Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

March 2021

Summary

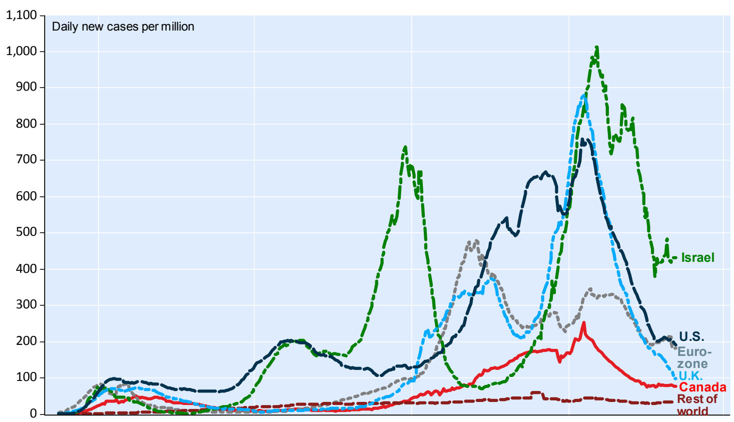
By Matthieu Arseneau and Jocelyn Paquet

- In the developed economies, the daily number of new Covid-19 infections has declined markedly in recent weeks. The result? An acceleration of the global economic recovery. Apart from the improvement in the health situation, this revival can also be explained by the sizeable fiscal aid provided by the world's governments. This support has gone way beyond the efforts made following the crisis of 2008 and its positive effects are already felt in a number of sectors. On the monetary policy front, having managed the initial shock with brio, central bankers must now focus on accompanying the recovery. Aware of high indebtedness, and criticized for having tightened monetary policy too soon in the last economic cycle, they are likely to err on the side of caution this time around. This is likely to be reflected in an environment of very low real rates, which will help governments and businesses deal with higher debt. Continuing monetary accommodation in an environment of expected robust growth is likely to firm up inflation. Heartened by recent developments, we are revising up our forecast of global growth in 2021 from 5.5% to 6.0%. This revision reflects our confidence that the U.S. economy will recover very strongly. China is likely to be another major engine of growth this year, while the Eurozone is likely to lag.
- On January 20, 2020, medical authorities confirmed the first case of Covid-19 infection on U.S. territory. Within weeks, the virus forced a complete shutdown of many parts of the economy and plunged the country into the unknown. A year later, where have we got? It must be acknowledged that the U.S. economy has been recovering from the pandemic shock much faster than expected. In the fourth quarter, real GDP was only 2.5% below the pre-crisis level. And judging by the latest data, the remaining shortfall is likely to be closed faster than we forecast last month. With business investment, household consumption and the housing market all doing better than anticipated, we have substantially revised up our forecast for first-quarter GDP growth. In further good news, there is reason to believe that massive fiscal stimulus from Washington will support continuation of this impressive rebound throughout the year. We now expect an expansion of 6.6% this year (from 5.2%) and 3.8% next year. In keeping with this outlook for growth, our inflation forecast remains higher than those of the consensus and the Fed. The private sector, already struggling to meet demand, faces a substantial rise in input costs. We think these pressures will sooner or later reach consumers. That said, we expect that inflation will remain in a range acceptable to the Fed at least through 2022.
- We are raising our outlook for 2021 GDP growth in Canada to 5.4% (from 4.2%). This significant revision is attributable to the higher-than-expected handoff from fourth-quarter growth. But what surprises us even more is Statistic Canada's preliminary estimate of 0.5% monthly growth in January despite the shutdown of nonessential businesses in Ontario and Quebec for a good part of the month. This puts paid to expectations of contraction in the first quarter. We are also more optimistic about the subsequent months. Ottawa has further extended its extraordinary income-support program, which could mean that it will be in place until the pandemic is under control. Consumption in services remains depressed due to public-health measures currently in place but things can change fast when the pandemic comes under control The Canadian economy will also benefit indirectly from the huge U.S. fiscal stimulus program and from our Southern neighbour's progress in vaccination. The surge of raw material prices, meanwhile, augurs notable improvement in Canada's terms of trade in first quarter 2021, which could mean record corporate profits. This bodes well for hiring and investment.

World: A new day dawning

In the developed economies, the daily number of new Covid-19 infections has declined markedly in recent weeks.

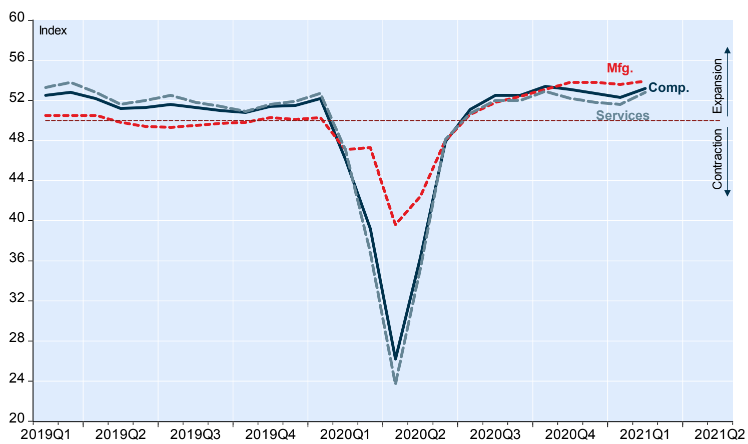
World: Abatement of the pandemic ...
Daily new cases per million population, by region, 7-day moving average



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

The result? An acceleration of the global economic recovery. For the private sector in February, Markit reports the strongest expansion in almost three years. We note that the rise of the composite PMI reflected a marked improvement in the services sector, whose vitality correlates more directly with the public-health picture. The manufacturing PMI, meanwhile, indicated the strongest expansion since February 2018.

... has resulted in sustained improvement of private-sector conditions
JPMorgan Global Composite PMI, last observation February 2021



NBF Economics and Strategy (source: Markit via Refinitiv)

This manufacturing outperformance, together with gradual reopening of economies in several countries, has been good news for producers of raw materials. The producing countries seem to be having trouble meeting the jump in demand, and prices have risen accordingly.

World: Increased demand for raw materials
Bloomberg index of commodity prices

NBF Economics and Strategy (data from Bloomberg)

The price of copper – a metal with a broad range of industrial applications – is an especially encouraging sign. Relative to the price of gold – a safe-haven commodity that tends to do well in times of uncertainty – the price of copper has not been as high since mid-2018, a sign that on global markets, fear of potential virus effects has given way to an outlook of strong growth in 2021.

