

Recovery to Continue as COVID-19 Rages in Many Countries

- **The resurgence in the virus will result in weaker growth this quarter and next, but its impact on full-year forecasts of 2021 will be largely offset by the arrival of the vaccine and likely additional fiscal stimulus in the US.**
- **In Canada, we continue to expect a solid, though slightly delayed, recovery next year. We forecast a significant acceleration in growth when the vaccine rolls out and uncertainty dissipates given the large amount of cash held by firms and households. However, it will take time for some sectors relying most heavily on social interaction to recover fully.**
- **Policy rates are still expected to remain at current levels until 2023 but the stickiness of inflation and the potential impact on costs of the eventual unwind of business support measures could lead to rising inflation expectations. If so, we may need to adjust our view on the timing of the next move by the Bank of Canada.**

The dominant influences on forecast revisions over the past few weeks have once again centered on the pandemic. On one hand, the resurgence of cases in many countries, as generally expected, is a blow to the near-term outlook. Though containment measures are generally far more focused than those rolled out in the first phase, the measures and concerns over the spread of the virus will lead to slower growth in the next couple of quarters. On the other hand, news on the vaccine front has been very encouraging and we anticipate that we will overcome the virus next year. That has sparked a further rally in financial markets and substantial moves to add risk to portfolios. On balance, despite the worries around the current state of the pandemic, it appears clear that we are on the cusp of turning the corner on COVID-19.

Adding to this optimism are the impact of the Biden victory in the United States and implications for further fiscal support. It now appears the Republicans and Democrats are close to a deal on extension of a range of fiscal supports. President-elect Biden is indicating these are only down payments on what he plans to move on. The extent of further support will depend in large measure on the Georgia Senate run-off and who ultimately will control the Senate. Again, financial markets have responded quite positively to these possibilities. Our forecast only incorporates about USD 500 bn in additional support next year—well below the levels being currently considered—so there is potential upside there.

Taken together, recent developments continue to suggest a solid recovery will unfold next year, though it may be delayed by a quarter relative to earlier views. From a Canadian perspective, the near-term outlook has worsened owing to COVID-19, but measures announced in the Fall Economic Statement, along with the vaccine, and the strength of house prices should lead to a sizeable jump in economic activity in the second quarter and beyond. We expect large holdings of cash will be drawn down as Canadians become more confident that the pandemic

CONTACTS

Jean-François Perrault, SVP & Chief Economist
416.866.4214
Scotiabank Economics
jean-francois.perrault@scotiabank.com

will be controlled, and that job and health-related risks will fall. For the first time since the pandemic began, risks for the next year appear tilted to the upside given the vaccine, the potential for a stronger-than-expected US economy, the likelihood of additional fiscal measures in the Spring Federal Budget, and the ongoing strength of the housing market.

Even if upside risks materialize in 2021 and growth is stronger than currently expected, significant sections of the economy are under intense financial stress and are likely to only gradually return to pre-COVID levels of activity. As a result, we believe the unemployment rate will continue to fall but remain above pre-pandemic levels until the end of 2022. Moreover, a number of firms are likely to struggle through the year as support measures such as the wage subsidy and rent relief program are rolled off (if that occurs...).

We continue to expect policy rates will remain on hold through 2023 in Canada, but our conviction on that call is fading. Inflation in Canada has not fallen as much as anticipated as the core measures of inflation have averaged around 1.7 for a few months now. As we look to the next twelve months, it may well be that input cost pressures accelerate owing to pick-up in commodity prices, but also due to the unwinding of business support programs, and lower potential output. At present, wage subsidies and rent relief programs are without any doubt allowing firms to keep prices down relative to what would otherwise be the case without these programs. Inflation data for the third and fourth quarter of next year will be key to informing views on how businesses respond to lower financial assistance. Moreover, the rapid increase in the money base here and elsewhere is expected to have mildly inflationary consequences, which is, of course, a key reason for central banks to have undertaken their quantitative support programs. The risk, as we see it, is that these programs—combined with higher commodity prices and an unwinding of business support programs—lead to a rise in inflation expectations which could trigger a more rapid increase in inflation and a faster increase in policy and market rates. We will be paying very close attention to measures of inflation expectations in coming months, as will, we suspect, the Bank of Canada. For now, we are sticking with our policy rate call of no change until 2023, but we do expect the yield curve to steepen gradually well ahead of that, as has been our forecast for many months now. That process is already under way.

