Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA FINANCIAL MARKETS

January 2021

Summary

By Matthieu Arseneau and Jocelyn Paquet

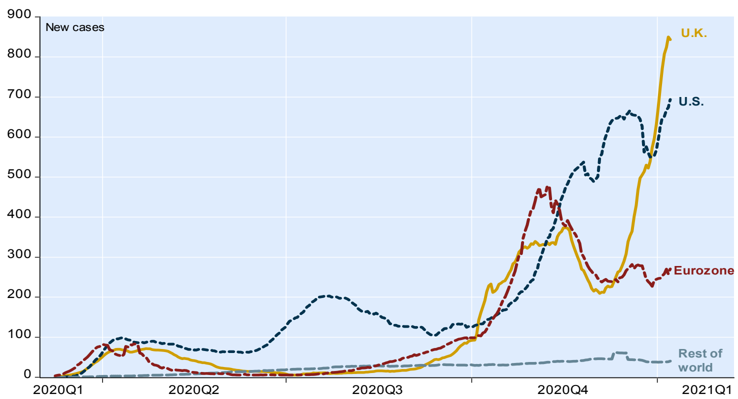
- The course of the global economy continues to depend on the evolution of the pandemic, and in recent days the news has been rather bad. Shortly before Christmas, British health authorities reported detection of a new variant of the SARS-CoV-2 virus. A few days later South Africa made a similar announcement. The scientific community warns that these mutant versions of the virus, while not seeming deadlier than their predecessors, are more contagious. The U.K. tightened its lockdown measures in response. Other European countries, notably France and Germany, followed suit. In the U.S., meanwhile, a steady rise in the daily count of new cases has put enormous pressure on the health-care system. It's hard to imagine how first-quarter global growth could not take a hit from these developments. We nevertheless continue to see a strong rebound of the global economy in 2021. Our forecast for the year as a whole is unchanged at +5.4%.
- The U.S. pandemic picture has deteriorated further since our last issue. As many specialists feared, the year-end holidays brought a resurgence of Covid-19 cases. Meanwhile, the vaccination campaign launched in December has made less headway than anticipated. The delays on this front mean that a more complete reopening of the economy will not come before the second quarter. The current context has prompted us to revise down our growth outlook for Q4 2020 and Q1 2021. In our view, this soft patch will be offset by stronger growth in the second half of the year, and we are leaving our growth forecast for 2021 unchanged at 3.8%. Despite the deterioration of the short-term outlook, recent developments leave hope for a solid rebound in the second half of the year. First, uncertainty about the next round of fiscal stimulus has finally dissipated with the announcement of a new $900-billion federal aid package. Democratic control of the Senate, with its potential for still more fiscal stimulus, only increases our confidence for the post-pandemic period.
- At this writing there is no sign that the holiday pause slowed the spread of Covid-19 in Ontario and Quebec. In Quebec, intensive-care hospitalization has topped its first-wave peak and this time around Ontario's rate is comparable to Quebec's. This evolution has taken their hospitals to the brink of overload and has led their provincial governments to apply still stricter measures to contain the spread of the virus. The new Quebec and Ontario measures make a first-quarter economic contraction very likely. However, the Q1 retreat we anticipate (−3.9% annualized) will be nothing like the dizzying fall of Q2 last year (−38.1%), when non-essential services were shut down across the board. The soft patch we see for Canada in Q1 should turn out to be transient, in our view not enough to derail the ongoing revival. The advent of effective vaccines against the Covid virus late last year has boosted the confidence of Canadian businesses. The Bank of Canada's Business Outlook Survey reported this month that hiring and investment intentions in December were up strongly from the previous quarter though the second wave was well under way at the time of the survey. This suggests a solid rebound when the pandemic in brought under control.

World: The race to vaccinate

The course of the global economy continues to depend on the evolution of the pandemic, and in recent days the news has been rather bad. Shortly before Christmas, British health authorities reported detection of a new variant of the SARS-CoV-2 virus. A few days later, South Africa made a similar announcement. The scientific community warns that these mutant versions of the virus, while not seeming deadlier than their predecessors, are more contagious.

The U.K. tightened its lockdown measures in response. Other European countries, notably France and Germany, followed suit. In the U.S., meanwhile, a steady rise in the daily count of new cases has put enormous pressure on the health-care system.

World: A pandemic rampant
Daily new cases of Covid-19 per million population, 7-day moving average

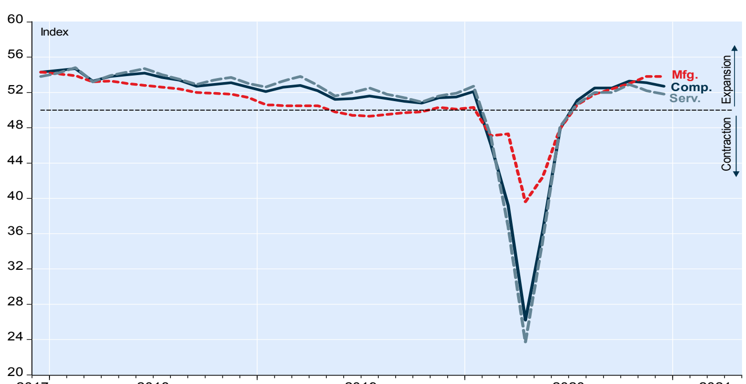


NBF Economy and Strategy (data Johns Hopkins CSSE)

It's hard to imagine how first-quarter global growth could not take a hit from these developments. Another contraction of U.K. and Eurozone GDP seems more and more likely. A U.S. slowdown is also in the cards (see next section).

