Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

February 2022

Summary

By Matthieu Arseneau and Jocelyn Paquet

- In the last issue of this monthly monitor we emphasized the risks arising from the sharp increase in new cases of Covid-19 in the developed economies. The data from South Africa, one of the first countries hit by the Omicron variant, suggested a very intense but short wave of epidemic. A month later, the pandemic seems to be evolving pretty much as we expected. By all appearances, daily new cases have peaked in the rich countries, allowing a gradual reopening of economies. Global growth will take a hit in the first quarter but in the months to come is likely to make up a good part of the ground lost. This assumes that Covid will remain under control in the emerging economies, which have so far been spared by Omicron but remain at risk because of their lesser vaccination. The ability of the global economy to recover from the Omicron shock will also depend on decisions made in the Kremlin. Since our last issue, thousands of Russian troops have massed at the border with Ukraine and now threaten a march on Kiev. The intentions of President Vladimir Putin may be anybody's guess, but there is no doubt that an invasion would trigger major disruptions around the world. Acknowledging these new risks, we have made small downward revisions to our global growth forecast for both 2022 (from 4.1% to 4.0%) and 2023 (from 3.7% to 3.6%).

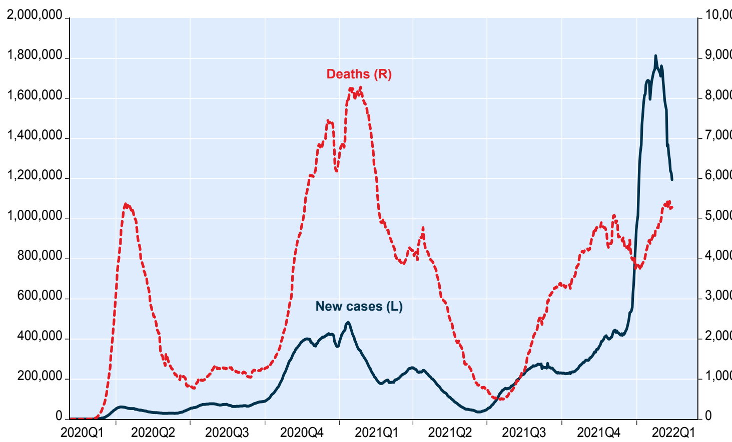
- The U.S. economy had a good fourth quarter, with GDP growth of 6.9% annualized topping the consensus expectation. The upshot is that U.S. GDP for 2021 as a whole was up 5.7% from 2020, the largest annual expansion since 1984, almost entirely closing the deep output gap that opened in the early weeks of the pandemic. But that was last year. The news for the current quarter is less encouraging. The Omicron variant seems to have pooped the party. Though public-health measures have been much less restrictive in the U.S. than in other parts of the world (the Eurozone and Canada for example), the virus has continued to dampen growth by shrinking the available labour pool. Also to blame for a slowing of the economy is high inflation. In this context, we have revised down our forecast for Q1 growth, from 2.2% annualized to just 0.9%. For 2022 as a whole we now see 3.1%, down from 3.5% in last month's Monitor.

- In Canada, first-quarter growth will be braked by public-health restrictions. In January employment shrank by 200,000, the sharpest decline in a year. But outside the industries directly affected by the restriction, employment was resilient, so widespread contagion was avoided. In our view, because of labour scarcity elsewhere in the economy, the Q1 weakness is likely to prove temporary and limited to these industries. Hiring intentions as reported by the fourth-quarter Bank of Canada Business Outlook Survey were the strongest ever recorded. This augurs well for a vigorous rebound, the more so in that easing o public-health restrictions has already begun. The vigour of the labour market and the resulting rise of incomes suggest that consumption will be the growth driver in coming quarters, and this despite a rising cost of living, in particular a rising cost of borrowing. Households will be able to deploy some of their substantial excess savings accumulated since the beginning of the pandemic. The labour market could also prompt business investment – the Bank of Canada's Business Outlook survey reports a record high in investment intentions. As for governments, there is nothing to suggest a period of austerity, what with minority government in Ottawa and elections this year in the two largest provinces. That is likely to mean growth comfortably above potential in 2022. We are maintaining our forecast of 3.6%.

A world of imponderables

In the last issue of this monthly monitor we emphasized the risks arising from the sharp increase in new cases of Covid-19 in the developed economies. The data from South Africa, one of the first countries hit by the Omicron variant, suggested a very intense but short wave of epidemic. A month later, the pandemic seems to be evolving pretty much as we expected. By all appearances, daily new cases have peaked in the rich countries, allowing a gradual reopening of economies. Global growth will take a hit in the first quarter but in the months to come is likely to make up a good part of the ground lost. This assumes that Covid will remain under control in the emerging economies, which have so far been spared by Omicron but remain at risk because of their lesser vaccination.

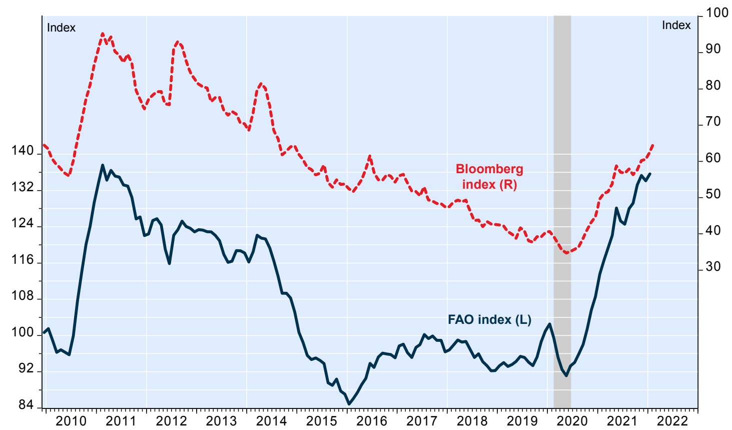
Developed countries: Has the Omicron wave peaked?
Daily new cases and deaths in Europe and North America, 7-day moving average



NBF Economics and Strategy (data from https://coronavirus.jhu.edu/map.html)

The ability of the global economy to recover from the Omicron shock will also depend on decisions made in the Kremlin. Since our last issue, thousands of Russian troops have massed at the border with Ukraine and now threaten a march on Kiev. The intentions of President Vladimir Putin may be anybody's guess, but there is no doubt that an invasion would trigger major disruptions around the world. Russia and Ukraine are two of the world's largest exporters of wheat. A conflict between them could drive up food prices, already at record highs.

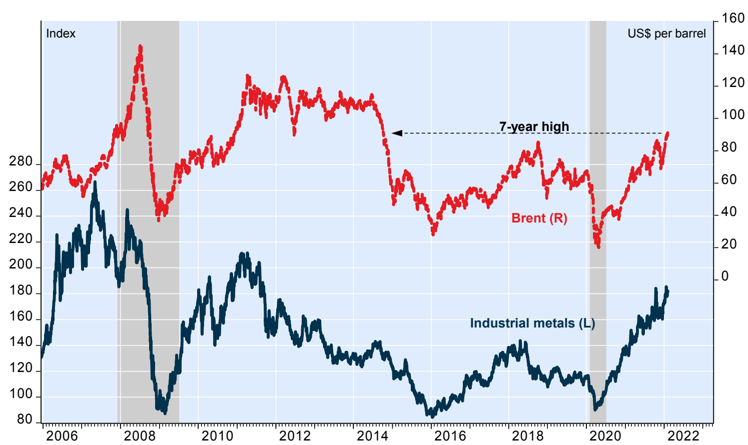
World: Russian threat boosting prices of certain staples (1)
Bloomberg agricultural prices index and FAO index of food prices



NBF Economics and Strategy (Bloomberg data)

Russia also exports oil and gas and industrial metals. While Ukraine probably lacks the military ability to imperil output of these goods, the hovering uncertainty could be enough to drive up prices. Rumours of war alone have driven oil prices to a seven-year high.

