Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

February 2021

Summary

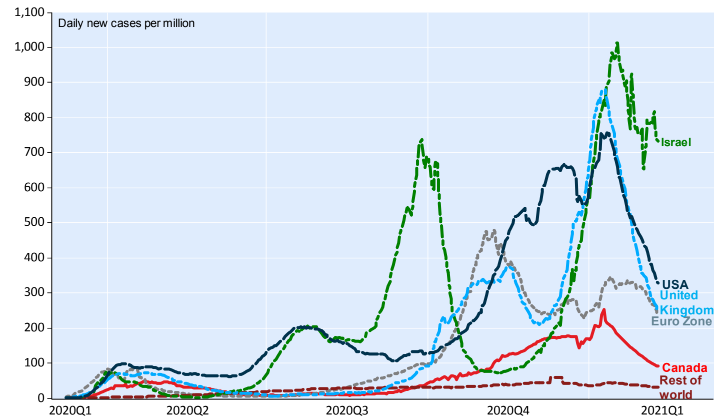
By Matthieu Arseneau and Jocelyn Paquet

- The daily numbers of new Covid cases, after marked increases in late 2020 and early 2021, seems to be abating in several regions of the world. If this trend continues, a number of countries should be in a position to relax some social distancing measures in the coming weeks, moves that would foster a fuller revival of economies in the second quarter. In the short term, however, there is no return to normal in the cards. Many countries are now grappling with more-contagious virus variants. Public authorities must take care accordingly to avoid another jump in cases. Large-scale vaccine deployment could make a difference, but immunization efforts are currently treading water almost everywhere. The delays will obviously weigh on growth in the short term, but less so than in the past. The global economy is likely to firm up in the second half of the year after an up-and-down first half, provided, of course, that vaccination proceeds without too many hitches. Given bonifications to fiscal aid in both the U.S. and in Japan, we have raised our growth forecast for the world economy in 2021 (from 5.4% to 5.5%) and in 2022 (from 4.2% to 4.4 %).
- Despite the recent slowing of new Covid-19 cases in the U.S., the country is still beset by a severe public-health problem. It must be acknowledged, however, that the economic effects of the pandemic have been proportionately smaller than elsewhere in the world. In the last quarter of the year, despite the surge of infections, U.S. GDP grew at an annual rate of 4.0%. That gain left output 2.5% below the pre-pandemic level, a shortfall that compares well with those of other developed economies. The main factor in the good performance of the U.S. economy has been Washington's fiscal response, one of the most imposing of all the G7 countries, according to the IMF. And it could soon be further beefed up. Just a few weeks after President Trump signed a $900-billion stimulus plan, his successor promised another $1.9 trillion. Pending details of the new fiscal stimulus plan, we have increased our growth forecast for 2021 from 3.8% to 5.2%. Our estimate for 2022 has also been raised, from 3.5% to 4.3%.
- Recent public-health measures have borne fruit, daily new cases of Covid-19 trending down again. However, the health successes have come at a cost to the economy. The labour market registered a loss of 266,000 jobs in Canada in the last two months, erasing all of the gains made since August. That said, employment outside the industries directly affected by shutdowns was up in January. Also on the upside, full-time employment remained resilient, extending its run of consecutive monthly gains to nine months. Thus, we are not unduly worried by the temporary soft patch due to public-health measures, whose repercussions seem to have been limited to the industries directly concerned. The decline in daily number of new cases in the country heralds a coming easing of restrictions. We are raising our growth scenario for 2021 to 4.2% (previously 3.7%), as the contraction in the first quarter may have been less pronounced than expected based on the resilience of hours worked in January. Growth prospects for the remainder of the year also look brighter as Canada is expected to benefit indirectly from the US government's largesse through exports.

World: Revival à la carte

In keeping with our current practice, we begin this issue of our *Economic Monitor* with an update of the world epidemiological picture. The daily numbers of new Covid cases, after marked increases in late 2020 and early 2021, seems to be abating in several regions of the world. If this trend continues, a number of countries should be in a position to relax some social distancing measures in the coming weeks, moves that would foster a fuller revival of economies in the second quarter.

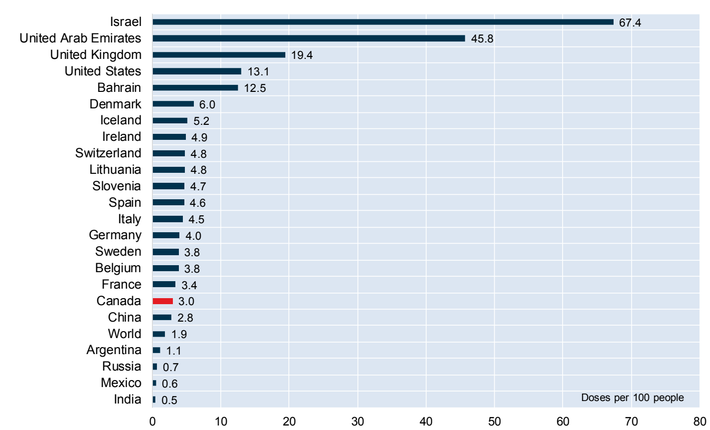
World: The second/third wave gradually subsides
Daily new cases per million population, 7-day moving average



NBF Economics and Strategy (data via Johns Hopkins CSSE)

In the short term, however, there is no return to normal in the cards. Many countries are now grappling with more-contagious virus variants. Public authorities must take care accordingly to avoid another jump in cases. Large-scale vaccine deployment could make a difference, but immunization efforts are currently treading water almost everywhere.

World: A bogged-down vaccination campaign
Number of COVID-19 single doses administered per 100 people, latest data available

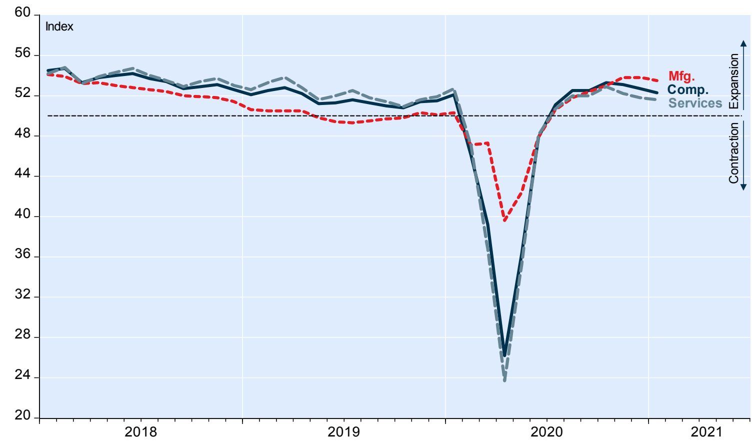


NBF Economics and Strategy (data via https://ourworldindata.org/covid-vaccinations)

Some countries are doing well, notably Israel, the U.K. and, to a lesser extent, the U.S., but even in these countries the number of vaccinations is far from the threshold for stopping virus spread in its tracks. Elsewhere, vaccination has scarcely begun and faces many obstacles. Pfizer-BioNtech and Astra Zeneca have announced cuts in deliveries following delays in their production chains. These hitches suggest that many developed countries will have to wait until the second half of the year before benefiting from herd immunity. In emerging countries, less well-positioned in their procurement, the wait will be even longer.