We nevertheless continue to see a strong rebound of the global economy in 2021. Our forecast for the year as a whole is unchanged at +5.4%. Our optimism is based on a series of factors. First, despite the astronomical human costs of the pandemic, current measures to stem contagion around the world are affecting the economy less than those of the first wave. In December the Markit PMI continued to signal a quite solid expansion of the private sector.

World: Expansion continues despite Covid-19 wave
JPMorgan global PMI, last observation December 2020



NBF Economy and Strategy (Markit data via Refinitiv)

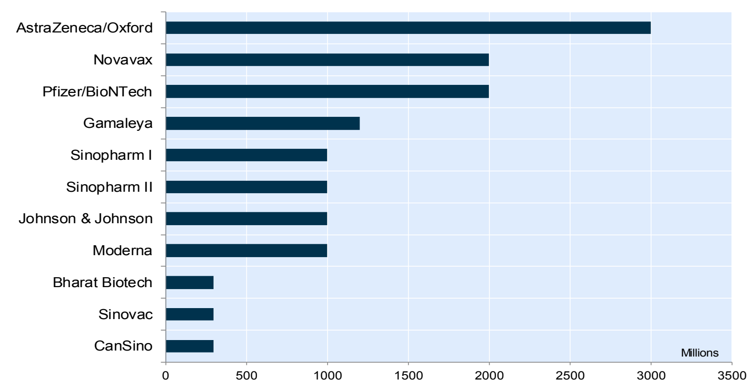
Capacity pressure in manufacturing is already attested by soaring transport costs.

World: Demand rebound drives up transport costs
Benchmark rate to ship a 40-foot container from Hong Kong to Los Angeles

NBF Economy and Strategy (Drewry Shipping Consultants data via Bloomberg)

The service sector has been less impressive, but that comes as no surprise under current conditions. In the medium term, we think services output will benefit from deployment of effective vaccines, especially in the advanced economies, whose populations will likely be the first to be immunized. Will the producers of these vaccines be able to meet demand? Their announced production targets justify cautious optimism. Pfizer/BioNTech expects to produce 2.0 billion doses during 2021, Moderna between 600 million and 1 billion. AstraZeneca/Oxford has the largest production capacity; it hopes to supply up to 3 billion doses this year. Other vaccines currently await approval (Johnson & Johnson and Novavax, among others). If they go into production this year as projected, more than 12 billion doses will be made available during the year, enough to inoculate the great majority of the world's people.

World: All-out efforts to produce vaccines
Projected dose production in 2021



NBF Economics and Strategy (data from Financial Times)

Widespread vaccination should gradually bring economic life back to normal. As noted above, the advanced economies are likely to be the first to feel it, but developing countries – especially commodity-producing ones – will benefit from a revival of global demand.

If anything, the prospects for a strong rebound have probably been enlivened by the clearing of some clouds from the sky. Apprehensions of a hard Brexit dissipated December 24 with signature of a trade agreement between the U.K. and the European Union. No tariffs or quotas will be imposed on goods moving between the two entities. True, the rules for services are less generous. Imperfect as the agreement may be, it will avoid the chaos that would have followed a U.K. exit from the European free trade zone.

In other encouraging news, EU leaders after long deliberation have finally adopted a €1.8-trillion budget thanks to the abandonment by Hungary and Poland of their objections to a new provision tying payments to compliance with certain principles of law. The agreement also means the EU can move forward with legislation to create a €750-billion stimulus fund, whose disbursements should reach member states in the second half of the year. About €390 billion of the total will be in the form of subsidies funded by issuance of pan-European debt by the European Commission. The remainder will be made available as loans.

In short, the road ahead for the global economy is still long and strewn with potholes, but the light at the end of the tunnel seems a little brighter each day.

World Economic Outlook

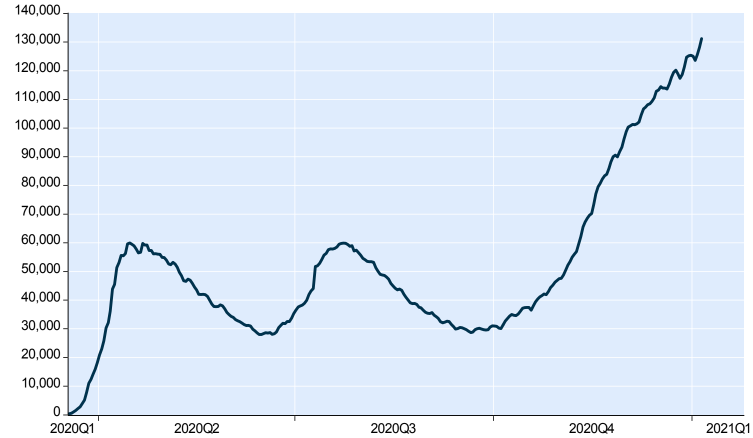
	2020	2021	2022
Advanced Economies	**-5.6**	**4.3**	**3.4**
United States	-3.5	3.8	3.5
Eurozone	-8.3	4.9	3.8
Japan	-5.7	4.3	2.0
UK	-11.5	5.5	5.0
Canada	-5.4	3.7	4.0
Australia	-3.4	3.2	3.0
Korea	-1.8	3.4	2.7
Emerging Economies	**-3.0**	**6.2**	**4.9**
China	2.1	8.2	5.8
India	-10.0	9.5	8.0
Mexico	-9.2	3.9	2.8
Brazil	-5.6	3.4	2.7
Russia	-4.2	3.0	2.5
World	**-4.1**	**5.4**	**4.2**

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

U.S.: Washington sends in more cavalry

The U.S. pandemic picture has deteriorated further since our last issue. As many specialists feared, the year-end holidays brought a resurgence of Covid-19 cases. Hospitalizations are now double what they were in the first two waves of infection.