World: Russian threat boosting prices of certain staples (2)
Brent oil price and Bloomberg index of industrial metals prices



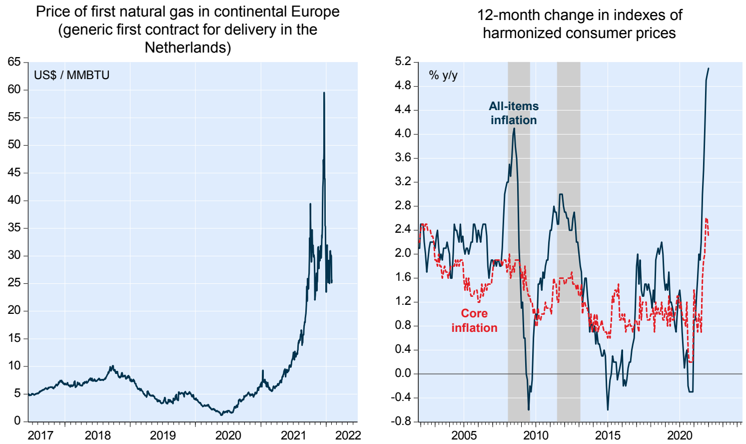
NBF Economics and Strategy (Bloomberg data)

But the most worrisome risk is interruption of gas deliveries to continental Europe. Whether accidental or orchestrated by Russia in response to possible financial sanctions by European countries, such an interruption would be a severe blow. About one-third of the natural gas consumed in Europe comes from Russia. For some countries, notably Germany, the share is close to 50%. If Russian gas were cut off, the continent would have to turn to liquefied natural gas, whose prices would explode.

Such convulsions are something Europe could do without. The Eurozone, whose GDP in the fourth quarter of 2021 was back to its pre-pandemic level, now faces multiple challenges. Like several other regions of the world, its Covid-19 case numbers surged in December and January. As if that were not enough, its households have also faced steep prices rises. In January, 12-

month all-items inflation in the Eurozone reached 5.1%, the highest since tracking of this indicator began in 2001.

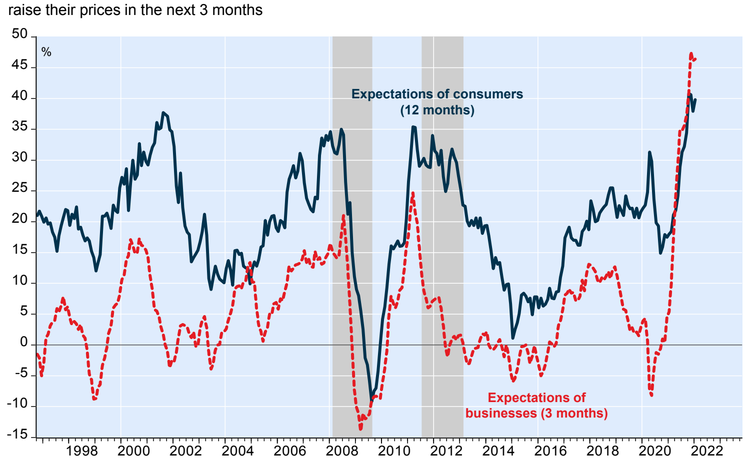
Eurozone: Energy prices driving up inflation



NBF Economics and Strategy (Bloomberg data)

This acceleration is due in large part to the marked rise in the price of natural gas, though other items also showed serious rises. Core inflation (i.e. excluding energy, food, alcohol and tobacco) was stronger than expected in December, well above the European Central Bank target. The jump is the more worrisome in that it seems to have shifted the inflation expectations of consumers and businesses, judging by a recent European Commission survey.

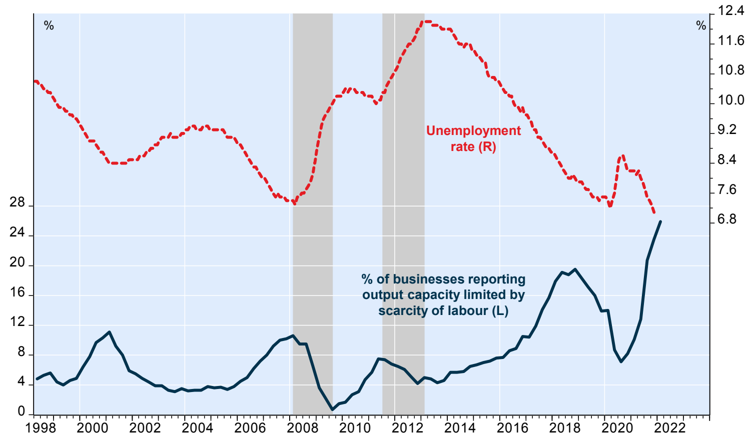
Eurozone: Inflation expectations on the rise
Net % of consumers expecting prices to rise in the next 12 months and net % of businesses expecting to raise their prices in the next 3 months



NBF Economics and Strategy (data from European Commission business and consumer survey)

The vigour of the labour market is another factor that could drive prices up in coming months. The unemployment rate reached a historical low in December, presenting businesses with a challenge. The same European Commission survey shows a record percentage of businesses reporting that labour scarcity was limiting their production capacity in the first quarter of the year. Good news for workers, likely to pump up pay raises. But for the ECB it is one more argument for gradually withdrawing monetary accommodation.

Eurozone: A high unmet demand for labour
Unemployment rate vs. % of businesses reporting production capacity limited by labour scarcity

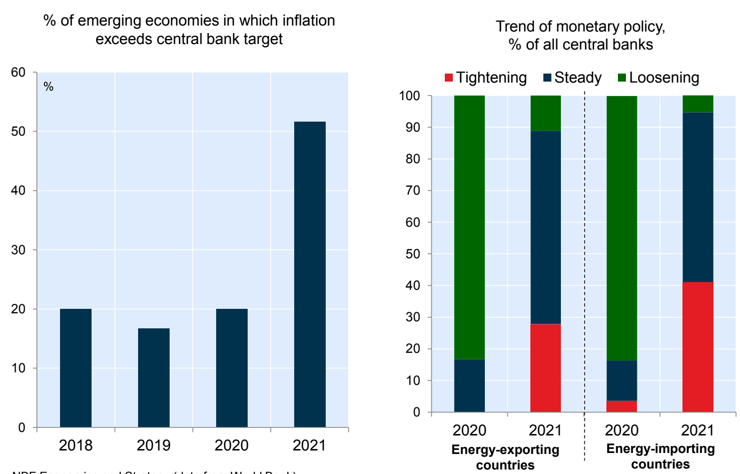


NBF Economics and Strategy (data from Bloomberg and European Commission)

A weaker-than-expected first quarter combined with an increase in uncertainty about the rest of the year prompts us to maintain our below-consensus growth forecast for the Eurozone in 2022 (see forecast table below).

Our outlook for emerging economies, meanwhile, have been revised downward. The central banks of the U.S., the Eurozone and Canada have the luxury of moving cautiously in their response to price rises. The situation is quite different in emerging economies, where inflation expectations are less well anchored and currencies are more exposed to investor mood shifts. To master inflation and avoid capital flight, a number of central banks – especially in countries that are importers of energy products – have already tightened their monetary policy considerably.

