July-August 2021

Summary

By Matthieu Arseneau and Jocelyn Paquet

- After substantial progress in the struggle against Covid-19, the world faces a new enemy in the Delta variant. The new threat seems to have led many investors to question the possibility of vigorous recovery of the global economy and to go back to safe-haven vehicles such as USD-denominated bonds. Is the market justified in its fears for world output? Our answer to this question varies according to the degree of immunity attained in each region. In developed economies, where vaccination rollouts have been moving right along, Delta could bring a rise in new cases without overwhelming health-care systems. Since the main aim of public-health restrictions in developed countries has always been to avoid hospitalizations and fatalities rather than to prevent spread, current conditions are still consistent with a gradual reopening. The outlook for the emerging countries is not so upbeat. Their lag in vaccinations increases the risk that one or more of them will go where India went earlier this year. Though far-reaching restrictions are fairly rare in the emerging economies, the virus could still poop the party by forcing more localized restrictions. Despite a rise in uncertainty, we have left our global growth forecast unchanged for both 2021 (6.0%) and 2022 (4.5%).

- The U.S. economy is recovering fast. After an expansion of 6.4% annualized in the first quarter of the year, we expect Q2 to show an acceleration to about 10%. As in recent months, household spending is likely to be the main driver. Business investment should also contribute to growth. Residential investment, meanwhile, could be set for a pause after several months of frenetic activity. Though we think the labour market is in better shape than some of the data would suggest, it will take more time for the upside effects of reopening to be fully reflected in the numbers. That will allow the Fed to keep its monetary policy extremely accommodative in the coming months. The median forecast of FOMC participants suggests that short-term interest rates will remain abnormally low relative to the output gap through to the end of 2023. Under these conditions, the U.S. economy is likely to continue outperforming over the longer term. We continue to see real GDP growth of 6.9% this year and 4.3% next year. At our forecast horizon (end of 2022), that would mean output exceeding potential by 2.1%, the largest gap since 1978. A gap that wide does not seem consistent with a return of inflation to the 2% target. For this reason, we forecast core CPI will remain comfortably above 2% at least until the end of 2022. In the meantime, inflation excluding food and energy could peak around 4.1% in 2022Q1.

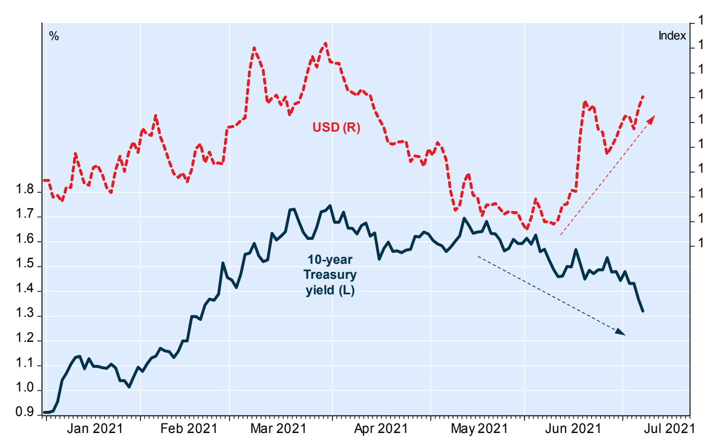
- Though many are apprehensive of a fourth wave of Covid-19, recent data for Canada are highly encouraging. Canadians have responded very positively to vaccine rollout and the share of the population that has received at least one dose is one of the word's highest. Hospitalizations falling sharply in recent weeks have allowed an easing of public-health restrictions. After a moderation of expansion in Q2 due to public-health measures and to production issues in automaking by reason of the chip shortage, impressive growth continues to be expected with the coming reopening of services entailing close physical proximity. This month we are keeping our forecast of 2021 growth at 6.0%. In nominal terms, our forecast remains 12.6%, unseen in 40 years. Forest-product prices have subsided considerably but soaring natural gas prices drove the Bank of Canada commodity price index to a 13-year high in July. In this context, the labor market is expected to recover rapidly in the coming months as hiring intentions and labor shortages suggest strong employer demand.

World: Vaccinated or unvaccinated? That is the question

After substantial progress in the struggle against Covid-19, the world faces a new enemy in the Delta variant. First detected in India late last year, this highly contagious form of the virus devastated the subcontinent in the spring and has now spread to almost 100 countries. Where Delta gains a beachhead, it tends to become the dominant form of the virus and in many cases – the U.K., Spain, Russia, South Africa, Indonesia, Thailand, Bangladesh, Malaysia – has sparked a resurgence of cases.

The new threat seems to have led many investors to question the possibility of vigorous recovery of the global economy and to go back to safe-haven vehicles such as USD-denominated bonds. At this writing the 10-year Treasury yield has tumbled from a peak of 1.75% in late March to about 1.30%, its lowest in almost five months.

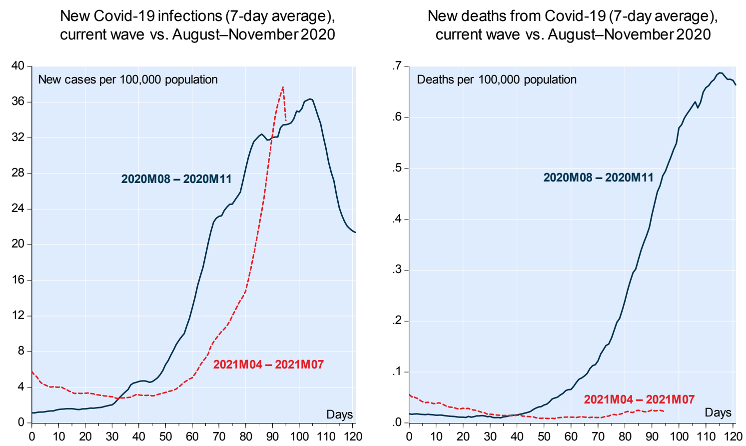
World: Delta variant revives fear of Covid-19
Trade-weighted U.S. dollar and yield of 10-year Treasuries



NBF Economics and Strategy (data from Refinitiv)

Is the market justified in its fears for the global economy? Our answer to this question varies according to the degree of immunity attained in each region. In developed economies, where vaccination rollouts have been moving right along, Delta could bring a rise in new cases without overwhelming health-care systems. The data suggest that even for the Delta variant the vaccines in use have considerably reduced the correlation between new infections on the one hand and hospitalization and deaths on the other. The U.K. exemplifies this phenomenon. Though daily new cases are rising at a rate similar to that of the second wave, the death rate remains much lower and hospitalizations are approximately one-tenth of what they were the last time new cases were running at the current rate.

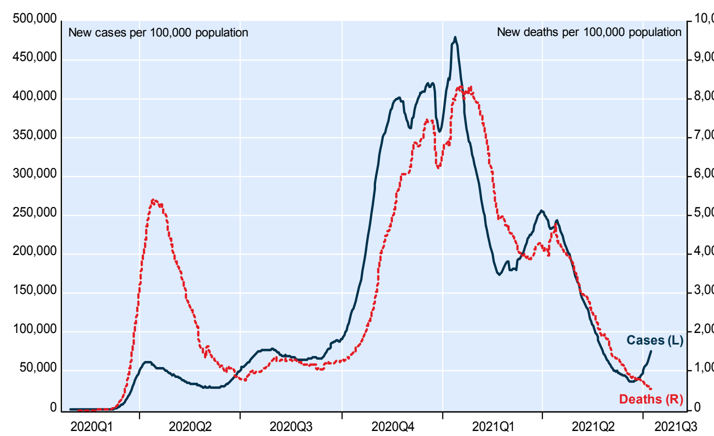
GBR: Vaccines reduce the deadliness of Covid-19 infections



NBF Economics and Strategy (data from U.K. public health)

Since the main aim of public-health restrictions in developed countries has always been to avoid overwhelming the health-care system and avoid fatalities rather than to prevent spread, current conditions are still consistent with gradual reopening of the economy. This is the view taken by the U.K. government in pursuing reopening and we would expect similar responses in other developed economies.

