Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA FINANCIAL MARKETS

June 2021

Summary

By Matthieu Arseneau and Jocelyn Paquet

- The daily number of new cases of Covid-19 declared around the world has been declining markedly over the last month. In the developed economies, the drop can be attributed in large part to an acceleration of vaccine rollouts encouraging an outlook of fuller and more lasting reopening of economies. Elsewhere, improvement in public health is due rather to reinforcement of physical distancing rules, especially in India where in late April a flare-up of cases forced the reintroduction of strict lockdowns in some regions. Since access to vaccines is much more limited in emerging countries, herd immunity is unlikely before 2022. Developing countries will accordingly remain at greater risk of pandemic outbreaks in the coming months, a factor that could mean higher volatility of growth rates. We nevertheless continue to expect a solid rebound of the global economy in 2021 and are maintaining our forecast of 6.0% growth for the year. In fact, our confidence in a vigorous recovery has risen, since distribution of vaccines has greatly reduced economic uncertainty and downside risks for growth.

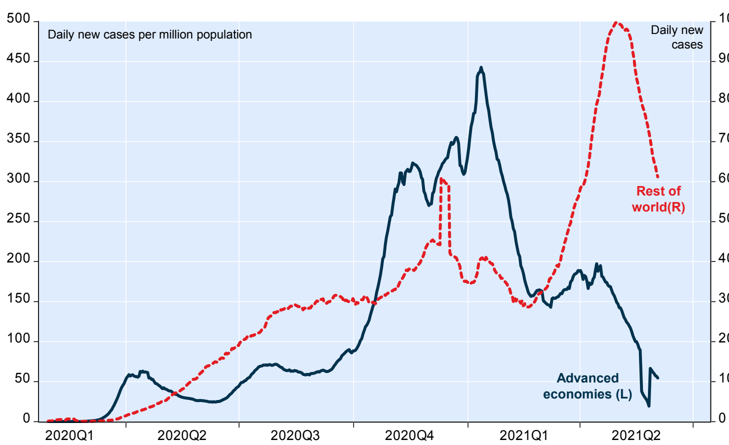
- The latest U.S. economic indicators confirm what has been our outlook for a few months now: a very strong revival stimulated by highly accommodative monetary and fiscal policies. Nonfarm payrolls grew 559,000 in May, less than the expected 675,000 but more than the month before, suggesting a slow but steady revival of the labour market in step with reopening of the economy. Also in May, headline 12-month CPI inflation was 5.0%, the highest in 13 years. For the CPI excluding food and energy the 12-month rise was 3.8%, the highest since June 1992. The three-month-annualized readings are still more impressive: headline inflation 8.4%, core inflation 8.3%. Up to now, the bulk of inflationary pressure has come in the goods-producing sector, but inflation could also take off in services if consumers decide, as we think they will, to spend more on activities unavailable in recent months (e.g. restaurant meals and travel). For the U.S. economy as a whole, we have left our forecast of 6.9% growth this year unchanged but have increased 2022 growth to 4.3% to reflect further government spending on infrastructure and social programs. In our projections, U.S. real GDP will be back to its potential by the third quarter of this year.

- Early in 2021, as the two largest provinces in Canada decreed shutdowns of non-essential businesses, public-health conditions seemed to augur little good for the Canadian economy in Q1. And all the other G7 countries except the U.S. did have GDP declines during the quarter. In Canada, however, not only did the contraction that many had apprehended not materialize, but the quarter ended with very solid real growth of 5.6% annualized, a showing that put the Canadian economy in a leading position. In real terms its output came within 1.7% of its peak pre-pandemic quarter (Q4 2019) – second-best in the G7. In nominal terms the Q1 growth was even more spectacular taking nominal GDP to a best-in-G7 3.0% above its pre-recession peak. This month we are keeping our forecast of real growth in 2021 at 6.0%. After a pause in the recovery in Q2 due to public-health measures and to production backlogs in the auto industry due to microchip shortages, impressive growth can be expected to continue as vaccination picked up speed allowing the reopening of services that entail physical proximity. Our forecast for 2021 growth in nominal terms is now 12.6%, unseen in 40 years.

World: Covid-19 down, economies up

The daily number of new cases of Covid-19 declared around the world has been declining markedly over the last month. In the developed economies, the drop can be attributed in large part to an acceleration of vaccine rollouts encouraging an outlook of fuller and more lasting reopening of economies. Elsewhere, improvement in public health is due rather to reinforcement of physical distancing rules, especially in India where in late April a flare-up of cases forced the reintroduction of strict lockdowns in some regions.

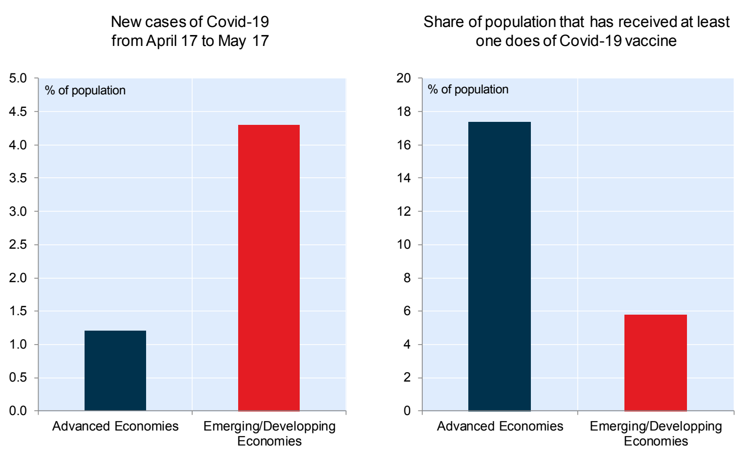
World: Pandemic in marked decline
Daily declared new cases of Covid-19 per million population, 7-day moving average



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

Since access to vaccines is much more limited in emerging countries, herd immunity is unlikely before 2022.

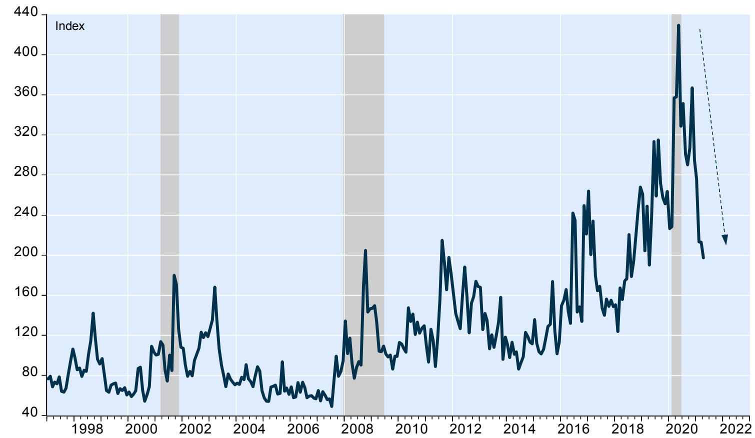
World: Vaccine less accessible in emerging countries



NBF Economics and Strategy (data from World Bank)

Developing countries will accordingly remain at greater risk of pandemic outbreaks in the coming months, a factor that could mean higher volatility of growth rates. We nevertheless continue to expect a solid rebound of the global economy in 2021 and are maintaining our forecast of 6.0% growth for the year. In fact, our confidence in a vigorous recovery has risen, since distribution of vaccines has greatly reduced economic uncertainty and downside risks for growth.