International	2010–19	2019	2020f	2021f	2022f	2010–19	2019	2020f	2021f	2022f
	Real GDP (annual % change)					Consumer Prices (y/y % change, year-end)				
World (based on purchasing power parity)	3.7	2.9	-4.0	5.2	4.1					
Canada	2.2	1.9	-5.7	4.0	3.3	1.7	2.1	0.8	1.9	2.0
United States	2.3	2.2	-3.6	4.1	3.1	1.7	2.0	1.7	2.1	2.2
Mexico	2.7	-0.3	-9.1	3.3	2.1	4.0	2.8	3.6	4.0	3.8
United Kingdom	1.8	1.3	-11.1	5.2	4.1	2.2	1.3	0.8	1.3	1.7
Eurozone	1.4	1.3	-7.5	4.8	3.3	1.3	1.3	0.4	0.9	1.2
Germany	1.9	0.6	-5.9	4.2	3.0	1.3	1.5	0.5	1.2	1.4
France	1.4	1.5	-9.5	6.0	3.1	1.1	1.5	0.4	1.0	1.3
China	7.9	6.1	2.0	8.3	5.9	2.5	4.5	0.8	2.3	2.6
India	7.2	4.8	-8.0	7.0	7.2	6.7	7.4	5.5	4.0	5.3
Japan	1.4	0.7	-4.9	3.0	1.0	0.6	0.8	-0.7	0.5	1.0
South Korea	3.5	2.0	-1.2	3.0	2.8	1.8	0.7	0.8	1.7	1.9
Australia	2.7	1.9	-3.1	2.8	2.6	2.1	1.8	0.4	1.6	2.1
Thailand	3.8	2.4	-6.2	4.9	3.8	1.5	0.9	-0.7	1.3	1.7
Brazil	1.4	1.4	-3.8	3.0	2.7	6.0	4.3	4.2	4.8	4.6
Colombia	3.8	3.3	-7.5	5.0	4.0	3.9	3.2	1.8	2.8	3.0
Peru	4.8	2.1	-11.5	8.7	4.0	3.0	1.9	2.0	2.0	2.0
Chile	3.6	1.1	-5.2	5.1	3.0	3.2	3.0	3.0	3.0	3.0
Argentina	1.8	-2.1	-10.8	4.3	3.6	23.0	53.8	35.9	42.9	36.5
Commodities										
	(annual average)									
WTI Oil (USD/bbl)	74	57	39	48	52					
Brent Oil (USD/bbl)	82	64	43	50	55					
WCS - WTI Discount (USD/bbl)	-18	-14	-12	-14	-13					
Nymex Natural Gas (USD/mmbtu)	3.39	2.53	2.12	2.70	2.55					
Copper (USD/lb)	3.10	2.73	2.74	3.00	3.10					
Zinc (USD/lb)	1.02	1.16	1.00	1.10	1.05					
Nickel (USD/lb)	7.00	6.31	6.07	6.50	6.35					
Aluminium (USD/lb)	0.89	0.90	0.90	0.90	0.90					
Iron Ore (USD/tonne)	101	93	100	85	75					
Metallurgical Coal (USD/tonne)	179	185	130	140	150					
Gold, (USD/oz)	1,342	1,393	1,775	1,850	1,850					
Silver, (USD/oz)	21.64	16.21	20.25	22.00	22.00					

Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, IMF, Bloomberg.