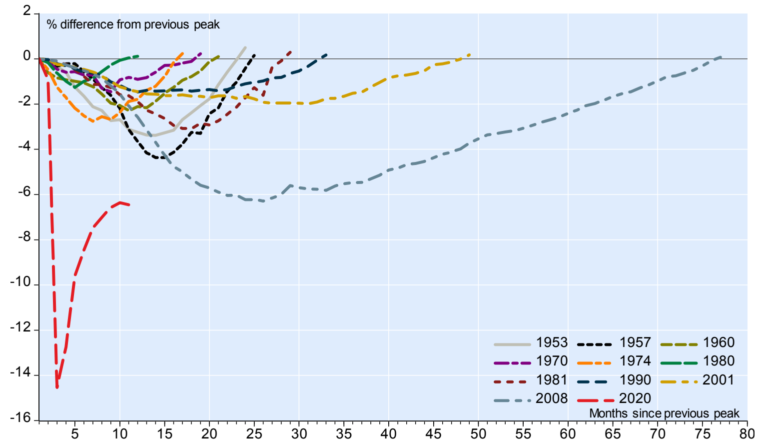
U.S.: Coronavirus still on the rampage
Number of hospitalizations related to Covid-19



NBF Economy and Strategy (data via covidtracking.com)

Cooling of growth was already highly visible in the December jobs report. It showed nonfarm employment down 140,000 on the month, the first decline since April. Though losses were concentrated in the recreation and accommodation industries, the overall picture was quite dark. Total employment was still 6.5% (9.8 million) short of its pre-pandemic level, a shortfall similar to that at the worst point of the 2008-09 recession.

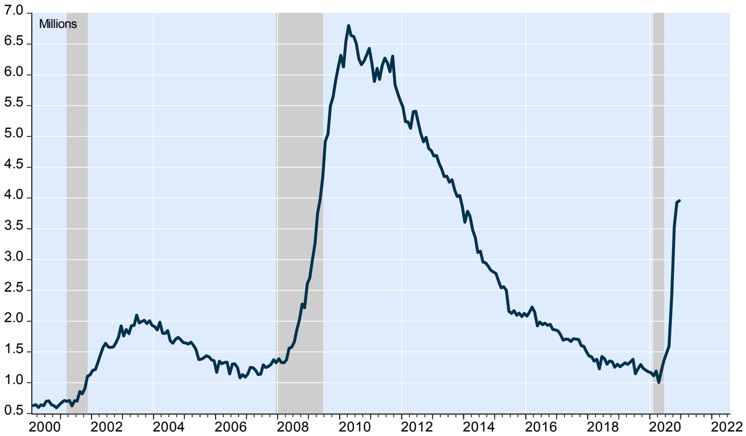
U.S.: Employment recovery braked by Covid-19
Nonfarm employees, change from previous peak



NBF Economy and Strategy (data via Refinitiv)

Also noteworthy is a rise in the number of Americans who have been seeking work for 27 weeks or more, to a seven-year high of 4.0 million. Since the consequences of unemployment increase with duration, the swelling of the ranks of the long-term unemployed is an indicator that will bear close watching in coming months.

U.S.: Covid will leave scars on the labour market
Number of long-term unemployed (more than 27 weeks)

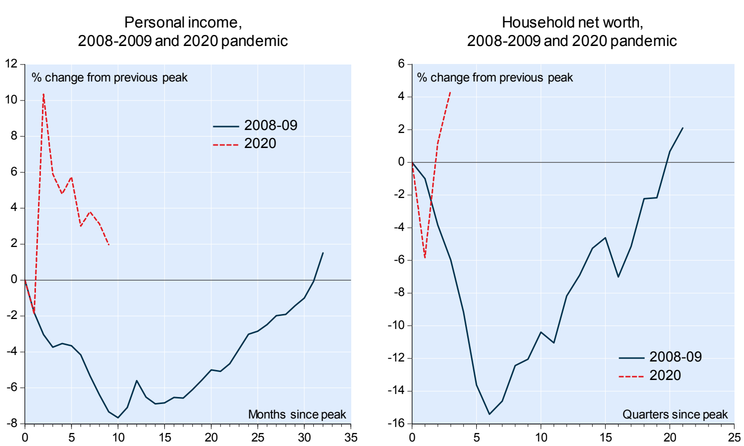


NBF Economy and Strategy (data from FRED St. Louis)

Despite the deterioration of the short-term outlook, recent developments leave hope for a solid rebound in the second half of the year. First, uncertainty about the next round of fiscal stimulus has finally dissipated with the announcement of a new $900-billion federal aid package. The agreement reached by Congress provides for most Americans to receive a cheque for $600; for an extension of the special Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation programs; for a $300 supplement to regular unemployment insurance through to mid-March; and for an injection of $284 billion into the Paycheck Protection Program providing emergency loans to employers.

Adoption of this legislation can be expected to soften the hit to the economy between now and the attainment of herd immunity, and to support growth after that. It should be kept in mind that household incomes have increased substantially since the beginning of the pandemic as a result of generous federal aid programs. These gains have allowed consumers to amass about $1.4 trillion in excess savings (~6.5% of GDP), a reserve they can draw on throughout 2021. The rise in savings, combined with a run-up of financial and real-estate asset prices, has spurred a vigorous rebound of household net worth, an encouraging contrast with its sharp fall and slow recovery in the last recession.