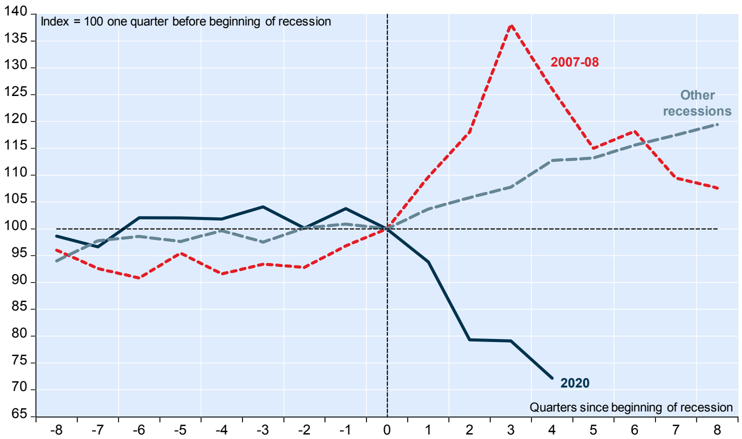
World: Confidence resurgent
Spot copper/gold ratio

NBF Economics and Strategy (data from Refinitiv)

This revival of confidence seems attributable to multiple factors, among them fiscal support from most of the world's governments. This support has gone way beyond the efforts made following the crisis of 2008 and its positive effects are already felt in a number of sectors. For example, personal consumption has been surprisingly resilient worldwide despite massive job losses resulting from the public health crisis and associated shutdowns. This is due in large part to the income-replacement programs deployed in the developed economies (cheques to households, wage subsidies, etc.). This assistance has cushioned the pandemic hit to consumption and will allow beneficiary households to make it through to the other side of the crisis.

Private enterprise has also benefited from fiscal support. Through subsidies or facilitation of access to credit, governments have managed to limit business bankruptcies. Judging by recent IMF data, the number of such bankruptcies has even declined since the beginning of the pandemic, an unusual turn of events in a recession.

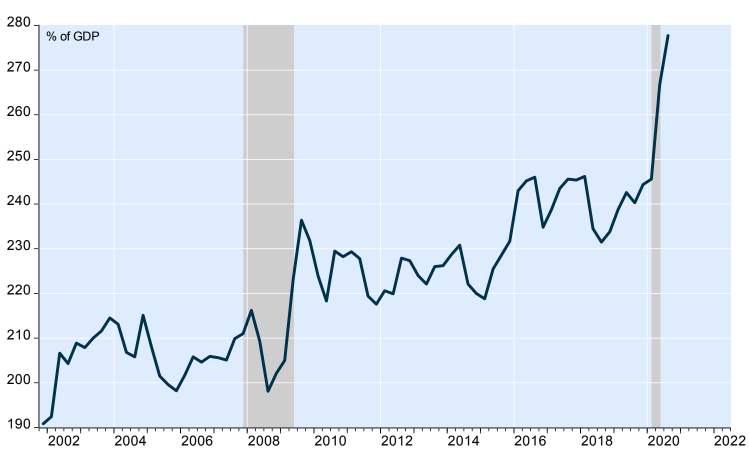
World: Not the anticipated catastrophe for businesses
Index tracking the number of bankruptcies in 13 developed economies



NBF Economics and Strategy (data from IMF)

Government generosity will of course have long-term effects. The rapid increase of public debt will sooner or later force hard choices on political decision-makers. The surge of corporate debt also bears watching for its potential to limit profitability going forward.

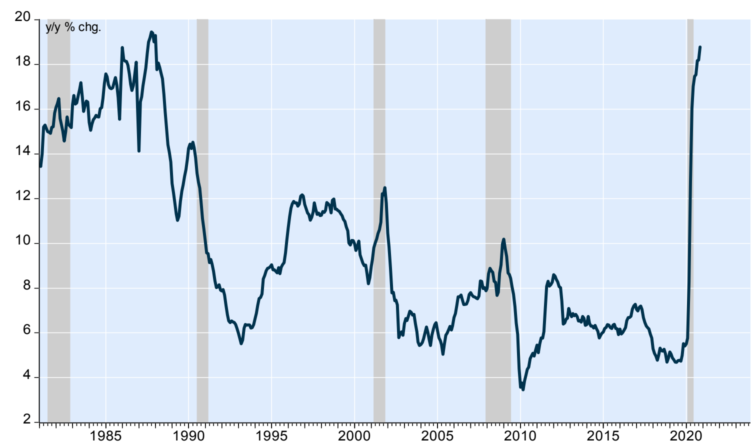
World: The pandemic will leave marks
Total nonfinancial credit as % of GDP, Last observation 2020 Q3



NBF Economics and Strategy (data from Bank for International Settlements)

This where the central banks come in. To avoid debt service becoming too large a burden on government and business, central banks have to keep monetary policy accommodative as long as possible. From the beginning of the pandemic they have been highly pro-active, cutting their policy rates to the floor and (in many cases) launching massive asset-purchase programs. These moves have injected enormous volumes of liquidity into the financial system…

World: Serious support from central banks
Change in M3 money supply in OECD countries



NBF Economics and Strategy (data from OECD)

… and greatly reduced market stress.

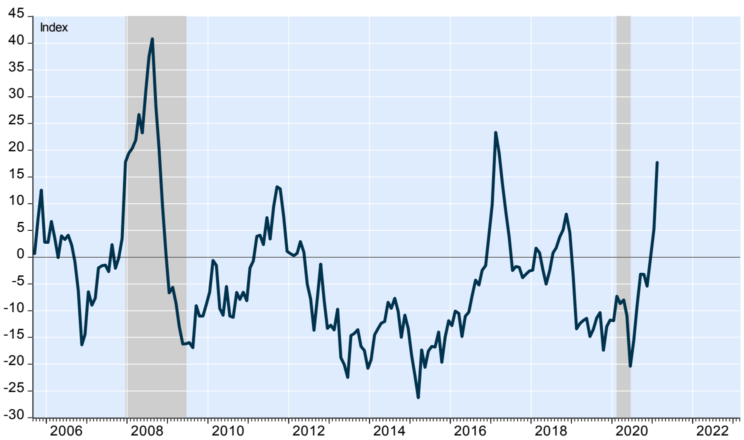
World: Market stress back to pre-pandemic level
OFR Financial Stress Index

NBF Economics and Strategy (source: Office of Financial Research via Bloomberg)

Having managed the initial shock with brio, central bankers must now focus on accompanying the recovery. Aware of high indebtedness, and criticized for having tightened monetary policy too soon in the last economic cycle, they are likely to err on the side of caution this time around. This is likely to be reflected in an environment of very low real rates, which will help governments and businesses deal with higher debt.

Continuing monetary accommodation in an environment of expected robust growth is likely to firm up inflation. Price rises are already exceeding expectations in many regions of the world and this trend is likely to continue.

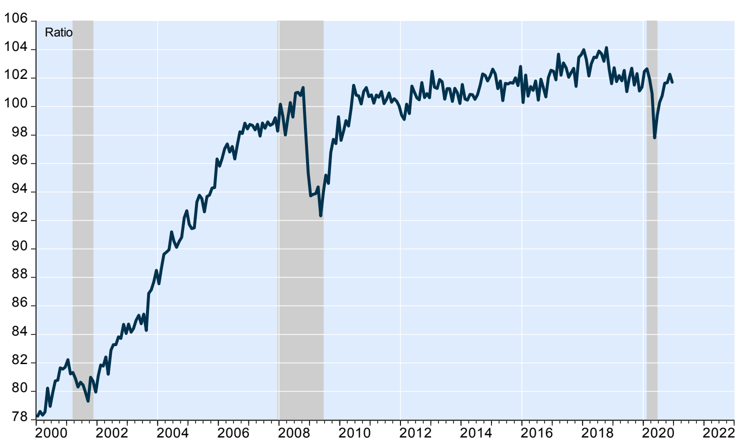
World: Healthy growth and loose monetary policy mean more inflation
Global CITI Inflation Surprise Index



NBF Economics and Strategy (data from Bloomberg)

Contributing to this likelihood is the prospect that some of the factors that limited inflation in recent years will have less effect going forward. One such factor is globalization. After China joined the World Trade Organization in 2001, production of many goods moved to countries with lower costs. Most of the gains from this process are now behind us. Moreover, political conditions today seem to favour a reversal of this trend. Protectionism is gaining more and more adherents as the Covid-19 crisis encourages a repatriation (or at least a diversification) of supply chains.