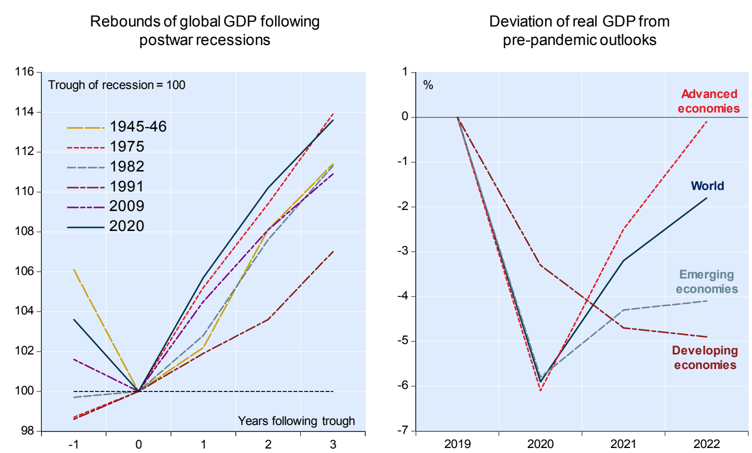
World: Vaccination reduces economic uncertainty
Global index of economic uncertainty



NBF Economics and Strategy (data from https://www.policyuncertainty.com/global_monthly.html)

Skies are likely to remain blue into 2022. The World Bank now thinks the rebound of GDP from the pandemic recession will be one of the strongest post-recession recoveries since the Second World War. Like the World Bank, we expect the rich countries to be the growth drivers in the short and medium term, likely to match their pre-pandemic output by 2022.

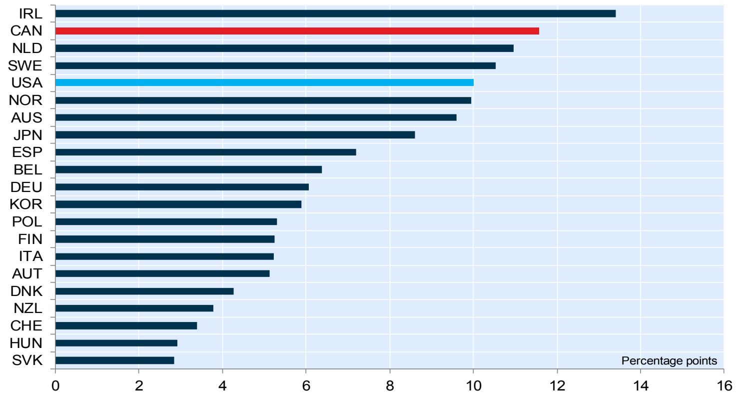
World: Strong but uneven recovery



NBF Economics and Strategy (data from World Bank)

Household consumption is likely to continue setting the pace. After months of restrictions, consumers in advanced economies will be able to take advantage of the excess savings they accumulated during the recession. Services, more affected by physical distancing, are likely to benefit the most.

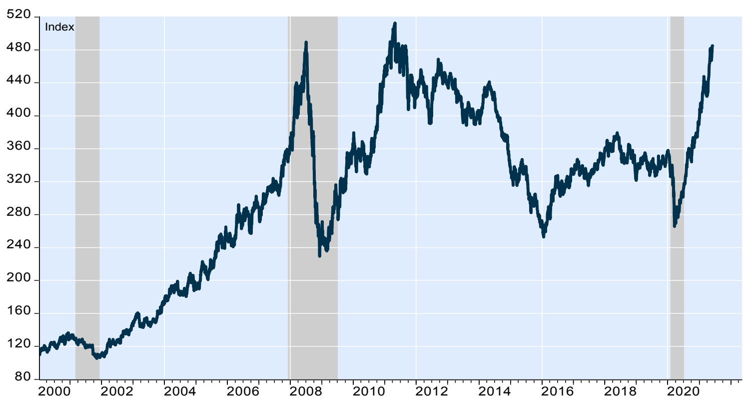
World: Increased saving during the pandemic will stimulate demand
Increase of 2020 rate of household saving over 2000-2019 average



NBF Economics and Strategy (data from Refinitiv)

For emerging countries our forecasts are more upbeat than those of the World Bank. In our view, demand from the world's better-off households will continue to support high commodity prices, to the benefit of a number of exporting countries.

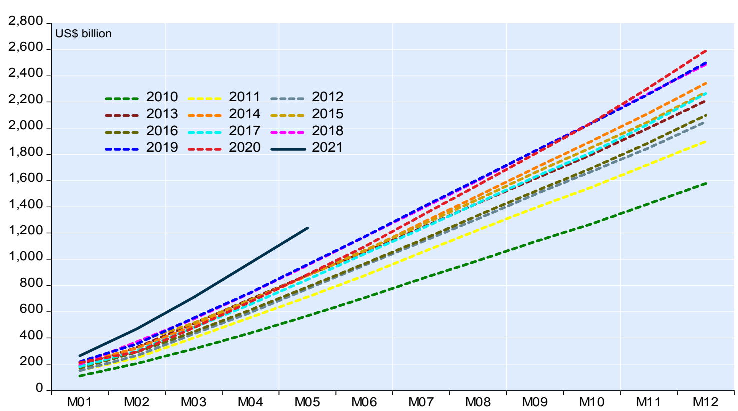
World: Commodity prices soar
Bloomberg index of commodity spot prices



NBF Economics and Strategy (data from Bloomberg)

The benefits of revival of foreign demand will not be limited to commodity-producing countries. On the contrary, all the economies geared to foreign trade – notably China's – are likely to benefit.

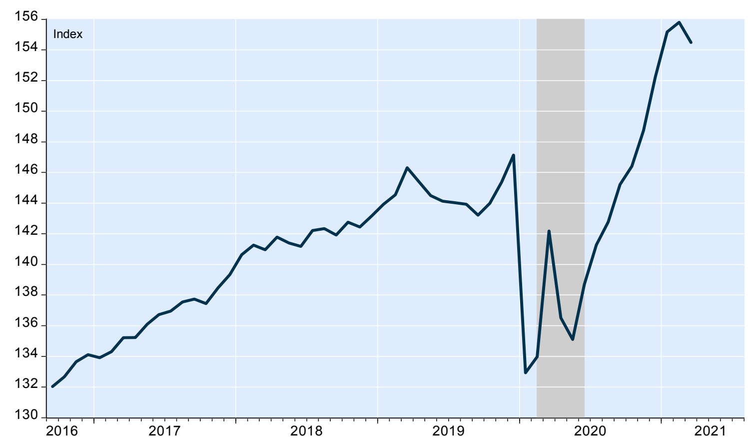
China: Growth stimulated by exports
Exports, cumulative from beginning of each year



NBF Economics and Strategy (data from Bloomberg)

The resilience of exports already explains much of the rapid rebound of industrial production in emerging economies.

