

## Uncertainty on the Rise as Trump's Policies Start to Hurt

Economic uncertainty is on the rise, owing largely to elevated concerns about the US/China trade war. We have long flagged this as the single most important risk to the outlook, and while our read of developments continues to be that they will come to a negotiated agreement given the costs of an escalation of the conflict, markets appear much more pessimistic that an orderly outcome will be achieved. Global equity markets have fallen sharply on fears that the conflict will worsen. These concerns add to ongoing worries about a slowdown in global growth, which, combined with increases in US oil production and OPEC's decision to maintain high levels of production, have led to a significant decline in oil prices. It is clear global growth has peaked, though we remain confident that the global outlook remains strong, with growth in 2019 expected to fall only modestly from the strong advance observed in 2018. Fundamentals generally remain solid and monetary policy remains highly accommodative in advanced economies.

Risks at this stage of the cycle are naturally skewed to the downside. Setting aside policy-related risks, growth is more likely to surprise to the downside than to the upside. This is normal at this stage of the cycle. What isn't normal is the very high level of uncertainty caused by the Trump Administration's policies and the risks this poses to the US and the rest of the world.

There are five key changes to our view since our October [Quarterly Outlook](#) was published. First, oil prices have fallen dramatically, as fears of a global slowdown in demand combine with strong supply to push prices well below where we thought they would be. This forecast scales back our WTI forecast to \$60/bbl in 2019 from the \$68/bbl we were carrying. This profile assumes a gradual reduction in supply will raise WTI prices from their current levels of roughly \$52/bbl.

Second, the uniquely Canadian challenge of lack of egress capacity in Alberta is depressing prices received for Western Canadian oil; the forced shut-in of production and the oil price shock have significant consequences for the Canadian outlook. We currently believe that oil market developments, both international and Canada-specific, will knock 0.3 percentage points from Canadian growth in 2019. Other factors are at play, such as revisions to the National Accounts that lower growth a bit more, and the Federal Government's accelerated depreciation, which will add to growth. Taken together, these factors bring growth to 1.9% for the year, well below the 2.2% we forecast in our previous outlook, but still reasonably strong.

Third, this weaker growth profile will result in a more cautious Bank of Canada. We now expect the BoC will next move in April 2019, allowing Governor Poloz some time to assess the impact of the decline in oil markets on the outlook. It will also allow him to see how the US/China trade situation evolves, as both countries are working to hammer out a deal by early March. We still forecast a return to a neutral stance, leading the BoC to raise rates to 2.75% by 2020Q1 once it resumes hiking in April next year. The fact remains that the long-hoped-for rotation of demand away from consumption and housing to investment and exports is occurring, and with inflation at target and the output gap closed, monetary policy will need to be normalized.

### CONTACTS

Jean-François Perrault, SVP & Chief Economist  
 416.866.4214  
 Scotiabank Economics  
[jean-francois.perrault@scotiabank.com](mailto:jean-francois.perrault@scotiabank.com)

Chart 1

### Equity Market Performance



Sources: Scotiabank Economics, Bloomberg.

Fourth, lower oil prices, a less aggressive path for the BoC, and elevated global uncertainty are all working to push the Canadian dollar lower at the moment. We now think the USDCAD will close the year at 1.34, but that it will appreciate through 2019 as oil prices rise gradually and the structural weaknesses of the US economy—its large trade and fiscal deficits—push the US dollar down against major currencies. We anticipate that these factors will lead the loonie to appreciate to 1.27 by the end of 2019.

Finally, the early days of the AMLO administration in Mexico suggest much less policy continuity from the previous administration than hoped for. Decisions to cancel the new airport, the general approach to policy and the business community, as well as many of the social policy changes being contemplated have rattled investor confidence and will negatively affect growth until more clarity on the government's economic orientations becomes available. We have marked down our GDP growth forecasts for 2019 from 2.1% in our previous outlook to 1.6% to reflect these developments. The weaker growth outlook and the uncertainty being generated in the early days of the new administration has led to a depreciation of the Mexican peso, which we think will depreciate to USDMXN 21.9 as 2019 progresses.