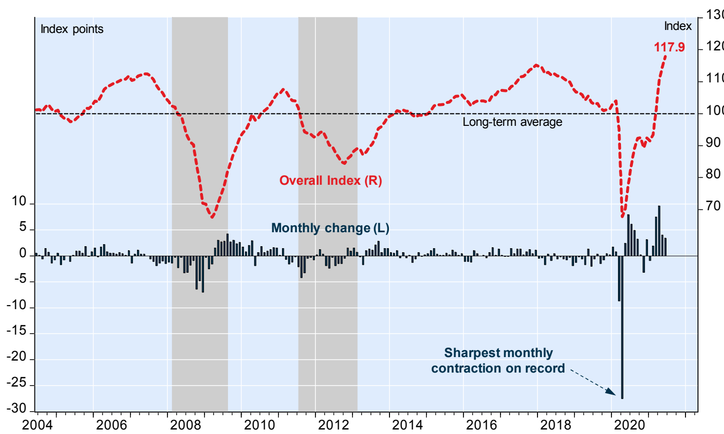
Developed economies: Conditions still consistent with a reopening
New cases and new deaths in Europe and North America, 7-day moving average



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

Our scenario of solid revival in developed economies is thus unchanged. The outlook for the Eurozone, in particular, seems to have improved markedly in recent weeks. Stimulated by an acceleration of vaccination rollouts in the single-currency area, the European Commission's economic sentiment indicator rose significantly in June, to 117.9 from 114.5. This level not only exceeded expectations and the pre-recession peak of 104.0 (February 2020) but was the second-best number since this data series began in 1985. All five sectors surveyed were up on the month, including those hardest hit by Covid restrictions (services and retail trade).

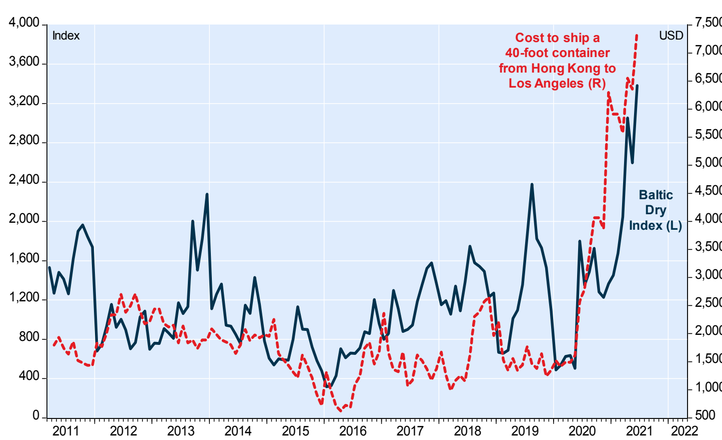
Eurozone: Economic sentiment indicator moves close to a record
European Commission Economic Sentiment Indicator (last observation June 2021)



NBF Economics and Strategy (source: European Commission, via Refinitiv)

The outlook for the emerging economies is not so upbeat. Their lag in vaccinations increases the risk that one or more of them will go where India went earlier this year. Though far-reaching restrictions are fairly rare in the emerging countries (in many cases, difficulty of access to capital markets denies them the funds needed to support wide-ranging lockdowns), the virus could still poop the party by forcing more localized restrictions. The port of Yantian in southern China is a case in point. In mid-May this container terminal was shut down by an outbreak of Covid-19. Two months later its operations are still not yet up to speed. Although the outbreak was on the whole well-controlled, it had serious repercussions on the global economy and contributed to the rapid rise of freight costs.

World: Small outbreak, large impact
Baltic Dry Index and benchmark cost to ship a 40-foot container from Hong Kong to Los Angeles

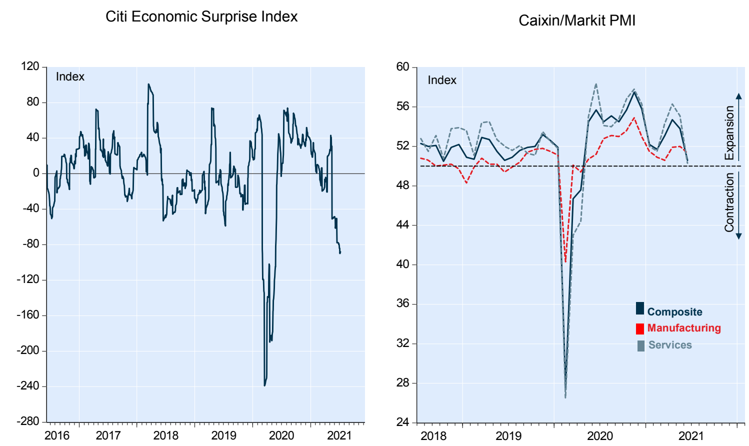


NBF Economics and Strategy (data from Bloomberg and Drewry shipping consultancy)

This type of disturbance threatens sporadic reductions of production capacity in emerging economies at a time when foreign demand is exploding. The resulting imbalance of supply and demand could add to upward pressure on prices and force some central banks to tighten faster than they would like. Policy rates are already up in Brazil, Hungary, Mexico and Russia, among other countries.

The other cloud in the sky for emerging economies is the loss of steam of the Chinese revival. China's economy, well-placed to benefit from strong international demand for merchandise, recovered rapidly from the initial shock of Covid-19 – it is the only large economy that expanded in 2020. But the world's second-largest economy now seems to be cooling. Its Citi Economic Surprise Index has fallen in recent weeks and the latest report from Caixin/Markit showed stagnation of private-sector growth.

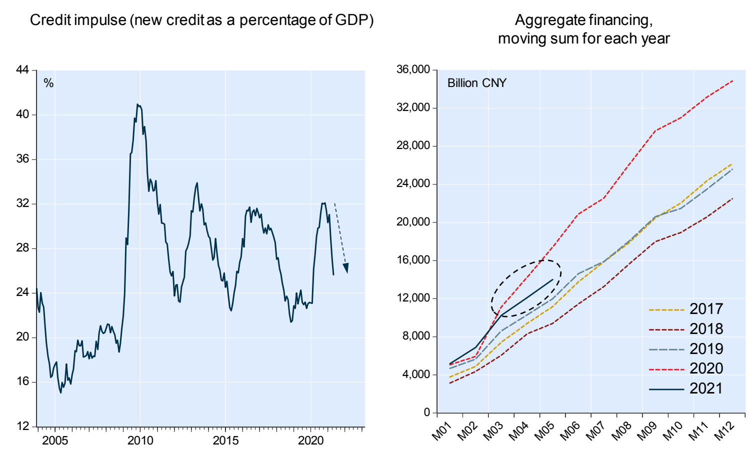
China: Recovery losing steam



NBF Economics and Strategy (data from Bloomberg and Refinitiv)

This slowing reflects in part Beijing's desire to tighten credit in order to avoid overheating in some sectors. Earlier this year, state banks were ordered to limit lending, especially in real estate.