World: Are globalization gains behind us?
Ratio of world trade index to global industrial production index



NBF Economics and Strategy (data from CPB)

Heartened by recent developments, we are revising up our forecast of global growth in 2021 from 5.5% to 6.0%. This revision reflects our confidence that the U.S. economy will recover very strongly (see below). China is likely to be another major engine of growth this year, while the Eurozone is likely to lag.

World Economic Outlook	2020	2021	2022
Advanced Economies	**-4.7**	**5.1**	**3.7**
United States	-3.5	6.6	3.8
Eurozone	-6.6	4.3	4.0
Japan	-4.9	2.7	2.3
UK	-10.0	5.5	4.9
Canada	-5.4	5.4	4.0
Australia	-2.4	3.9	3.3
Korea	-1.0	3.5	3.0
Emerging Economies	**-2.3**	**6.6**	**5.0**
China	2.3	8.4	5.5
India	-7.5	11.0	6.2
Mexico	-8.2	4.3	2.6
Brazil	-4.1	3.5	2.6
Russia	-3.1	3.5	3.0
World	**-3.3**	**6.0**	**4.4**

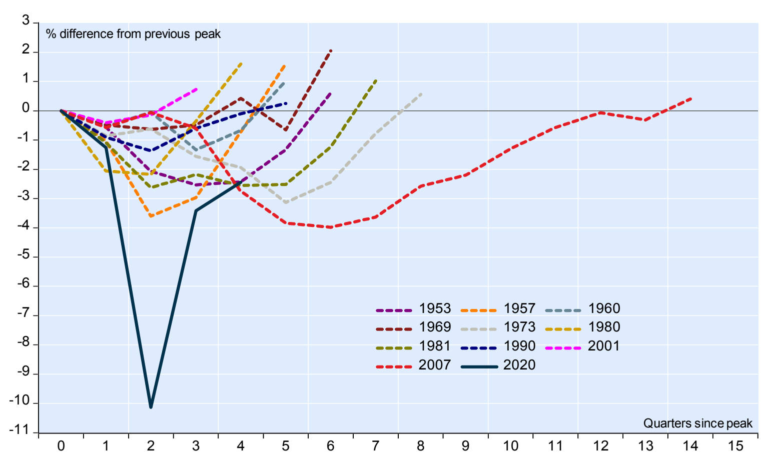
NBF Economics and Strategy (data via NBF and Conensus Economics)

U.S.: The stars align

On January 20, 2020, U.S. medical authorities confirmed the first case of Covid-19 infection on U.S. territory. Within weeks, the virus forced a complete shutdown of many parts of the economy and plunged the country into the unknown.

A year later, where have we got? It must be acknowledged that the U.S. economy has been recovering from the pandemic shock much faster than expected. In the fourth quarter, real GDP was only 2.5% below the pre-crisis level.

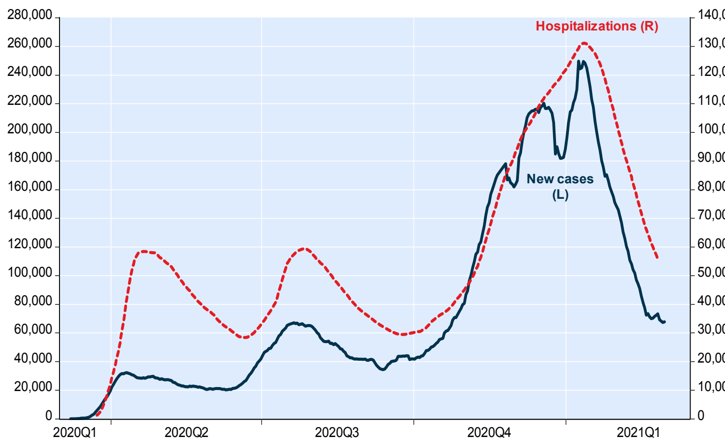
U.S.: Unprecedented fall, rapid rebound
Quarterly real GDP, % difference from previous peak



NBF Economics and Strategy (data from Refinitiv)

And judging by the latest data, the remaining shortfall is likely to be closed faster than we forecast last month. First, both the daily number of new Covid-19 cases and the number of people in hospitals with the virus are down sharply.

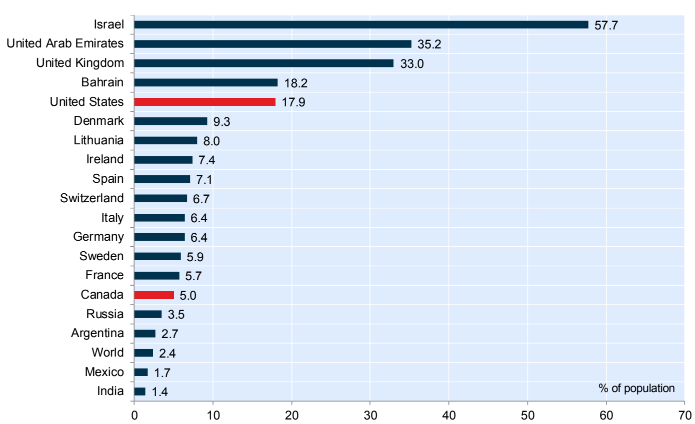
U.S.: Rapid improvement in the pandemic picture
Daily new cases of Covid-19 and number of Covid patients in hospitals, 7-day moving averages



NBF Economics and Strategy (data from Johns Hopkins CSSE)

In other encouraging news, vaccination is moving right along. Almost 20% of the U.S. population has now received at least one dose and President Biden has announced that all adults who want it can be inoculated by the end of May.

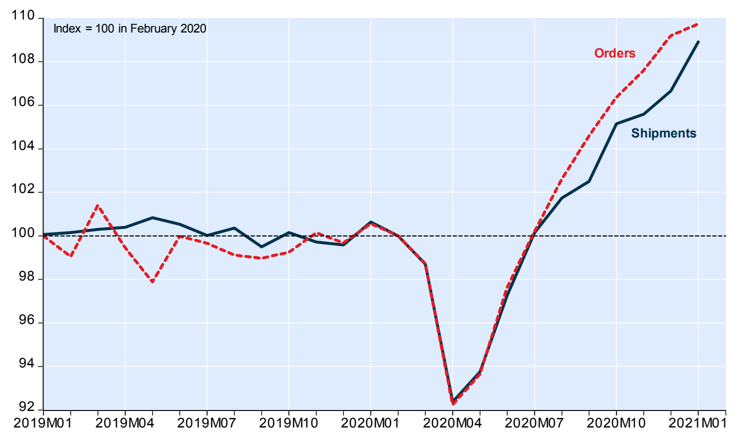
U.S.: Vaccination going faster than expected
% of population that has received at least one dose of vaccine against Covid-19



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

The improvement of the epidemiological picture will of course allow a fuller reopening of the economy. Not that output seems to have suffered greatly from the third wave of infection. Business investment in machinery and equipment remains solid in early 2021, judging by the latest report of durable goods orders showing a 2.1% increase in shipments of nonmilitary goods other than aircraft in January, well above the expected +0.6%. This strong gain leaves core shipments at an all-time high, 8.9% above their pre-recession peak. January core orders, an indicator of future capital spending, also added to their rise from the pre-crisis peak.