Since these delays will likely force the maintenance of some sanitary measures growth may suffer in the short term, but less so than in the past. Many industries are now able to maintain a high rate of production while complying with strict distancing rules. That is what kept the global composite PMI compiled by Markit/JPMorgan comfortably in expansion territory in January despite deterioration of public health in many regions. The slowing of growth in services output has been more pronounced, but nothing comparable to the slump of last spring.

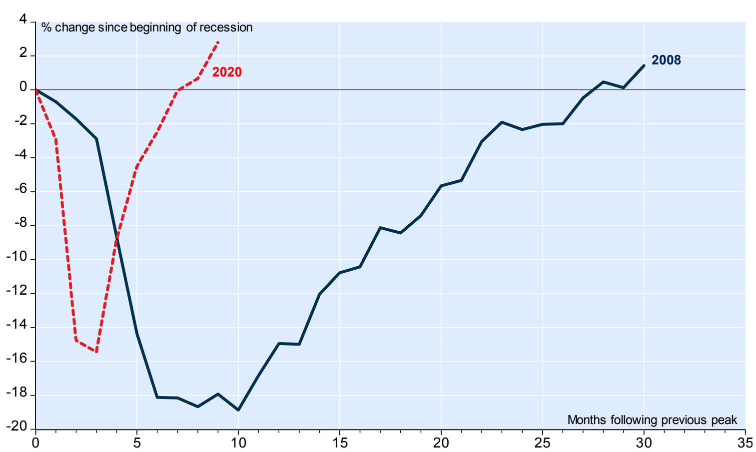
World: Private sector continues to expand despite Covid-19
Markit/JPMorgan composite PMI, last observation January 2021



NBF Economics and Strategy (data via Refinitiv)

Global economic revival is accordingly likely to continue in the first half of 2021, but its vigour will vary considerably from country to country with the rate of Covid spread, the treatment capacity of hospital systems and the effectiveness of fiscal and monetary support. At one end of the spectrum there is China, likely to continue outperforming thanks to strong demand for its exports.

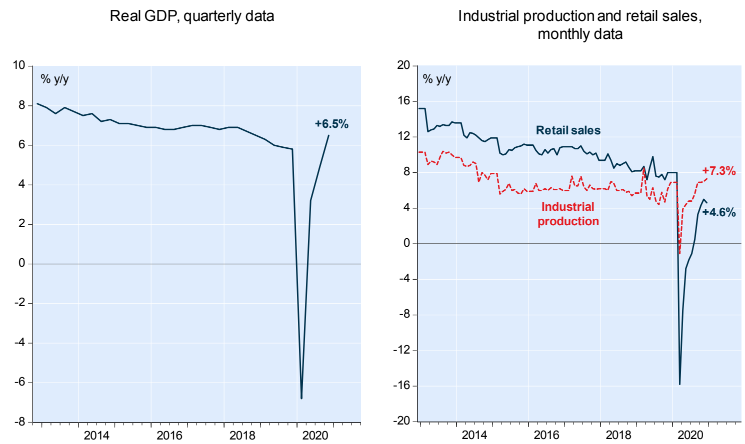
World: China benefiting from a strong rebound of international trade
Change in trade volume since beginning of last two recessions. Last observation for 2020: November



NBF Economics and Strategy (CPB data)

Already in Q4, the Chinese economy seemed almost fully recovered from the Covid-19 shock. Real GDP was up 6.5% from a year earlier, a growth rate higher than before the pandemic. GDP for 2020 as a whole was up 2.3% from 2019, making China the only major economy to expand in 2020. Assuming the pandemic remains under control on its territory and foreign demand remains strong, China is likely to be the driver of global growth once again in 2021. We expect an expansion of 8.3% for the year as a whole.

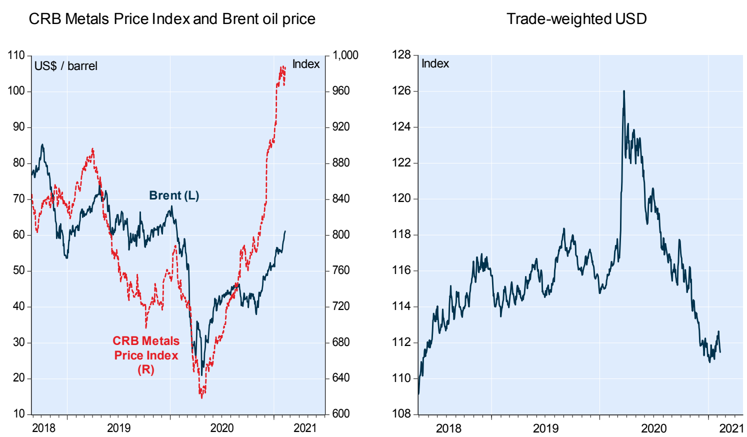
China: A V-shaped recovery



NBF Economics and Strategy (data via Bloomberg)

In other emerging countries the recovery could be slower, and more uneven. Those highly exposed to tourism may continue to suffer, while those dependent on resources are likely to benefit from the recent rise of raw-material prices. Almost everywhere, greenback depreciation will provide a modicum of breathing room by reducing the cost of servicing USD-denominated debt. Recall that, in the emerging countries, as in the rest of the world, public finances have been taking a severe hit.

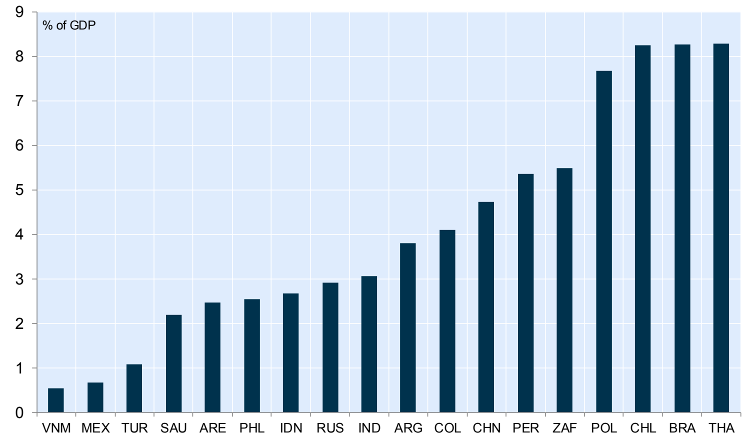
World: Revival in some emerging countries in 2021?