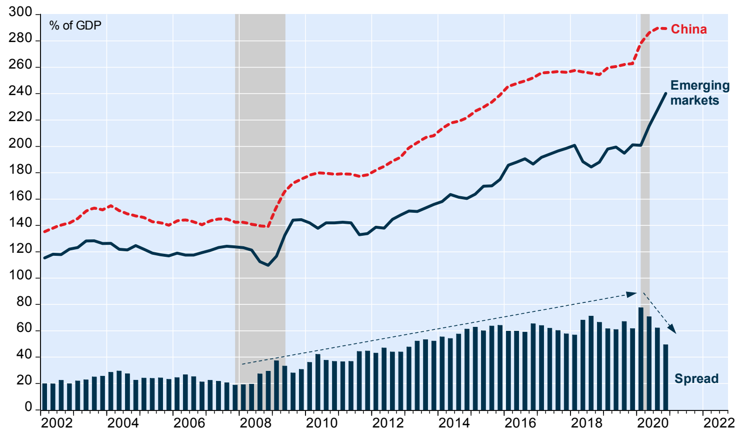
China: Beijing tightens the purse strings (1)



NBF Economics and Strategy (data from Bloomberg)

It is true that the world's second-largest economy carries a heavy debt load. The Bank for International Settlements (BIS) estimates total credit granted to the nonfinancial sector at approximately 290% of GDP, way above the average for emerging markets. Tightening of credit could accordingly make for a more lasting recovery.

China: Beijing tightens the purse strings (2)
Credit granted to nonfinancial sector as % of GDP



NBF Economics and Strategy (data from BIS)

China, however, appears reluctant to sacrifice economic recovery to the altar of deleveraging. Taking notice of a slowdown in growth, authorities announced on June 12 that banks' reserve requirements would be reduced by 50 basis point, a move which will inject roughly $150 billion worth of liquidity into the economy. Taking these new measures into account, we have left our 2021 growth forecast for China unchanged at 8.5%. Our global growth forecast is also unchanged at 6.0%.

World Economic Outlook

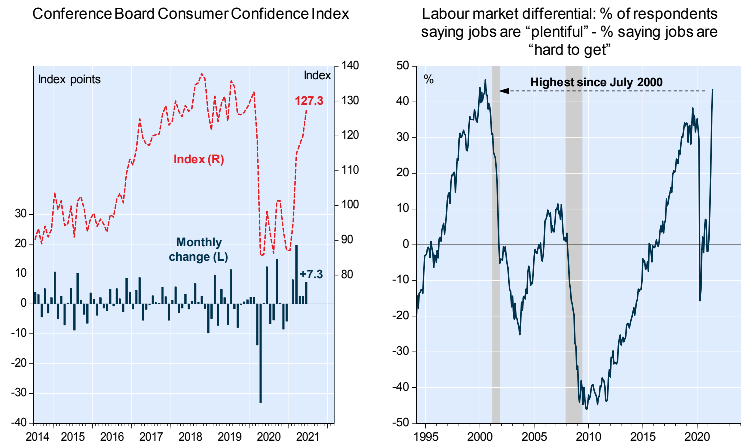
	2020	2021	2022
Advanced Economies	-4.8	5.5	4.1
United States	-3.5	6.9	4.3
Eurozone	-6.6	4.6	4.5
Japan	-4.7	2.6	2.4
UK	-10.1	6.5	5.3
Canada	-5.3	6.0	4.0
Australia	-3.2	5.0	3.1
Korea	-1.1	4.1	3.2
Emerging Economies	-2.5	6.4	4.8
China	2.3	8.5	5.5
India	-7.3	8.0	7.0
Mexico	-8.3	5.5	3.1
Brazil	-4.1	4.5	2.5
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.: Full steam ahead

The U.S. economy is recovering fast. After an expansion of 6.4% annualized in the first quarter of the year, we expect Q2 to show an acceleration to about 10%. As in recent months, household spending is likely to be the main driver. We note that consumer confidence in June was back to its pre-pandemic reading and optimism about the outlook for employment was the highest since 2000.

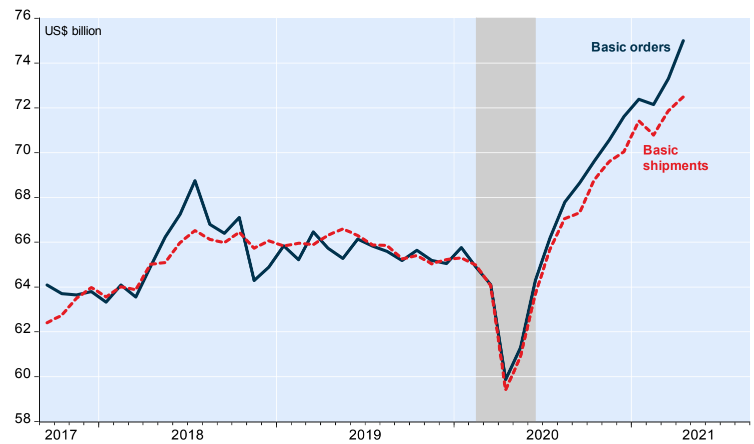
U.S.: Confidence returns with upbeat employment outlook



NBF Economics and Strategy (data from Refinitiv)

Business investment is also likely to contribute, judging by the latest data on orders/shipments of non-military equipment other than aircraft, which continued to grow strongly in Q2 and are running well ahead of their pre-crisis pace.

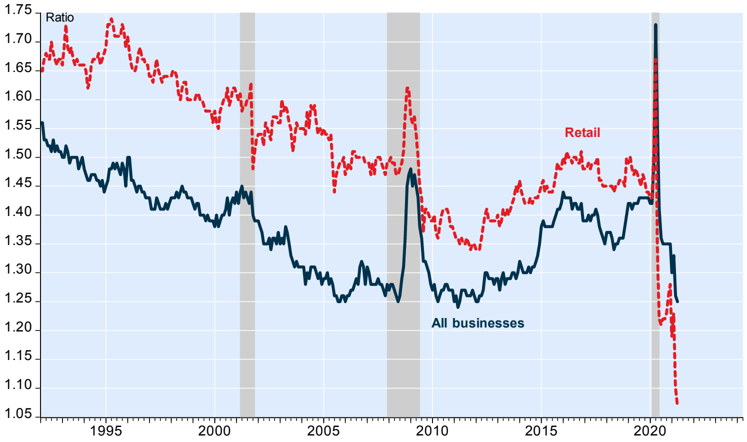
U.S.: A lively rebound in business investment from the Covid trough
Orders and shipments of non-military equipment other than aircraft, last observation May 2021



NBF Economics and Strategy (data from Refinitiv)

Inventory change is another factor to watch in the short to medium term. Inventories are abnormally low at present since businesses have been having supply problems of all kinds (scarcity of computer chips, high commodity prices, transport problems) while demand has been recovering sharply. As such, growth is likely to be supported by inventory rebuilding in the second half of the year.

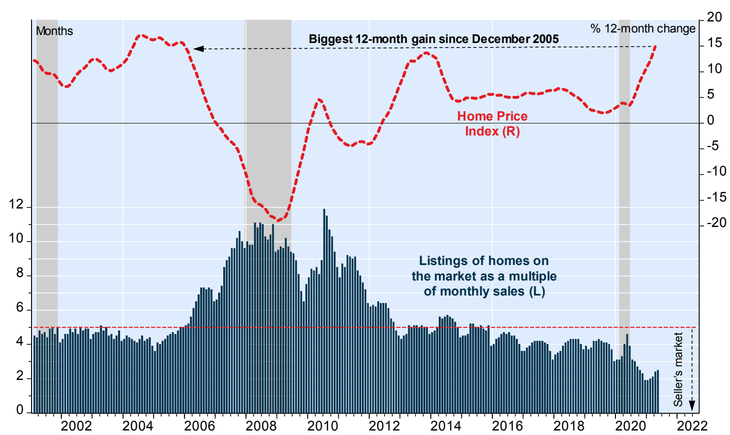
U.S.: Inventories close to a historic low
Inventories as a multiple of sales



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

Residential investment, meanwhile, could be set for a pause after several months of frenetic growth. A pause would be attributable not to a loss of interest on the demand side but to a significant rise in selling prices. The S&P CoreLogic Case-Shiller Index of 20 U.S. urban markets shows April home prices up 14.9% from a year earlier, the biggest 12-month increase since December 2005. Lagging supply is part of the reason: in May the number of listings amounted to only 2½ months of sales. (For the National Association of Realtors, any ratio less than 5 is a tight market.)