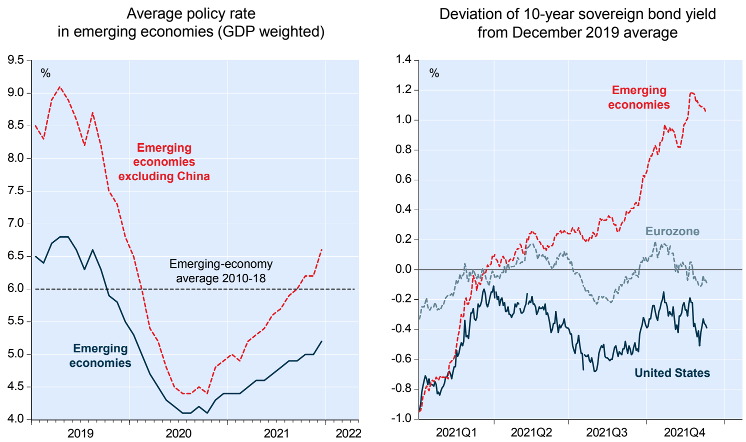
Emerging economies: Inflation forcing central banks to act



NBF Economics and Strategy (data from World Bank)

So interest rates are rising …

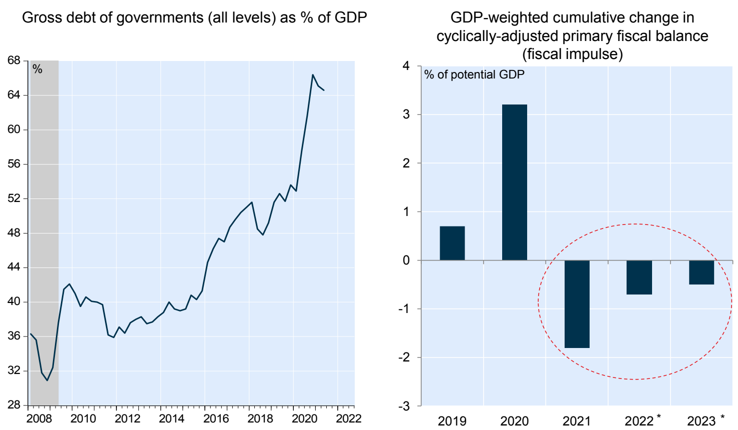
Emerging economies: Interest rates on the rise



NBF Economics and Strategy (data from World Bank)

… which will increase the cost of servicing public debt and force many countries to put their public finances in order. Hardly surprising, then, that the World Bank expects that fiscal policy will crimp growth in emerging countries in 2022 and 2023.

Emerging economies: Restrictive fiscal policies in store

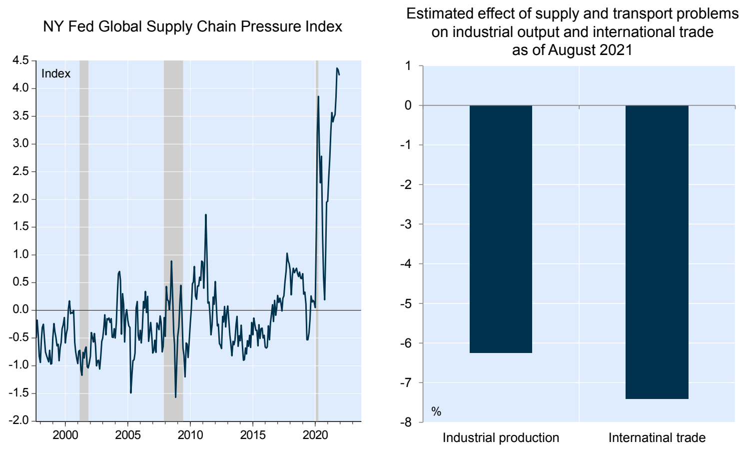


* World Bank estimate

NBF Economics and Strategy (data from Bank of International Settlements and World Bank)

Supply constraints are another downside risk to growth in emerging countries. Though these constraints affect every country in the world, they tend to have a greater effect in economies that are more dependent on exports. The World Bank estimates that the volume of international trade would have been 7.4% higher in August 2021 were it not for problems of supply and transport, and industrial output would have been 6.2% higher. The situation could improve in 2022, but some bottlenecks will persist.

World: Growth braked by supply problems

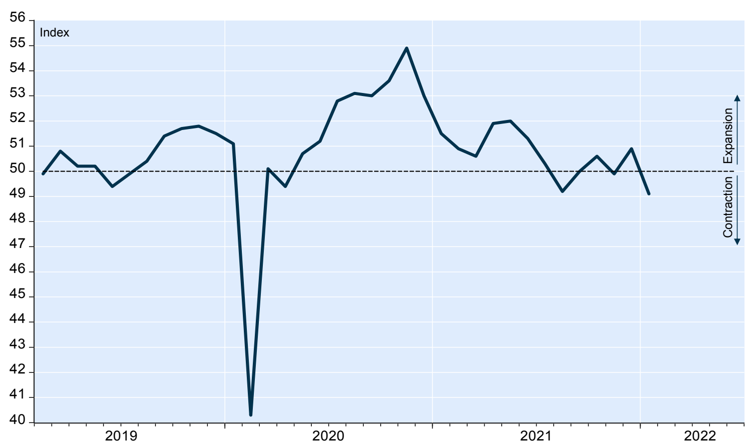


NBF Economics and Strategy (data from New York Federal Reserve and World Bank)

Another cloud in the sky over emerging economies is the flagging of the Chinese recovery. Somewhat ironically, the weight of production for export in the world's second-largest economy, which enabled it to begin recovering well before other countries, could now hold it back for the reasons cited above. Combined with the downside effects of China's zero-Covid policy, supply problems have slowed its manufacturing sector.

Chine: Factory output slowing

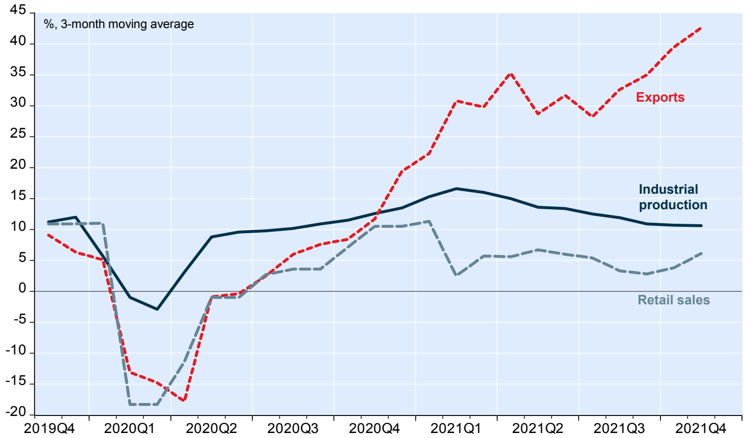
Caixin/Markit manufacturing PMI, last observation January 2022



NBF Economics and Strategy (data from Markit)

Chinese domestic consumption cannot easily pick up the slack when several regions of the country remain under strict lockdown.

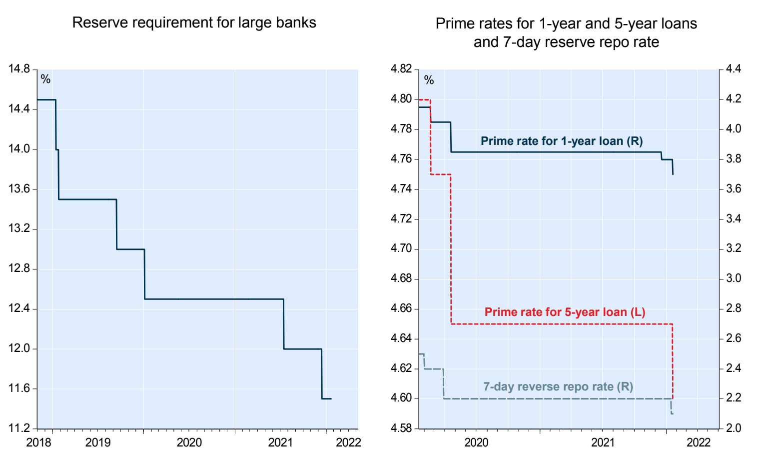
China: More and more dependent on exports
24-month change in exports, retail sales and industrial production



NBF Economics and Strategy (data from World Bank)

Fortunately, the People's Bank of China has decided to ease its monetary policy. The mandatory bank reserve ratio was revised down last month, injecting about $200 billion into the economy. The Bank has also lowered its prime rates for one- and five-year loans and its 7-day reserve repo rate. These shifts show Beijing to be intent on stimulating growth. But China's efforts will not prevent weakness in the emerging economies.