NBF Economics and Strategy (data via Bloomberg)

World: Pressure on public finances from the pandemic

Combined effect of government additional spending and lost revenue, selected emerging countries

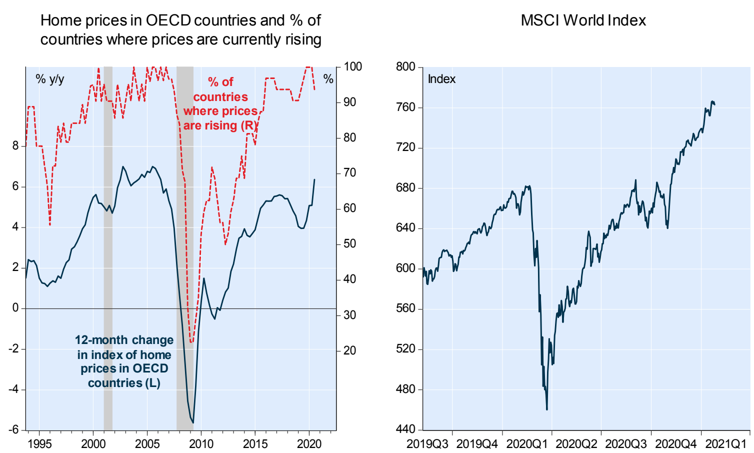


NBF Economics and Strategy (IMF data)

The Eurozone, meanwhile, is likely to lag, slowed by high Covid prevalence and a fiscal response less impressive than in North America. After a GDP contraction of 0.7% q/q in Q4, a double-dip recession seems almost inevitable in the zone.

The global economy is likely to firm up in the second half of the year after an up-and-down first half, provided, of course, that vaccination proceeds without too many hitches. Better control of the pandemic will enable households in developed economies to deploy substantial savings they accumulated during shutdowns. A large group of consumers will also enjoy a substantial wealth effect, since the ultra-accommodative policies of central banks have increased the value of many assets including housing and equities.

World: A substantial wealth effect in the developed economies



NBF Economics and Strategy (data via Bloomberg)

Given bonifications to fiscal aid in both the U.S. (see below) and in Japan, we have raised our growth forecast for the world economy in 2021 (from 5.4% to 5.5%) and in 2022 (from 4.2% to 4.4 %).

World Economic Outlook

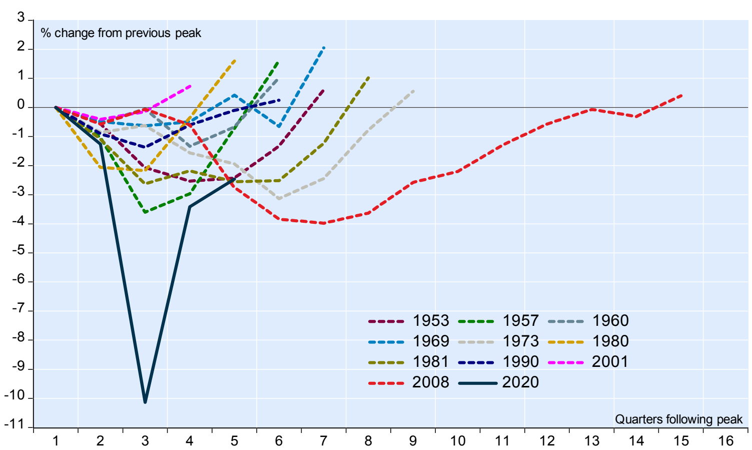
	2020	2021	2022
Advanced Economies	**-4.8**	**4.4**	**3.8**
United States	-3.5	5.2	4.3
Eurozone	-6.8	4.3	3.8
Japan	-4.9	2.7	2.3
UK	-10.0	4.4	5.2
Canada	-5.4	4.2	4.3
Australia	-4.0	3.2	2.9
Korea	-1.0	3.0	3.0
Emerging Economies	**-2.4**	**6.3**	**4.9**
China	2.3	8.3	5.4
India	-8.0	11.0	6.7
Mexico	-8.5	4.0	2.6
Brazil	-4.5	3.5	2.6
Russia	-3.1	2.9	3.3
World	**-3.4**	**5.5**	**4.4**

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

U.S.: Once more into the breach

Despite the recent slowing of new Covid-19 cases in the U.S., the country is still beset by a severe public-health problem. It must be acknowledged, however, that the economic effects of the pandemic have been proportionately smaller than elsewhere in the world. In the last quarter of the year, despite the surge of infections, U.S. GDP grew at an annual rate of 4.0%. That gain left output 2.5% below the pre-pandemic level, a shortfall that compares well with those of other developed economies.

U.S.: GDP rebound continued in Q4
Real GDP, % change from previous peak

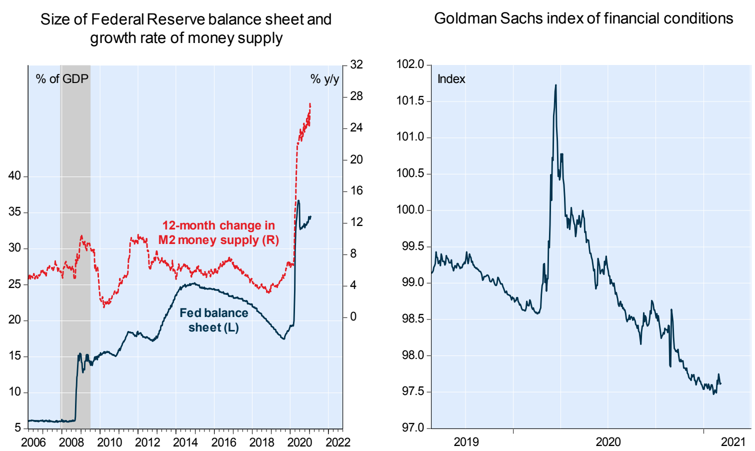


NBF Economics and Strategy (data via Refinitiv)

So how has the U.S. economy held up so well against one of the world's worst pandemic records? First, there was the rather permissive attitude of U.S. authorities. Except in a few regions, restrictive measures remained rather summary even at the worst of the crisis. This approach enabled more business to continue in operation. It also resulted in a much higher death rate. The advent of Joe Biden's presidency could mean stricter public-health measures, but they are likely to be temporary and relatively benign given the vaccination campaign now under way.

The Federal Reserve has also put its shoulder to the wheel, cutting policy rates to the floor and launching a sweeping program of quantitative easing. The resulting massive influx of cash has supported a rapid improvement of financial conditions.