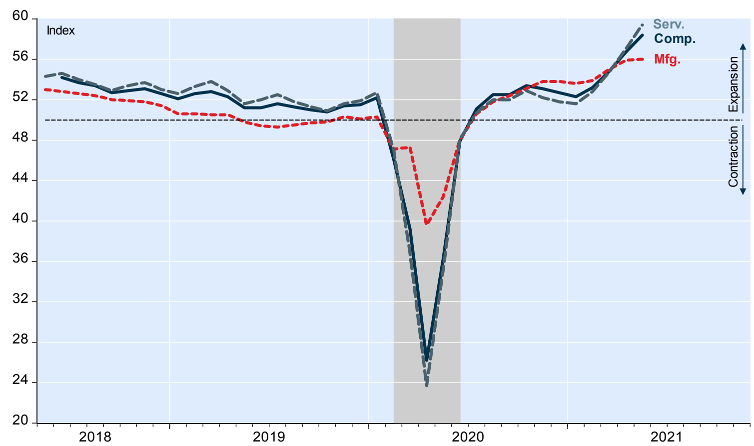
Emerging economies: A convincing rebound of industrial production
Seasonally adjusted data



NBF Economics and Strategy (data from CPB)

Demand-driven growth in advanced economies combined with supply-driven expansion in the emerging world bodes well for the second half of the year. Already in May, the global Markit/JPMorgan PMI reported the strongest private-sector expansion in 15 years. Business conditions in manufacturing were sustaining their improvement. Services, meanwhile, hit harder by the pandemic, showed the strongest growth since April 2006.

World: Private-sector growth strongest in 15 years
J.P.Morgan/Markit global PMI, last observation May 2021

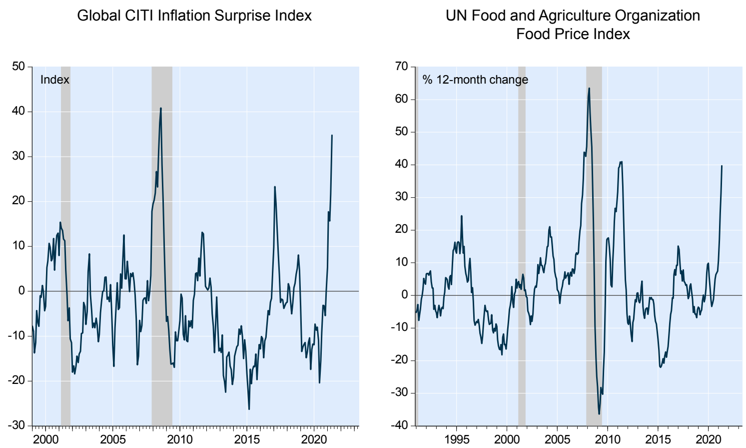


NBF Economics and Strategy (data from Markit via Refinitiv)

Resurgence of demand in step with phased reopening has brought headaches for many producers. Inability to meet the new demand has lengthened their production backlogs at the fastest pace in 17 years, resulting in longer delivery times and sharp rises of output prices. Microchip scarcity has only increased the pressure on supply chains.

At this writing, the inflationary pressures reported by surveys come more from the goods-producing sector. That said, as consumers in advanced economies become able to spend more freely, pressures are also likely to emerge in the services sector, driving price rises more vigorous than those we were used to before the pandemic. Global inflation is now surprising on the upside and we see this trend continuing in the months ahead. We note in particular a rapid increase in food prices – a big part of the consumption basket, especially in emerging countries.

World: Higher inflation likely as lockdowns ease



NBF Economics and Strategy (data from Bloomberg)

The stage is accordingly set for a second half of the year marked by strongly accelerating global growth and by inflation higher than the average of recent years.

World Economic Outlook

	2020	2021	2022
Advanced Economies	**-4.9**	**5.4**	**4.1**
United States	-3.5	6.9	4.3
Eurozone	-6.6	4.6	4.5
Japan	-4.7	2.8	2.5
UK	-11.1	6.0	5.4
Canada	-5.3	6.0	4.0
Australia	-3.2	4.4	3.1
Korea	-1.1	4.0	3.1
Emerging Economies	**-2.5**	**6.3**	**4.8**
China	2.3	8.7	5.6
India	-7.3	7.5	7.0
Mexico	-8.3	4.8	3.0
Brazil	-4.1	4.0	2.6
Russia	-3.0	3.5	3.0
World	**-3.5**	**6.0**	**4.5**

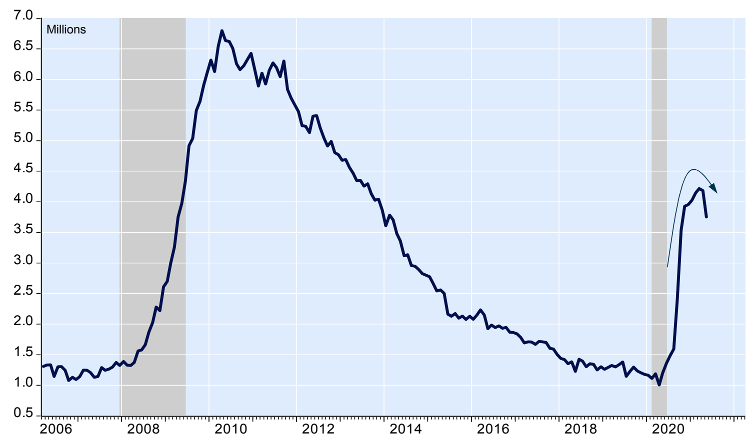
NBF Economics and Strategy (data via NBF and Conensus Economics)

U.S.: An odour of overheating?

The latest U.S. economic indicators confirm what has been our outlook for a few months now: a very strong revival stimulated by highly accommodative monetary and fiscal policies.

We begin our survey with the labour market. Nonfarm payrolls grew 559,000 in May, less than the expected 675,000 but more than the month before, suggesting a slow but steady revival of the labour market in step with reopening of the economy. The sectors most affected by rules of physical distancing – notably leisure/hospitality and education/ health – showed strong gains, as did the private sector as a whole. Long-term unemployment was down for a second straight month, suggesting that some who lost their jobs at the beginning of the pandemic have now rejoined the labour market.

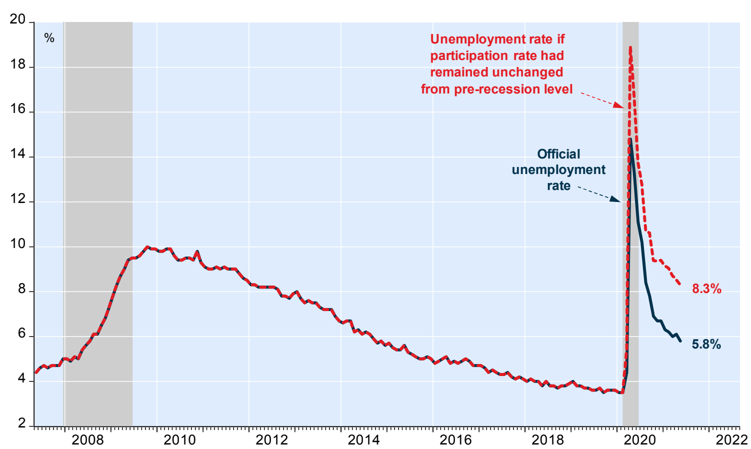
U.S.: Long-term unemployed have begun to rejoin the labour market
Number of workers unemployed for more than 27 weeks



NBF Economics and Strategy (FRED data)

The unemployment rate continued to fall, but that decline needs to be interpreted cautiously because it is due in large part to a substantial drop of the participation rate in recent months. If the participation rate had been the same in May as before the pandemic, the unemployment rate would have been closer to 8.3%.