China: Monetary policy easing



NBF Economics and Strategy (Bloomberg data)

For all these reasons, we have made small downward revisions to our global growth forecast for both 2022 (from 4.1% to 4.0%) and 2022 (from 3.7% to 3.6%).

World Economic Outlook

	2021	2022	2023
Advanced Economies	5.1	3.3	2.3
United States	5.7	3.1	2.2
Eurozone	5.2	3.5	2.1
Japan	1.6	2.7	1.3
UK	7.1	4.0	2.3
Canada	4.6	3.6	2.6
Australia	4.1	3.5	2.8
Korea	4.0	2.7	2.5
Emerging Economies	6.5	4.5	4.5
China	8.1	4.9	5.2
India	9.0	8.0	7.0
Mexico	5.3	2.8	2.5
Brazil	4.7	0.8	2.0
Russia	4.5	4.5	2.0
World	5.9	4.0	3.6

NBF Economics and Strategy (data via NBF and Conensus Economics)

U.S.: A soft patch in the first quarter

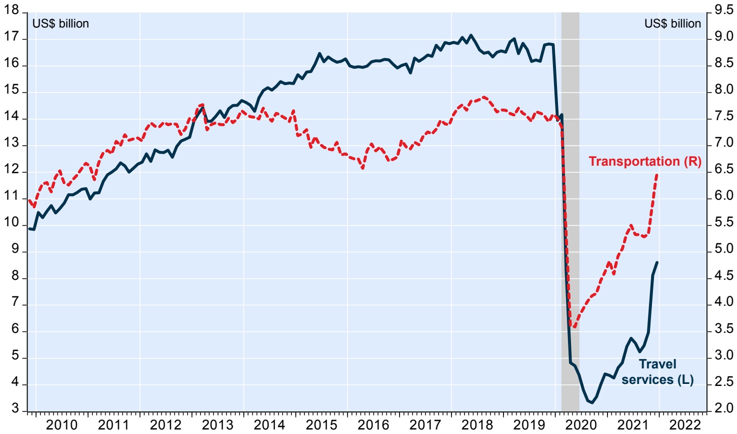
The U.S. economy had a good fourth quarter, with GDP growth of 6.9% annualized topping the consensus expectation. Though much of this gain was due to inventory rebuilding, optimism is encouraged by other aspects of the report of the Bureau of Economic Analysis. Continuing recovery in consumption of services (+4.7% annualized) brought this sector of the economy close to its pre-pandemic level.

U.S.: Consumption of services almost back to pre-pandemic level
Personal Consumption Expenditures

NBF Economics and Strategy (data from St. Louis FRED)

Exports were also well above expectations as foreigners began visiting the U.S. again.

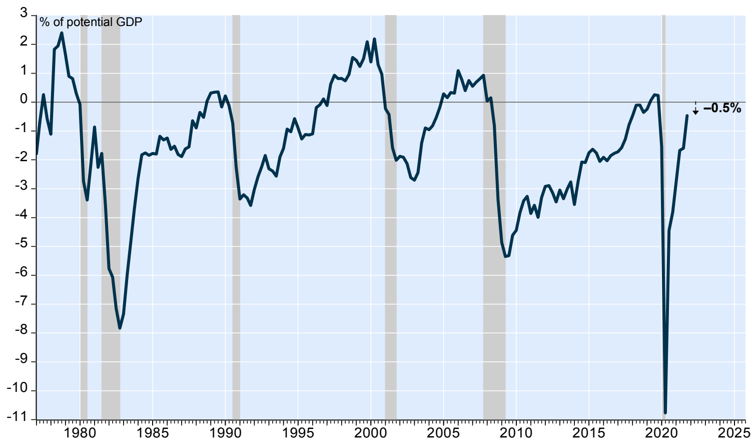
U.S.: A return of foreign visitors stimulates exports
Nominal exports of travel and transportation services



NBF Economics and Strategy (data from Census Bureau)

The upshot is that U.S. GDP for 2021 as a whole was up 5.7% from 2020, the largest annual expansion since 1984, almost entirely closing the deep output gap that opened in the early weeks of the pandemic.

U.S.: Excess capacity almost absorbed in Q4
Output gap as % of potential GDP

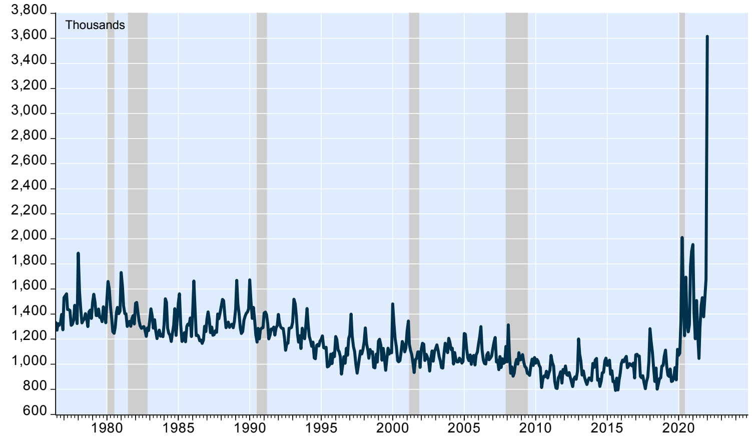


NBF Economics and Strategy (data from CBO and Refinitiv)

But that was last year. The news for the current quarter is less encouraging.

The Omicron variant seems to have pooped the party. Though public-health measures have been much less restrictive in the U.S. than in other parts of the world (the Eurozone and Canada for example), the virus has continued to dampen growth by shrinking the available labour pool. The Bureau of Labor Statistics reports 3.6 million people absent from work in January because of illness, almost twice as many as during the first wave of the pandemic.

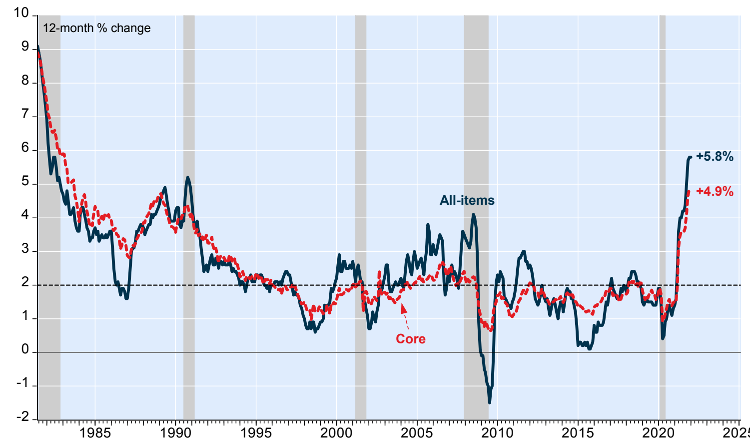
U.S.: Infected employees forced to stay home
Number of workers absent from work because of illness



NBF Economics and Strategy (data from Refinitiv)

Also to blame for a slowing of the economy is high inflation. The all-items Personal Consumption Expenditure Deflator (PCE Deflator) for the 12 months ending in December was 5.8%, the highest since July 1982.

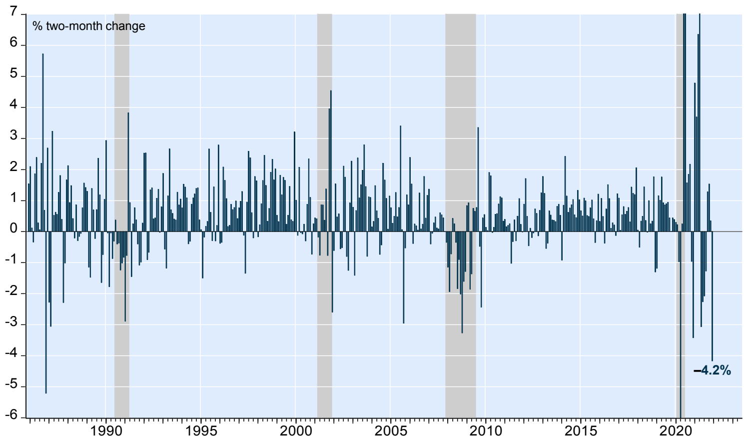
U.S.: Inflation highest since July 1982
Change in deflator of Personal Consumption Expenditures



NBF Economics and Strategy (data via Bloomberg)

The rises were especially high for goods prices (+8.8%), a clear hit to real household consumption. In the last two months of 2021, real spending on goods contracted no less than 4.2%. Apart from the period following the beginning of the pandemic, that was the worst decline since 1986. Spending on durable goods did even worse, contracting 6.6% during those two months as the auto industry continued to suffer from lack of computer chips.