U.S.: The Fed puts its shoulder to the wheel

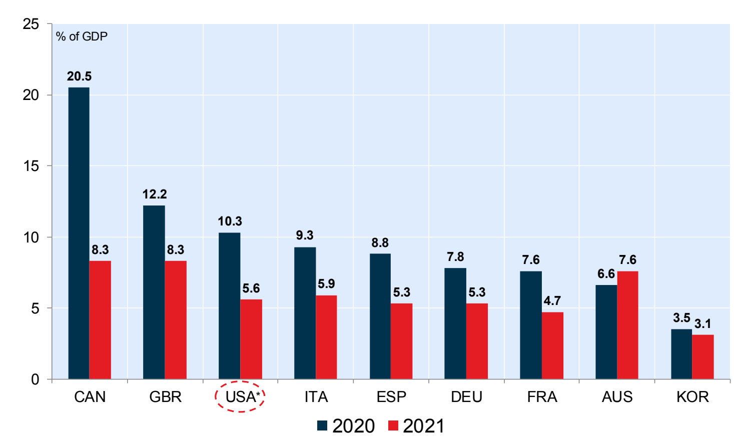


NBF Economics and Strategy (data via Bloomberg and FRED St. Louis)

The nature of the crisis has multiplied the effect of the Fed's measures. Recall that the last recession was accompanied by a credit crisis. Much of the money injected by the Fed at that time went to stabilizing bank balance sheets and never made it to businesses and households. When the coronavirus arrived in the U.S., the country's financial institutions were in much better shape, allowing them to act as a transmission belt from the Fed to the real economy.

The final factor in the good performance of the U.S. economy has been Washington's budgetary response. Already in January, the fiscal assistance put forward by the public administrations was one of the most impressive according to the IMF. And it could soon be further beefed up.

U.S.: Washington to the rescue
Variation in general governments deficits compared to 2019 (% of GDP)



*Excluding additional measures currently discussed in Washington
NBF Economics and Strategy (data via IMF)

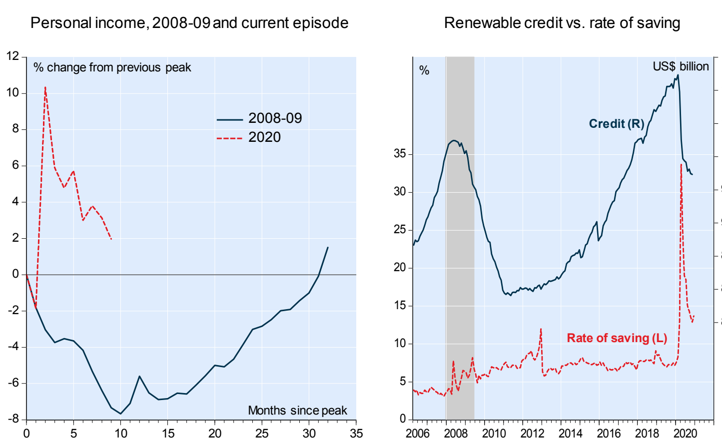
Just a few weeks after President Trump signed a $900-billion stimulus plan, his successor promised another $1.9 trillion. That would bring Washington's total fiscal effort since the onset of the crisis to more than $5 trillion. By way of comparison, the stimulus response to the crisis of 2008-09 amounted to about $750 billion.

The details of the Biden plan, however, are still subject to deliberation in Congress. Though Republican support is not absolutely necessary – a number of the proposed measures need only a simple majority – we think the Democrats will seek the support of at least some of their colleagues on the other side of the aisle. To get it, the Biden people will have no choice but to restrain their proposals. A $1- to $1.5-billion program seems possible in these conditions.

From a purely arithmetical point of view, it goes without saying that a new fiscal stimulus would strengthen what already looks like a solid second half of the year. But beyond the desire of the authorities to repair the effects of the crisis as soon as possible, there are questions as to how the fiscal aid is being deployed. Far be it from us to suggest that the U.S. economy can do without support from Washington. After all, 10 million Americans are still looking for work after losing their livelihoods in the crisis. Under these conditions, extensions or improvements to unemployment insurance are a priority. Funding for health and vaccinations is also welcome because it will help the country get to herd immunity faster.

On the other hand, the usefulness of a new round of cheques to households (the Biden plan proposes an additional $1,400) seems to us more questionable. True, transfers of this kind, by increasing personal incomes, have supported household spending in recent months. This type of government aid has also enabled many Americans to pay down debt, to judge by the substantial rise in the rate of saving and the marked decline of renewable credit (mostly credit-card debt) since the beginning of the crisis. (A similar decline of credit balances occurred during the Great Recession but the decline at that point was due to a drastic tightening of credit conditions.)

U.S.: Rise of personal incomes, decline of credit balances

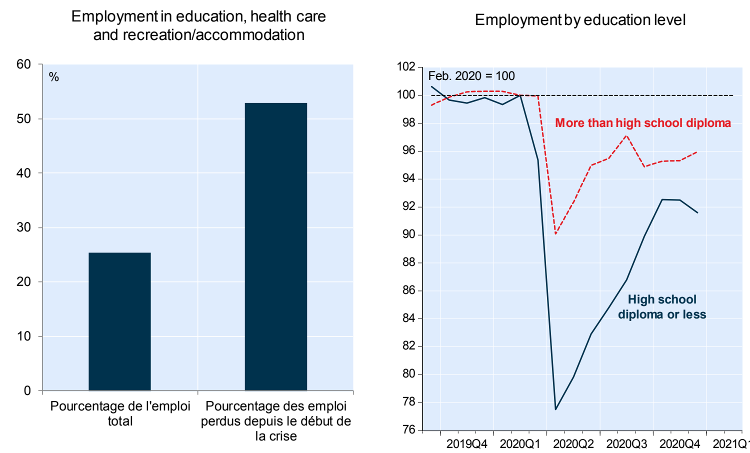


NBF Economics and Strategy (data via Refinitiv)

The question is whether these desirable consequences are worth the candle. Sending cheques to households is very costly and does not provide government with a good return on investment, since many recipients will prefer to save the money rather than spend it. True, some of the excess saving could be put to use later, but it is not clear that the economy will need additional help later this year or in 2022.

To maximize its impact (or, in economist language, its multiplier effect), the government should focus its efforts on the groups most severely affected by the crisis, i.e. people working in jobs where physical contact is essential and people with lower incomes and less education.