U.S.: Households still in good shape financially



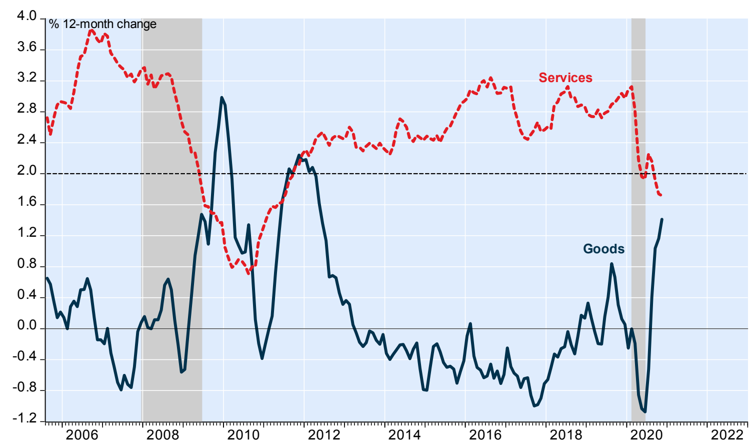
NBF Economy and Strategy (source: BEA and Federal Reserve via Bloomberg)

The current context has prompted us to revise down our growth outlook for Q4 2020 and Q1 2021. In our view, this soft patch will be more than offset by stronger growth in the second half of the year, and we are leaving our growth forecast for 2021 unchanged at 3.8%. Democratic control of the Senate, with its potential for still more fiscal stimulus, only increases our confidence for the post-pandemic period.

Inflation is also likely to firm up in the second half of the year. In the Federal Reserve's December projections, headline inflation will take until 2023 to reach 2%. We think that could happen earlier. Our reasons:

First, inflation will show a base-effect rebound in Q1 and Q2, since prices were in free fall 10 months ago as the pandemic began. And there's more. As we have often noted, the current recovery is led by the goods sector, a phenomenon currently reflected in the CPI: inflation of basic goods is at a 10-year high while inflation of basic services is at a decade low.

U.S.: The consumer spending mix affects the CPI
Basic CPI inflation, last observation November 2020

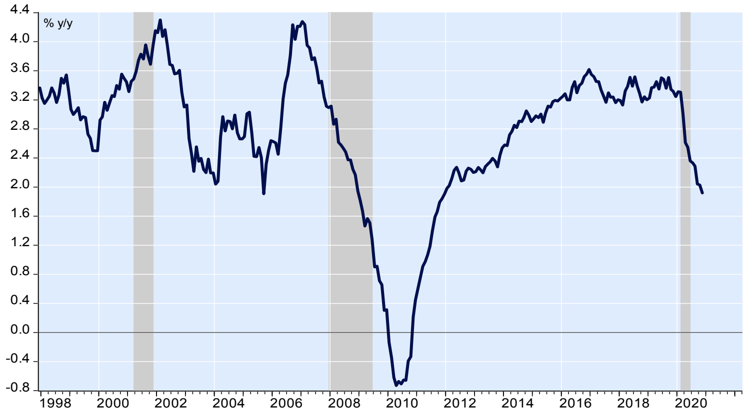


NBF Economy and Strategy (data via Refinitiv)

What will happen when the economy reopens fully? Many people will likely want to return to activities they had to give up during the pandemic (restaurant dining, shows, travel, etc.). That is likely to prompt a rapid rebound of service prices, especially with some capacity no longer there.

A rebound can also be expected in the shelter component, which is almost one-third of the total CPI. Prices in that category have fallen over the past year but, in contrast to previous recessions, the fall is attributable not to weakness in the real estate sector but to federal emergency measures, notably tenant-eviction moratoria. Unpaid rent that landlords forebear to collect is counted as rent reduction for CPI purposes. Catch-up when the moratoria expire is very possible.

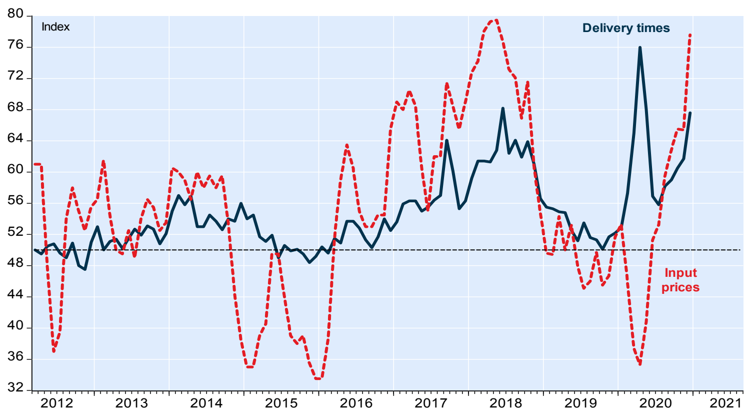
U.S.: Cost of housing is artificially low
Consumer Price Index, housing component



NBF Economy and Strategy (data via Refinitiv)

Won't goods inflation subside when people return to spending on services? Maybe, but probably not enough to offset the rise of service prices. To judge by lengthening of delivery times and the rise of input prices, demand for manufactured goods currently exceeds supply.

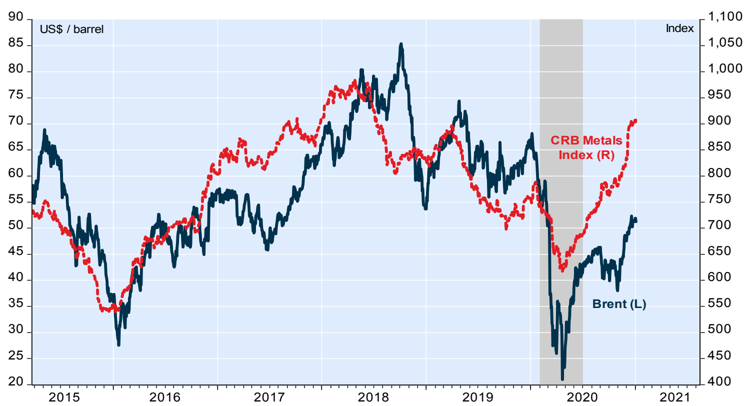
U.S.: Supply chains under pressure …
ISM Manufacturing index



NBF Economy and Strategy (data via Refinitiv)

This situation could persist, given rising raw-material prices and depreciation of the USD.

