8 ↑
Current Account Balance (US\$ bn.)	-215	-640	-755	-811	-765	-755
per cent of GDP	-2.6	-5.5	-6.1	-6.2	-5.5	-5.2
Merchandise Trade Balance (US\$ bn.)	-261	-670	-787	-838	-810	-810
Net Federal Financial Surplus (US\$ bn.)	-108	-413	-319	-248	-175	-215
Housing Starts (millions)	1.46	1.95	2.07	1.82	1.39 ↓	1.25 ↓
Motor Vehicle Sales (millions)	15.2	16.9	16.9	16.5	15.8	15.3 ↓
MEXICO						
Real GDP (% change)	3.0	4.4	2.8	4.8	3.0 ↓	3.6 ↑
Consumer Prices (% change)	16.4	5.2	3.3	4.1	4.0	4.1
Current Account Balance (US\$ bn.)	-14.3	-7.3	-4.9	-1.8	-10.4 ↑	-14.2
per cent of GDP	-3.4	-1.1	-0.6	-0.2	-1.2 ↑	-1.6
INTERNATIONAL						
Real GDP (% change)						
Japan	1.3	2.7	1.9	2.2	1.9 ↓	1.7 ↓
United Kingdom	2.3	3.3	1.8	2.8	2.9 ↑	2.1
Euro Zone	1.8	1.8	1.5	2.9	2.5 ↑	2.0 ↓
China	9.2	10.1	10.4	11.1	11.3	10.3
India	5.8	7.5	9.0	9.4	8.8	8.2
Brazil	1.8	5.1	2.3	3.4	4.2	4.5
Consumer Prices (% change)						
Japan	0.7	0.2	-0.1	0.3	0.2	0.1
United Kingdom	2.7	1.7	1.9	3.0	2.0 ↓	2.0
Euro Zone	2.4	2.1	2.2	1.9	1.9	1.5
China	5.8	2.4	1.6	2.8	5.0 ↑	3.5 ↑
India	7.8	6.0	4.4	5.9	4.8 ↓	4.5 ↓
Brazil	664	7.6	5.7	3.1	4.0	4.2



Forecast Update

CANADA

	07Q1	07Q2	07Q3f	07Q4f	08Q1f	08Q2f	08Q3f	08Q4f
BoC Overnight Target Rate	4.25	4.25	4.50	4.25 ↓	4.00 ↓	4.00 ↓	4.00 ↓	4.00 ↓
Prime Rate	6.00	6.00	6.25	6.00 ↓	5.75 ↓	5.75 ↓	5.75 ↓	5.75 ↓
3-month T-bill	4.17	4.42	4.05	3.95 ↓	3.90 ↓	4.00 ↓	4.05 ↓	4.10 ↓
2-year Canada	3.98	4.58	4.20 ↑	4.05 ↓	4.00 ↓	4.15 ↓	4.20 ↓	4.25 ↓
5-year Canada	4.02	4.56	4.30 ↑	4.20	4.15 ↓	4.30 ↓	4.35 ↓	4.45 ↓
10-year Canada	4.11	4.55	4.40 ↑	4.30 ↓	4.35 ↓	4.50 ↓	4.60 ↓	4.75 ↓
30-year Canada	4.20	4.49	4.50 ↑	4.40 ↓	4.45 ↓	4.60 ↓	4.70 ↓	4.85 ↓
<i>Real GDP (q/q, ann. % change)</i>	3.9	3.4	2.4 ↑	1.8 ↓	2.0	2.2 ↓	2.4 ↓	2.6 ↓
<i>Real GDP (y/y, % change)</i>	2.0	2.5	2.8 ↑	2.9	2.4	2.1 ↓	2.1 ↓	2.3 ↓
<i>Consumer Prices (y/y, % change)</i>	1.8	2.2	2.2 ↓	3.0 ↓	2.7 ↓	2.2 ↓	2.2	1.8 ↓
<i>Core CPI (y/y % change)</i>	2.3	2.4	2.3 ↓	2.2 ↓	2.1 ↓	1.9 ↓	1.9 ↓	1.9 ↓