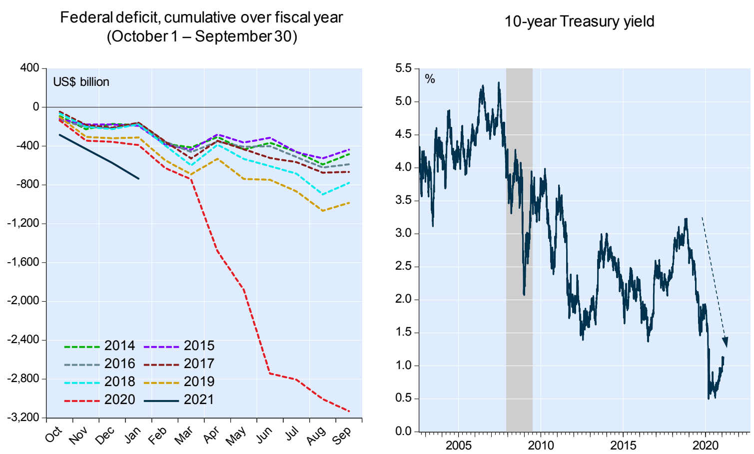
U.S.: Some groups of workers hit harder than others



NBF Economics and Strategy (data via Refinitiv

Weak points in its program notwithstanding, Washington is doing well to keep its budget faucets wide open. One day it will need to strategize deficit reduction, but that day is not yet here. In the short term, the decline of interest rates will amply compensate the increase in government debt. As the IMF has been urging since the beginning of the crisis, the risks of an inadequate fiscal response are more worrisome right now than the risks of an overheating of the economy.

U.S.: Rise of federal deficit offset by decline of interest rates



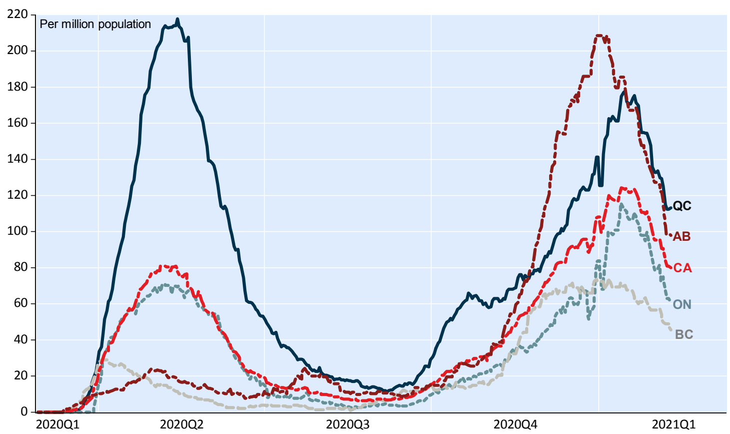
NBF Economics and Strategy (data via Bloomberg and Refinitiv)

Pending details of the new fiscal stimulus plan, we have increased our growth forecast for 2021 from 3.8% to 5.2%. Our estimate for 2022 has also been raised, from 3.5% to 4.3%.

Canada: Second wave under control

Recent public-health measures have borne fruit. Daily new cases of Covid-19 are trending down again, relieving pressure on hospitals. Restrictions in place in many regions of southern Ontario – notably a shutdown of non-essential retailing – were extended to the rest of the province. Quebec shut down non-essential retailing and decreed a curfew that shortened business opening hours. In other words, the health successes have come at a cost to the economy.

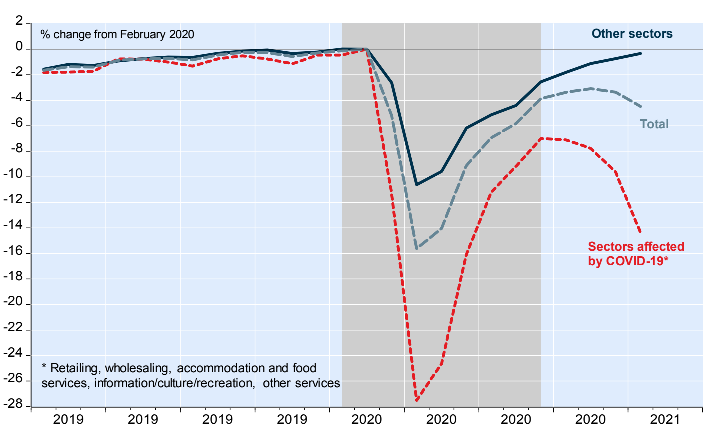
Canada: Current hospitalization for Covid-19
Patients per million population



NBF Economics and Strategy (data from INSPQ, Radio Canada https://ici.radio-canada.ca/info/2020/coronavirus-covid-19-pandemie-cas-carte-maladie-symptomes-propagation/)

That cost included a loss of 266,000 jobs in Canada in the last two months, erasing all of the gains made since August. In January the loss was 154,000 in Ontario, 98,000 in Quebec. That said, all the other provinces except Newfoundland and Labrador added jobs during the month. Countrywide, employment outside the industries directly affected by shutdowns was up in January. Also on the upside, full-time employment remained resilient, extending its run of consecutive monthly gains to nine months.

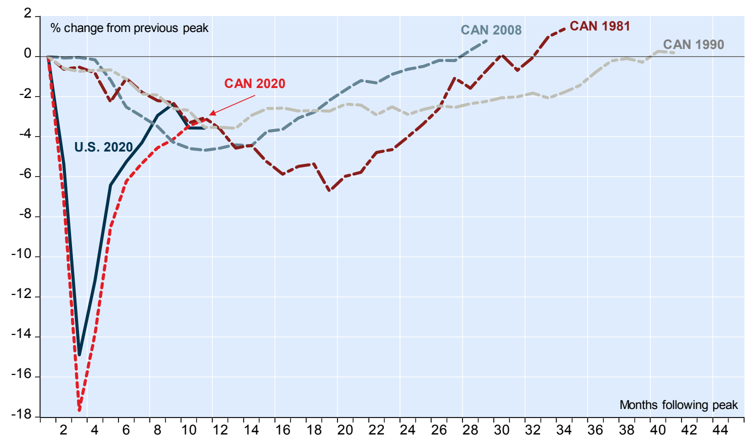
Canada: Job losses have been limited to sectors affected by shutdowns
Employment



NBF Economics and Strategy (data from Statistics Canada)

We are not unduly worried by the temporary soft patch due to public-health measures, whose repercussions seem to have been limited to the industries directly concerned. The decline in daily number of new cases in the country heralds a coming easing of restrictions. Quebec has already announced the reopening of non-essential retailing and Ontario is about to follow suit. The advent late last year of vaccines effective against the coronavirus boosted business confidence, which suggests a solid rebound of employment and the economy when the pandemic comes under control. The economy, after all, had gained enviable momentum in the months before December. Real GDP continued to expand in November, gaining 0.7% monthly, with a preliminary estimate of 0.3% for December. These results corroborate our view that growth could reach an annual rate of about 7% in the fourth quarter. That would be by far the best showing of the G7 countries.