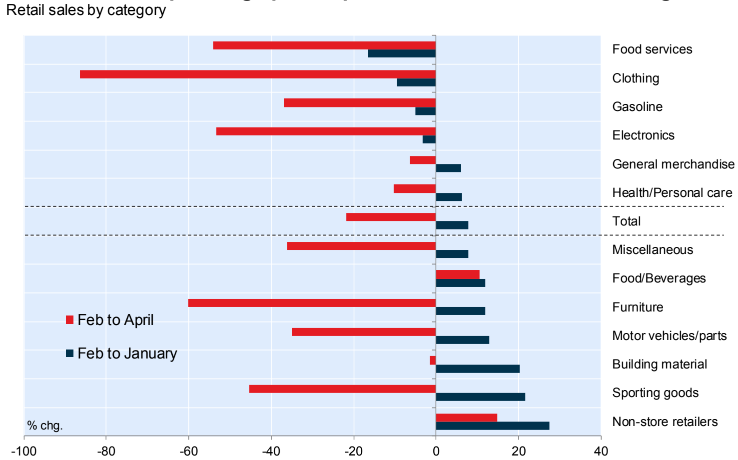
U.S.: Business investment very strong early in Q1
Orders and shipments of nonmilitary equipment other than aircraft



NBF Economics and Strategy (data from Refinitiv)

Also surprising on the upside was household consumption. January retail sales were up 5.3% from the previous month, far exceeding the consensus estimate of +1.1%. The January expansion was the second-largest on record apart from the months directly following pandemic-related lockdowns. All 13 categories of retail sales were up on the month, a showing that has occurred only five times since this data series began in 1992. Nine of these categories are now fully recovered from the pandemic shock. Of the other four, three are the ones most affected by physical distancing requirements – restaurants and bars (down 16.4% from the pre-pandemic peak), clothing (−9.6%) and gasoline stations (−5.0%). These are likely to recover quickly once the positive effects of vaccination campaigns are felt.

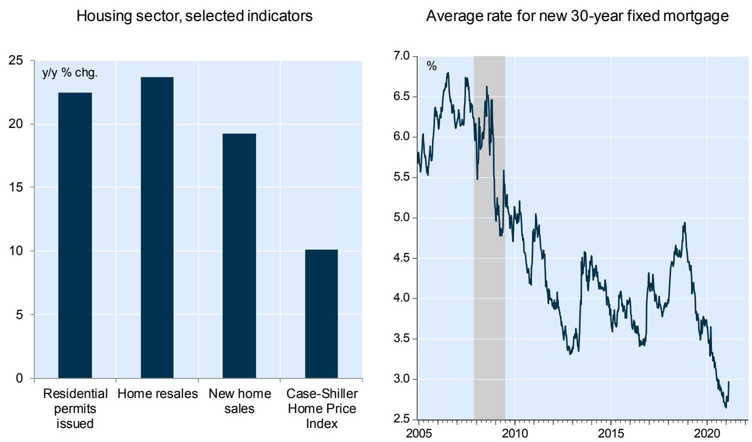
United States: Spending up from pre-COVID levels in 9 of 13 categories
Retail sales by category



NBF Economics and Strategy (data via Refinitiv)

Housing is another segment of the economy that has seemingly refused to slow in Q1. Residential construction permits reached a 15-year high in January and existing-home sales are close to their 15-year high of last October. New-home sales, meanwhile, are running well above the pre-crisis rate. The recent rise of mortgage rates could slow the momentum somewhat, but borrowing costs remain so low by historical standards that they are unlikely to present a major obstacle anytime soon.

U.S.: An effervescent housing sector

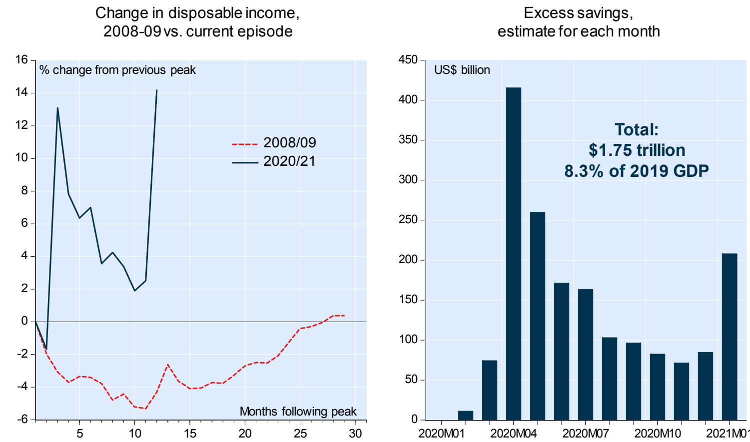


NBF Economics and Strategy (data from Refinitiv and Freddie Mac)

With business investment, household consumption and the housing market all doing better than expected, we have substantially revised up our forecast for first-quarter GDP growth (to 8.6% annualized).

In further good news, there is reason to believe that massive fiscal stimulus from Washington will support continuation of this impressive rebound throughout the year. Disposable income jumped 11.4% in the first month of the year (the second-largest rise since record-keeping began in the late 1950s), as assistance cheques reached U.S. households under the $900-billion stimulus package adopted late in Donald Trump's presidency. Households saved much of that aid, with the result that by our calculation, the excess savings accumulated since the beginning of the crisis now total $1.75 trillion – 8.3% of 2019 GDP.

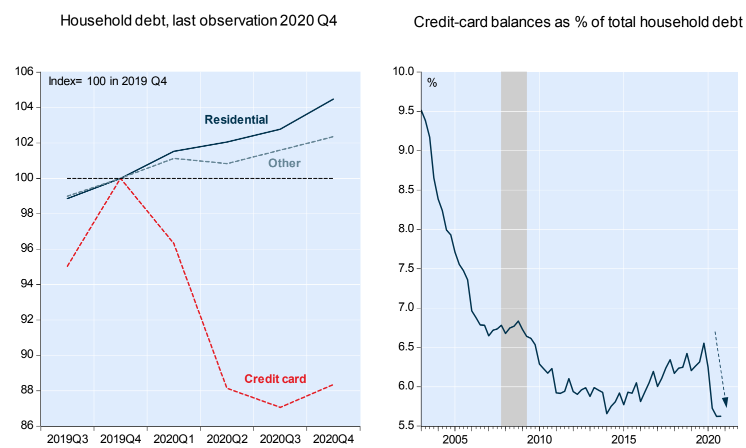
U.S.: Aid cheques to households send disposable income soaring



NBF Economics and Strategy (data from Refinitiv)

These funds alone would have sufficed to sustain consumer spending in the second half of 2021 and the beginning of 2022. But now the U.S. Congress is about to adopt a still more imposing $1.9-trillion stimulus package that extends improved unemployment insurance to September and provides a new round of cheques to households. It is accordingly difficult to imagine a slowing of consumption in the rest of 2021, the more so since household net assets are in better shape than a year ago. Credit-card balances have declined no less than 11.7% (−$108 billion) in the last 12 months. They now account for no more than 5.6% of total household debt – the lowest share on record.