North America	2010-19	2019	2020f	2021f	2022f	2010-19	2019	2020f	2021f	2022f
	Canada					United States				
	(annual % change, unless noted)					(annual % change, unless noted)				
Real GDP	2.2	1.9	-5.7	4.0	3.3	2.3	2.2	-3.6	4.1	3.1
Consumer spending	2.5	1.7	-6.5	4.8	3.3	2.4	2.4	-3.9	4.6	3.2
Residential investment	2.5	-0.2	3.9	13.9	4.7	4.4	-1.7	4.5	6.9	2.2
Business investment*	2.6	0.5	-11.5	1.8	4.4	5.0	2.9	-4.5	4.7	4.3
Government	1.2	1.7	0.0	3.5	2.2	0.0	2.3	1.4	2.0	2.5
Exports	3.4	1.3	-9.3	10.1	4.8	3.8	-0.1	-14.9	8.4	5.7
Imports	3.7	0.4	-10.2	16.5	4.5	4.5	1.1	-13.2	10.0	5.4
Nominal GDP	4.0	3.6	-5.2	6.7	5.8	4.0	4.0	-2.5	5.8	5.3
GDP deflator	1.7	1.7	0.5	2.6	2.4	1.7	1.8	1.2	1.6	2.1
Consumer price index (CPI)	1.7	1.9	0.7	1.7	1.9	1.8	2.0	1.8	2.1	2.2
Core inflation rate**	2.7	1.9	1.7	1.7	1.9	1.6	1.7	1.5	1.9	1.9
Pre-tax corporate profits	6.3	0.6	-8.9	11.5	4.8	5.2	0.3	-5.2	13.9	5.7
Employment	1.3	2.1	-5.1	4.9	2.6	1.5	1.4	-5.7	2.3	2.0
Unemployment rate (%)	6.9	5.7	9.5	7.6	6.3	6.2	3.7	8.1	5.7	5.3
Current account balance (CAD, USD bn)	-57.0	-47.4	-45.0	-62.2	-56.5	-411	-480	-580	-628	-654
Merchandise trade balance (CAD, USD bn)	-13.1	-15.4	-42.4	-65.1	-59.5	-764	-864	-844	-943	-1004
Federal budget balance (FY, CAD, USD bn) ***	-18.7	-17.8	-381.6	-121.2	-50.7	-827	-960	-3,311	-2,368	-1,327
percent of GDP	-1.1	-0.8	-17.4	-5.2	-2.1	-4.8	-4.5	-15.8	-10.7	-5.7
Housing starts (000s, mn)	201	209	207	182	190	0.99	1.30	1.38	1.53	1.53
Motor vehicle sales (000s, mn)	1,819	1,916	1,564	1,789	1,910	15.7	16.9	14.3	16.0	16.7
Industrial production	2.4	-0.2	-9.1	4.7	2.3	2.1	0.9	-7.1	4.9	3.2
	Mexico									
	(annual % change)									
Real GDP	2.7	-0.3	-9.1	3.3	2.1					
Consumer price index (year-end)	4.0	2.8	3.6	4.0	3.8					
Current account balance (USD bn)	-19.8	-4.4	19.7	-3.7	-23.9					
Merchandise trade balance (USD bn)	-5.6	5.4	27.1	7.3	1.8					

Sources: Scotiabank Economics, Statistics Canada, CMHC, BEA, BLS, Bloomberg. *For Canada it includes capital expenditures by businesses and non-profit institutions.
 ** US: core PCE deflator; Canada: average of 3 core measures published by the BoC. *** In order to align with US reporting, as of the August 2020 issue of Scotiabank's Forecast Tables, Canadian Federal and Provincial Budget Balances for FY2020/21 are noted in calendar year 2020, FY2021/22 in calendar year 2021.

Quarterly Forecasts	2019	2020				2021				2022			
Canada	Q4	Q1	Q2	Q3e	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Real GDP (q/q ann. % change)	0.4	-7.3	-38.1	40.5	1.5	3.0	5.0	5.4	3.2	2.3	3.8	2.5	1.7
Real GDP (y/y % change)	1.7	-0.3	-12.5	-5.2	-4.9	-2.4	11.5	3.7	4.1	4.0	3.7	2.9	2.6
Consumer prices (y/y % change)	2.1	1.8	0.0	0.3	0.8	1.3	1.8	1.7	1.9	1.8	1.9	2.0	2.0
Avg. of new core CPIs (y/y % change)	2.0	1.8	1.6	1.7	1.7	1.7	1.7	1.7	1.8	1.8	1.9	1.9	2.0
Unemployment Rate (%)	5.7	6.3	13.0	10.0	8.6	8.1	7.8	7.4	7.1	6.8	6.4	6.2	6.0
	United States												
Real GDP (q/q ann. % change)	2.4	-5.0	-31.4	33.1	3.3	1.1	5.8	5.5	3.4	2.6	2.1	2.1	2.1
Real GDP (y/y % change)	2.3	0.3	-9.0	-2.9	-2.7	-1.2	10.1	3.9	3.9	4.3	3.4	2.6	2.2
Consumer prices (y/y % change)	2.0	2.1	0.4	1.3	1.7	1.8	2.0	2.1	2.1	2.0	2.2	2.2	2.2
Total PCE deflator (y/y % change)	1.5	1.7	0.6	1.2	1.5	1.6	1.8	1.9	2.0	1.9	2.0	2.0	2.0
Core PCE deflator (y/y % change)	1.6	1.8	1.0	1.4	1.7	1.8	1.8	1.9	1.9	1.8	1.9	1.9	2.0
Unemployment Rate (%)	3.5	3.8	13.0	8.8	6.7	5.9	5.7	5.6	5.5	5.4	5.3	5.2	5.2

Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, Bloomberg.

