NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Monthly Economic Monitor

Economics and Strategy

November 2018

Highlights

- Based on October's global stock market rout, investor concerns are not isolated to just emerging economies anymore. Investors seem to understand that the escalation in the U.S.-China trade war could have ripple effects across global supply chains, hurting trade volumes and hence world GDP growth in the process. Europe's old problems are also resurfacing with uncertainties to the economic outlook courtesy of Brexit and Italy's populist policies. The U.S. dollar's persistent strength is not helping either because it raises odds of default amidst record amounts of USD-denominated debt held worldwide. As such, we expect global growth to be no better than 3.7% this year and next.

- With another strong quarter under its belt, the U.S. economy is well on track to register its highest annual growth rate in years. A tight labour market finally seems to be pushing up wages, fueling concerns about inflation. As such, the Federal Reserve is likely to stick with its approach to gradually normalize monetary policy over the near term. But with the effects of fiscal stimulus expected to fade, U.S. GDP growth and hence Fed tightening should pace down in 2019.

- The Canadian economy remains well on track to grow about 2% this year despite an expected moderation in the third quarter. Reduced trade-related uncertainties courtesy of the USMCA, expectations of accelerating wages amidst labour shortages, the stabilization of the housing market, and generally positive signals from businesses about investment, have all made the Bank of Canada more confident about the economic outlook, which explains the central bank's increasingly hawkish signals. We continue to call for three more interest rate hikes before end-2019, which would put the overnight rate in the lower end of the estimated range of 2.50%-3.50% for the neutral rate.

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				Change from Previous Forecast	
	2018	2019	2020	2019	2020
United States					
GDP	2.9%	2.4%	2.0%	unch	unch
CPI inflation	2.5%	2.3%	2.4%	unch	unch
Fed Fund Target Rate*	2.50%	3.00%	3.50%	unch	unch
Ten-year bond yield*	3.20%	3.50%	3.41%	unch	unch
Canada					
GDP	2.0%	2.0%	1.7%	+0.1 pp	+0.2 pp
CPI inflation	2.3%	2.1%	2.4%	-0.1 pp	unch
Overnight rate*	1.75%	2.50%	2.50%	unch	unch
Ten-year bond yield*	2.57%	3.10%	3.19%	unch	unch

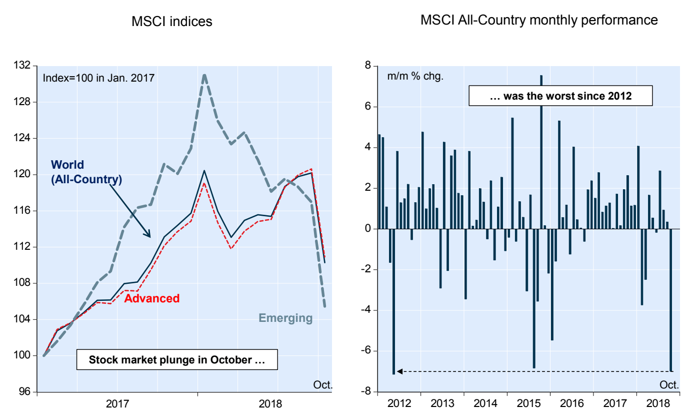
* end of period

World: Red October

Based on October's global stock market rout, investor concerns are not isolated to just emerging economies anymore. Investors seem to understand that the escalation in the U.S.-China trade war could have ripple effects across global supply chains, hurting trade volumes and hence world GDP growth in the process. Europe's old problems are also resurfacing with uncertainties to the economic outlook courtesy of Brexit and Italy's populist policies. The U.S. dollar's persistent strength is not helping either because it raises odds of default amidst record amounts of USD-denominated debt held worldwide. As such, we expect global growth to be no better than 3.7% this year and next.

Investor concerns are seemingly not isolated to emerging economies anymore. World stock markets registered their worst performance since 2012 as evidenced by a 7% decline for the MSCI All-Country index during October, as indices in emerging and advanced economies both saw dramatic slumps.

World: Red October



NBF Economics and Strategy (data via Datastream)

What's behind the stock market rout? Investors noted the loss of momentum of the global economy in the third quarter. The eurozone's real GDP reportedly grew just 0.8% annualized in Q3 (the worst performance since 2014Q2), while Japan's GDP results (not yet available at this writing) were probably not spectacular either based on slumping exports and surging imports.