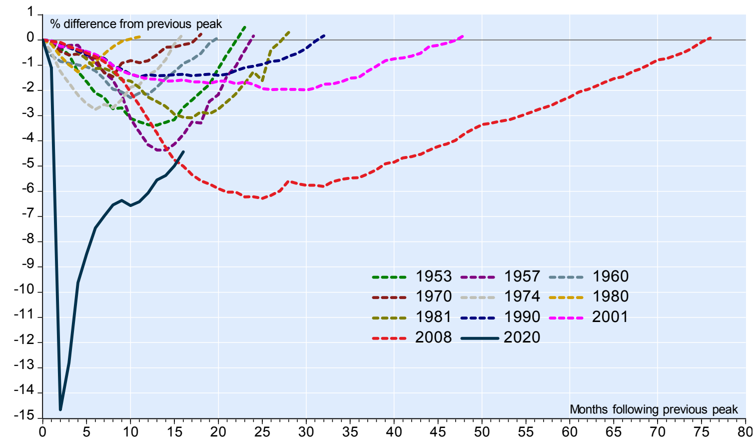
U.S.: Biggest jump in home prices since 2005
S&P CoreLogic 20-City Home Price Index and listings as a multiple of monthly sales



NBF Economics and Strategy (data from Refinitiv)

The only real cloud in the sky of the U.S. economy is the labour market. Though the payroll survey showed 850,000 payroll jobs added in June, total employment was still 4.4% lower than before the pandemic.

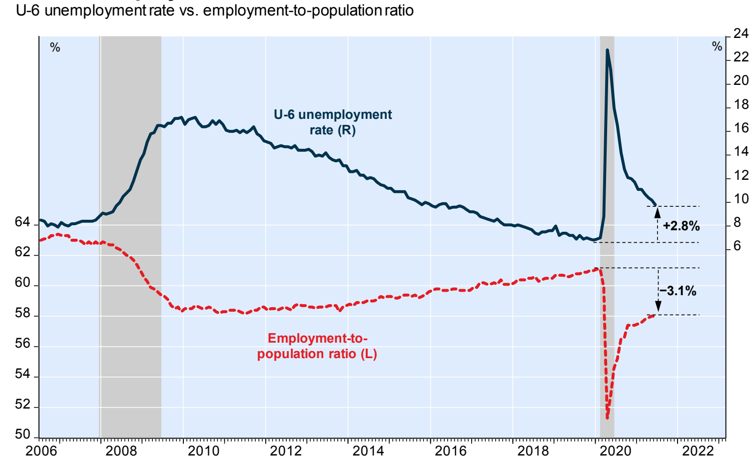
U.S.: Labour-market recovery still has a way to go
Nonfarm payroll employment, % difference from previous peak



NBF Economics and Strategy (data from Refinitiv)

The June household survey, for its part, showed a decline of 183,000 full-time jobs, disappointing to say the least. The unemployment rate rose a notch from the month before, to 5.9%, though that is still way below its pandemic peak of 14.8%. It is important to note that the downtrend of this indicator is being steepened by a falling participation rate. If that rate had been the same as before the pandemic, the unemployment rate in June would have been closer to 8.5%. For a better idea of the labour-market shortfall, we have to look at the U-6 unemployment rate or the employment-to-population ratio. Both are quite far from their pre-pandemic readings, though the U-6 rate declined from 10.2% in May to 9.8% in June.

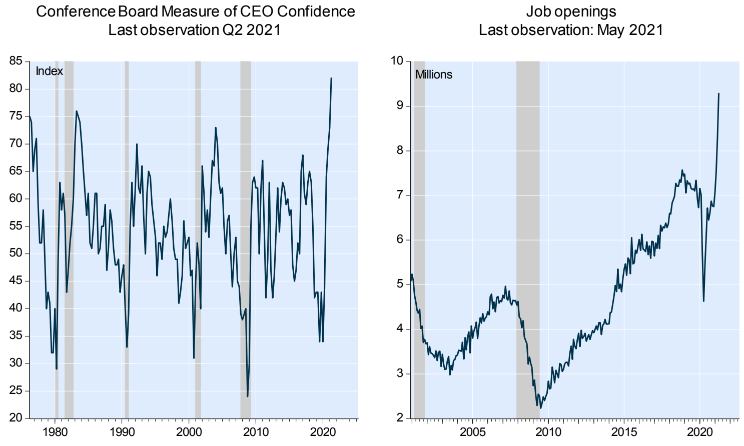
U.S.: Unemployment rate understates labour-market slack
U-6 unemployment rate vs. employment-to-population ratio



NBF Economics and Strategy (data from Refinitiv)

The slowness of the labour-market recovery does not worry us unduly. As we have often explained, the shortfall in jobs cannot be laid to lack of employer demand: the confidence of corporate CEOs was at a record in Q2 and the number of unfilled jobs had never been higher.

U.S.: Weak employment recovery is a matter of supply, not demand



NBF Economics and Strategy (data from Bloomberg and Refinitiv)

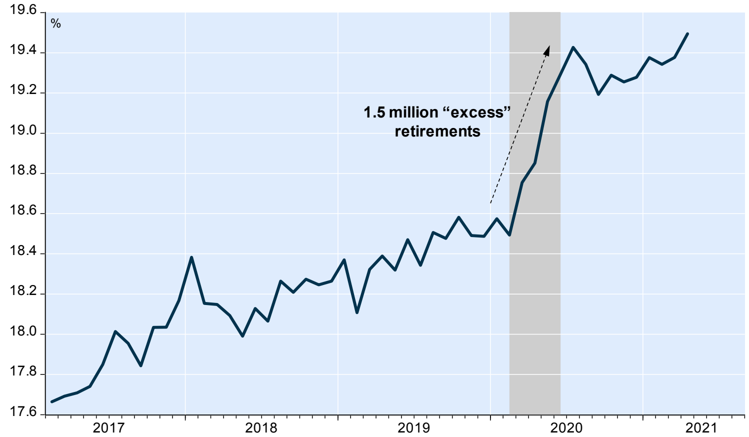
It seems, rather, that U.S. employers are having a hard time attracting candidates, even with 6.8 million workers yet to find jobs after losing their livelihoods at the start of the pandemic. The reasons are multiple:

- residual fear of the virus;
- closings of school and daycare centres, forcing many parents to stay home to mind children;
- mismatch of the skills most in demand with the skills of those who lost their jobs in the pandemic;
- Washington's supplements of UI benefits.

To these factors must be added a big increase in retirements in recent months. Many of these departures had been put off at the end of the previous cycle – workers became increasingly scarce before the advent of Covid-19, which encouraged employers to accommodate their most senior employees. With the advent of the pandemic, many who had extended their working lives seem to have decided the game was no longer worth the candle. Others quit to take care of a sick person or to take maximum advantage of the post-pandemic period. Whatever the reason for departure, the Dallas Federal Reserve puts the number of "excess" retirements since the beginning of the pandemic at 1.5 million.