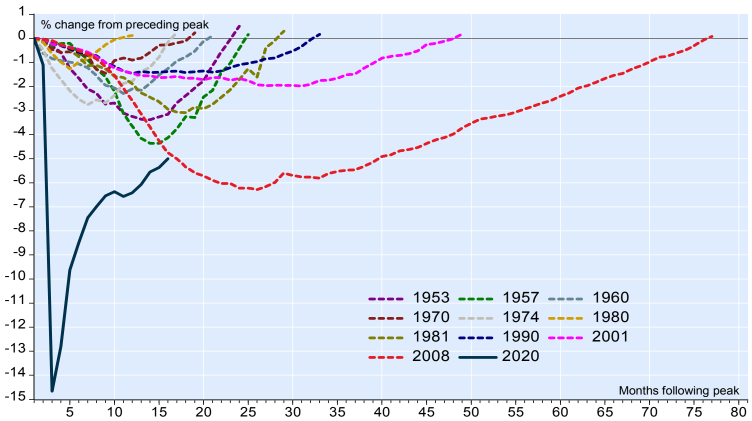
U.S.: Unemployment rate makes the labour market look good
Official unemployment rate vs. unemployment rate with pre-recession participation rate



NBF Economics and Strategy (data from Refinitiv)

So the labour market has a long way to go yet. Employment is still 7.6 million (5.0%) below its pre-recession level. Of the jobs still to be recovered, about 6.8 million are in services, which should revive in step with the progress of mass vaccination.

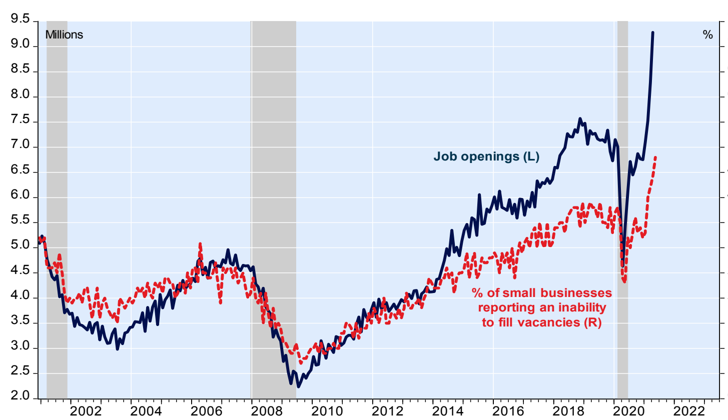
U.S.: Still a long way to go
Nonfarm payroll employment, variations from pre-recession peaks



NBF Economics and Strategy (data from Refinitiv)

On an encouraging note, the relatively weak hiring of the last two months was not due to lack of demand. On the contrary, the JOLTS survey reports a record number of U.S. job openings in April. Potential employers seem to be having trouble finding candidates. No fewer than 48% of small businesses surveyed by the NFIB in May reported they had been unable to fill one or more openings.

U.S.: Weakness in hiring is not due to lack of demand for workers
Job openings vs. % of small businesses reporting difficulty in filling one or more vacancies

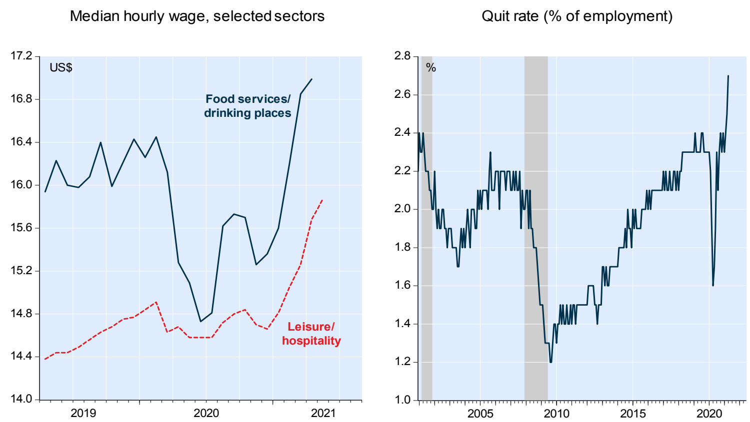


NBF Economics and Strategy (data from Refinitiv and Bloomberg)

How is that possible when so many workers are still on the sidelines? Residual fear of the virus and school closings, of course, oblige some people to stay at home these days. Non-transferability of skills could also be a factor. For the most part, those who were not yet back to work after losing their job during the pandemic had been working in the sectors hit hardest by physical distancing rules. Their skills may not match those needed in industries fully recovered from the recession, where demand for labour is highest at the moment.

In our view, another factor limiting availability of labour is the generosity of benefits from Washington. In sectors where pay is low (and it is these sectors that are reopening at present), government unemployment allowances have a dissuasive effect on return to work, creating what are called "artificial" labour shortages. These could persist until the additional UI benefits are gradually eliminated. This process is already under way in some states and will continue into September in others. Meanwhile, employers could be constrained to raise wages in order to attract workers. This is already the case in some low-income sectors. The quit rate, currently at an all-time high, suggests that this phenomenon could spread.

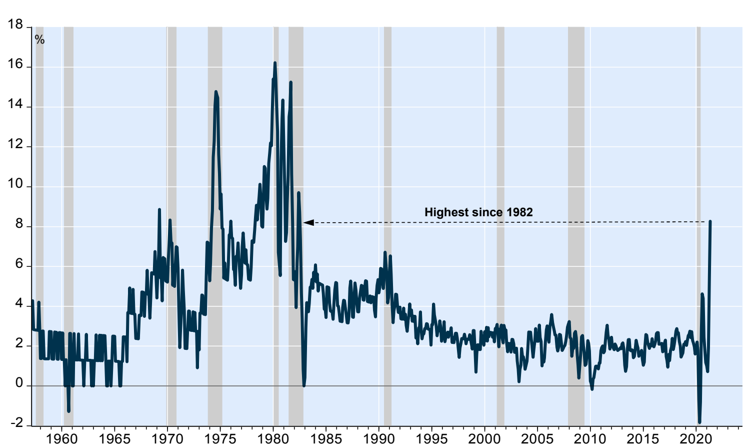
U.S.: Wage increases at a time of labour scarcity



NBF Economics and Strategy (data from Refinitiv)

This potential rise of wages brings us to the second factor attesting to the strength of the U.S. recovery: inflation. In May, headline 12-month CPI inflation was 5.0%, the highest in 13 years. For the CPI excluding food and energy the 12-month rise was 3.8%, the highest since June 1992. Part of the recent acceleration is due to a strongly positive base effect: the CPI of the previous May was depressed by the introduction of public-health restrictions to limit the spread of Covid-19. But the base effect does not explain all. For a better idea of the underlying price movements, we must look at recent momentum. The monthly rise of overall and core prices in May were stronger than expected after very solid rises the month before. The marked rise of motor vehicle prices was one factor in these sharp rises, though many other categories also showed strong advances. The three-month-annualized readings are still more impressive: headline inflation 8.4%, core inflation 8.3%.