Central Bank Rates	2019		2020			2021				2022			
	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas	(% , end of period)												
Bank of Canada	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US Federal Reserve (upper bound)	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Bank of Mexico	7.25	6.50	5.00	4.25	4.25	4.25	4.25	4.25	4.25	4.75	5.25	5.50	5.50
Central Bank of Brazil	4.50	3.75	2.25	2.00	2.00	2.00	2.25	3.25	4.25	4.75	5.25	5.75	6.25
Bank of the Republic of Colombia	4.25	3.75	2.75	1.75	1.75	1.75	1.75	2.00	2.75	3.50	4.00	4.00	4.00
Central Reserve Bank of Peru	2.25	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.00
Central Bank of Chile	1.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.50
Central Bank of Argentina	55.00	38.00	38.00	38.00	38.00	40.00	42.00	44.00	46.00	48.00	48.00	48.00	48.00
Europe													
European Central Bank MRO Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
European Central Bank Deposit Rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Bank of England	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Asia/Oceania													
Reserve Bank of Australia	0.75	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bank of Japan	-0.10	-0.10	-0.10	-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	4.15	4.05	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Reserve Bank of India	5.15	4.40	4.00	4.00	4.00	3.50	3.50	3.50	3.50	3.50	3.75	4.25	4.75
Bank of Korea	1.25	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
Bank of Thailand	1.25	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
Currencies and Interest Rates													
Americas	(end of period)												
Canadian dollar (USDCAD)	1.30	1.41	1.36	1.33	1.32	1.30	1.30	1.28	1.28	1.27	1.26	1.25	1.25
Canadian dollar (CADUSD)	0.77	0.71	0.74	0.75	0.76	0.77	0.77	0.78	0.78	0.79	0.79	0.80	0.80
Mexican peso (USDMXN)	18.93	23.67	22.99	21.61	20.75	21.90	22.69	23.53	23.86	23.80	23.34	23.12	23.19
Brazilian real (USDBRL)	4.02	5.21	5.47	5.61	5.11	5.02	4.96	5.07	5.03	5.02	5.02	5.05	5.01
Colombian peso (USDCOP)	3287	4065	3758	3828	3654	3473	3465	3458	3450	3438	3425	3413	3400
Peruvian sol (USDPEN)	3.31	3.43	3.54	3.60	3.60	3.57	3.56	3.56	3.55	3.52	3.52	3.52	3.50
Chilean peso (USDCLP)	753	854	821	784	770	750	740	730	720	720	720	710	710
Argentine Peso (USDARS)	59.87	64.40	70.46	76.18	84.10	89.90	95.80	99.70	106.10	108.30	107.20	105.00	101.40
Europe													
Euro (EURUSD)	1.12	1.10	1.12	1.17	1.18	1.20	1.20	1.21	1.21	1.22	1.23	1.24	1.24
UK pound (GBPUSD)	1.33	1.24	1.24	1.29	1.29	1.30	1.31	1.32	1.33	1.35	1.37	1.39	1.40
Asia/Oceania													
Japanese yen (USDJPY)	109	108	108	105	105	104	104	102	102	101	101	100	100
Australian dollar (AUDUSD)	0.70	0.61	0.69	0.72	0.71	0.73	0.73	0.75	0.75	0.75	0.76	0.77	0.77
Chinese yuan (USDCNY)	6.96	7.08	7.01	6.79	6.50	6.40	6.40	6.30	6.30	6.20	6.20	6.10	6.10
Indian rupee (USDINR)	71.4	75.5	75.5	73.8	73.0	72.0	72.0	70.0	70.0	68.0	68.0	66.0	66.0
South Korean won (USDKRW)	1,156	1,219	1,203	1,170	1,100	1,080	1,080	1,060	1,060	1,040	1,040	1,020	1,020
Thai baht (USDTHB)	30.0	32.8	30.9	31.7	30.2	30.0	30.0	29.8	29.8	29.6	29.6	29.4	29.4
Canada (Yields, %)													
3-month T-bill	1.66	0.21	0.20	0.12	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
2-year Canada	1.69	0.42	0.29	0.25	0.25	0.35	0.45	0.50	0.60	0.65	0.70	0.75	0.80
5-year Canada	1.68	0.58	0.36	0.35	0.45	0.55	0.75	0.90	1.00	1.15	1.20	1.25	1.30
10-year Canada	1.70	0.69	0.53	0.56	0.75	0.85	1.00	1.20	1.35	1.40	1.45	1.55	1.60
30-year Canada	1.76	1.30	0.99	1.11	1.30	1.40	1.50	1.55	1.65	1.70	1.75	1.85	1.90
United States (Yields, %)													
3-month T-bill	1.51	0.05	0.14	0.09	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
2-year Treasury	1.57	0.25	0.15	0.13	0.15	0.25	0.35	0.45	0.55	0.65	0.75	0.80	0.85
5-year Treasury	1.69	0.38	0.29	0.28	0.40	0.55	0.70	0.85	0.95	1.00	1.10	1.15	1.25
10-year Treasury	1.92	0.67	0.66	0.68	0.95	1.10	1.20	1.30	1.40	1.50	1.55	1.60	1.60
30-year Treasury	2.39	1.32	1.41	1.46	1.70	1.80	1.85	1.90	1.95	2.00	2.05	2.10	2.10

Sources: Scotiabank Economics, Bloomberg.