U.S.: Inflation calms consumer ardour
Change in real expenditure on consumption of goods

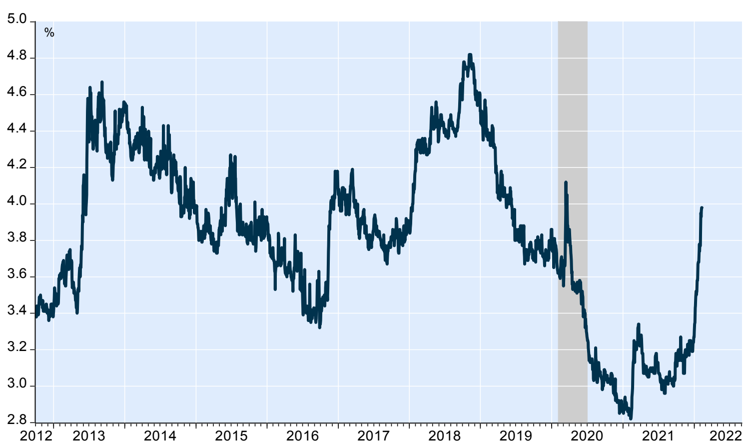


NBF Economics and Strategy (data via Bloomberg)

So the handoff to first-quarter consumption seems to have been weak. An imminent strong rebound is hard to imagine, with inflation intensifying further, microchips still almost unavailable and the country beset by Omicron. In view of this less favourable outlook, we have revised down our forecast for Q1 growth, from 2.2% annualized to just 0.9%. For 2022 as a whole we now see 3.1%, down from 3.5% in last month's Monitor, with the slow beginning of the year only partly offset by acceleration in Q2 (+2.8%) and Q3 (2.5%).

Consumption will contribute further to growth in the medium term if, as we expect, inflation slows and households draw on excess savings accumulated earlier in the pandemic. With the Federal Reserve getting ready to tighten, other parts of the economy may do less well. Real estate, for example. Although the cost of mortgage borrowing is at this point still very low by historical standards, its downtrend seems to have reversed sharply in recent weeks. If this continues, rising rates may well bite into demand in the second half of 2022.

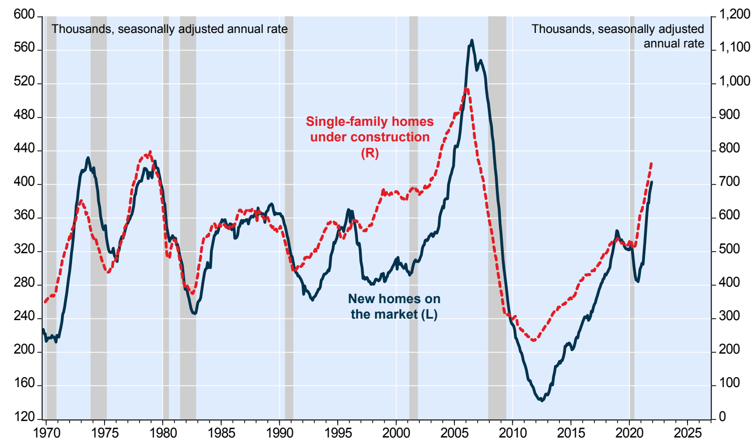
U.S.: Rise in cost of borrowing is a risk for the real estate sector
Average rate paid on a 30-year fixed-rate mortgage loan



NBF Economics and Strategy (data from Bankrate.com)

That could crimp construction, especially given the recent increase in the supply of homes for sale. In December there were more new houses for sale than at any other time since August 2008. And supply seems likely to increase further given the number of single-family homes currently under construction in the U.S.

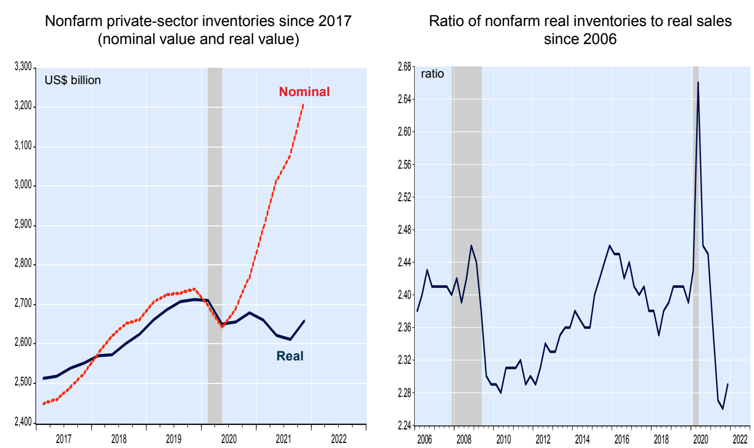
U.S.: A rising supply of new housing
New single-family homes for sale and single-family homes under construction



NBF Economics and Strategy (data via Bloomberg)

A dip in real estate could however be offset by a favourable turn in inventories. True, inventories hit a record nominal value in Q4, but that was in large part because of inflation. In real terms inventories remained rather low. It should also be kept in mind that the ratio of inventories to sales in the fourth quarter was extremely depressed by historical standards. Under these conditions, we think there is still considerable potential for inventory rebuilding in real terms in 2022.

U.S.: Resupply likely to continue in 2022

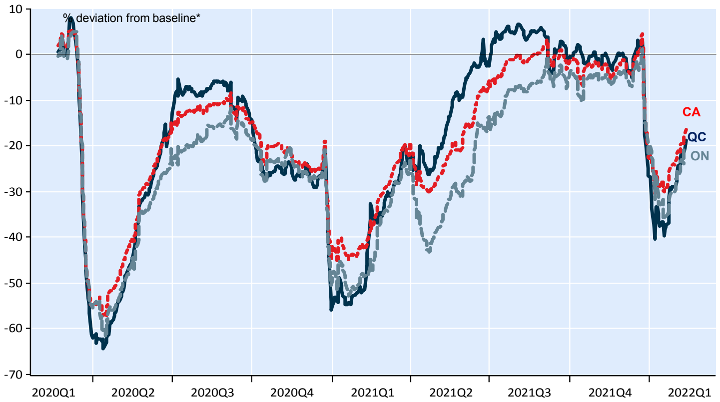


NBF Economics and Strategy (data from St. Louis FRED)

Canada: Interrupted momentum

As elsewhere, the Omicron variant has pooped the party with its stressing out of Canadian health-care systems in recent weeks. Governments responded with public-health restrictions to limit spread. In Quebec, restaurant indoor dining rooms and bars were again shut down, as were theatres and recreational activities. Stores remained open but were limited to 50% of capacity. In Ontario, except for dining rooms, bars and gyms, which were shut down completely, many sectors, including entertainment and recreation, remained open but limited to 50% of capacity. The Google mobility index for stores and recreation venues, after returning to normal in the fourth quarter, has slumped again in recent weeks, foreshadowing a Q1 soft patch in the economy.