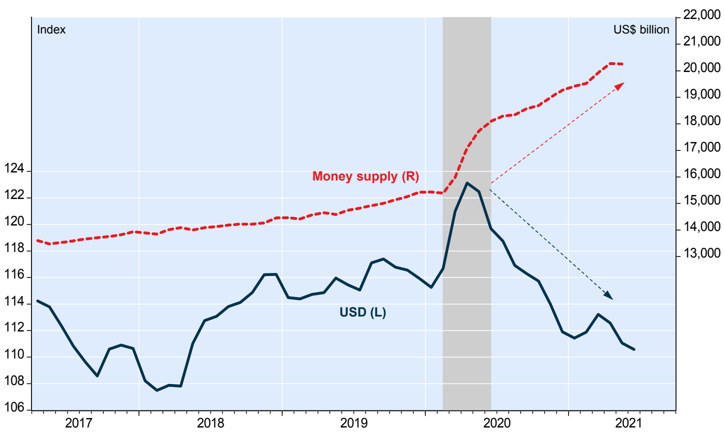
U.S.: Base effect doesn't explain everything (1)
Annualized 3-month change in core CPI



NBF Economics and Strategy (data from Refinitiv)

Will inflation revert back to 2% soon? We doubt it. In our view, a number of factors will continue to drive up prices later this year and early next year. The unprecedented growth of the money supply comes to mind here, as does the weakening of the greenback and Washington's more-than-generous assistance spending.

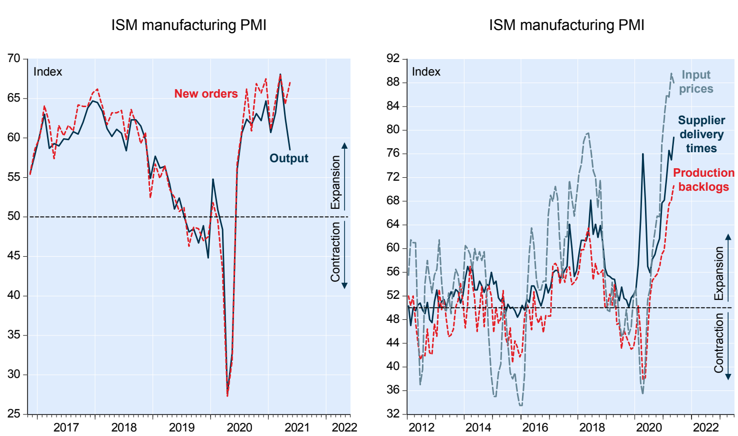
U.S.: Base effect doesn't explain everything (2)
M2 money supply vs. trade-weighted USD



NBF Economics and Strategy (data from Refinitiv)

We doubt producers will be able to meet the extra demand arising from these government programs. Factories were already stretched in May by soaring prices for inputs and lengthening times for their delivery from suppliers. So there is growing pressure on capacity from major supply shortages. Though some of the bottlenecks related to reopening could dissipate fairly quickly, others could affect output over a longer period. Think of global scarcity of microchips now hobbling the auto industry (among others). Production in this sector is controlled by a handful of large players who cannot adapt quickly to higher demand.

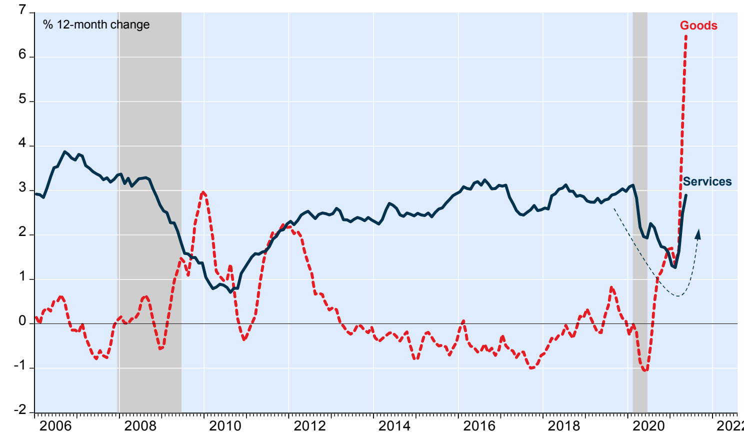
U.S.: Signs of overheating in manufacturing



NBF Economics and Strategy (data from Refinitiv)

Up to now, the bulk of inflationary pressure has come in the goods-producing sector, but inflation could also take off in services if consumers decide, as we think they will, to spend more on activities unavailable in recent months (e.g. restaurant meals and travel). CPI data suggest that such a turnaround is already under way.

U.S.: Will prices now be driven by the service sector?
12-month change in Consumer Price Index excluding food and energy

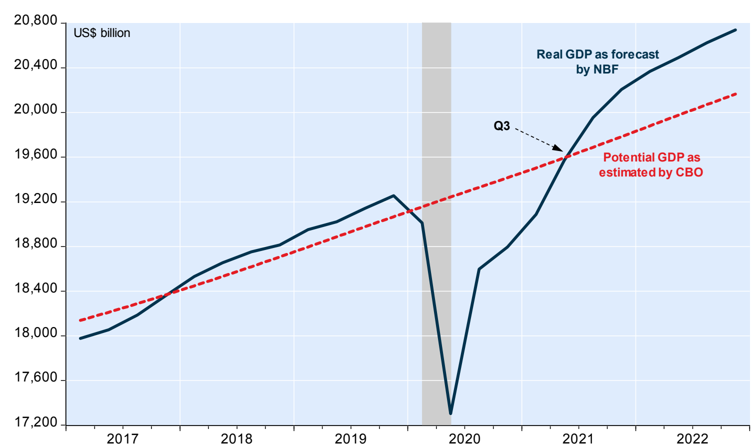


NBF Economics and Strategy (data from Refinitiv)

A larger contribution from services should maintain inflation above 4% for the remainder of the year and keep it above 2.5% in the foreseeable future.

For the U.S. economy as a whole, we left our forecast of 6.9% growth this year unchanged but have increased 2022 growth to 4.3% to reflect further government spending on infrastructure and social programs. In our projections, U.S. real GDP will be back to its potential by the third quarter of this year.

U.S.: GDP back to potential by Q3 2021
Real GDP with NBF forecast and potential GDP as estimated by CBO

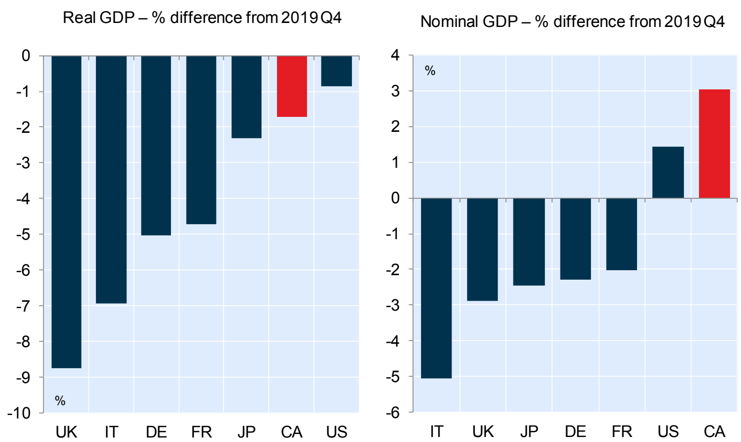


NBF Economics and Strategy (data from CBO)

Canada: Enviable revival

Early in 2021, as the two largest provinces decreed shutdowns of non-essential businesses, public-health conditions seemed to augur little good for the Canadian economy in Q1. And all the other G7 countries except the U.S. did have GDP declines during the quarter. In Canada, however, not only did the contraction that many had apprehended not materialize, but the quarter ended with very solid real growth of 5.6% annualized, a showing that put the Canadian economy in a leading position. In real terms its output came within 1.7% of its peak pre-pandemic quarter (Q4 2019) – second-best in the G7.