… as raw-material prices rise …
CRB Metals Index and Brent oil price



NBF Economy and Strategy (data via Refinitiv and Bloomberg)

… and the USD depreciates steeply
Trade-weighted index of USD exchange value

NBF Economy and Strategy (data via Refinitiv)

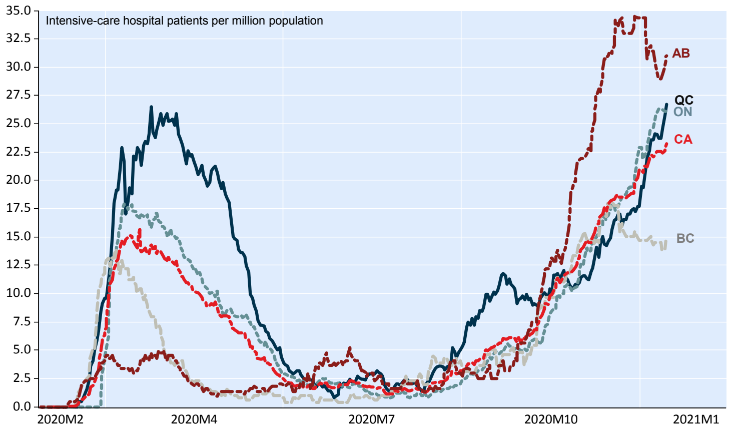
In light of these factors, we expect headline inflation to reach 2% by the end of this year. Its subsequent path will depend on the response of the central bank. The Fed has stated that it would tolerate inflation "moderately above 2% for some time." The question is, for what time, and what is "moderately" above"? Since a return to full employment (an objective now part of the Fed's official mandate) will probably take time, we see the central bank broadly ignoring the rise of inflation until at least 2023.

Canada: A contraction of GDP in Q1?

At this writing there is no sign that the holiday pause slowed the spread of Covid-19 in Ontario and Quebec. In Quebec, intensive-care hospitalization has topped its first-wave peak and this time around Ontario's rate is comparable to Quebec's. This evolution has taken their hospitals to the brink of overload and has led their provincial governments to apply still stricter measures to contain the spread of the virus. They are striving to avoid bringing in priority protocols – who will get ICU care and who will not? – and intensifying offloading. The new Quebec and Ontario measures make a first-quarter economic contraction very likely. Non-essential businesses will continue to run slower and some industries must cut their operations to the bone. For now, the new measures are in place through the early February but they could be extended and ramped up, and could spread to other provinces. However, the Q1 retreat we anticipate (−3.9% annualized) will be nothing like the dizzying fall of Q2 last year (−38.1%), when non-essential services were shut down across the board.

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

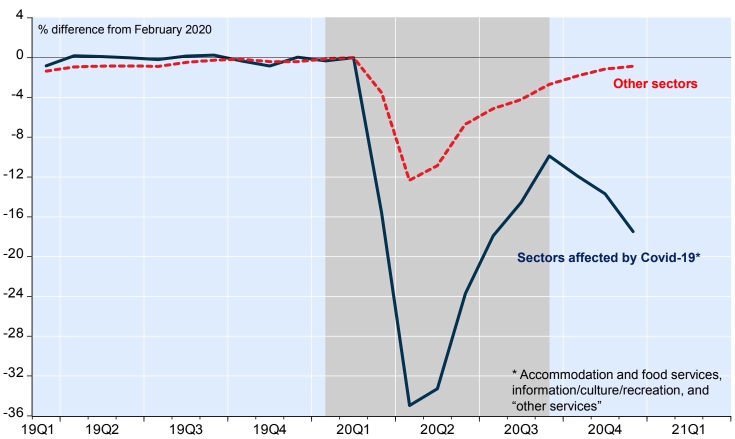
Canada: Number of Covid patients in intensive care
Per million population



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/)

At year end the economic recovery was already showing signs of losing steam. Employment shrank in December for the first time since April. Hours worked were down 0.3%, suggesting a December GDP contraction. The second wave of Covid-19 is directly responsible for this turn – Statcan reported a total loss of 106,000 jobs in the accommodation and food services industry, the information, culture and recreation industry, and the "other services" industry. We are reassured to see that other sectors have remained resilient.

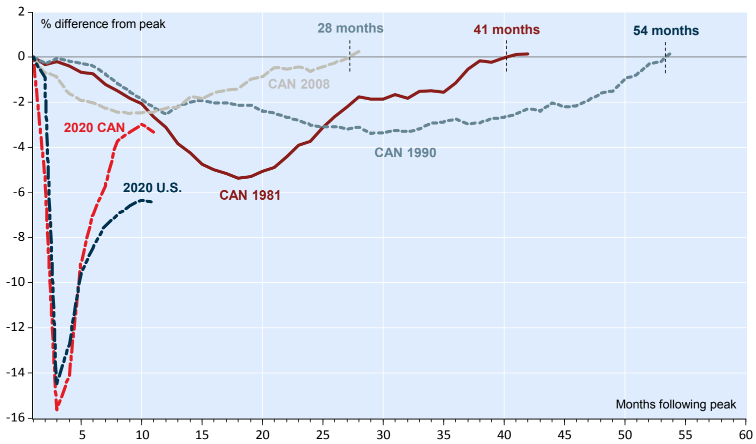
Job losses in 2nd wave are confined to sectors vulnerable to Covid-19



NBF Economics and Strategy (data from Statistics Canada)

Despite this retreat, the employment recovery in Canada is well ahead of that in the U.S. In Canada the shortfall versus last February was less than 3%. In the U.S. it was about double that.