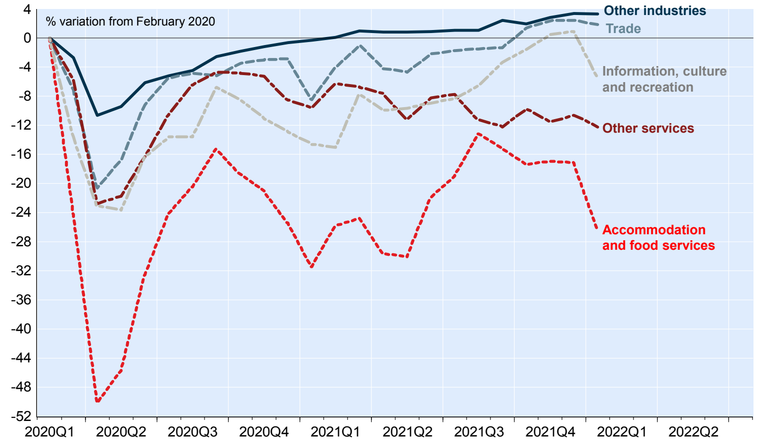
Canada: The fifth wave will weigh on growth in Q1
Google mobility index for retail and recreation venues



* Baseline: Median value from January 3 to February 6, 2020
NBF Economy and Strategy (data via Google)

The Labour Force Survey (LFS) results for January reflect the hit to the economy of this fifth wave. Thanks mainly to losses in Quebec and Ontario, employment was down 200,000, the sharpest decline since January of last year. By our calculation, 96% of the jobs lost in January were in industries directly affected by Covid-related public-health measures.[1] In other words, employment outside these industries was once again resilient in January and the economy dodged widespread contagion.

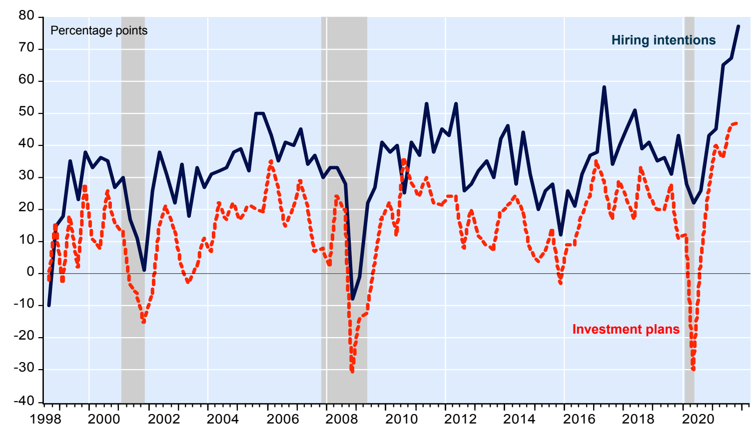
Canada: Again, no spillover
Employment in industries affected by Covid-19 and in other sectors



NBF Economics and Strategy (data via Statistics Canada)

In our view, because of a scarcity of labour elsewhere in the economy, the Q1 weakness is likely to prove temporary and limited to these industries. Despite the takeoff of the labour market in the second half of last year, leading to full employment, the hiring intentions of large employers as reported by the fourth-quarter Bank of Canada Business Outlook Survey were the strongest ever recorded. These intentions suggest a rapid recovery, the more so in that easing of public-health restrictions has already begun. Also noteworthy is that investment intentions were also at a record, possibly reflecting an intentness on raising productivity in response to labour scarcity.

Canada: Spectacular optimism in December outlooks
Investment plans and hiring intentions (balance of expectations*)



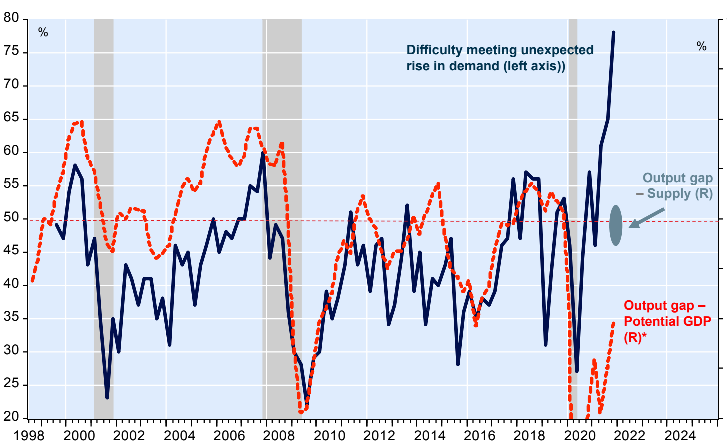
* % of businesses surveyed expecting to invest and hire more minus % expecting to invest and hire less
NBF Economy and Strategy (data from Bank of Canada Business Outlook Survey

The percentage of businesses that report facing capacity constraints is at a record. Almost 80%, a far higher share than ever before, say they would have a hard time meeting an

[1] Accommodation and food services, information/recreation, trade and other services.

unexpected rise in demand. These survey results certainly contributed to the Bank of Canada's decision to abandon the forward guidance it had been giving since July 2020, to the effect that it would not raise its policy rate before excess capacity had been fully absorbed. Last September the BoC thought that would happen in the second or third quarter of 2022. It now says that happened in the fourth quarter, though GDP for that quarter is expected to come in essentially as the Bank had anticipated in the autumn. Over the past year the central bank has cast off its traditional measures of the output gap relative to potential GDP, which were inconsistent with labour market data, its surveys (business/consumers) and inflation. It now uses the concept of supply, which is related to the concept of potential GDP but takes into account temporary factors limiting production capacity, notably supply-chain problems and public-health measures that push up inflation. The central bank considers that the economy, rather than operating 2% short of potential, was running at capacity in the final quarter of the year, a capacity limited essentially by supply-chain problems.

Canada: Traditional measures of output gap are broken
% of firms saying they would have difficulty meeting an unexpected rise in demand, vs. output gap

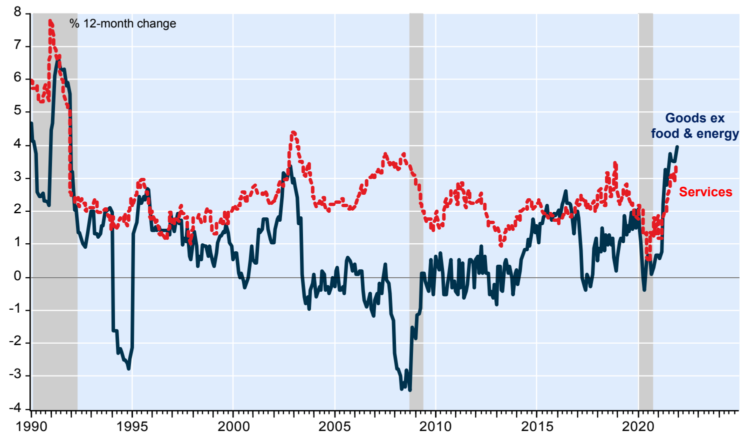


* Average of the two measures of the output gap

NBF Economics and Strategy (data via Bank of Canada and Statistics Canada)

But inflationary pressures are currently showing in services as well as goods. Services inflation is also running above the BoC target range of 1% to 3%, a phenomenon that generally occurs in the mature phase of a business cycle, i.e. when the output gap has been completely closed.

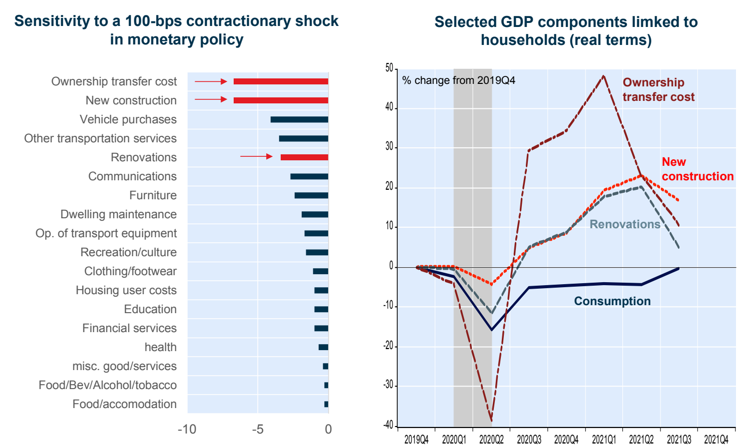
Canada: Inflation of service prices already at previous peak
Consumer Price Index



NBF Economics and Strategy (data via Statistics Canada)

It is the across-the-board nature of inflationary pressures that has been prompting us to say for some time now that the economy no longer requires a pedal-to-the-metal policy rate, especially considering the time lag for transmission of monetary policy. We continue to expect a rise of 125 basis points in the policy rate this year. That seems to us just enough to cool overheating parts of the economy without provoking a hard landing. The real estate sector, which has done extremely well during the pandemic and whose activity remained highly robust in January, is usually the most sensitive to interest rate among household expenditures.