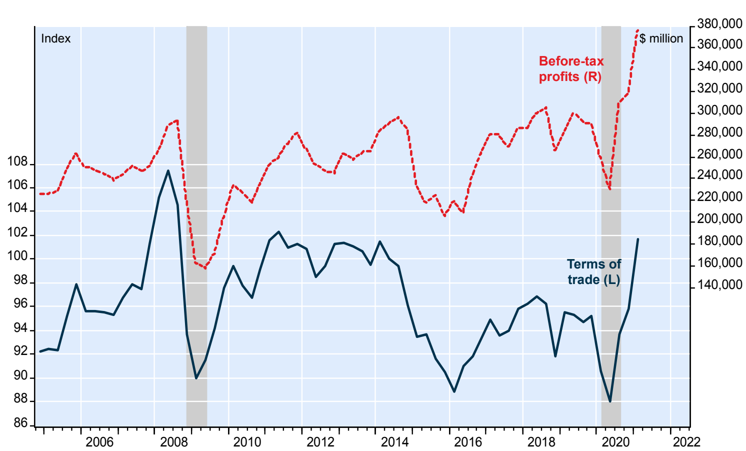
Canada: An enviable recovery
Real and nominal GDP, % difference from pre-pandemic output (2019 Q4)



NBF Economics and Strategy (data from Refinitiv)

In nominal terms the Q1 growth was even more spectacular – 18.4% annualized. This was because the GDP deflator rose the most since 1982. A jump in resource prices contributed to this shift, since terms of trade showed their second-best improvement on record (+6.1%), taking nominal GDP to a best-in-G7 3.0% above its pre-recession peak. Very good news for the financial health of Canadian businesses and governments.

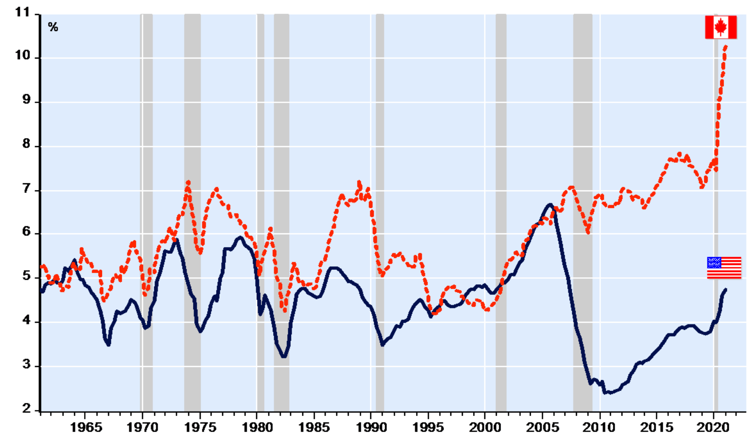
Canada: Best terms of trade in a decade
Before-tax profits and terms of trade



NBF Economics and Strategy (data from Statistics Canada)

But the resource sector was not the only factor in the quarterly advance. Residential investment played a dominant part, contributing 64% of real growth and 33% of nominal growth as new construction, renovation and property-transfer costs all jumped strongly. So much so that the share of residential investment in GDP topped 10%, a record, twice the comparable U.S. share.

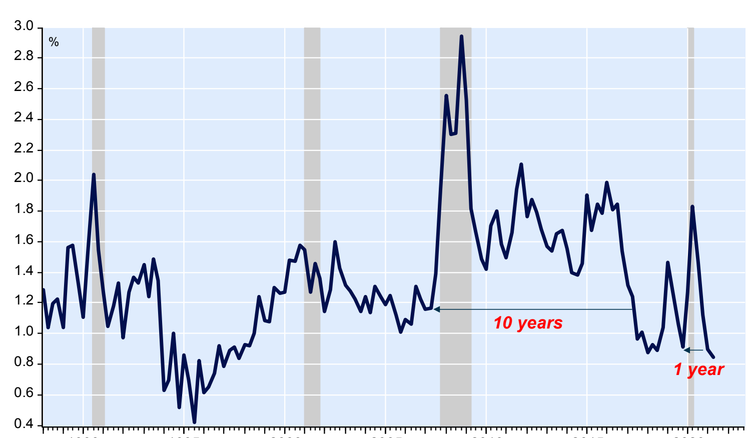
Canada: Homebuilding accounting for an unsustainable share of GDP
Residential construction Investment as % of GDP



NBF Economics and Strategy (data from Statistics Canada)

The overheating of the housing market came partly because the pool of potential buyers was spared job losses in the recession (employment in high-paying sectors was at a record) and the pandemic exacerbated a desire to own property. These conditions, combined with highly accommodative monetary policy, have driven home sales to a volume that has been raising eyebrows and prices (see note). For one thing, 5-year government bond rates remain much lower than before the recession (80 basis points lower than the average of Q4 2019), the central bank is pursuing its quantitative easing, and its prospective guidance indicates no policy-rate hike before the second half of 2022. But in addition, mortgage borrowers are enjoying highly advantageous credit spreads, reflecting a substantial abatement of stress among lenders (and among their creditors in turn). After the financial crisis of 2008-09, it took until 2017 for credit spreads to narrow to their pre-crisis level. This time around they have done so in one year and in the current quarter have shrunk to the narrowest in more than two decades.

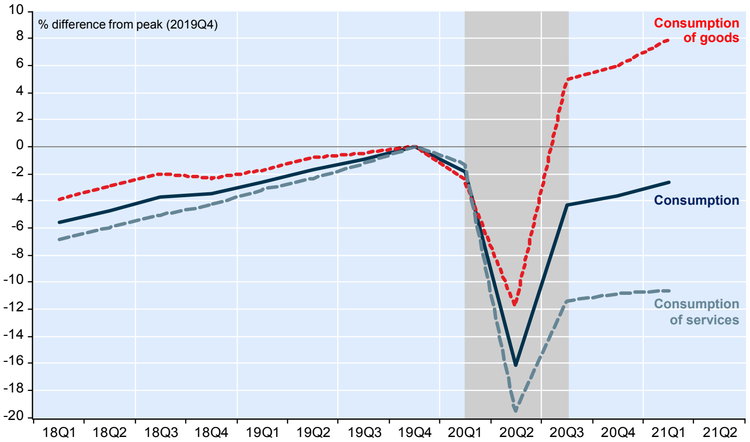
Canada: Mortgage credit spreads at a two-decade low
Mortgage credit spread (5-year mortgage rate - 5-year government bond rate)



NBF Economics and Strategy (data from Statistics Canada)