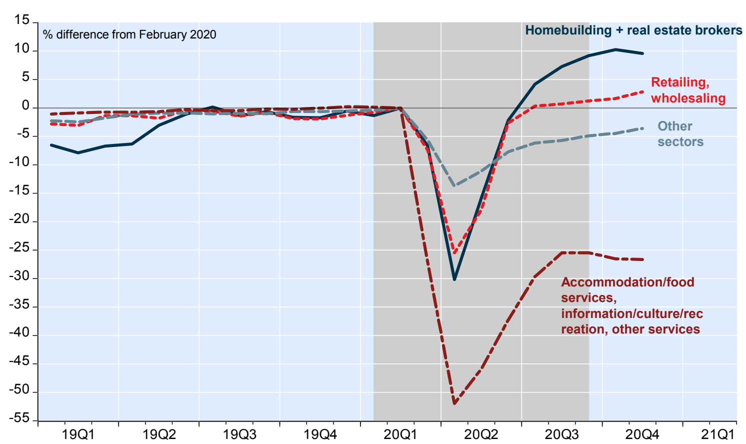
Canada: Ahead of the U.S. in December
% difference of GDP from previous peak, preliminary data



NBF Economics and Strategy (data via Refinitiv and Statistics Canada)

However solid this performance, the Canadian economic recovery remains highly uneven. For example, output of the accommodation and food services industries last November was still down 33.1% from its pre-pandemic level and that of arts, entertainment and recreation industries was down 48% from last February. Meanwhile, other parts of the economy have been doing okay, thank you. Governments have stepped into the employment breach with very generous income-support programs to help retailers and wholesalers. But the most spectacular performers at this time are without question housing-related businesses, whose activity is 9.6% above that of February.

Canada: Uneven recoveries
GDP, 2019 and 2020

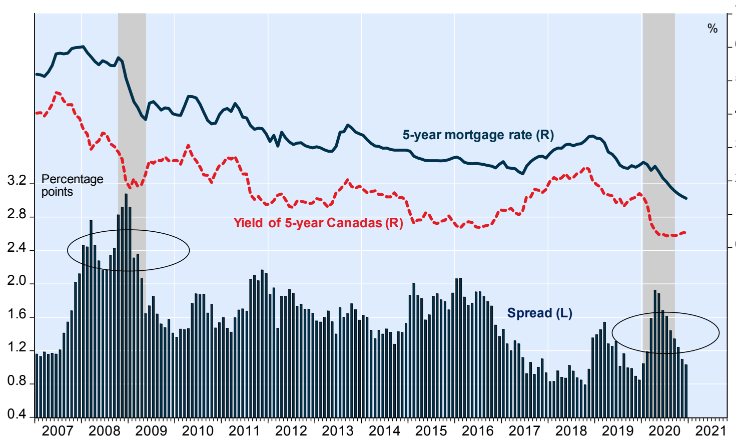


NBF Economics and Strategy (data from Statistics Canada)

This sector so sensitive to interest rates has been stimulated by the ultra-accommodative policies of central banks. In contrast to what happened in the financial crisis of 2008-09, government and central-bank actions have relieved stress on financial markets, reflected in a rapid narrowing of the spread between the 5-year rates of mortgages and government bonds. Policy transmission was speedy, taking mortgage rates to record lows.

Canada: Transmission of monetary policy is going well

5-year mortgage rate, yield of 5-year federal bonds, and spread

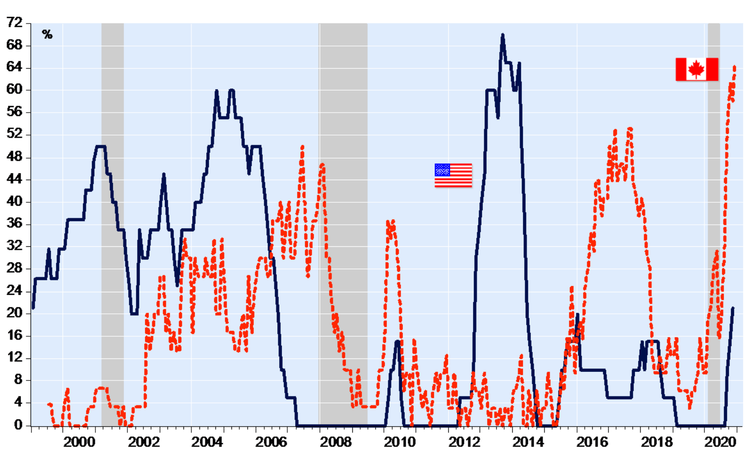


NBF Economics and Strategy (NBF and Refinitiv data)

The result was record numbers of home sales across Canada in 2020 despite the job losses and slower immigration. True, there has been a profound shift in home-buying preferences, leading to very high turnover in the housing market, but the decline of financing costs, which by our calculations increased the purchasing power of Canadians by about 12%, has been a determining factor. In 2020, an unprecedented two-thirds of the 32 urban markets monitored by the Teranet–National Bank House Price Index showed home-price increases of more than 10%. There is no doubt in our mind that this was more than the political decision-makers were bargaining for and that this development is beginning to raise eyebrows.

Canada: Home-price surge is the most pervasive ever

Share of regional markets (32 in Canada, 20 in U.S.) with prices rises of 10% or more in the last 12 months

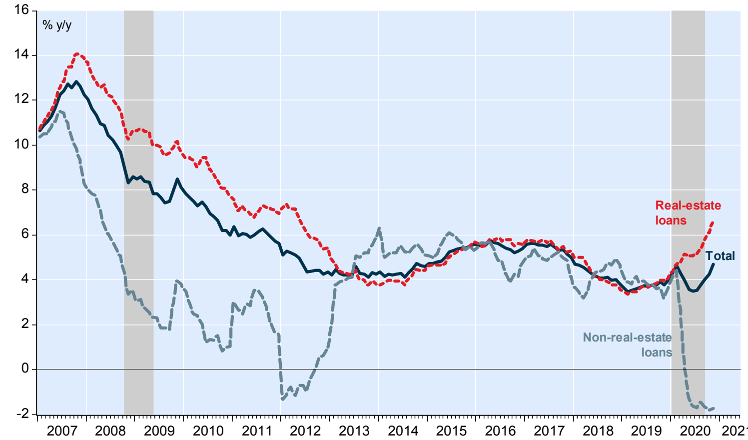


NBF Economics and Strategy (Source: Teranet-National Bank & S&P Case-Shiller Home Price Index)

While household debt is evolving at a pace similar to that of recent years, the overall picture masks distinct differences among segments. Non-real-estate credit has contracted in the last 12 months in tandem with the sharp rise of the rate of saving (traceable to income support programs coupled with limitation of spending), reflecting repayment of rotating credit. Conversely, the growth of real-estate credit has accelerated to a pace unmatched since 2012.