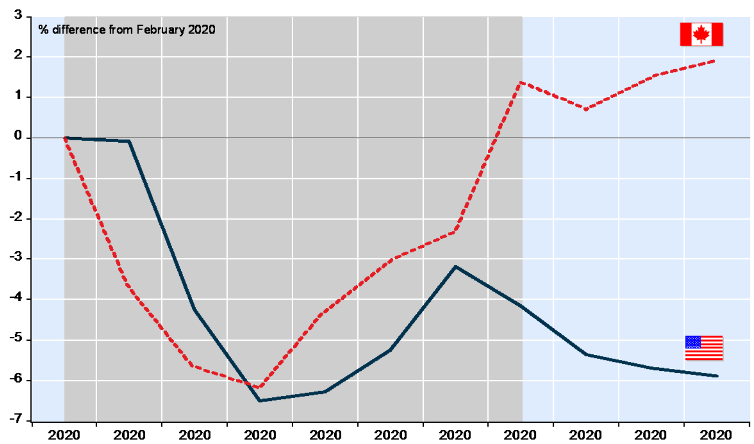
Canada: An employment recovery more vigorous than in U.S.
% change from previous peak



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

This divergence can be traced partly to the public sector. In Canada, government jobs were a new peak in December. In the U.S., they were 6% below last February. Most U.S. states and municipalities are obliged by law to balance their budgets. The softness of current revenues has forced some of them to cut their headcounts.

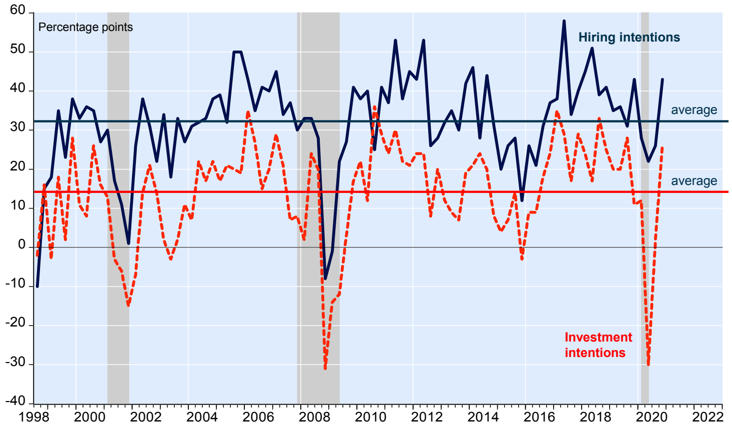
Canada: Public-sector employment at a record
Canada vs. U.S.



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

The soft patch we see for Canada in Q1 should turn out to be transient, in our view not enough to derail the ongoing revival. The advent of effective vaccines against the Covid virus late last year has boosted the confidence of Canadian businesses. The Bank of Canada's Business Outlook Survey reported this month that hiring and investment intentions in December were up strongly from the previous quarter though the second wave was well under way at the time of the survey. This suggests a solid rebound when the pandemic in brought under control.

Canada: Vaccines have stimulated business confidence
Investment and hiring intentions (balance of opinion*)

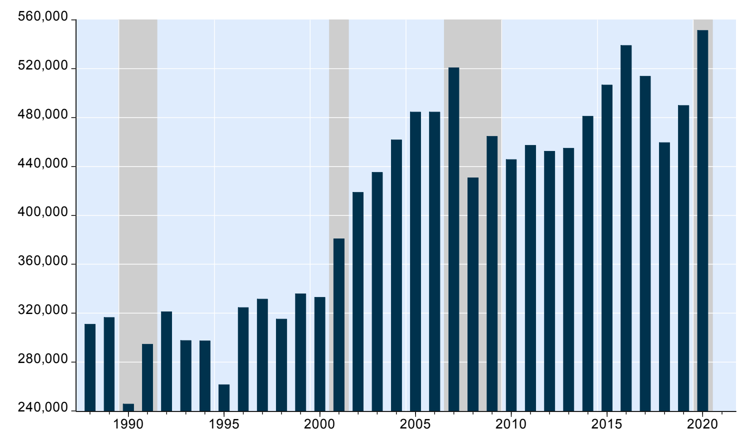


* % of companies expecting to increase their capex / headcount minus % expecting to reduce them

NBF Economics and Strategy (data from Bank of Canada)

The vigour of the housing market at the end of 2020 suggests that neither has household confidence been hurt unduly by the course of the pandemic. Canada's three largest housing markets showed record home sales for a month of December. In 2020 as whole, despite job losses and a drastic reduction of immigration, a record number of Canadian homes were sold.

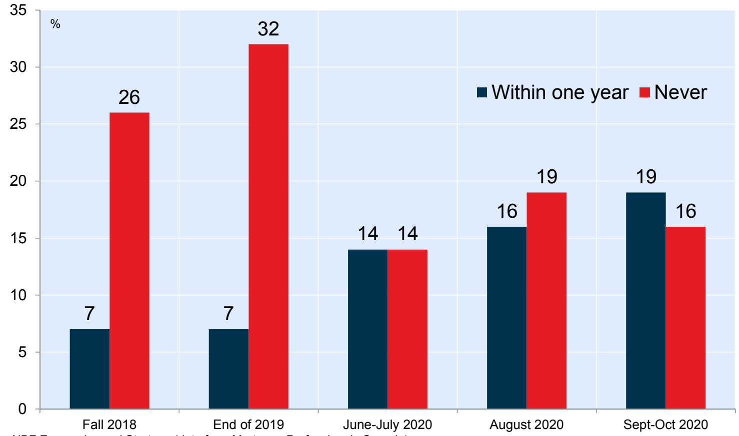
Canada: Record home sales in a pandemic
Home sales (annual)



NBF Economics and Strategy (data from CREA)

What's behind this surprising resilience? Government support of household incomes and payment deferral schemes offered by lending institutions have certainly played a role in mitigating the hit from job losses. Rock-bottom interest rates are also a factor. But there is more to it than that. Quarterly surveys by Mortgage Professionals Canada before and during the pandemic show a drastic shift in household homeownership preferences that may have kept the housing market strong during the year. The percentage of non-owners planning to buy a house within the following year has been steadily rising since the start of the pandemic, from 7% at the end of 2019 to 23% in November 2020, when only 10% of non-owners planned never to become owners compared to 32% pre-pandemic.