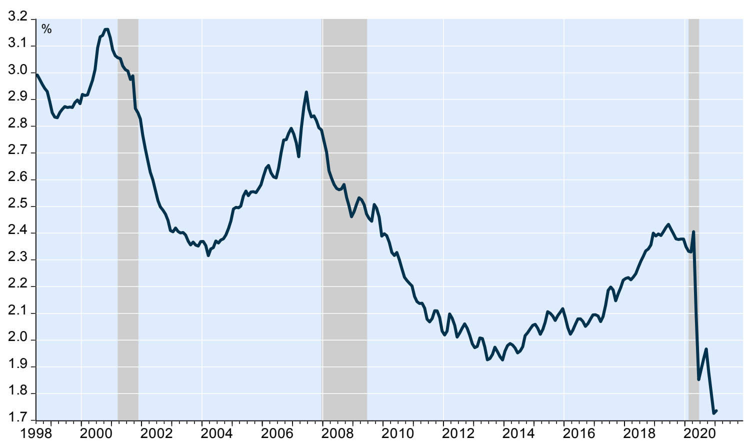
U.S.: Households use fiscal stimulus to improve their balance sheets



NBF Economics and Strategy (data from Federal Reserve)

True, this reduction has been more than offset by a 4.5% rise (+$445 billion) in residential property debt (mortgage debt plus lines of credit), but mortgage interest rates are well below those paid on credit-card balances. This reallocation of debt, combined with an overall decline of interest rates, has led to a marked decrease in the share of personal spending going to interest payments, another factor adding to the option room of U.S. consumers.

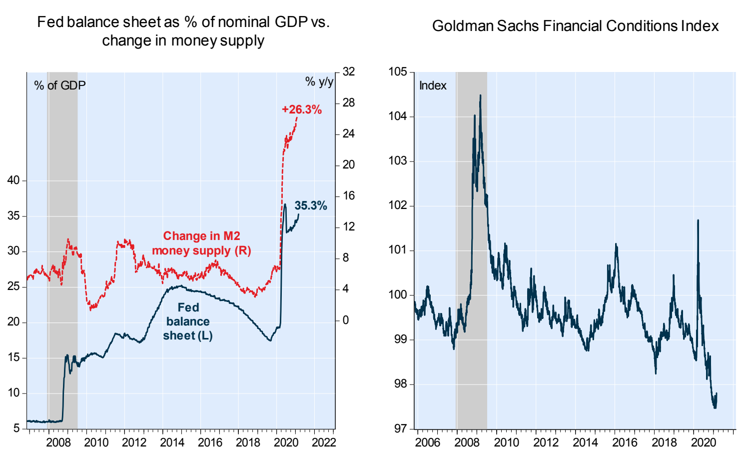
U.S.: Sharp drop in household interest payments
Interest payments as % of total personal expenditures



NBF Economics and Strategy (data from Refinitiv)

They are of course are not immune to a sudden rise of interest rates that would reverse this trend, but we take comfort from the current message of the Federal Reserve. The U.S. central bank seems inclined to maintain its accommodative tone for a good while longer; we expect the first rise of policy rates no sooner than early 2023. Until then, financial conditions are likely to remain relaxed, helping consumers, businesses and financial markets alike.

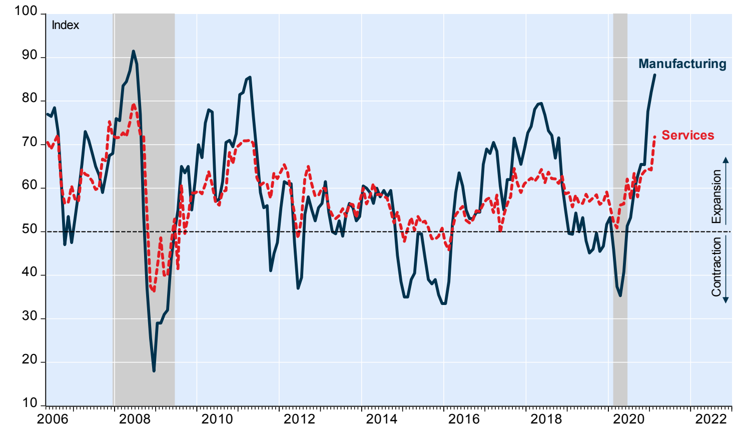
U.S.: The Fed in accommodative mode for a good while yet



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

So fiscal and monetary policy seem aligned to support a very vigorous recovery of the U.S. economy in 2021 and 2022. We now expect an expansion of 6.6% this year (from 5.2%) and 3.8% next year. In keeping with this outlook for growth, our inflation forecast remains higher than those of the consensus and the Fed. The private sector, already struggling to meet demand, faces a substantial rise in input costs. We think these pressures will sooner or later reach consumers. That said, we expect that inflation will remain in a range acceptable to the Fed at least through 2022.

U.S.: Will cost increases be passed on to consumers?
ISM PMI, prices paid

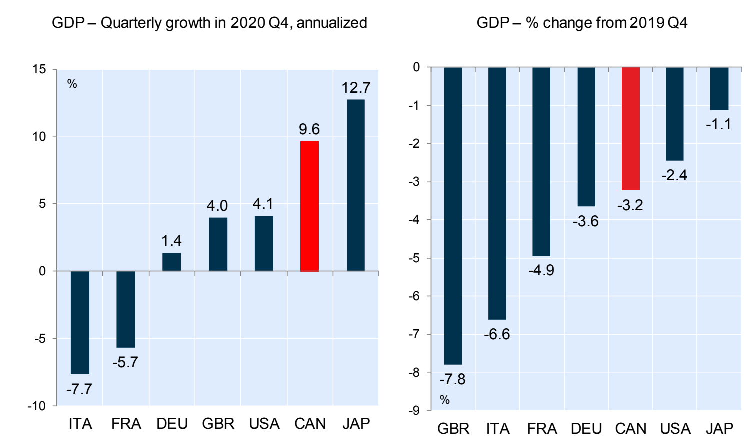


NBF Economics and Strategy (data from Refintiv)

Canada: A strong year end

With the release of national accounts for the last quarter of 2020, we have an overall picture of Canadian GDP for the year. Its contraction of 5.4% far exceeds the previous record of 3.2% in 1982. More important, we now have a much better view of the pace of recovery in the fourth quarter, and the numbers are impressive in the circumstances – growth at an annual rate of 9.6%, the second strongest among G7 countries, bringing the Canadian economy within 3.2% of its output in the fourth quarter of 2019. An enviable position in relative terms.