U.S.: A marked increase in retirements

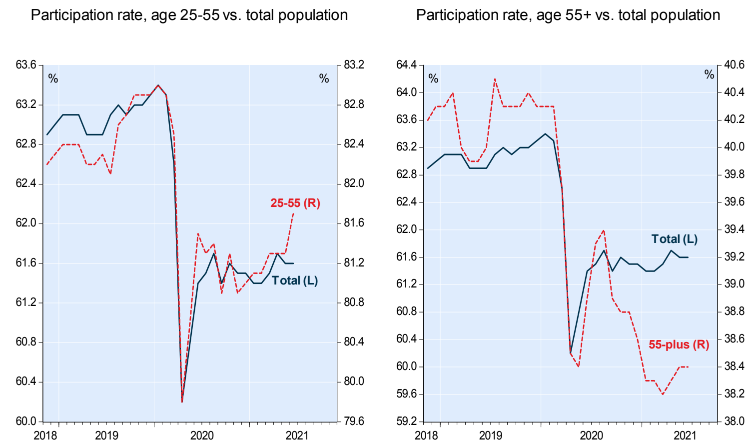
% of population population describing itself as retired



NBF Economics and Strategy (data from Dallas Federal Reserve)

Data on the participation rate seem to confirm these findings. That rate has rebounded much less strongly for people 55 and older than for the rest of the population since reopening began.

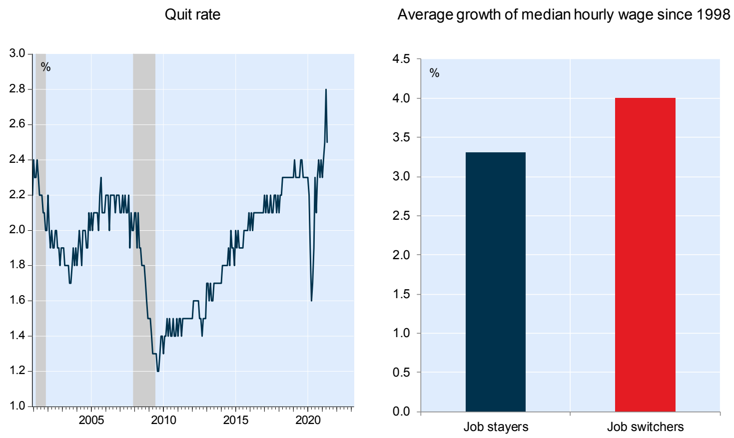
U.S.: Participation rate down among older people



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

All these factors taken together suggest that the U.S. is much closer to full employment than might appear, giving those with a job much more flexibility and bargaining power. Confident in their outlook, workers no longer hesitate to leave their jobs: the quit rate in April was the highest since the data series began in 2000. Since the pay of people who switch jobs tends to rise faster than the average, this trend could be a tailwind for household incomes.

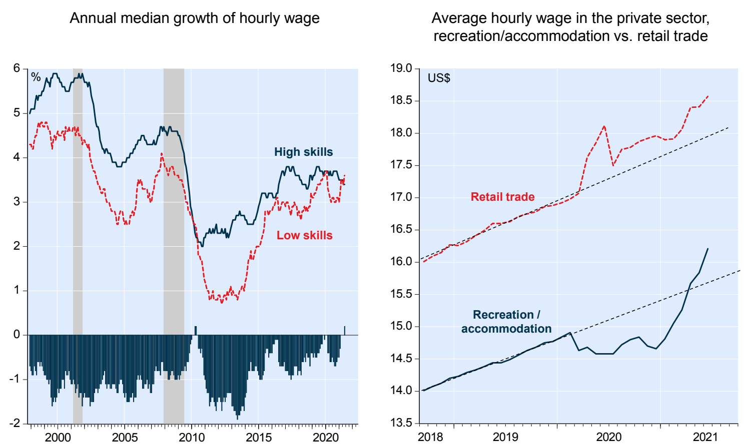
U.S.: Workers taking advantage of labour scarcity



NBF Economics and Strategy (data from Refinitiv and Atlanta Federal Reserve)

Pay increases are indeed starting to show in the data, for high-skill as well as low-skill jobs.

U.S: Low-skills sectors benefiting from reopening

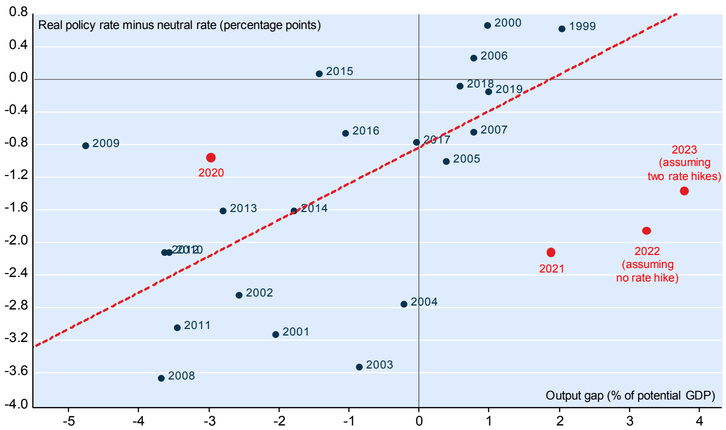


NBF Economics and Strategy (data from Refinitiv and Atlanta Federal Reserve)

Though we think the labour market is in better shape than some of the data would suggest, it will take more time for the upside effects of reopening to be fully reflected in the numbers. That will allow the Fed to keep its monetary policy extremely accommodative in the coming months. The median forecast of FOMC participants suggests that short-term interest rates will remain abnormally low relative to the output gap through to the end of 2023.

U.S.: Accommodative monetary policy is here to stay

Output gap vs. real policy rate at year end minus neutral rate

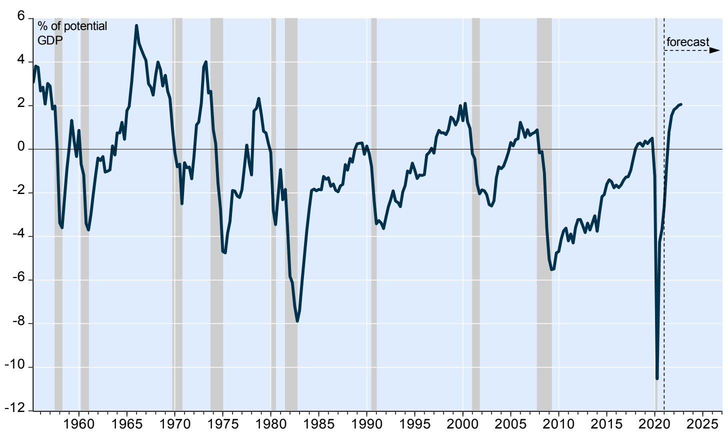


NBF Economics and Strategy (data from Federal Reserve, CBO, New York Fed and Bloomberg)

Under these conditions, the U.S. economy is likely to continue outperforming. We continue to see real GDP growth of 6.9% this year and 4.3% next year. At our forecast horizon (end of 2022), that would mean output exceeding potential by 2.1%, the largest gap since 1978.

U.S.: Approaching the second largest output gap since 1978?

% difference between real GDP (actual and NBF forecast) and potential GDP as estimated by CBO



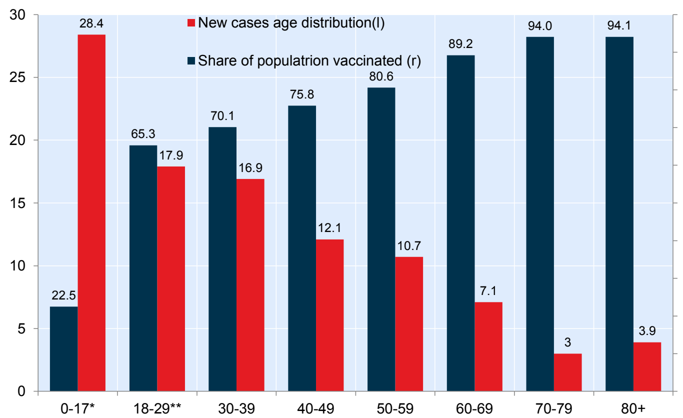
NBF Economics and Strategy (data from Bloomberg and Refinitiv)

A gap that wide does not seem consistent with a return of inflation to the 2% target. For this reason, we forecast core CPI will remain comfortably above 2% at least until the end of 2022. In the meantime, inflation excluding food and energy could peak around 4.1% in 2022Q1.