The Provinces	(annual % change except where noted)											
	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	
Real GDP												
2010–19	2.2	1.0	2.3	1.1	0.7	1.9	2.3	2.1	2.2	2.6	2.8	
2019	1.9	4.0	5.1	2.4	1.2	2.7	2.1	0.6	-0.7	0.1	2.7	
2020f	-5.7	-6.8	-3.4	-4.1	-3.6	-5.8	-5.7	-3.4	-5.5	-7.2	-5.0	
2021f	4.0	3.5	4.0	3.8	3.6	4.1	4.1	3.5	4.0	4.0	3.7	
2022f	3.3	2.0	2.9	3.4	2.9	3.2	3.3	2.8	3.4	3.6	3.4	
Nominal GDP												
2010–19	4.0	3.5	4.3	2.9	2.8	3.8	4.1	3.8	3.3	3.7	4.5	
2019e	3.6	4.1	7.0	3.8	3.0	4.3	3.8	1.0	0.1	2.7	4.4	
2020f	-5.2	-9.8	-2.0	-3.0	-2.4	-4.1	-4.0	-2.5	-9.7	-11.2	-3.0	
2021f	6.7	6.6	6.0	5.7	5.7	6.5	6.7	5.1	7.0	8.1	6.0	
2022f	5.8	4.3	5.0	5.3	4.6	5.5	5.7	5.0	6.0	6.9	6.0	
Employment												
2010–19	1.3	0.5	1.4	0.4	-0.1	1.2	1.5	0.8	1.0	1.4	1.6	
2019	2.1	0.6	2.7	2.2	0.8	1.8	2.9	0.9	1.8	0.5	2.6	
2020f	-5.1	-5.9	-2.6	-4.5	-2.7	-4.6	-4.9	-3.2	-4.8	-7.1	-6.2	
2021f	4.9	4.0	5.0	5.0	4.5	5.1	4.7	4.9	5.5	5.4	5.1	
2022f	2.6	1.4	2.7	2.5	2.4	2.5	2.6	2.5	2.7	2.7	2.7	
Unemployment Rate (%)												
2010–19	6.9	13.0	10.5	8.6	9.3	7.0	7.0	5.5	5.2	6.2	6.1	
2019	5.7	11.9	8.8	7.2	8.0	5.1	5.6	5.3	5.4	6.9	4.7	
2020f	9.5	13.7	10.4	9.8	9.8	8.8	9.5	7.8	8.4	11.3	8.9	
2021f	7.6	12.3	8.7	7.9	8.3	6.9	7.8	5.8	6.1	9.2	6.8	
2022f	6.3	11.0	7.5	6.6	7.1	5.6	6.5	4.5	4.9	7.9	5.5	
Housing Starts (units, 000s)												
2010–19	201	2.2	0.8	4.2	2.7	44	70	6.6	6.0	31	34	
2019	209	0.9	1.5	4.7	2.9	48	69	6.9	2.4	27	45	
2020f	207	0.8	1.0	4.4	3.1	53	79	6.3	2.9	23	34	
2021f	182	0.8	1.1	3.9	2.5	44	68	5.9	2.3	25	29	
2022f	190	0.9	1.2	4.0	2.5	45	68	6.5	3.0	26	33	
Motor Vehicle Sales (units, 000s)												
2010–19	1,819	33	7	51	41	432	715	55	53	237	194	
2019	1,916	34	8	53	41	454	789	53	46	227	214	
2020f	1,564	29	7	46	35	375	625	45	40	186	177	
2021f	1,789	32	8	53	40	428	716	51	47	214	200	
2022f	1,910	33	8	57	42	457	766	54	49	228	214	
Budget Balances, (CAD mn)												
2019*	-17,800	-1,386	-4	2	98	32	-8,672	5	-319	-12,152	-321	
2020f	-381,600	-1,838	-178	-853	-183	-2,991	-38,468	-2,938	-2,045	-21,329	-12,792	
2021f	-121,200		-70			-8,250	-33,100		-1,350	-15,524		
2022f	-50,700		-38			-7,000	-28,150		-855	-9,865		

* NL budget balance in 2019 is net of one-time revenue boost via *Atlantic Accord*.

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

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