North America	2000-17	2017	2018f	2019f	2020f	2000-17	2017	2018f	2019f	2020f
	<b>Canada</b>					<b>United States</b>				
	(annual % change, unless noted)					(annual % change, unless noted)				
Real GDP	2.1	3.0	2.1	1.9	1.9	2.0	2.2	2.9	2.4	1.7
Consumer spending	2.9	3.5	2.3	2.0	1.8	2.4	2.5	2.7	2.6	1.8
Residential investment	3.6	2.4	-1.1	-0.4	0.9	-0.3	3.3	0.2	0.9	1.9
Business investment	2.2	2.2	4.7	1.0	6.2	3.0	5.3	6.7	2.9	2.2
Government	2.2	2.7	3.0	1.5	1.6	1.0	-0.1	1.7	2.3	1.6
Exports	1.3	1.1	3.1	2.6	2.3	3.7	3.0	4.0	1.5	1.9
Imports	3.0	4.2	3.2	1.1	3.1	3.7	4.6	4.7	3.8	2.9
Nominal GDP	4.3	5.6	4.1	3.7	4.2	4.0	4.2	5.3	4.8	4.0
GDP deflator	2.1	2.6	2.0	1.8	2.2	1.9	1.9	2.3	2.4	2.3
Consumer price index (CPI)	1.9	1.6	2.4	2.0	1.9	2.2	2.1	2.5	2.1	2.0
CPI ex. food & energy	1.6	1.6	2.0	2.0	2.0	2.0	1.8	2.1	2.1	2.1
Pre-tax corporate profits	0.0	20.1	5.0	6.1	2.1	5.3	3.2	8.0	4.1	1.9
Employment	1.4	1.9	1.3	1.1	0.7	0.7	1.6	1.6	1.2	1.0
Unemployment rate (%)	7.1	6.3	5.8	5.6	5.8	6.1	4.4	3.9	3.6	3.7
Current account balance (CAD, USD bn)	-19.4	-60.1	-58.9	-56.2	-58.1	-501	-449	-483	-575	-644
Merchandise trade balance (CAD, USD bn)	22.3	-24.6	-22.3	-24.7	-30.1	-680	-807	-888	-993	-1076
Federal budget balance* (FY, CAD, USD bn)	-3.6	-17.8	-19.0	-19.0	-18.1	-540	-665	-805	-1,000	-1,045
percent of GDP	-0.2	-0.9	-0.9	-0.9	-0.8	-3.7	-3.4	-3.9	-4.7	-4.7
Housing starts (000s, mn)	200	220	213	203	200	1.26	1.20	1.26	1.25	1.26
Motor vehicle sales (000s, mn)	1,678	2,034	2,000	1,930	1,900	15.6	17.1	17.0	16.8	16.7
Industrial production	0.0	4.9	2.4	-0.6	2.3	0.7	1.6	3.9	2.9	2.1
	<b>Mexico</b>									
	(annual % change)									
Real GDP	2.2	2.1	2.0	1.6	2.3					
Consumer price index (year-end)	4.4	6.8	4.8	4.3	3.8					
Current account balance (USD bn)	-14.9	-19.1	-24.7	-28.4	-18.0					
Merchandise trade balance (USD bn)	-7.2	-11.0	-16.4	-20.9	-17.0					

Sources: Scotiabank Economics, Statistics Canada, CMHC, BEA, BLS, Bloomberg. \* Canada federal deficit ex risk adjustment of \$3.0bn for FY19.