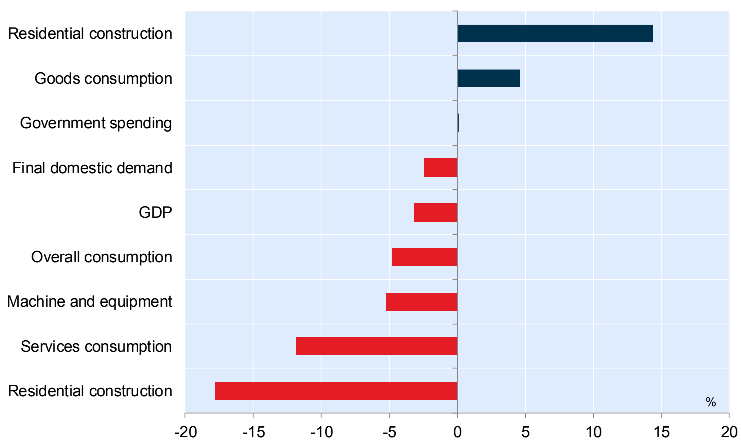
Canada: An enviable recovery



NBF Economics and Strategy (data via Refinitiv)

The Q4 growth came in large part from inventories, which bounced back after substantial declines in previous quarters. Domestic demand, meanwhile, continued to expand despite the continuing hit to consumption of services from physical distancing rules and the depressed state of nonresidential real estate resulting from low demand for office space and shopping centres.

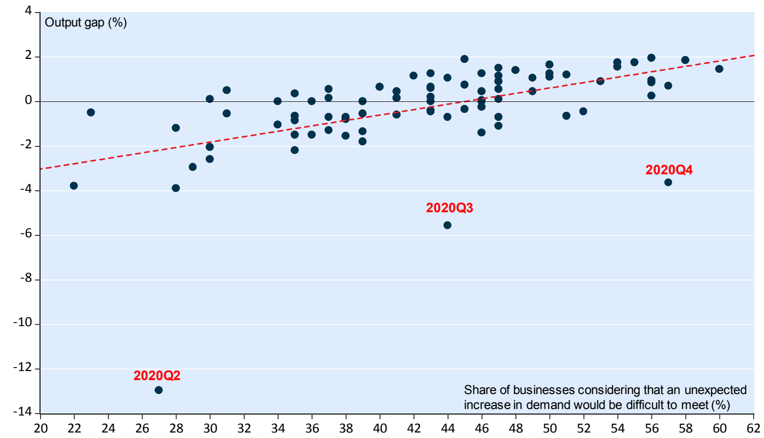
Canada: GDP components show a very wide variation of recovery
Gross domestic product in 2020 Q4 – change from 2019 Q4



NBF Economics and Strategy (data via Statistics Canada)

One thing is certain: for the Bank of Canada, as for most forecasters, the fourth-quarter expansion came as a surprise. In its January Monetary Policy Report the Bank had expected growth to come in at 4.8% annualized. By our calculations, the output gap (the percentage difference between actual GDP and potential GDP estimated by two methods), which the Bank had estimated at −4.6%, shrank to −3.6%. That is still a substantial gap, comparable to that prevailing at the trough of the recession of 2008-09. But this disinflationary picture assumes that the Bank's estimate of potential GDP is on the mark. What is the potential output of an economy whose governments decree shutdown of some sectors and promote remote working? What is it when part of the population is persistently afraid to move around freely? We have no problem with the Bank of Canada's estimate for purposes of a long-term (post-pandemic) outlook. But the short term is another matter. Indeed, some indicators other than the output gap suggest much greater pressure on production capacity and prices in Canada. In Q4, 57% of businesses thought they would have a hard time meeting an increase in demand, a percentage that would in normal circumstances be consistent with an economy operating above its potential (i.e. positive output gap).

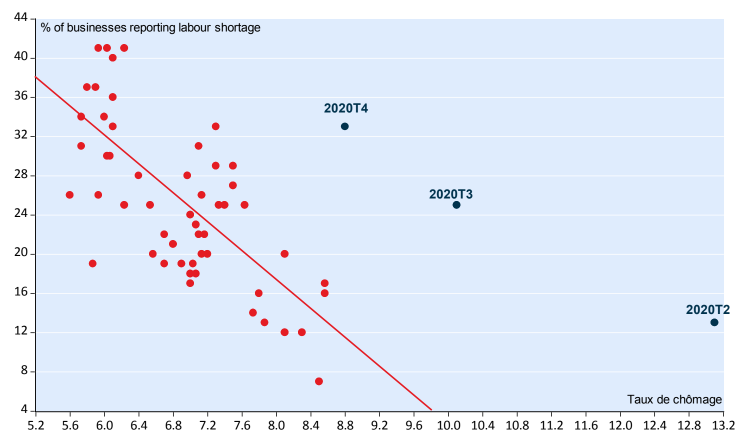
Canada: Is the BoC estimate of output gap misleading for inflation?
Average of the two BoC output gap measures and capacity pressures felt by corporations



NBF Economics and Strategy (data via Bank of Canada)

But how come businesses are feeling capacity pressure when so many workers are on the sidelines? In the fourth quarter, one-third of employers reported labour shortages, a portion that in the previous cycle went with an unemployment rate of 6%. But in Q4 the unemployment rate was 8.8%.

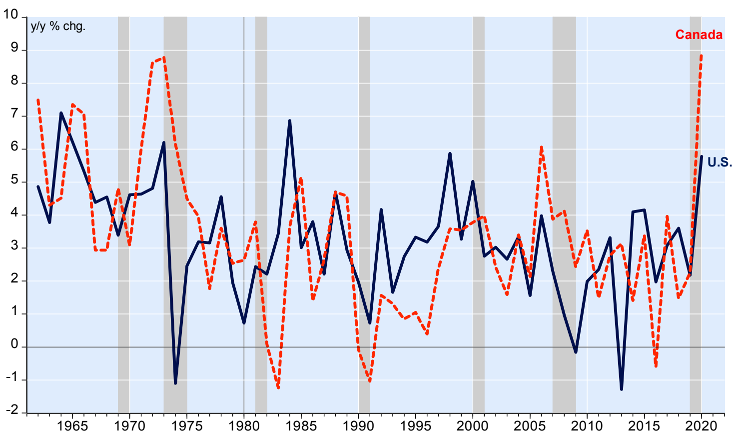
Canada: Labour shortages despite high unemployment
% of businesses reporting labour shortage vs. unemployment rate (2007-2021)



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

It could be that some people turfed out of the labour market by the crisis do not meet the needs of businesses currently in operation. But it's not only that. Some workers have not been in a hurry to return to work. Those who lost their jobs in the pandemic continue to receive generous support from the federal government, as attested by income data. Real household disposable income in the fourth quarter was up 6.8% from the same quarter a year earlier. For the year as a whole, real disposable income was up 9.0%, the most since the beginning of record-keeping. That rise not only supported consumption during the year but could buoy it in coming quarters as well. Over the four quarters of 2020, a higher rate of saving resulted in an increase of household savings equivalent to no less than 8.0% of GDP.