Canada: A new momentum

Though many are apprehensive of a fourth wave of Covid-19, recent data for Canada are highly encouraging. Canadians have responded very positively to vaccine rollout and the share of the population that has received at least one dose is one of the word's highest. The number of daily new cases is the lowest in 10 months and new cases are concentrated in younger age groups, whose vaccination rates are lower (no vaccines are authorized for those less than 12 years old).

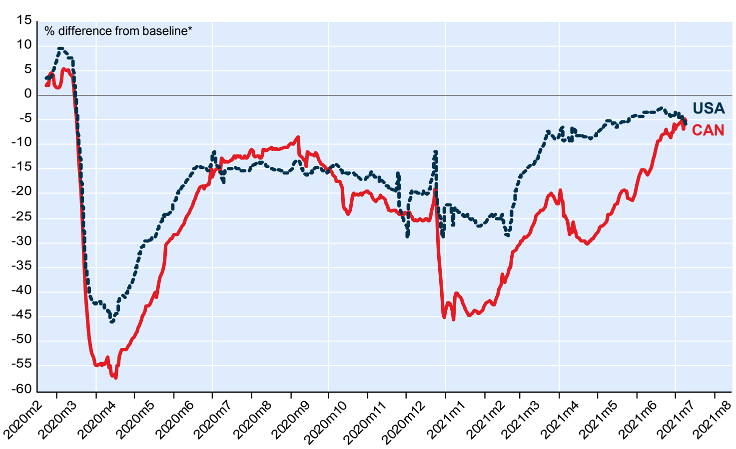
Canada: Vaccination by age group and age distribution of new cases
Weekly new cases and % of each age group having received at least one dose of vaccine (as of July 3)



*0-17 for vaccine doses, 0-19 for cases **18-29 for vaccine doses, 20-29 for cases
NBF Economics and Strategy (data from Public Health Agency of Canada, Statistics Canada)

Since young people tend less to develop severe complications of Covid-19, hospitalizations have also fallen sharply in recent weeks. This has allowed an easing of public-health restrictions, which has been reflected in gains in the Google mobility index for retail stores and recreation all through the second quarter. At this writing, the index reading is the highest since the onset of the pandemic and is similar to that of the United States.

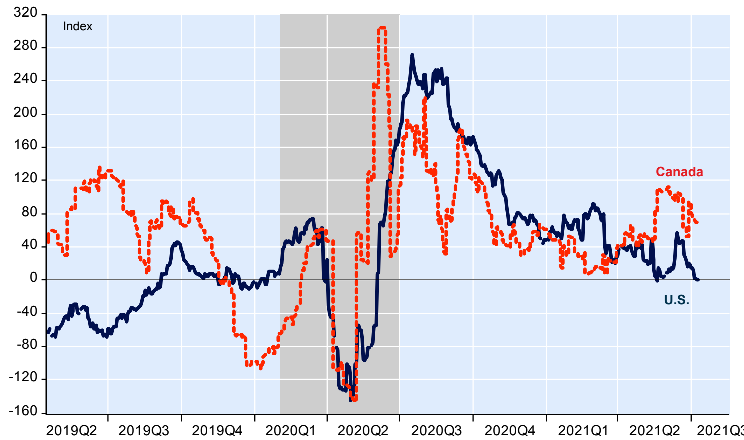
Canada vs. U.S.: Indexes of return to normal
Google mobility data for retailers and recreation, 7-day moving average



* Baseline value is the median value for the corresponding day of the week in the five weeks from January 3 to February 6, 2020
NBF Economics and Strategy (data from Google)

Though Q2 growth will be less spectacular than in the U.S. because of more restrictive public-health measures, it will continue to surprise. Canada's Citi Economic Surprise Index, unlike that of the U.S., remains comfortably above 0, indicating performance exceeding economist expectations. The index has been in positive territory for 427 days, a first in its 23-year history.

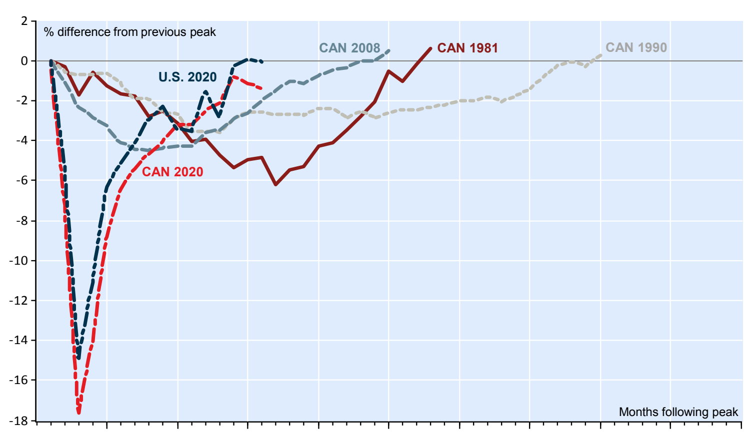
Canada: Continuing upside surprises
Citi Economic Surprise Indexes, Canada and U.S.



NBF Economics and Strategy (data from Bloomberg)

Though Canadian GDP did contract 0.3% in April, the first dip in 11 months, the decrease was much smaller than the −0.8% anticipated by the economist consensus. Neither does the Statistics Canada preliminary estimate for May augur disaster: it suggests a contraction of the same magnitude as in April. Total output in April was only 1.2% below that of the last month before the pandemic. Unsurprisingly, the shortfall was largest in the industries hardest hit by physical distancing measures. The arts/entertainment/recreation sector was still down 53% from February 2020, accommodation/food services 36%.

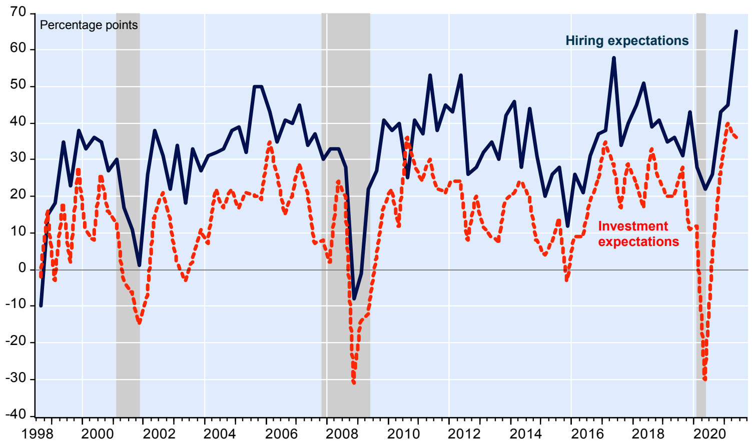
Canada: Historical perspective on GDP recovery from recessions
% change of real GDP following pre-recession peaks (including preliminary estimates for 2020-21)



NBF Economics and Strategy (data from Bloomberg and Statistics Canada)

But these sectors will rebound with their reopening in coming months. The most recent survey of the active population offers a foretaste: a spectacular gain of 231,000 jobs that erases at one stroke almost all the losses of the third wave of the pandemic. The great majority of the June gains were in accommodation/food services and retailing. The wave of hiring will continue: the Bank of Canada's Business Outlook Survey reports record hiring intentions.