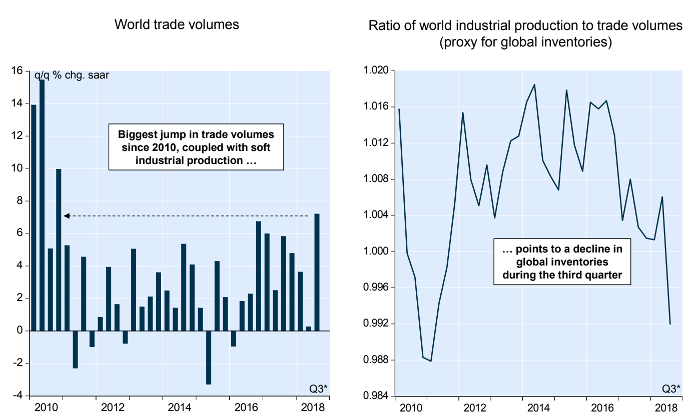
Also, the escalation in the U.S.-China trade war did not help assuage investors who are rightly concerned about ripple effects across global supply chains. Recall that roughly half of China's annual exports to the U.S. (or US$250 bn), will be subject to a 25% tariff as from early 2019. As such there are concerns about a deceleration in global trade volumes and hence weaker world GDP growth.

World: Japanese exports tumble in Q3
Japan's real exports

NBF Economics and Strategy (data via Bank of Japan)

True, latest data from the CPB do not look alarming at first glance. Global trade volumes hit an all-time high in August, and are well on track to grow in Q3 at the fastest pace since 2010. That, coupled with the deceleration in industrial output points to a decline in global inventories during the third quarter. But while that's positive for future production and hence economic growth, we're not celebrating just yet. Early results for Q4 do not point to a quick rebound in industrial output. In the Eurozone for example, flash purchasing managers indices show that the loss of momentum observed in Q3 extended to the current quarter, with the manufacturing PMI declining to a 26-month low in October. In other words, exporters may be capping production and liquidating inventories ahead of an anticipated trade slowdown due to the U.S.-China situation.

World: Biggest jump in trade volumes since 2010



* *Assuming no change in September and no revisions to prior months*
NBF Economics and Strategy (data via Datastream)

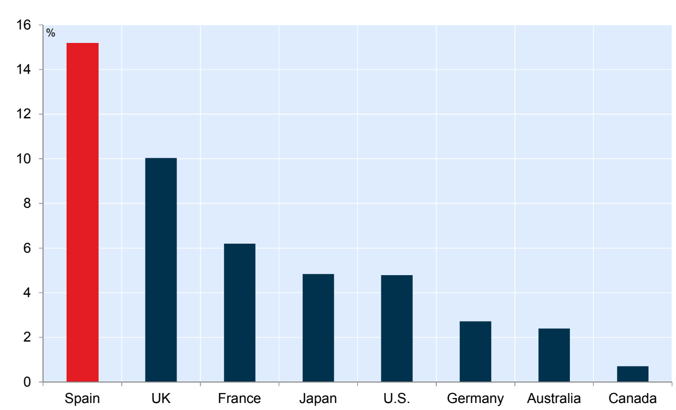
Europe's old domestic problems are also resurfacing with uncertainties to the economic outlook courtesy of Brexit and Italy's populist policies. Italy's latest budget, which calls for an increase in the budget deficit to 2.4% of GDP (three times larger than what was proposed by the preceding government), was rejected by the European Commission which requested a revised plan by mid-November. Non-compliance could result in Brussels calling for a so-called "excessive budget procedure", which would open the door to sanctions, including fines, in 2019. Investors are not waiting that long, ditching Italian bonds and causing yields to soar. It's unclear how high Italian yields have to go to get Rome to reconsider its populist agenda. But in the meantime the threat of contagion to other European sovereigns should not be underestimated considering what happened in 2011-2012 in the aftermath of the Greek debt crisis.

World: Italy's fiscal stance under the microscope
Spread between Italian and German 10-year government bond yields

NBF Economics and Strategy (data via Datastream)

Another looming threat for the eurozone is an economic slowdown in emerging markets. Europe's already fragile banking sector could potentially see related losses. Spanish banks for instance have outstanding claims (on emerging markets) amounting to more than 15% of their assets.