Canada: Growth of real-estate lending at a 9-year high

12-month changes in real-estate and non-real-estate lending

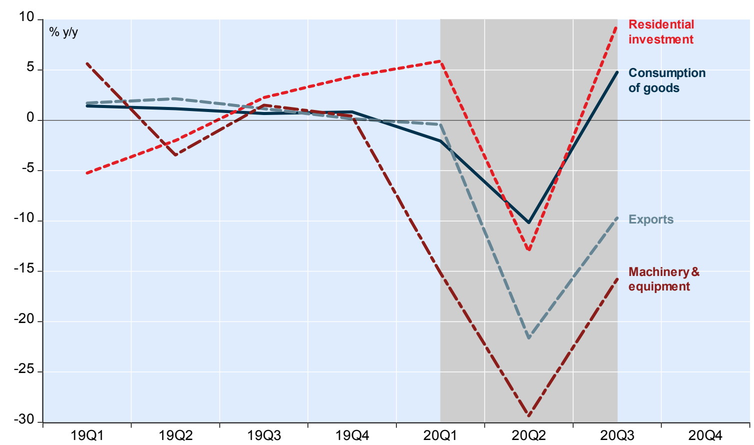


NBF Economics and Strategy (Statistics Canada data)

In the last episode in which more than half the country's urban markets showing home-price rises exceeding 10% (2016-2017), Ottawa introduced a "stress test" requiring qualifying rates higher than market rates. These financial stability measures were intended to calm housing-market frenzy and limit household indebtedness without raising interest rates, which could have hurt business competitiveness through effects such as currency appreciation. At that time, the government's objective was to rebalance the Canadian economy toward investment and exports and away from consumption and real estate, which had fuelled the growth of preceding years. The weakness of exports and investment in the current recovery means that a withdrawal of monetary stimulus is not desirable at this point, but the evolution of the housing market suggests the contrary. Once again, the solution to this dilemma may be introduction of new financial stability measures in the coming months.

Canada: Rebalancing of the economy back on the agenda?

GDP components by spending, year-over-year growth



NBF Economics and Strategy (data via Statistics Canada)

We are raising our growth scenario for 2021 to 4.2% (previously 3.7%), as the contraction in the first quarter may have been less pronounced than expected based on the resilience of hours worked in January. Growth prospects for the remainder of the year also look brighter as Canada is expected to benefit indirectly from the US government's largesse through exports.

United States
Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	3.0	2.2	(3.5)	5.2	4.3	(2.5)	6.0	2.0
Consumption	2.7	2.4	(3.9)	5.5	5.4	(2.6)	6.4	2.9
Residential construction	(0.6)	(1.7)	5.9	12.2	0.8	13.7	4.7	(1.3)
Business investment	6.9	2.9	(4.0)	6.0	1.4	(1.3)	4.3	0.1
Government expenditures	1.8	2.3	1.1	1.0	0.7	(0.6)	2.2	(0.3)
Exports	3.0	(0.1)	(13.0)	9.2	7.6	(11.0)	10.5	5.2
Imports	4.1	1.1	(9.3)	11.8	3.6	(0.6)	5.1	2.5
Change in inventories (bil. $)	53.4	48.5	(81.8)	43.1	36.3	44.6	24.2	36.9
Domestic demand	3.0	2.3	(2.7)	5.0	3.9	(1.5)	5.4	1.8
Real disposable income	3.6	2.2	6.0	0.8	(1.0)	3.7	2.0	-0.1
Payroll employment	1.6	1.3	(5.7)	2.4	3.0	-6.0	3.9	1.8
Unemployment rate	3.9	3.7	8.1	5.8	4.6	6.8	4.9	4.5
Inflation	2.4	1.8	1.3	2.4	2.4	1.2	2.5	2.5
Before-tax profits	6.1	0.3	(6.0)	9.6	5.0	-1.5	3.7	5.0
Current account (bil. $)	(449.7)	(480.2)	(626.4)	(666.3)	(647.5)	...	...	...

** or as noted*

Financial Forecast**

	Current 2/11/21	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2020	2021	2022
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month Treasury bills	0.05	0.05	0.10	0.10	0.15	0.09	0.15	0.20
Treasury yield curve								
2-Year	0.11	0.10	0.10	0.15	0.25	0.13	0.25	0.75
5-Year	0.46	0.50	0.60	0.70	0.80	0.36	0.80	1.20
10-Year	1.16	1.20	1.30	1.40	1.45	0.93	1.45	1.70
30-Year	1.94	2.00	2.05	2.10	2.15	1.65	2.15	2.25
Exchange rates								
U.S.$/Euro	1.21	1.20	1.24	1.25	1.23	1.22	1.23	1.19
YEN/U.S.$	105	103	104	105	106	103	106	100

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 forecast	Q1 2021 forecast	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(5.0)	(31.4)	33.4	4.0	2.9	5.2	9.2	6.7
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.7	3.0	2.5	2.5
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	2.3	1.8	2.0
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.7	6.1	5.3	4.9

National Bank Financial

Canada
Economic Forecast

*(Annual % change)**	*2018*	*2019*	*2020*	*2021*	*2022*	*Q4/Q4 2020*	*2021*	*2022*
Gross domestic product (2012 $)	2.4	1.9	(5.4)	4.2	4.3	(3.6)	3.8	3.2
Consumption	2.5	1.6	(6.2)	4.7	4.5	(3.7)	3.7	3.1
Residential construction	(1.7)	(0.2)	2.9	4.7	0.3	8.9	(3.3)	1.0
Business investment	3.1	1.1	(12.3)	0.4	7.1	(12.0)	4.1	7.2
Government expenditures	3.2	1.7	(0.1)	2.6	2.0	0.6	2.0	2.0
Exports	3.7	1.3	(9.9)	5.3	5.6	(7.6)	5.6	4.9
Imports	3.4	0.4	(11.8)	7.0	4.3	(6.8)	3.9	4.5
Change in inventories (millions $)	15,486	18,766	(17,886)	7,250	13,000	(5,000)	10,000	13,000
Domestic demand	2.5	1.4	(4.5)	3.7	3.6	(2.5)	2.7	3.0
Real disposable income	1.5	2.2	8.2	(4.3)	0.2	4.4	(2.4)	1.1
Employment	1.6	2.2	(5.1)	4.0	2.5	(2.9)	2.4	2.1
Unemployment rate	5.9	5.7	9.6	8.3	7.3	8.8	7.6	7.1
Inflation	2.3	1.9	0.7	2.3	2.2	0.8	2.5	2.0
Before-tax profits	3.8	0.6	(8.3)	14.4	5.4	0.9	5.7	6.0
Current account (bil. $)	(52.2)	(47.4)	(43.4)	(49.0)	(44.5)	....	....	....