Canada: Unprecedented rise of real disposable income

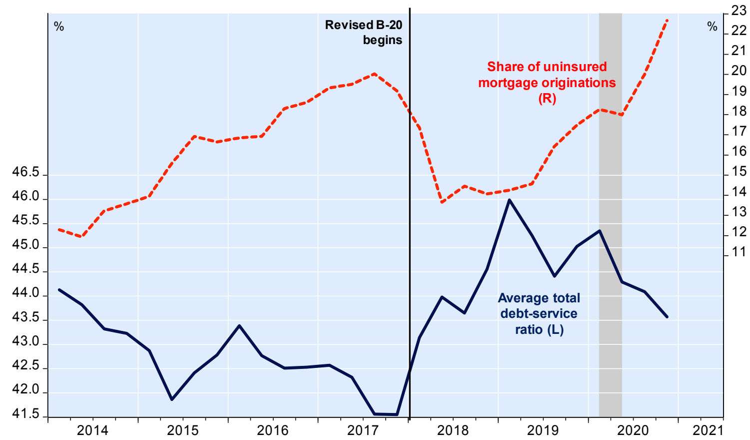


NBF Economics and Strategy (data from Statistics Canada)

Despite this environment propitious to a rise of the inflation rate, and although two of the Bank of Canada's three measures of core inflation are already at its target, its governor Tiff Macklem in his most recent speech shows no discomfort with the fiscal and monetary accommodation currently in place. Even about real estate the governor seems not too worried for the moment. He noted early signs of excess exuberance but maintained that the market was a long way from the 2016-17 boom. Yet prices in no fewer than 69% of the country's 32 large housing markets – a record percentage – are rising at a double-digit annual rate, compared to 55% in 2016-17. The Bank of Canada's Financial System Review of June 2016 noted that the loan-to-income ratio is a useful measure because, unlike the debt-service ratio, it contributes to a through-the-cycle assessment of the vulnerability of indebted households. In the 2016-17 episode, the central bank was closely tracking borrowers with loan-to-income ratios of more than 450% because of they risk they presented to the financial system. In data from two months of Q4 2020, the proportion of highly indebted uninsured mortgage borrowers reported by the OSFI was a record 23%, surpassing the peak reached in the 2016-17 boom. True, the average debt-service ratio for those borrowers is trending down because of record-low mortgage rates, but a through-the-cycle outlook requires caution. In 2016-17, these concerns were addressed by a tightening of macroprudential measures and this could happen again. Such a move would buy the central bank time before hiking its policy rate, which we do not see coming before early 2023. That said, we continue to think the Bank could slow the pace of purchases under its quantitative easing program (see our *Monthly Fixed Income Monitor*).

Canada: Share of vulnerable borrowers tops 2017 peak

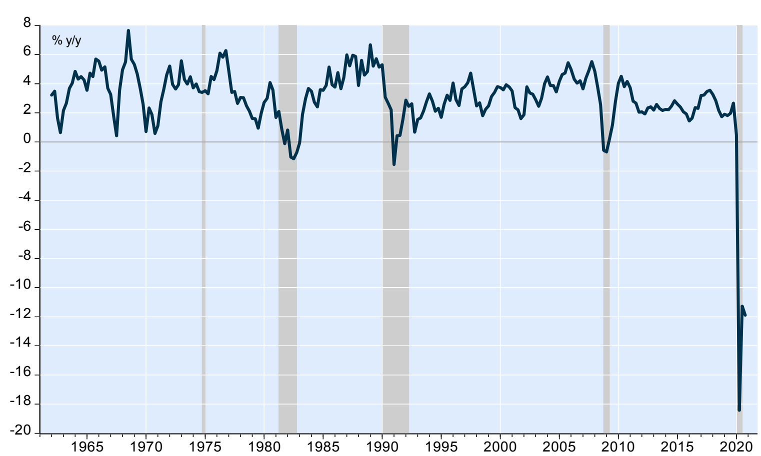
Share of originations with loan-to-income ratio (LTI) greater than 450%, vs. average debt-service ratio



NBF Economics and Strategy (data via OSFI)

We are raising our outlook for 2021 GDP growth to 5.4% (from 4.2%). This significant revision is attributable to the higher-than-expected handoff from fourth-quarter growth. But what surprises us even more is Statistic Canada's preliminary estimate of 0.5% monthly growth in January despite the shutdown of nonessential businesses in Ontario and Quebec for a good part of the month. This puts paid to expectations of contraction in the first quarter. We are also more optimistic about the subsequent months. Ottawa has further extended its extraordinary income-support program, which could mean that it will be in place until the pandemic is under control. Consumptions in services remains depressed due to public-health measures currently in place but things can change fast over the coming year. Since consumption of services accounts for 30% of GDP, a return to the old normal would be enough by itself to close the output gap estimated by the central bank.

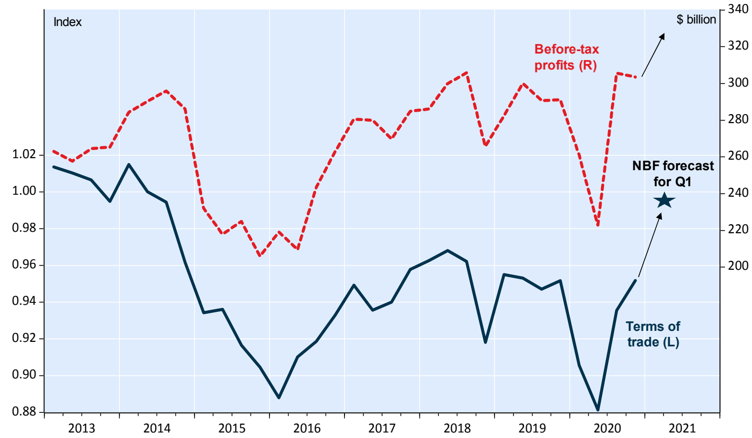
Canada: Unprecedented contraction in consumption of services



NBF Economics and Strategy (data from Statistics Canada)

Moreover, the Canadian economy will benefit indirectly from the huge U.S. fiscal stimulus program and from U.S. progress in vaccination (assuming excess vaccines South of the border will be shipped to Canada starting in June). The surge of raw material prices, meanwhile, augurs notable improvement in Canada's terms of trade in first quarter 2021, which could mean record corporate profits. This bodes well for hiring and investment.

Canada: Best terms of trade since 2014?
Before-tax profits and terms of trade



NBF Economics and Strategy (data from Statistics Canada)

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)	6.6	3.8	(2.4)	6.6	2.7
Consumption	2.7	2.4	(3.9)	7.1	4.3	(2.6)	7.1	3.0
Residential construction	(0.6)	(1.7)	6.0	14.9	(2.2)	14.1	6.1	(5.0)
Business investment	6.9	2.9	(4.0)	7.8	2.2	(1.2)	6.2	0.6
Government expenditures	1.8	2.3	1.1	1.5	2.1	(0.6)	3.0	2.5
Exports	3.0	(0.1)	(13.0)	8.9	6.9	(11.0)	9.5	5.5
Imports	4.1	1.1	(9.3)	12.7	2.4	(0.6)	5.7	1.0
Change in inventories (bil. $)	53.4	48.5	(80.9)	42.1	35.4	48.0	30.4	6.2
Domestic demand	3.0	2.3	(2.7)	6.5	3.3	(1.5)	6.2	2.2
Real disposable income	3.6	2.2	5.8	0.5	(1.0)	3.2	2.0	-0.1
Payroll employment	1.6	1.3	(5.7)	2.3	3.0	-6.0	3.6	2.0
Unemployment rate	3.9	3.7	8.1	5.3	4.2	6.8	4.6	4.2
Inflation	2.4	1.8	1.3	2.7	2.4	1.2	2.7	2.5
Before-tax profits	6.1	0.3	(5.7)	13.4	6.2	-0.4	7.0	6.0
Current account (bil. $)	(449.7)	(480.2)	(626.4)	(666.3)	(647.5)	...	...	...