In other words, transmission of monetary policy is not an issue in this recovery and low mortgage rates are contributing to the overheating of the housing sector. But its Q1 pace seems unsustainable and a return to normal could cool economic growth in the coming quarters. Though its sale volume remains exceptional, it has been showing signs of moderation in the second quarter, with starts and home sales subsiding. The good news is that another part of the economy is ready to pick up the baton. Consumption of services, accounting for 30% of GDP, has remained abnormally low because of public-health measures, but that could change quickly,

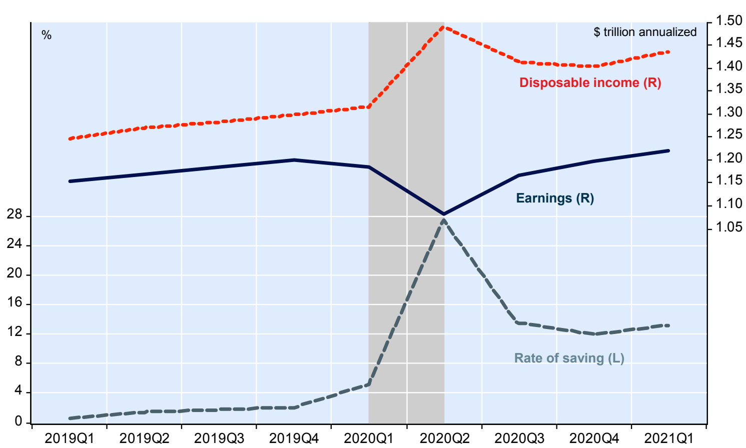
Canada: Unusually low consumption of services
Real consumption



NBF Economics and Strategy (data from Statistics Canada)

The more so in that consumers are in good financial shape to spend strongly in coming quarters. Their disposable income rose in Q1 at an annual rate of 9.5% while consumption rose at only 4.4%. So their rate of saving rose again, topping 10% for the fourth quarter in a row. The rise in the rate of saving meant that in the last five quarters households accumulated excess savings amounting to no less than 9.5% of GDP.

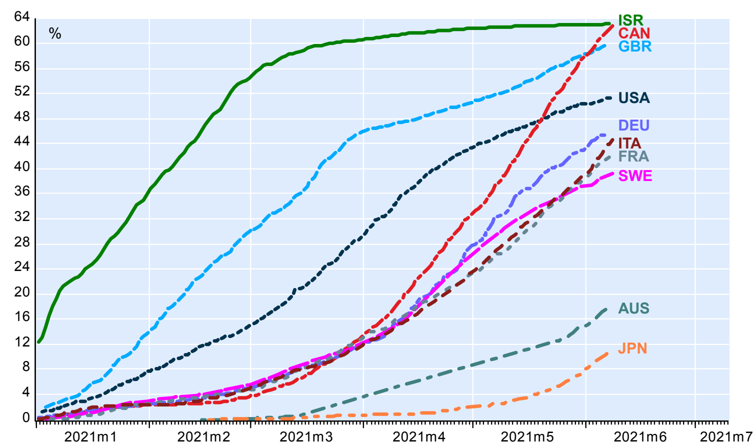
Canada: Extraordinary support of household incomes
Earnings, disposable income and rate of saving



NBF Economics and Strategy (data from Statistics Canada)

As the pandemic slows and public-health restrictions ease, the time is ripe for deployment of these savings. The rollout of vaccination began slowly but then picked up speed. At the beginning of April, Canada was more than 15 percentage points behind the U.S. in share of population vaccinated, but the gap closed quickly as Canadians showed much greater desire to get shots in their arms. The proportion of Canadians vaccinated at least once is now one of the highest in the world.

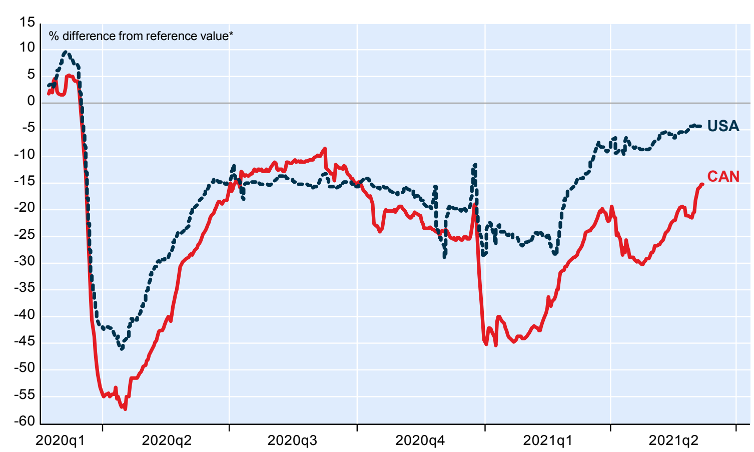
Canada: Up to the head of the pack
% of population vaccinated at least once against Covid-19



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

This month we are keeping our forecast of real growth in 2021 at 6.0%. After a pause in the recovery due to public-health measures and to production backlogs in the auto industry due to microchip shortages, impressive growth can be expected to continue with the reopening of services that entail physical proximity. Canadian mobility index for shops and recreation have resumed its uptrend after a soft patch early in the current quarter and now stands at its highest level since Q3 2020. Our forecast for 2021 growth in nominal terms is now 12.6%, unseen in 40 years.

Canada and U.S.: Return-to-normal index
Google mobility data for shops and recreation, 7-day moving average



* Reference value is the median value from January 3 to February 6 on the same day of the week as the current day
NBF Economics and Strategy (data via Google)

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)	6.9	4.3	(2.4)	7.5	2.6
Consumption	2.7	2.4	(3.9)	8.7	5.0	(2.7)	9.6	3.0
Residential construction	(0.6)	(1.7)	6.1	14.3	(0.9)	14.3	5.6	(3.8)
Business investment	6.9	2.9	(4.0)	8.3	2.7	(1.4)	7.2	1.2
Government expenditures	1.8	2.3	1.1	1.5	1.4	(0.5)	2.7	2.0
Exports	3.0	(0.1)	(12.9)	5.0	6.0	(10.9)	5.0	4.5
Imports	4.1	1.1	(9.3)	11.6	2.8	(0.6)	4.9	1.4
Change in inventories (bil. $)	53.4	48.5	(77.4)	(60.2)	(38.7)	62.1	(18.7)	4.5
Domestic demand	3.0	2.3	(2.7)	7.6	3.8	(1.5)	7.9	2.3
Real disposable income	3.6	2.2	6.0	3.9	(2.1)	3.9	1.7	2.0
Payroll employment	1.6	1.3	(5.7)	2.5	3.4	-6.0	3.9	2.5
Unemployment rate	3.9	3.7	8.1	5.6	4.2	6.8	4.8	3.9
Inflation	2.4	1.8	1.3	3.8	2.9	1.2	4.4	2.6
Before-tax profits	6.1	0.3	(5.8)	14.3	7.0	-0.7	9.4	5.0
Current account (bil. $)	(449.7)	(480.2)	(647.2)	(720.2)	(701.4)	...	...	...