** or as noted*

Financial Forecast**

	Current 2/11/21	*Q1 2021*	*Q2 2021*	*Q3 2021*	*Q4 2021*	*2020*	*2021*	*2022*
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month T-Bills	0.08	0.10	0.15	0.15	0.20	0.07	0.20	0.30
Treasury yield curve								
2-Year	0.20	0.20	0.20	0.25	0.35	0.20	0.35	0.60
5-Year	0.49	0.55	0.60	0.65	0.70	0.39	0.70	0.95
10-Year	1.00	1.05	1.10	1.20	1.30	0.68	1.30	1.50
30-Year	1.60	1.65	1.70	1.75	1.80	1.21	1.80	1.90
CAD per USD	1.27	1.29	1.26	1.25	1.20	1.27	1.20	1.22
Oil price (WTI), U.S.$	58	56	58	59	64	48	64	60

*** end of period*

Quarterly pattern

	Q1 2020 actual	*Q2 2020 actual*	*Q3 2020 actual*	*Q4 2020 forecast*	*Q1 2021 forecast*	*Q2 2021 forecast*	*Q3 2021 forecast*	*Q4 2021 forecast*
Real GDP growth (q/q % chg. saar)	(7.3)	(38.1)	40.5	7.2	(2.2)	5.8	6.3	5.5
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.4	2.8	2.7	2.5
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.1	1.8	2.0	2.0
Unemployment rate (%)	6.4	13.1	10.1	8.8	9.1	8.5	7.9	7.6

National Bank Financial

Provincial economic forecast

	Real GDP (% growth) 2018	2019	2020f	2021f	2022f	Nominal GDP (% growth) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	-3.5	4.0	-6.0	3.5	3.0	0.8	4.1	-9.0	12.8	6.1
Prince Edward Island	2.5	5.1	-3.5	4.0	4.0	3.6	7.0	-1.3	5.1	6.4
Nova Scotia	1.9	2.4	-4.0	4.0	3.3	3.6	3.8	-2.7	5.8	5.0
New Brunswick	0.5	1.2	-3.5	4.2	3.3	3.6	3.0	-1.7	7.4	5.3
Quebec	2.9	2.7	-5.2	3.9	4.5	5.4	4.3	-3.5	7.1	6.2
Ontario	2.8	2.1	-5.5	4.1	4.6	4.1	3.8	-3.8	6.8	6.4
Manitoba	1.5	0.6	-3.9	4.1	3.5	2.5	1.0	-3.1	6.9	5.2
Saskatchewan	1.2	-0.7	-4.8	4.5	3.5	3.2	0.1	-8.9	11.3	4.7
Alberta	1.9	0.1	-7.0	4.1	4.1	3.4	2.7	-10.0	13.6	6.4
British Columbia	2.7	2.7	-4.7	4.0	4.2	4.9	4.4	-3.2	6.8	5.4
Canada	2.4	1.9	-5.4	4.2	4.3	4.2	3.6	-4.7	8.1	6.0

	Employment (% growth) 2018	2019	2020f	2021f	2022f	Unemployment rate (%) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	0.5	1.3	-5.9	4.1	0.2	14.1	12.3	14.2	12.2	11.8
Prince Edward Island	4.2	3.4	-3.2	3.0	2.2	9.4	8.6	10.6	10.4	9.7
Nova Scotia	1.9	2.3	-4.7	4.5	1.6	7.7	7.3	9.8	9.7	8.9
New Brunswick	0.6	0.7	-2.6	3.0	1.2	8.0	8.2	10.1	9.2	8.4
Quebec	1.5	2.0	-4.8	3.8	2.5	5.5	5.2	8.9	7.5	6.7
Ontario	1.7	2.8	-4.7	3.9	2.7	5.7	5.6	9.6	8.6	7.2
Manitoba	1.1	1.0	-3.7	3.0	2.0	6.0	5.4	8.0	7.6	7.1
Saskatchewan	0.6	1.7	-4.6	3.8	2.1	6.2	5.5	8.4	8.1	7.6
Alberta	1.9	0.6	-6.5	4.6	3.1	6.7	7.0	11.5	10.3	8.9
British Columbia	1.4	2.9	-6.5	4.2	2.4	4.8	4.7	9.0	6.4	5.9
Canada	1.6	2.2	-5.1	4.0	2.5	5.9	5.7	9.5	8.3	7.3

	Housing starts (000) 2018	2019	2020f	2021f	2022f	Consumer Price Index (% growth) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	1.1	0.9	0.8	0.7	0.6	1.7	1.0	0.2	1.7	2.2
Prince Edward Island	1.1	1.5	1.2	1.1	1.2	2.3	1.2	0.0	2.5	2.1
Nova Scotia	4.8	4.7	4.9	4.2	4.2	2.2	1.6	0.3	2.4	2.0
New Brunswick	2.3	2.9	3.5	3.0	2.6	2.2	1.7	0.2	1.8	1.9
Quebec	46.9	48.0	54.1	50.0	47.5	1.7	2.1	0.8	2.0	2.2
Ontario	78.7	69.0	81.3	77.5	75.8	2.4	1.9	0.6	2.1	2.1
Manitoba	7.4	6.9	7.3	6.1	5.9	2.5	2.3	0.5	2.0	2.3
Saskatchewan	3.6	2.4	3.1	3.0	3.2	2.3	1.7	0.6	1.9	2.0
Alberta	26.1	27.3	24.0	23.6	25.0	2.5	1.7	1.1	2.1	2.1
British Columbia	40.9	44.9	37.7	34.8	34.0	2.7	2.3	0.8	2.0	2.3
Canada	212.8	208.7	217.8	204.0	200.0	2.3	1.9	0.7	2.3	2.2

e: estimate f: forecast

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

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Economics and Strategy

Montreal Office
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Paul-André Pinsonnault
Senior Economist
paulandre.pinsonnault@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Kyle Dahms
Economist
kyle.dahms@nbc.ca

Daren King
Economist
daren.king@nbc.ca

Jocelyn Paquet
Economist
jocelyn.paquet@nbc.ca

Camille Baillargeon
Intern Economist
camille.baillargeon@nbc.ca

Toronto Office
416-869-8598

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.Schleich@nbc.ca

General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of IIROC), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 71 Fenchurch Street, London, EC3M 4HD.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. (“NBCFI”) which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only.

This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited (“NBCFMA”)which is licensed by the Securities and Futures Commission (“SFC”) to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong (“SFO”)). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates’ businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.