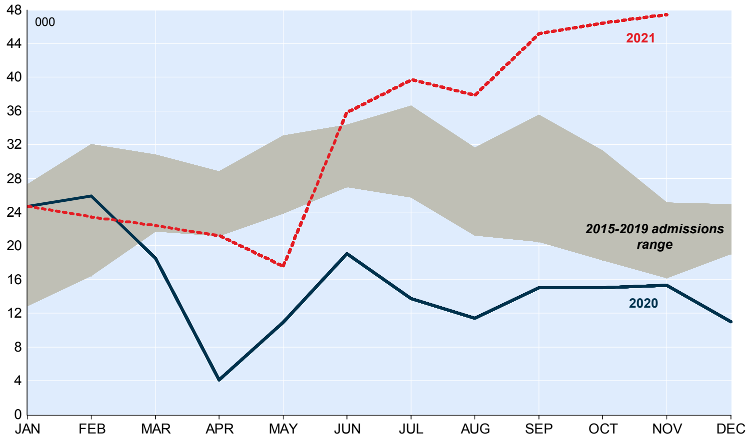
Canada: Residential investment highly sensitive to interest rates



NBF Economics and Strategy (data via Bank of Canada report and Statistics Canada)

Though the rise of interest rates could brake demand and prices for homes in the second half of the year, we expect homebuilding to remain sustained given the meagreness of supply on the resale market. We are struck by the evolution of the Canada's demographics since last June. Each month from last June to November, admissions of new permanent residents exceeded the levels of the five years preceding the pandemic.

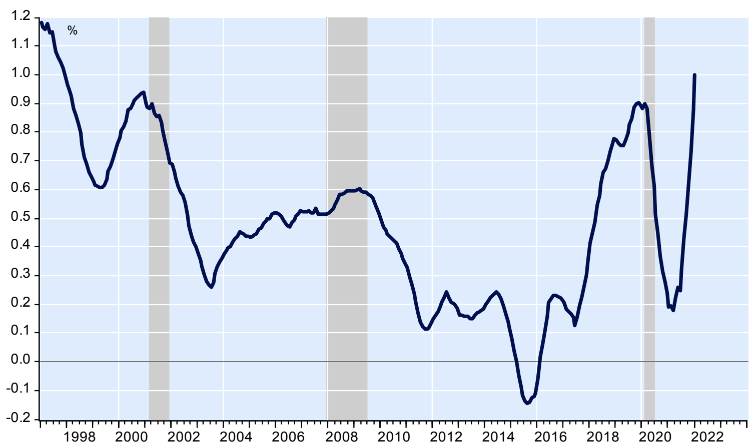
Canada: Admissions to permanent residency bounced back in 2021
As of November 2021



NBF Economics and Strategy (data via https://open.canada.ca/data/en/dataset/f7e5498e-0ad8-4417-85c9-9b8aff9b9eda/resource/5582034d-8f89-49d5-8597-483d628078a1)

The data of the Labour Force Survey suggest that this trend continued in December and January. Over the last 12 months, the population of 25- to 54-year olds has been growing at a rate unequalled in 25 years, from which we infer strong support for household formation.

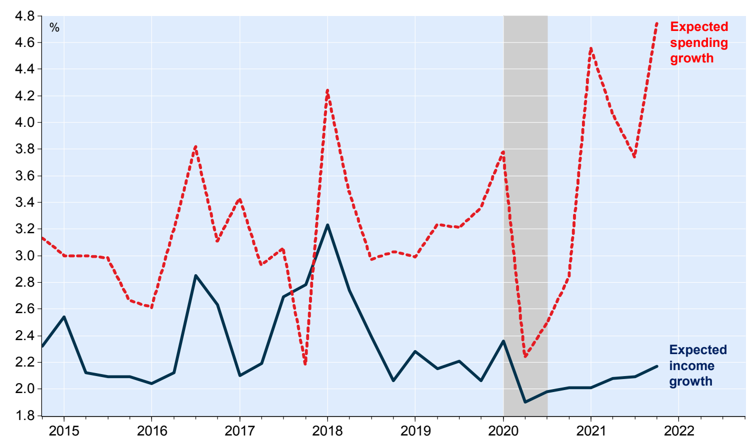
Canada: Household formation looks well supported
Growth of population aged 25-54



NBF Economics and Strategy (data via Statistics Canada)

All things considered, even if growth in the first quarter shows the braking effect of public-health restrictions, it is likely to rebound promptly over the rest of the year, leaving growth for the year as a whole comfortably exceeding potential. The vigour of the labour market and the resulting rise of incomes suggest that consumption will be the growth driver in coming quarters, despite a rising cost of living, in particular a rising cost of borrowing. Households will be able to deploy some of their substantial excess savings accumulated since the start of the pandemic. This hypothesis is consistent with the Bank of Canada's Survey of Consumer Expectations, which shows a rise of spending well in excess of the rise in incomes. Scarcity of labour could also prompt businesses to invest. As for governments, there is nothing to suggest a period of austerity, what with minority government in Ottawa and elections coming this year in the two largest provinces.

Canada: Households expect their spending to rise faster than income
Expected 12-month growth of spending and income, as of 2021 Q4



NBF Economy and Strategy (data via Bank of Canada)

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

United States
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	2.3	(3.4)	5.7	3.1	2.2	5.5	2.1	2.0
Consumption	2.2	(3.8)	7.9	2.8	2.1	7.1	2.1	2.0
Residential construction	(0.9)	6.8	9.0	(0.4)	(0.9)	(2.2)	1.7	(1.3)
Business investment	4.3	(5.3)	7.3	2.6	1.8	6.4	2.0	2.2
Government expenditures	2.2	2.5	0.5	1.3	2.5	0.0	2.7	2.5
Exports	(0.1)	(13.6)	4.6	6.5	3.1	5.3	4.0	2.2
Imports	1.2	(8.9)	14.0	4.6	1.4	9.6	0.6	2.0
Change in inventories (bil. $)	75.1	(42.3)	(37.5)	60.0	0.0	173.5	25.0	(25.0)
Domestic demand	2.4	(2.5)	6.5	2.4	2.0	5.3	2.2	2.0
Real disposable income	2.3	6.2	2.2	(3.1)	2.4	-0.3	1.5	2.9
Payroll employment	1.3	(5.8)	2.8	3.0	1.9	4.3	1.9	2.0
Unemployment rate	3.7	8.1	5.4	3.8	3.5	4.2	3.7	3.4
Inflation	1.8	1.3	4.7	5.7	2.5	6.7	3.6	2.9
Before-tax profits	2.7	(5.2)	25.2	7.3	2.6	21.6	3.7	1.4
Current account (bil. $)	(472.1)	(616.1)	(821.7)	(770.5)	(710.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 2/11/22	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2021	2022	2023
Fed Fund Target Rate	0.25	0.50	0.75	1.00	1.25	0.25	1.25	2.25
3 month Treasury bills	0.37	0.35	0.65	0.90	1.15	0.06	1.15	2.15
Treasury yield curve								
2-Year	1.50	1.35	1.65	1.85	1.95	0.73	1.95	2.25
5-Year	1.84	1.85	1.95	2.10	2.15	1.26	2.15	2.30
10-Year	1.92	2.00	2.10	2.20	2.30	1.52	2.30	2.35
30-Year	2.24	2.30	2.40	2.45	2.50	1.90	2.50	2.50
Exchange rates								
U.S.$/Euro	1.14	1.14	1.15	1.16	1.17	1.14	1.17	1.15
YEN/U.S.$	116	115	113	114	113	115	113	109