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International	2000–17	2017	2018f	2019f	2020f	2000–17	2017	2018f	2019f	2020f
	<b>Real GDP</b> (annual % change)					<b>Consumer Prices</b> (y/y % change, year-end)				
World (based on purchasing power parity)	3.9	3.8	3.8	3.7	3.5					
Canada	2.1	3.0	2.1	1.9	1.9	1.9	1.8	2.4	1.9	1.9
United States	2.0	2.2	2.9	2.4	1.7	2.2	2.1	2.3	2.1	2.0
Mexico	2.2	2.1	2.0	1.6	2.3	4.4	6.8	4.8	4.3	3.8
United Kingdom	1.9	1.7	1.4	1.5	1.5	2.0	2.7	2.3	2.1	2.0
Eurozone	1.4	2.4	2.0	1.9	1.7	1.8	1.4	1.9	1.7	1.9
Germany	1.4	2.2	1.9	1.9	1.6	1.5	1.7	1.8	1.9	2.2
France	1.4	2.2	1.6	1.6	1.6	1.4	1.2	1.6	2.2	1.5
China	9.3	6.9	6.6	6.2	6.0	2.3	1.8	2.5	2.5	2.3
India	7.0	6.3	7.5	7.4	7.4	6.8	5.2	3.5	5.2	4.8
Japan	1.0	1.7	1.0	1.0	0.9	0.1	1.0	0.9	2.3	1.1
South Korea	4.1	3.1	2.7	2.7	2.6	2.6	1.5	2.0	2.4	2.2
Australia	2.9	2.4	3.0	2.7	2.5	2.7	1.9	2.0	2.3	2.6
Thailand	4.0	3.9	4.1	3.8	3.5	1.9	0.8	1.0	2.0	2.2
Peru	5.0	2.5	3.7	4.0	4.0	2.7	1.4	2.0	2.5	2.5
Chile	3.9	1.5	3.9	3.2	3.2	3.3	2.3	2.7	3.0	3.0
<b>Commodities</b>	(annual average)									
WTI Oil (USD/bbl)	62	51	66	60	62					
Brent Oil (USD/bbl)	65	55	72	69	70					
WCS - WTI Discount* (USD/bbl)	-16	-13	-27	-20	-20					
Nymex Natural Gas (USD/mmbtu)	4.83	3.02	2.93	2.93	3.00					
Copper (USD/lb)	2.38	2.80	2.99	3.00	3.20					
Zinc (USD/lb)	0.84	1.31	1.33	1.30	1.25					
Nickel (USD/lb)	7.12	4.72	6.15	6.50	7.00					
Aluminium (USD/lb)	0.87	0.89	0.95	1.00	1.00					
Iron Ore (USD/tonne)	67	72	65	65	60					
Metallurgical Coal (USD/tonne)	131	187	205	175	160					
Gold, London PM Fix (USD/oz)	890	1,257	1,262	1,300	1,300					
Silver, London PM Fix (USD/oz)	14.80	17.05	15.70	17.00	17.00					
* 2008-16 average.										
Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, IMF, Bloomberg.										

Quarterly Forecasts	2017	2018				2019				2020			
Canada	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Real GDP (q/q ann. % change)	1.7	1.7	2.9	2.0	1.7	1.1	2.3	2.3	1.7	2.1	1.9	1.5	1.5
Real GDP (y/y % change)	2.9	2.3	1.9	2.1	2.1	1.9	1.8	1.9	1.9	2.1	2.0	1.8	1.7
Consumer prices (y/y % change)	1.8	2.1	2.3	2.7	2.4	2.2	2.0	1.9	1.9	1.9	1.9	1.9	1.9
Avg. of new core CPIs (y/y % change)	1.7	1.9	1.9	2.0	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>United States</b>													
Real GDP (q/q ann. % change)	2.3	2.2	4.2	3.5	2.5	2.1	1.8	1.8	1.7	1.6	1.6	1.5	1.5
Real GDP (y/y % change)	2.5	2.6	2.9	3.0	3.1	3.1	2.5	2.0	1.9	1.7	1.7	1.6	1.6
Consumer prices (y/y % change)	2.1	2.3	2.6	2.6	2.3	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0
CPI ex. food & energy (y/y % change)	1.7	1.9	2.2	2.2	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Core PCE deflator (y/y % change)	1.6	1.7	1.9	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, Bloomberg.													