** or as noted*

Financial Forecast**

	Current 6/11/21	Q2 2021	Q3 2021	Q4 2021	Q1 2022	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	0.03	0.05	0.05	0.05	0.10	0.09	0.05	0.15
Treasury yield curve								
2-Year	0.16	0.15	0.20	0.25	0.35	0.13	0.25	0.90
5-Year	0.76	0.80	0.95	1.15	1.30	0.36	1.15	1.70
10-Year	1.47	1.50	1.65	1.85	1.95	0.93	1.85	2.20
30-Year	2.15	2.20	2.30	2.40	2.50	1.65	2.40	2.65
Exchange rates								
U.S.$/Euro	1.21	1.21	1.23	1.24	1.22	1.22	1.24	1.21
YEN/U.S.$	110	110	109	108	107	103	108	104

*** 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	4.3	6.4	10.6	8.0	5.2
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.9	4.6	4.3	4.4
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	3.5	3.3	3.5
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.2	5.9	5.4	4.8

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	(5.3)	6.0	4.0	(3.1)	5.2	2.9
Consumption	2.5	1.6	(6.0)	5.0	6.2	(4.4)	5.3	5.1
Residential construction	(1.7)	(0.2)	4.1	17.9	(5.1)	14.5	2.7	(4.3)
Business investment	3.1	1.1	(13.6)	0.1	5.7	(13.9)	4.8	4.8
Government expenditures	3.2	1.7	0.4	4.8	1.7	2.4	2.9	1.5
Exports	3.7	1.3	(10.0)	5.9	5.0	(7.4)	5.2	4.7
Imports	3.4	0.4	(11.2)	7.9	5.3	(5.9)	4.8	5.1
Change in inventories (millions $)	15,486	18,766	(15,937)	4,134	13,617	(287)	16,000	13,160
Domestic demand	2.5	1.4	(4.3)	5.6	3.7	(2.0)	4.3	3.1
Real disposable income	1.5	2.2	9.5	(0.0)	(0.6)	7.4	(0.5)	1.1
Employment	1.6	2.2	(5.1)	4.4	2.8	(2.9)	3.2	2.0
Unemployment rate	5.9	5.7	9.6	7.7	6.3	8.8	6.6	6.1
Inflation	2.3	1.9	0.7	2.7	2.5	0.8	3.1	2.3
Before-tax profits	3.8	0.6	(4.0)	33.4	2.2	9.4	16.8	4.0
Current account (bil. $)	(52.2)	(47.4)	(40.1)	5.0	(38.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 6/11/21	Q2 2021	Q3 2021	Q4 2021	Q1 2022	2020	2021	2022
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
3 month T-Bills	0.11	0.10	0.15	0.15	0.20	0.07	0.15	0.70
Treasury yield curve								
2-Year	0.32	0.30	0.35	0.45	0.65	0.20	0.45	1.20
5-Year	0.83	0.85	1.00	1.20	1.35	0.39	1.20	1.80
10-Year	1.37	1.40	1.55	1.75	1.90	0.68	1.75	2.20
30-Year	1.93	1.95	2.05	2.15	2.25	1.21	2.15	2.45
CAD per USD	1.21	1.19	1.17	1.20	1.21	1.27	1.20	1.23
Oil price (WTI), U.S.$	71	66	72	75	70	48	75	65

*** 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)	(7.9)	(38.0)	41.7	9.3	5.6	1.2	7.4	6.6
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.4	3.2	3.2	3.1
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.0	2.0	2.3	2.2
Unemployment rate (%)	6.4	13.1	10.1	8.8	8.4	8.2	7.4	6.6

National Bank Financial

NATIONAL BANK OF CANADA FINANCIAL MARKETS

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	-5.3	3.9	2.6	0.8	4.1	-8.3	16.3	3.3
Prince Edward Island	2.5	5.1	-3.0	4.5	4.0	3.6	7.0	-1.0	8.1	5.0
Nova Scotia	1.9	2.4	-3.2	5.0	3.3	3.6	3.8	-1.9	8.0	4.6
New Brunswick	0.5	1.2	-3.7	4.6	3.0	3.6	3.0	-1.9	9.7	4.5
Quebec	2.9	2.7	-5.3	6.5	4.2	5.4	4.3	-4.0	11.9	5.2
Ontario	2.8	2.1	-5.8	6.1	4.2	4.1	3.8	-4.8	10.0	5.1
Manitoba	1.5	0.6	-4.8	5.1	3.5	2.5	1.0	-4.0	11.0	4.9
Saskatchewan	1.2	-0.7	-5.2	5.4	3.5	3.2	0.1	-9.2	17.3	3.7
Alberta	1.9	0.1	-8.2	6.4	4.0	3.4	2.7	-11.6	21.5	5.2
British Columbia	2.7	2.7	-3.8	6.1	4.2	4.9	4.4	-2.3	11.8	5.4
Canada	2.4	1.9	-5.3	6.0	4.0	4.2	3.6	-4.6	12.6	5.0

	Employment (% growth) 2018	2019	2020f	2021f	2022f	Unemployment rate (%) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	0.5	1.3	-5.9	3.5	0.4	14.1	12.3	14.2	13.5	12.9
Prince Edward Island	4.2	3.4	-3.2	4.0	2.2	9.4	8.6	10.6	8.2	7.9
Nova Scotia	1.9	2.3	-4.7	5.4	1.6	7.7	7.3	9.8	7.9	7.4
New Brunswick	0.6	0.7	-2.6	3.0	1.2	8.0	8.2	10.1	8.7	8.5
Quebec	1.5	2.0	-4.8	4.4	3.0	5.5	5.2	8.9	6.5	5.6
Ontario	1.7	2.8	-4.7	4.3	3.0	5.7	5.6	9.6	8.0	6.4
Manitoba	1.1	1.0	-3.7	3.2	2.0	6.0	5.4	8.0	6.9	5.8
Saskatchewan	0.6	1.7	-4.6	3.0	2.3	6.2	5.5	8.4	6.6	6.2
Alberta	1.9	0.6	-6.5	4.6	3.3	6.7	7.0	11.5	9.3	7.7
British Columbia	1.4	2.9	-6.5	5.4	2.9	4.8	4.7	9.0	6.9	5.6
Canada	1.6	2.2	-5.1	4.4	2.8	5.9	5.7	9.6	7.7	6.3

	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	1.3	0.8	1.7	1.0	0.2	2.9	2.7
Prince Edward Island	1.1	1.5	1.2	1.1	1.0	2.3	1.2	0.0	2.4	2.5
Nova Scotia	4.8	4.7	4.9	5.0	4.2	2.2	1.6	0.3	2.6	2.5
New Brunswick	2.3	2.9	3.5	3.0	2.8	2.2	1.7	0.2	2.4	2.4
Quebec	46.9	48.0	54.1	70.0	56.0	1.7	2.1	0.8	2.8	2.5
Ontario	78.7	69.0	81.3	92.0	80.0	2.4	1.9	0.6	2.8	2.5
Manitoba	7.4	6.9	7.3	7.3	6.3	2.5	2.3	0.5	2.5	2.6
Saskatchewan	3.6	2.4	3.1	4.5	3.6	2.3	1.7	0.6	2.5	2.4
Alberta	26.1	27.3	24.0	28.0	27.0	2.5	1.7	1.1	2.5	2.4
British Columbia	40.9	44.9	37.7	40.0	36.6	2.7	2.3	0.8	2.7	2.6
Canada	212.8	208.7	217.8	252.2	218.3	2.3	1.9	0.7	2.7	2.5

e: estimate f: forecast

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

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