*** end of period*

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 forecast	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	6.3	6.7	2.3	6.9	0.9	2.5	2.7	2.4
CPI (y/y % chg.)	1.9	4.8	5.3	6.7	7.5	6.4	5.4	3.7
CPI ex. food and energy (y/y % chg.)	1.4	3.7	4.1	5.0	6.2	5.1	4.3	3.6
Unemployment rate (%)	6.2	5.9	5.1	4.2	3.8	3.8	3.7	3.7

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	1.9	(5.2)	4.6	3.6	2.6	3.3	3.5	1.7
Consumption	1.4	(6.2)	5.4	3.9	2.9	6.1	2.7	1.7
Residential construction	(0.2)	4.3	14.3	(5.7)	(1.3)	(4.1)	1.2	(3.5)
Business investment	2.5	(12.1)	(0.8)	4.4	3.7	1.7	5.2	2.7
Government expenditures	0.8	0.9	4.8	1.5	1.2	2.2	1.7	1.0
Exports	2.3	(9.7)	1.5	6.2	5.2	0.7	6.7	4.4
Imports	0.4	(10.8)	7.0	5.0	4.9	4.2	4.6	5.0
Change in inventories (millions $)	18,377	(18,720)	(418)	15,250	22,719	8,000	14,000	27,280
Domestic demand	1.2	(4.1)	5.3	2.4	2.1	3.6	2.5	1.1
Real disposable income	3.0	8.2	1.4	(0.2)	1.4	2.4	0.5	1.5
Employment	2.2	(5.1)	4.8	3.3	1.6	4.2	2.0	1.2
Unemployment rate	5.8	9.6	7.4	5.9	5.6	6.3	5.6	5.6
Inflation	1.9	0.7	3.4	4.1	2.5	4.7	2.9	2.5
Before-tax profits	(0.6)	(1.9)	31.8	4.1	1.7	13.7	6.0	2.8
Current account (bil. $)	(47.0)	(39.4)	6.4	(5.0)	(16.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 2/11/22	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2021	2022	2023
Overnight rate	0.25	0.50	0.75	1.25	1.50	0.25	1.50	1.75
Prime rate	2.25	2.50	2.75	3.25	3.50	2.25	3.50	3.75
3 month T-Bills	0.32	0.55	0.80	1.20	1.40	0.17	1.40	1.75
Treasury yield curve								
2-Year	1.47	1.40	1.65	1.85	1.90	0.95	1.90	1.95
5-Year	1.75	1.75	1.85	1.95	2.00	1.26	2.00	2.05
10-Year	1.87	1.90	2.00	2.10	2.15	1.43	2.15	2.20
30-Year	2.15	2.15	2.20	2.25	2.30	1.68	2.30	2.30
CAD per USD	1.27	1.24	1.20	1.22	1.23	1.26	1.23	1.26
Oil price (WTI), U.S.$	93	85	85	83	81	75	81	80

*** end of period*

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 forecast	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	4.9	(3.2)	5.4	6.3	(0.1)	6.7	4.2	3.3
CPI (y/y % chg.)	1.4	3.4	4.1	4.7	5.0	4.6	3.8	2.9
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.2	3.6	3.3	2.8	2.6
Unemployment rate (%)	8.4	7.9	7.2	6.3	6.3	6.0	5.7	5.6

National Bank Financial

Provincial economic forecast

	Real GDP (% growth)					Nominal GDP (% growth)				
	2019	2020	2021f	2022f	2023f	2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	3.0	2.3	1.8	2.3	-10.7	13.9	8.4	2.5
Prince Edward Island	4.7	-1.7	3.1	2.5	2.6	6.6	0.9	8.8	5.1	3.4
Nova Scotia	3.0	-2.5	3.4	2.7	2.1	3.7	0.7	8.7	6.1	3.2
New Brunswick	1.3	-3.2	3.2	2.5	1.9	2.4	-1.3	9.2	6.0	2.4
Quebec	2.8	-5.5	6.2	2.6	2.3	4.7	-2.4	11.2	6.1	3.1
Ontario	2.0	-5.1	4.0	3.9	2.6	3.7	-2.8	11.0	6.3	3.0
Manitoba	0.4	-4.6	3.9	3.1	2.4	0.7	-1.4	11.3	6.3	3.0
Saskatchewan	-1.1	-4.9	4.3	3.6	2.6	-0.4	-6.6	17.8	12.7	2.5
Alberta	-0.1	-7.9	5.0	4.1	2.7	1.5	-16.1	21.5	12.5	2.9
British Columbia	3.1	-3.4	4.4	4.4	2.8	4.6	-0.5	12.0	7.0	3.1
Canada	1.9	-5.3	4.6	3.6	2.6	3.6	-4.6	12.8	7.4	3.0

	Employment (% growth)					Unemployment rate (%)				
	2019	2020	2021f	2022f	2023f	2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	1.2	-5.9	3.0	2.0	0.7	12.3	14.1	12.9	12.5	11.5
Prince Edward Island	3.4	-3.2	3.7	3.0	1.8	8.6	10.6	9.4	8.5	8.1
Nova Scotia	2.3	-4.7	5.4	2.4	1.5	7.3	9.7	8.4	7.2	6.4
New Brunswick	0.7	-2.6	2.6	2.0	0.7	8.2	10.0	9.0	8.3	7.8
Quebec	2.0	-4.8	4.2	3.0	1.5	5.2	8.8	6.1	4.8	4.5
Ontario	2.8	-4.7	4.9	3.9	1.8	5.6	9.5	8.0	6.0	5.6
Manitoba	1.1	-3.7	3.5	2.2	1.2	5.4	8.0	6.4	5.5	5.1
Saskatchewan	1.7	-4.6	2.6	2.0	1.3	5.6	8.3	6.5	6.2	5.7
Alberta	0.6	-6.5	5.2	3.4	1.6	7.0	11.5	8.6	8.2	8.0
British Columbia	2.9	-6.5	6.6	3.3	1.8	4.7	9.0	6.5	4.7	4.3
Canada	2.2	-5.1	4.8	3.3	1.6	5.7	9.6	7.4	6.0	5.6

	Housing starts (000)					Consumer Price Index (% growth)				
	2019	2020	2021f	2022f	2023f	2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.3	1.0	0.8	1.0	0.2	3.7	4.1	2.5
Prince Edward Island	1.3	1.1	1.2	1.0	1.0	1.2	0.0	5.1	3.9	2.5
Nova Scotia	4.7	4.9	6.0	4.4	4.1	1.6	0.3	4.1	4.1	2.4
New Brunswick	2.9	3.6	4.0	3.0	2.7	1.7	0.2	3.8	3.9	2.6
Quebec	48.0	54.2	70.9	58.0	55.0	2.1	0.8	3.8	4.1	2.5
Ontario	69.0	81.3	101.0	88.0	81.0	1.9	0.6	3.5	4.2	2.5
Manitoba	6.9	7.3	8.0	6.3	6.1	2.3	0.5	3.2	4.0	2.5
Saskatchewan	2.4	3.1	4.3	3.6	3.5	1.7	0.6	2.6	4.2	2.5
Alberta	27.4	24.1	31.9	27.0	26.5	1.7	1.1	3.2	3.8	2.5
British Columbia	45.1	38.0	47.7	37.0	35.8	2.3	0.8	2.8	4.0	2.5
Canada	208.5	218.4	276.2	229.3	216.5	1.9	0.7	3.4	4.1	2.5

e: estimate f: forecast

Historical data from Statistics Canada and CMHC, National Bank of Canada's forecast.

Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Economics and Strategy

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