UNITED STATES

Fed Funds Target Rate	5.25	5.25	4.75 ↓	4.25 ↓	4.00 ↓	4.00 ↓	4.00 ↓	4.00 ↓
Prime Rate	8.25	8.25	7.75 ↓	7.25 ↓	7.00 ↓	7.00 ↓	7.00 ↓	7.00 ↓
3-month T-bill	4.99	4.87	3.80 ↓	3.70 ↓	3.70 ↓	3.95 ↓	4.05 ↓	4.20 ↓
2-year Treasury	4.57	4.86	4.05 ↑	3.95 ↓	3.90 ↓	4.05 ↓	4.20 ↓	4.30 ↓
5-year Treasury	4.54	4.92	4.30 ↑	4.15	4.10 ↓	4.30 ↓	4.50 ↓	4.60 ↓
10-year Treasury	4.65	5.03	4.65 ↑	4.40 ↓	4.35 ↓	4.55 ↓	4.80 ↓	5.10 ↓
30-year Treasury	4.85	5.13	4.90 ↑	4.65 ↓	4.70 ↓	4.80 ↓	5.05 ↓	5.35 ↓
<i>Real GDP (q/q, ann. % change)</i>	0.6	4.0	2.2	1.5 ↓	1.5 ↓	1.8 ↓	2.4 ↓	2.4 ↓
<i>Real GDP (y/y, % change)</i>	1.5	1.9	2.2	2.0 ↓	2.3 ↓	1.7 ↓	1.8 ↓	2.0 ↓
<i>Consumer Prices (y/y, % change)</i>	2.4	2.7	2.3 ↓	3.5 ↓	3.0 ↓	2.0 ↓	2.1	1.9 ↓
<i>Core CPI (y/y % change)</i>	2.6	2.3	2.1	2.1	1.9 ↓	1.9 ↓	1.9 ↓	2.0 ↓

SPREADS

Target Rate	-1.00	-1.00	-0.25	0.00	0.00	0.00	0.00	0.00
3-month T-bill	-0.82	-0.45	0.25	0.25	0.20	0.05	0.00	-0.10
2-year	-0.59	-0.28	0.15	0.10	0.10	0.10	0.00	-0.05
5-year	-0.52	-0.36	0.00	0.05	0.05	0.00	-0.15	-0.15
10-year	-0.54	-0.48	-0.25	-0.10	0.00	-0.05	-0.20	-0.35
30-year	-0.65	-0.64	-0.40	-0.25	-0.25	-0.20	-0.35	-0.50

EXCHANGE RATES

Canadian Dollar (C\$/US\$)	1.15	1.07	1.00 ↓	0.98 ↓	1.02 ↓	1.03	1.02	1.00 ↓
Canadian Dollar (US¢/C\$)	86.7	93.9	100.0 ↑	102.0 ↑	98.0 ↑	97.0	98.5	100.0 ↑
Yen (¥/US\$)	118	123	115	113	112	110	108	105
Euro (US\$/€)	1.34	1.35	1.41 ↑	1.44 ↑	1.44 ↑	1.45 ↑	1.45 ↑	1.43 ↑
Euro (£/€)	0.68	0.67	0.70 ↑	0.70 ↑	0.70 ↑	0.71 ↑	0.71 ↑	0.71
Sterling (US\$/£)	1.97	2.01	2.02 ↓	2.05 ↑	2.06 ↑	2.04 ↑	2.04 ↑	2.01 ↑
Australian Dollar (US\$/A\$)	0.81	0.85	0.87 ↑	0.87 ↑	0.86 ↑	0.86 ↑	0.85	0.85
Mexican Peso (Peso/US\$)	11.0	10.8	11.1	11.2	11.3	11.3	11.4	11.4
Chinese Yuan (Yuan/US\$)	7.7	7.6	7.5	7.3	7.2	7.0	6.9	6.8