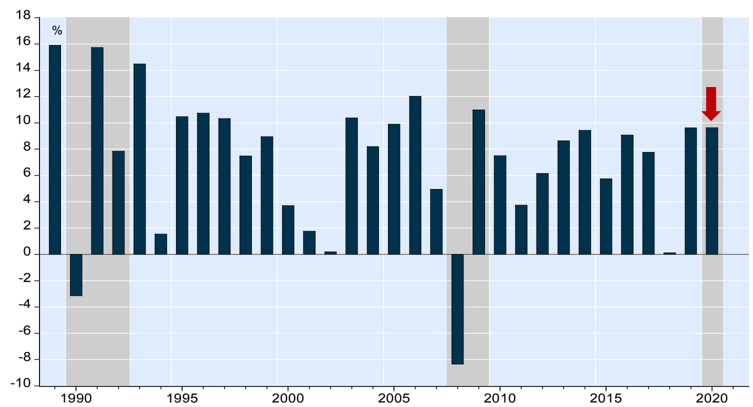
Canada: The pandemic has increased the desire to buy a home
% of non-homeowner survey respondents expecting to buy a home within a year vs. % expecting "never"



NBF Economics and Strategy (data from Mortgage Professionals Canada)

This surprising vigour of the housing market was reflected in an 8.6% rise of home prices over 2020. This gain, combined with a spectacular turnaround of financial markets since last March, brought households a significant wealth effect in 2020. By our calculation, the net worth of a representative household increased 9.6% in 2020. This phenomenon, unprecedented in the first year of a recession, is likely to support resilience of the economy in 2021.

Canada: A large wealth effect despite the pandemic
Annual return on assets of a representative household*



* Real estate 35%, financial assets 65% (breakdown according to NBF portfolio benchmark: bonds 29%, S&P TSX 13%, S&P 500 13%, MSCI EAFE 3%, MSCI Emerging 3%, cash 3%), monthly rebalancing

NBF Economics and Strategy (data via Refinitiv)

In our view, the surge of Covid-19 cases in recent weeks and stricter public-health measures in Quebec and Ontario mean that the Canadian economy will not escape a contraction in the first quarter. We have accordingly cut our 2021 growth outlook to 3.7% from 4.3%. However, we remain persuaded that the ingredients are there for a lasting revival thereafter. Vaccines give hope that a gradual return to normal will begin in the second quarter. The federal government anticipates that 20 million Canadians could be vaccinated by June. In the meantime, federal government programs will be there to support households and businesses in difficulty.

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)	3.8	3.5	(2.5)	3.2	3.3
Consumption	2.7	2.4	(3.8)	4.5	3.8	(2.3)	3.5	3.6
Residential construction	(0.6)	(1.7)	4.3	3.6	0.0	7.3	(0.8)	0.0
Business investment	6.9	2.9	(4.6)	3.0	2.6	(3.5)	2.9	2.1
Government expenditures	1.8	2.3	1.0	(0.6)	1.5	(0.8)	0.5	2.0
Exports	3.0	(0.1)	(13.3)	6.6	6.8	(12.5)	8.2	6.0
Imports	4.1	1.1	(10.2)	8.1	3.1	(4.2)	3.9	3.0
Change in inventories (bil. $)	53.4	48.5	(79.3)	53.7	45.7	54.6	40.2	33.3
Domestic demand	3.0	2.3	(2.8)	3.3	3.1	(1.8)	2.7	3.0
Real disposable income	3.6	2.2	6.3	(0.9)	1.9	4.9	0.5	2.0
Payroll employment	1.6	1.4	(5.7)	1.7	2.7	-6.1	2.5	2.5
Unemployment rate	3.9	3.7	8.1	6.3	5.3	6.8	5.8	5.0
Inflation	2.4	1.8	1.3	2.3	2.3	1.2	2.4	2.4
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 1/08/21	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	0.08	0.10	0.10	0.10	0.15	0.09	0.15	0.40
Treasury yield curve								
2-Year	0.14	0.20	0.25	0.30	0.35	0.13	0.35	0.75
5-Year	0.49	0.55	0.65	0.75	0.85	0.36	0.85	1.25
10-Year	1.13	1.20	1.30	1.40	1.45	0.93	1.45	1.70
30-Year	1.87	1.90	1.95	2.00	2.00	1.65	2.00	2.15
Exchange rates								
U.S.$/Euro	1.23	1.20	1.24	1.25	1.23	1.22	1.23	1.19
YEN/U.S.$	104	100	103	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	3.9	1.7	3.6	3.9	3.6
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.6	3.0	2.3	2.4
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.6	2.5	1.9	2.0
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.8	6.4	6.1	5.8