Central Bank Rates	2018		2019				2020			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Americas</b>	(% , end of period)									
Bank of Canada	1.50	1.75	1.75	2.00	2.25	2.50	2.75	2.75	2.75	2.75
US Federal Reserve (upper bound)	2.25	2.50	2.75	3.00	3.25	3.25	3.25	3.25	3.25	3.25
Bank of Mexico	7.75	8.25	8.50	8.50	8.50	8.50	8.50	8.00	7.75	7.50
Central Reserve Bank of Peru	2.75	2.75	3.00	3.00	3.25	3.25	3.50	3.50	3.75	3.75
Central Bank of Chile	2.50	2.75	3.00	3.25	3.50	3.75	3.75	4.00	4.00	4.00
<b>Europe</b>										
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50	0.50
Bank of England	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
<b>Asia/Oceania</b>										
Reserve Bank of Australia	1.50	1.50	1.50	1.50	1.75	1.75	2.00	2.00	2.25	2.25
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
People's Bank of China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Reserve Bank of India	6.50	6.50	6.75	6.75	7.00	7.00	7.25	7.25	7.25	7.25
Bank of Korea	1.50	1.75	1.75	1.75	1.75	2.00	2.00	2.00	2.00	2.00
Bank of Thailand	1.50	1.75	1.75	1.75	1.75	2.00	2.00	2.00	2.00	2.00
<b>Currencies and Interest Rates</b>										
<b>Americas</b>	(end of period)									
Canadian dollar (USDCAD)	1.29	1.34	1.32	1.30	1.27	1.27	1.25	1.25	1.23	1.23
Canadian dollar (CADUSD)	0.77	0.75	0.76	0.77	0.79	0.79	0.80	0.80	0.81	0.81
Mexican peso (USDMXN)	18.72	20.49	20.93	21.00	21.32	21.90	22.04	21.89	22.00	22.36
Peruvian sol (USDPEN)	3.30	3.34	3.35	3.31	3.32	3.30	3.31	3.27	3.28	3.26
Chilean peso (USDCLP)	657	650	650	650	650	650	650	640	640	640
<b>Europe</b>										
Euro (EURUSD)	1.16	1.15	1.17	1.22	1.26	1.30	1.30	1.30	1.32	1.32
UK pound (GBPUSD)	1.30	1.28	1.32	1.35	1.37	1.40	1.42	1.42	1.45	1.45
<b>Asia/Oceania</b>										
Japanese yen (USDJPY)	114	112	110	110	108	108	107	107	105	105
Australian dollar (AUDUSD)	0.72	0.73	0.75	0.77	0.77	0.78	0.78	0.78	0.78	0.78
Chinese yuan (USDCNY)	6.87	6.85	6.80	6.60	6.70	6.70	6.60	6.60	6.50	6.50
Indian rupee (USDINR)	72.5	70.0	69.0	67.0	68.0	68.0	67.0	67.0	66.0	66.0
South Korean won (USDKRW)	1,109	1,100	1,090	1,080	1,085	1,085	1,080	1,080	1,070	1,070
Thai baht (USDTHB)	32.3	32.2	32.0	31.6	31.8	31.8	31.6	31.6	31.4	31.4
<b>Canada (Yields, %)</b>										
3-month T-bill	1.58	1.70	1.80	2.05	2.30	2.55	2.80	2.80	2.80	2.80
2-year Canada	2.21	2.00	2.10	2.25	2.40	2.60	2.65	2.70	2.75	2.75
5-year Canada	2.34	2.05	2.15	2.35	2.50	2.70	2.75	2.80	2.85	2.85
10-year Canada	2.43	2.10	2.30	2.50	2.75	2.80	2.85	2.85	2.90	2.95
30-year Canada	2.42	2.25	2.35	2.50	2.75	2.80	2.90	2.90	2.95	2.95
<b>United States (Yields, %)</b>										
3-month T-bill	2.20	2.45	2.70	2.95	3.20	3.20	3.20	3.20	3.20	3.20
2-year Treasury	2.82	2.80	2.95	3.10	3.30	3.30	3.30	3.30	3.30	3.30
5-year Treasury	2.95	2.85	3.00	3.15	3.35	3.35	3.35	3.35	3.40	3.45
10-year Treasury	3.06	2.90	3.10	3.20	3.40	3.40	3.45	3.45	3.50	3.55
30-year Treasury	3.21	3.15	3.25	3.30	3.50	3.50	3.60	3.60	3.65	3.65

Sources: Scotiabank Economics, Bloomberg.