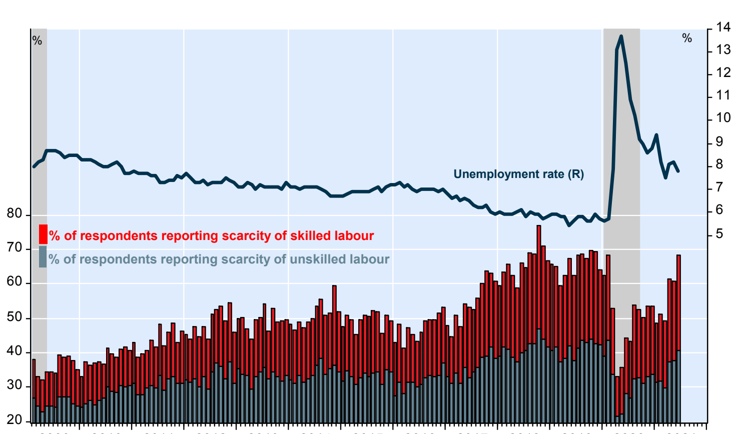
Canada: A spectacularly upbeat business outlook in June
Investment and hiring intentions (balance of expectations*)



* % of businesses surveyed expecting to increase investment / hiring minus % expecting to reduce it
NBF Economics and Strategy (data from Bank of Canada Business Outlook Survey)

The story is the same for small and medium businesses, which in June reported labour scarcities as acute as before the pandemic – 41% worried about a lack of skilled labour and 27% about lack of unskilled labour. Why this situation, when the unemployment rate is about 2 points higher than before the pandemic? It turns out that in June about 800,000 workers were still drawing on the income support program. Generosity of support is slated to diminish considerably in August, from $500 a week to $300, which could encourage workers to go back to work and reduce labour-market tensions.

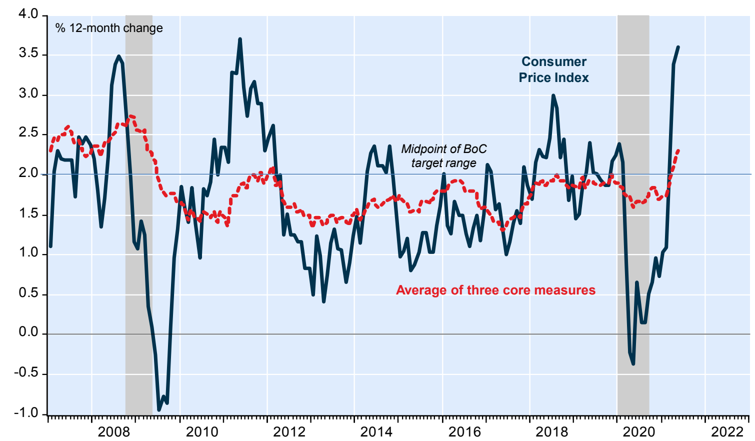
Canada: End of CRB is likely to accelerate employment recovery
Unemployment rate and labour scarcity indicator based on CFIB data



NBF Economics and Strategy (data from CFIB and Refinitiv)

Meanwhile, inflationary pressures are growing. In May the average of the three measures of 12-month core inflation was the highest in more than a decade. But it is the recent pace that raises eyebrows. Our in-house replication of CPI Median and CPI Trim shows their inflation over the last three months topping the central bank's 1%-3% target range with annualized rises of 3.1% and 3.5% respectively. There are of course supply-chain bottlenecks pushing up prices of specific goods (e.g. semiconductors), but there is reason to believe that wage pressures are also playing a part in the acceleration of price rises in the household consumer basket.

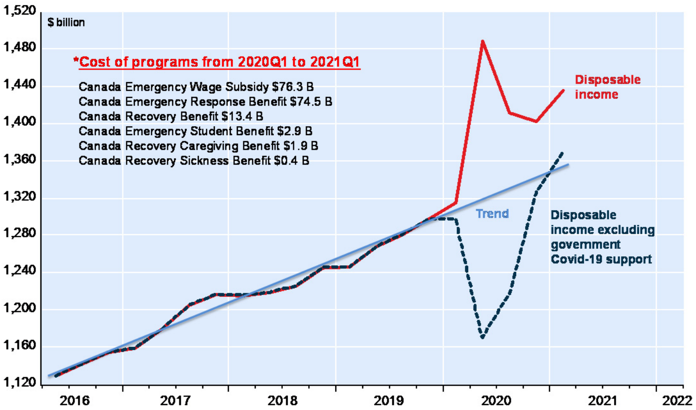
Canada: Measures of core inflation are at a post-2009 high
12-month change in consumer price indexes



NBF Economics and Strategy (data from Statistics Canada)

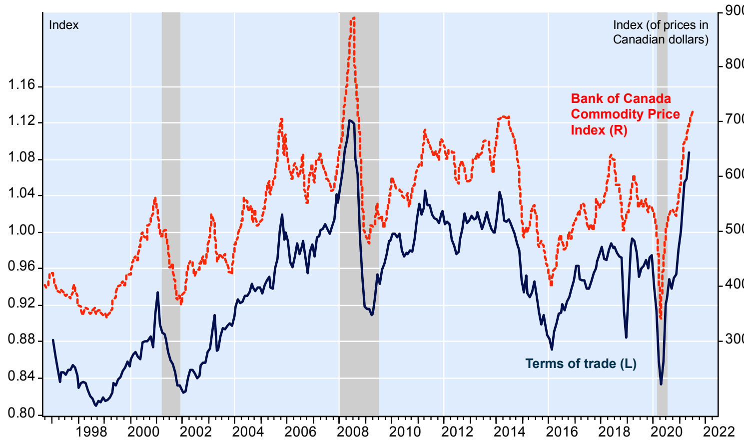
Some say that this phenomenon is transient and that the end of extraordinary income-support programs will attenuate inflationary pressure. The Emergency Wage Subsidy and the Recovery Benefit will end in September. Will the economy stand on its own once these programs are terminated? The national accounts published in early June offers compelling evidence against the fiscal cliff scenario. Disposable income excluding government programs related to the Covid-19 pandemic was back to historical trend by Q1. Looking ahead, an easing of public-health measures should lead to substantial job gains this summer and keep disposable income rising. This prospect, combined with the 9.5% excess savings already accumulated by households, means that consumption will be on a strong footing over the next few quarters. In the July Monetary Policy Report, the Bank of Canada's base case scenario assume that 20% of savings would be spent. There is a possibility that the Bank may be erring on the side of caution given that their survey of consumer expectations indicates that households expect to spend as much as 35% of the of their extra savings within just 18 months.

Canada: Will growth be at risk when Covid-19 programs end?
Disposable income and disposable income excluding government Covid-19 support (annualized)*



NBF Economics and Strategy (data via Statistics Canada, link)

Canada: Commodity prices at a 13-year high
BoC Commodity Price Index and terms of trade



NBF Economics and Strategy (data from Refinitiv)

This month we are keeping our forecast of 2021 growth at 6.0%. After a moderation of expansion in Q2 due to public-health measures and to production issues in automaking by reason of the chip shortage, impressive growth continues to be expected with the coming reopening of services entailing close physical proximity. In nominal terms, our forecast remains 12.6%, unseen in 40 years. Forest-product prices have subsided considerably but soaring natural gas prices drove the Bank of Canada commodity price index to a 13-year high in July.