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	2.4	1.9	(5.4)	3.7	4.0	(3.7)	3.2	3.1
Consumption	2.5	1.6	(6.2)	4.4	4.0	(3.7)	3.1	2.9
Residential construction	(1.7)	(0.2)	1.6	1.5	1.9	4.0	(2.0)	1.8
Business investment	3.1	1.1	(12.2)	1.5	7.1	(11.4)	5.0	6.8
Government expenditures	3.2	1.7	(0.0)	2.7	2.0	0.8	2.0	2.0
Exports	3.7	1.3	(9.9)	4.8	4.6	(7.4)	4.1	4.7
Imports	3.4	0.4	(11.8)	6.8	4.3	(7.0)	3.9	4.5
Change in inventories (millions $)	15,486	18,766	(17,886)	6,000	13,000	(5,000)	10,000	13,000
Domestic demand	2.5	1.4	(4.6)	3.4	3.5	(2.7)	2.5	2.9
Real disposable income	1.5	2.2	8.2	(4.3)	0.2	4.4	(2.4)	1.1
Employment	1.3	2.1	(5.2)	3.7	2.6	(2.9)	1.9	2.3
Unemployment rate	5.8	5.7	9.5	8.5	7.5	8.7	7.9	7.2
Inflation	2.3	1.9	0.7	2.3	2.2	0.9	2.3	2.1
Before-tax profits	3.8	0.6	(8.5)	11.8	5.4	(0.1)	4.0	6.0
Current account (bil. $)	(52.2)	(47.4)	(43.4)	(49.0)	(44.5)	....	....	....

** or as noted*

Financial Forecast**

	Current 1/08/21	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	0.06	0.10	0.15	0.15	0.20	0.07	0.20	0.35
Treasury yield curve								
2-Year	0.20	0.20	0.25	0.35	0.45	0.20	0.45	0.65
5-Year	0.45	0.50	0.55	0.60	0.70	0.39	0.70	0.90
10-Year	0.82	0.85	0.95	1.05	1.10	0.68	1.10	1.30
30-Year	1.43	1.45	1.50	1.50	1.55	1.21	1.55	1.65
CAD per USD	1.27	1.29	1.26	1.25	1.20	1.27	1.20	1.25
Oil price (WTI), U.S.$	51	47	50	52	57	48	57	53

*** 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	6.6	(3.9)	7.5	5.6	4.0
CPI (y/y % chg.)	1.8	0.0	0.3	0.9	1.3	2.7	2.7	2.3
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.0	1.8	2.3	1.9
Unemployment rate (%)	6.3	13.0	10.0	8.7	9.2	8.7	8.2	7.9

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	-9.1	9.8	6.2
Prince Edward Island	2.5	5.1	-3.5	4.0	4.0	3.6	7.0	-1.2	5.8	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	6.3	5.4
Quebec	2.9	2.7	-5.6	3.2	4.4	5.4	4.3	-3.9	6.0	6.5
Ontario	2.8	2.1	-5.5	3.6	4.2	4.1	3.8	-3.7	5.8	6.1
Manitoba	1.5	0.6	-3.5	4.1	3.5	2.5	1.0	-2.6	6.0	5.3
Saskatchewan	1.2	-0.7	-4.8	4.5	3.5	3.2	0.1	-8.9	7.0	5.1
Alberta	1.9	0.1	-7.0	4.1	4.0	3.4	2.7	-8.5	12.4	7.2
British Columbia	2.7	2.7	-4.7	4.0	4.0	4.9	4.4	-3.2	5.3	5.5
Canada	2.4	1.9	-5.4	3.7	4.0	4.2	3.6	-4.7	7.0	5.8

	Employment (% growth) 2018	2019	2020f	2021f	2022f	Unemployment rate (%) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	0.4	0.7	-5.9	4.3	0.2	13.7	11.9	13.7	12.2	11.6
Prince Edward Island	3.0	2.7	-2.6	3.7	2.2	9.4	8.8	10.6	10.0	9.3
Nova Scotia	1.5	2.2	-4.6	4.7	1.6	7.6	7.2	9.6	8.8	7.9
New Brunswick	0.3	0.7	-2.5	2.7	1.2	8.0	8.0	9.8	9.1	8.3
Quebec	0.9	1.7	-4.6	3.3	2.8	5.5	5.1	8.8	7.1	6.0
Ontario	1.6	2.9	-4.9	3.6	2.6	5.6	5.6	9.5	9.0	7.7
Manitoba	0.6	0.9	-3.5	2.9	2.0	6.0	5.3	7.9	7.7	7.2
Saskatchewan	0.5	1.6	-4.9	3.7	2.1	6.1	5.4	8.3	7.5	7.0
Alberta	1.9	0.5	-7.2	4.5	2.6	6.7	6.9	11.3	10.9	10.4
British Columbia	1.1	2.6	-6.1	4.2	2.4	4.7	4.7	8.9	7.0	6.5
Canada	1.3	2.1	-5.2	3.7	2.6	5.8	5.7	9.5	8.5	7.5

	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	1.9	2.3
Prince Edward Island	1.1	1.5	1.1	1.1	1.2	2.3	1.2	0.2	2.4	2.1
Nova Scotia	4.8	4.7	4.9	4.2	4.2	2.2	1.6	0.4	2.5	2.1
New Brunswick	2.3	2.9	3.2	3.0	2.6	2.2	1.7	0.2	1.9	1.9
Quebec	46.9	48.0	54.5	50.0	47.5	1.7	2.1	0.9	2.1	2.3
Ontario	78.7	69.0	82.5	77.5	75.8	2.4	1.9	0.6	2.2	2.2
Manitoba	7.4	6.9	7.2	6.1	5.9	2.5	2.3	0.7	2.1	2.3
Saskatchewan	3.6	2.4	3.1	3.0	3.2	2.3	1.7	0.6	2.0	2.0
Alberta	26.1	27.3	24.2	23.6	25.0	2.5	1.7	1.1	2.2	2.1
British Columbia	40.9	44.9	37.4	34.8	34.0	2.7	2.3	0.8	2.1	2.3
Canada	212.8	208.7	218.7	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.

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

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.