The Provinces											
	(annual % change except where noted)										
Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
<b>2000–17</b>	2.1	2.4	1.8	1.3	1.2	1.8	2.1	2.3	2.0	2.8	2.7
<b>2017</b>	3.0	0.9	3.5	1.5	1.8	3.0	2.7	3.2	2.2	4.4	3.8
<b>2018f</b>	2.1	0.2	2.0	1.2	1.1	2.4	2.1	1.8	1.5	2.3	2.4
<b>2019f</b>	1.9	0.5	1.6	1.0	0.9	1.9	2.0	1.8	1.8	1.5	2.7
<b>2020f</b>	1.9	0.9	1.1	0.9	0.9	1.5	1.6	1.5	1.8	2.0	3.6
<b>Nominal GDP</b>											
<b>2000–17</b>	4.3	5.6	4.2	3.3	3.4	3.7	3.9	4.4	5.4	5.9	4.7
<b>2017</b>	5.6	4.3	4.8	2.9	4.3	5.1	4.5	5.4	4.8	10.0	6.9
<b>2018f</b>	4.1	3.7	3.9	3.1	2.8	4.0	3.8	3.6	3.9	5.0	4.8
<b>2019f</b>	3.7	2.9	3.6	2.8	2.6	3.6	3.8	3.7	3.8	3.1	5.1
<b>2020f</b>	4.2	4.1	3.0	2.8	2.5	3.6	3.7	3.5	4.4	4.7	6.2
<b>Employment</b>											
<b>2000–17</b>	1.4	0.6	1.1	0.6	0.4	1.3	1.3	1.0	1.1	2.2	1.5
<b>2017</b>	1.9	-3.7	3.1	0.6	0.4	2.2	1.8	1.7	-0.2	1.0	3.7
<b>2018f</b>	1.3	0.6	3.1	1.4	0.3	1.0	1.6	0.6	0.4	1.9	1.1
<b>2019f</b>	1.1	0.1	1.1	0.3	0.2	1.0	1.3	0.6	0.6	1.0	1.2
<b>2020f</b>	0.7	0.0	0.7	0.2	0.2	0.7	0.8	0.6	0.6	1.0	1.0
<b>Unemployment Rate (%)</b>											
<b>2000–17</b>	7.1	14.3	11.1	8.8	9.5	7.9	7.0	5.1	5.0	5.3	6.5
<b>2017</b>	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1
<b>2018f</b>	5.8	14.0	9.4	7.7	8.0	5.4	5.6	5.9	6.2	6.6	4.7
<b>2019f</b>	5.6	13.6	9.3	7.6	7.9	5.3	5.3	5.8	6.0	6.7	4.6
<b>2020f</b>	5.8	13.4	9.4	7.6	7.9	5.4	5.4	5.8	5.9	6.7	4.7
<b>Housing Starts (units, 000s)</b>											
<b>2000–17</b>	200	2.5	0.8	4.3	3.4	44	72	5.2	5.2	34	29
<b>2017</b>	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44
<b>2018f</b>	213	1.6	0.9	4.8	2.2	45	79	6.9	4.1	29	40
<b>2019f</b>	203	1.4	0.8	3.9	2.0	42	74	6.1	4.6	30	39
<b>2020f</b>	200	1.4	0.8	3.8	2.0	41	72	6.1	5.0	31	37
<b>Motor Vehicle Sales (units, 000s)</b>											
<b>2000–17</b>	1,657	29	6	48	38	413	635	47	45	216	180
<b>2017</b>	2,041	33	9	59	42	453	847	62	56	245	235
<b>2018f</b>	2,000	29	9	53	39	450	855	68	48	230	219
<b>2019f</b>	1,930	30	8	48	35	430	826	60	48	220	225
<b>2020f</b>	1,900	30	8	47	34	420	810	55	48	215	233
<b>Budget Balances, Fiscal Year Ending March 31 (CAD mn)</b>											
<b>2017</b>	-19,000	-1,148	-1	151	-117	2,361	-991	-764	-1,218	-10,784	2,737
<b>2018</b>	-19,000	-911	75	230	67	2,622	-3,700	-695	-303	-8,023	301
<b>2019f</b>	-18,100	-547	4	35	-131	1,650	-14,544	-521	-348	-7,512	1,350

Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents; Quebec budget balance figures are after Generations Fund transfers.

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