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)	7.4	2.6
Consumption	2.7	2.4	(3.9)	8.7	5.0	(2.7)	9.5	3.0
Residential construction	(0.6)	(1.7)	6.1	13.1	(1.7)	14.3	3.6	(3.8)
Business investment	6.9	2.9	(4.0)	8.2	2.5	(1.4)	7.0	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)	4.9	5.9	(10.9)	4.8	4.5
Imports	4.1	1.1	(9.3)	12.5	2.8	(0.6)	5.9	1.4
Change in inventories (bil. $)	53.4	48.5	(77.4)	(26.5)	85.0	62.1	50.0	85.0
Domestic demand	3.0	2.3	(2.7)	7.5	3.7	(1.5)	7.7	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)	2.6	3.3	-6.0	4.0	2.5
Unemployment rate	3.9	3.7	8.1	5.5	4.2	6.8	4.8	3.8
Inflation	2.4	1.8	1.3	4.1	2.9	1.2	4.9	2.7
Before-tax profits	6.1	0.3	(5.8)	13.9	6.1	-0.7	8.0	5.0
Current account (bil. $)	(438.2)	(472.1)	(616.1)	(666.6)	(647.8)	...	...	...

** or as noted*

Financial Forecast**

	Current 7/09/21	Q3 2021	Q4 2021	Q1 2022	Q2 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	0.06	0.05	0.10	0.10	0.15	0.09	0.10	0.15
Treasury yield curve								
2-Year	0.23	0.30	0.45	0.55	0.65	0.13	0.45	0.90
5-Year	0.79	1.00	1.20	1.30	1.40	0.36	1.20	1.60
10-Year	1.37	1.55	1.80	1.90	1.95	0.93	1.80	2.15
30-Year	1.99	2.10	2.20	2.30	2.40	1.65	2.20	2.50
Exchange rates								
U.S.$/Euro	1.19	1.22	1.21	1.21	1.20	1.22	1.21	1.19
YEN/U.S.$	110	109	108	109	109	103	108	108

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 actual	Q1 2021 actual	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	10.3	7.8	5.2
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.9	4.8	5.0	4.9
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	3.7	4.0	4.0
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.2	5.8	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)	5.0	3.0
Consumption	2.5	1.6	(6.0)	4.8	5.9	(4.4)	4.7	5.2
Residential construction	(1.7)	(0.2)	4.1	19.7	(4.9)	14.5	4.4	(4.3)
Business investment	3.1	1.1	(13.6)	1.3	6.0	(13.9)	6.3	4.8
Government expenditures	3.2	1.7	0.4	5.7	2.0	2.4	4.0	1.5
Exports	3.7	1.3	(10.0)	3.1	4.3	(7.4)	1.8	4.7
Imports	3.4	0.4	(11.2)	6.0	4.7	(5.9)	2.5	5.1
Change in inventories (millions $)	15,486	18,766	(15,937)	3,634	13,068	(287)	14,000	12,513
Domestic demand	2.5	1.4	(4.3)	6.0	3.7	(2.0)	4.6	3.2
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)	3.1	2.0
Unemployment rate	5.9	5.7	9.6	7.6	6.3	8.8	6.6	6.1
Inflation	2.3	1.9	0.7	2.9	2.5	0.8	3.2	2.2
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 7/09/21	Q3 2021	Q4 2021	Q1 2022	Q2 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	0.14	0.15	0.20	0.20	0.25	0.07	0.20	0.70
Treasury yield curve								
2-Year	0.50	0.50	0.60	0.70	0.80	0.20	0.60	1.10
5-Year	0.94	1.05	1.25	1.40	1.50	0.39	1.25	1.80
10-Year	1.33	1.45	1.70	1.80	1.90	0.68	1.70	2.10
30-Year	1.82	1.90	2.00	2.10	2.20	1.21	2.00	2.30
CAD per USD	1.25	1.20	1.21	1.21	1.22	1.27	1.21	1.23
Oil price (WTI), U.S.$	75	72	75	70	67	48	75	65

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 actual	Q1 2021 actual	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	2.4	6.3	5.8
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.4	3.3	3.4	3.2
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.0	2.0	2.4	2.3
Unemployment rate (%)	6.4	13.1	10.1	8.8	8.4	8.0	7.3	6.6

National Bank Financial

Provincial economic forecast

	2018	2019	2020f	2021f	2022f	2018	2019	2020f	2021f	2022f
	Real GDP (% growth)					**Nominal GDP** (% growth)				
Newfoundland & Labrador	-3.5	4.0	-5.3	3.9	2.6	0.8	4.1	-8.3	17.6	3.9
Prince Edward Island	2.5	5.1	-3.0	4.5	4.0	3.6	7.0	-1.0	8.2	5.0
Nova Scotia	1.9	2.4	-3.2	5.0	3.3	3.6	3.8	-1.9	8.1	4.6
New Brunswick	0.5	1.2	-3.7	4.6	3.0	3.6	3.0	-1.9	9.7	4.7
Quebec	2.9	2.7	-5.3	6.5	4.1	5.4	4.3	-4.1	11.4	5.1
Ontario	2.8	2.1	-5.0	6.1	4.3	4.1	3.8	-4.8	10.0	5.2
Manitoba	1.5	0.6	-4.8	5.1	3.5	2.5	1.0	-4.0	11.1	4.8
Saskatchewan	1.2	-0.7	-5.2	5.4	3.5	3.2	0.1	-9.2	18.9	3.7
Alberta	1.9	0.1	-8.2	6.4	4.0	3.4	2.7	-11.6	22.4	5.0
British Columbia	2.7	2.7	-3.8	6.1	4.2	4.9	4.4	-2.3	11.5	5.6
Canada	2.4	1.9	-5.3	6.0	4.0	4.2	3.6	-4.6	12.6	5.2
	Employment (% growth)					**Unemployment rate** (%)				
Newfoundland & Labrador	0.5	1.3	-5.9	3.5	0.4	14.1	12.3	14.2	12.8	12.2
Prince Edward Island	4.2	3.4	-3.2	4.0	2.2	9.4	8.6	10.6	8.5	7.9
Nova Scotia	1.9	2.3	-4.7	5.4	1.6	7.7	7.3	9.8	8.2	7.7
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	8.2	6.4
Manitoba	1.1	1.0	-3.7	3.7	2.0	6.0	5.4	8.0	7.0	5.5
Saskatchewan	0.6	1.7	-4.6	3.7	2.3	6.2	5.5	8.4	6.1	5.6
Alberta	1.9	0.6	-6.5	4.6	3.3	6.7	7.0	11.5	9.0	7.7
British Columbia	1.4	2.9	-6.5	5.4	2.9	4.8	4.7	9.0	6.7	5.6
Canada	1.6	2.2	-5.1	4.4	2.8	5.9	5.7	9.6	7.6	6.3
	Housing starts (000)					**Consumer Price Index (% growth)**				
Newfoundland & Labrador	1.1	0.9	0.8	1.3	0.8	1.7	1.0	0.2	2.8	2.5
Prince Edward Island	1.1	1.5	1.2	1.1	1.0	2.3	1.2	0.0	3.2	2.5
Nova Scotia	4.8	4.7	4.9	5.0	4.2	2.2	1.6	0.3	3.2	2.5
New Brunswick	2.3	2.9	3.5	4.0	2.8	2.2	1.7	0.2	3.0	2.5
Quebec	46.9	48.0	54.1	70.0	56.0	1.7	2.1	0.8	3.0	2.5
Ontario	78.7	69.0	81.3	95.5	81.7	2.4	1.9	0.6	3.0	2.5
Manitoba	7.4	6.9	7.3	7.3	6.3	2.5	2.3	0.5	2.6	2.5
Saskatchewan	3.6	2.4	3.1	5.2	3.6	2.3	1.7	0.6	2.6	2.5
Alberta	26.1	27.3	24.0	30.5	27.0	2.5	1.7	1.1	2.6	2.5
British Columbia	40.9	44.9	37.7	41.5	36.6	2.7	2.3	0.8	2.8	2.5
Canada	212.8	208.7	217.8	261.4	220.0	2.3	1.9	0.7	2.9	2.5

e: estimate f: forecast

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

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