** or as noted*

Financial Forecast**

	Current 3/10/21	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	0.04	0.05	0.10	0.10	0.10	0.09	0.10	0.15
Treasury yield curve								
2-Year	0.16	0.15	0.20	0.25	0.30	0.13	0.30	0.85
5-Year	0.80	0.85	0.95	1.05	1.15	0.36	1.15	1.55
10-Year	1.53	1.60	1.70	1.80	1.90	0.93	1.90	2.25
30-Year	2.24	2.30	2.35	2.45	2.50	1.65	2.50	2.70
Exchange rates								
U.S.$/Euro	1.19	1.19	1.22	1.23	1.22	1.22	1.22	1.19
YEN/U.S.$	109	108	106	105	105	103	105	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	4.1	8.6	7.7	5.8	4.4
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.8	3.3	2.8	2.7
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	2.2	1.7	1.9
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.2	5.5	4.9	4.6

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)	5.4	4.0	(3.2)	4.3	3.1
Consumption	2.5	1.6	(6.1)	4.5	4.8	(4.8)	4.8	3.5
Residential construction	(1.7)	(0.2)	3.9	10.2	(1.5)	14.4	(3.3)	0.0
Business investment	3.1	1.1	(13.1)	0.9	6.8	(13.1)	4.9	7.1
Government expenditures	3.2	1.7	(0.3)	3.3	2.2	1.3	1.9	2.1
Exports	3.7	1.3	(9.8)	6.4	4.7	(7.1)	5.3	4.8
Imports	3.4	0.4	(11.3)	7.0	4.4	(6.0)	3.7	4.5
Change in inventories (millions $)	15,486	18,766	(15,533)	11,075	15,525	1,721	15,300	14,300
Domestic demand	2.5	1.4	(4.5)	4.4	3.7	(2.5)	3.3	3.0
Real disposable income	1.5	2.2	9.0	(2.9)	0.2	6.8	(2.4)	1.1
Employment	1.6	2.2	(5.1)	4.0	2.7	(2.9)	2.7	2.0
Unemployment rate	5.9	5.7	9.6	8.2	7.0	8.8	7.3	6.8
Inflation	2.3	1.9	0.7	2.5	2.3	0.8	2.6	2.3
Before-tax profits	3.8	0.6	(6.1)	15.5	5.4	4.3	5.7	6.0
Current account (bil. $)	(52.2)	(47.4)	(42.7)	(25.0)	(35.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 3/10/21	*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	0.11	0.10	0.15	0.15	0.20	0.07	0.20	0.30
Treasury yield curve								
2-Year	0.25	0.25	0.30	0.40	0.50	0.20	0.50	0.95
5-Year	0.92	0.95	1.00	1.10	1.15	0.39	1.15	1.55
10-Year	1.41	1.50	1.55	1.65	1.75	0.68	1.75	2.15
30-Year	1.84	1.85	1.90	1.95	2.00	1.21	2.00	2.20
CAD per USD	1.26	1.28	1.25	1.23	1.20	1.27	1.20	1.22
Oil price (WTI), U.S.$	64	61	62	64	65	48	65	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)	(7.5)	(38.5)	40.6	9.6	3.6	3.4	5.1	5.3
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.6	3.0	2.9	2.6
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.3	2.1	2.3	2.2
Unemployment rate (%)	6.4	13.1	10.1	8.8	9.0	8.6	7.9	7.3

National Bank Financial

Provincial economic forecast

	Real GDP (% growth)					Nominal GDP (% growth)				
	2018	2019	2020f	2021f	2022f	2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	-3.5	4.0	-6.0	3.5	2.8	0.8	4.1	-9.0	12.2	4.6
Prince Edward Island	2.5	5.1	-3.5	4.5	4.0	3.6	7.0	-1.3	6.2	6.8
Nova Scotia	1.9	2.4	-4.0	5.0	3.3	3.6	3.8	-2.7	6.9	5.0
New Brunswick	0.5	1.2	-3.5	4.2	3.3	3.6	3.0	-1.7	8.3	5.4
Quebec	2.9	2.7	-5.2	5.2	4.2	5.4	4.3	-3.5	8.1	6.1
Ontario	2.8	2.1	-5.6	5.4	4.1	4.1	3.8	-3.8	8.0	6.0
Manitoba	1.5	0.6	-3.9	4.5	3.5	2.5	1.0	-3.1	9.3	5.2
Saskatchewan	1.2	-0.7	-4.8	4.7	3.5	3.2	0.1	-8.9	12.7	4.5
Alberta	1.9	0.1	-7.5	6.0	3.7	3.4	2.7	-9.7	15.8	5.0
British Columbia	2.7	2.7	-4.7	5.5	4.2	4.9	4.4	-3.2	9.8	5.4
Canada	2.4	1.9	-5.4	5.4	4.0	4.2	3.6	-4.6	9.6	5.6

	Employment (% growth)					Unemployment rate (%)				
	2018	2019	2020f	2021f	2022f	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	2.7	5.5	5.2	8.9	7.5	6.4
Ontario	1.7	2.8	-4.7	3.9	2.8	5.7	5.6	9.6	8.5	7.0
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	2.3	6.2	5.5	8.4	8.1	7.4
Alberta	1.9	0.6	-6.5	4.6	3.2	6.7	7.0	11.5	10.3	8.8
British Columbia	1.4	2.9	-6.5	4.2	2.6	4.8	4.7	9.0	6.3	5.5
Canada	1.6	2.2	-5.1	4.0	2.7	5.9	5.7	9.6	8.2	7.0

	Housing starts (000)					Consumer Price Index (% growth)				
	2018	2019	2020f	2021f	2022f	2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	1.1	0.9	0.8	0.7	0.6	1.7	1.0	0.2	2.7	2.5
Prince Edward Island	1.1	1.5	1.2	1.3	1.2	2.3	1.2	0.0	2.2	2.3
Nova Scotia	4.8	4.7	4.9	4.5	4.2	2.2	1.6	0.3	2.4	2.3
New Brunswick	2.3	2.9	3.5	3.4	2.9	2.2	1.7	0.2	2.2	2.2
Quebec	46.9	48.0	54.1	51.0	48.3	1.7	2.1	0.8	2.6	2.3
Ontario	78.7	69.0	81.3	77.8	76.0	2.4	1.9	0.6	2.6	2.3
Manitoba	7.4	6.9	7.3	6.3	6.1	2.5	2.3	0.5	2.3	2.4
Saskatchewan	3.6	2.4	3.1	3.0	3.2	2.3	1.7	0.6	2.3	2.2
Alberta	26.1	27.3	24.0	25.5	27.0	2.5	1.7	1.1	2.3	2.2
British Columbia	40.9	44.9	37.7	36.5	35.5	2.7	2.3	0.8	2.5	2.4
Canada	212.8	208.7	217.8	210.0	205.0	2.3	1.9	0.7	2.5	2.3

e: estimate f: forecast

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

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