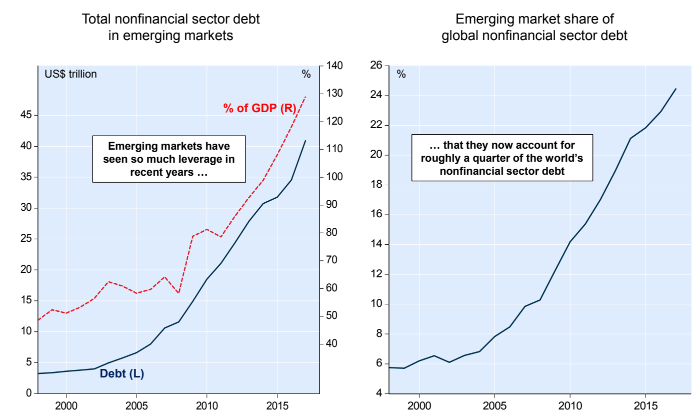
World: Spanish banks most exposed to emerging markets
Outstanding claims on borrowers in emerging markets as a share of bank assets at the end of 2018Q2



NBF Economics and Strategy (data via Bank of International Settlements)

Indeed, emerging markets have rarely looked as vulnerable as they are now. The stock market slump and sharp currency depreciations coincide with the deceleration of capital inflows into emerging economies this year. Foreign investor sentiment was no doubt affected by Washington's trade protectionism (which casts doubts about growth in export-centric emerging economies) and the tightening of monetary policy by the Federal Reserve which is raising the cost of borrowing worldwide (via rising bond yields) and giving a lift to the U.S. dollar. This is a double whammy for emerging economies which have not only seen debt climb to record levels, but also massive USD-denominated corporate debt issuance. According to the Bank of International Settlements, USD-denominated debt to non-bank borrowers in emerging markets amounted to US$3.7 trillion at the end of the second quarter or 11% of GDP.

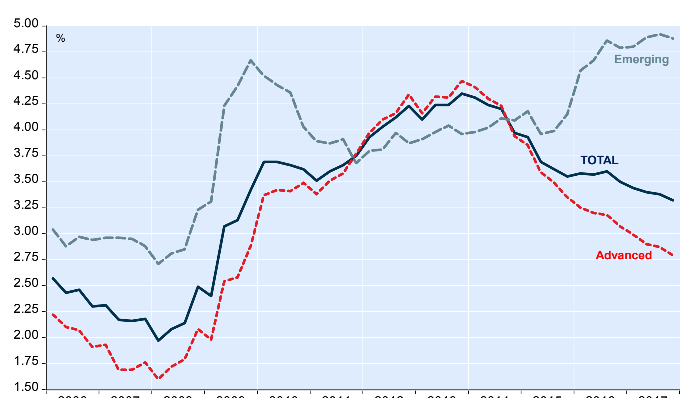
World: High leverage in emerging markets



NBF Economics and Strategy (data via IMF)

A persistent economic slowdown would likely raise defaults and hence increase odds of another financial crisis. Note that banks in emerging economies are already seeing an increasing share of non-performing loans.

World: Emerging market bad debt on the rise
Banks' gross non-performing loans as a share of total loans

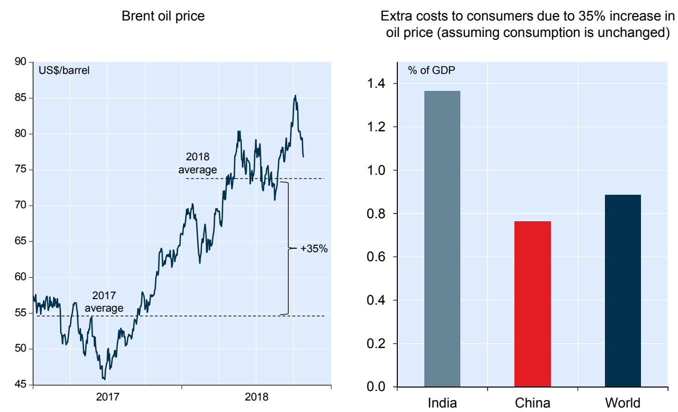


NBF Economics and Strategy (data via IMF)

Another problem for emerging economies is the rising price of oil. Even assuming current levels hold until year-end, the price of Brent oil will average roughly US$74/barrel in

2018, a 35% increase from last year's average. The associated extra costs to emerging market consumers are significant, amounting to nearly 1.4% of GDP in India and 0.8% of GDP in China.

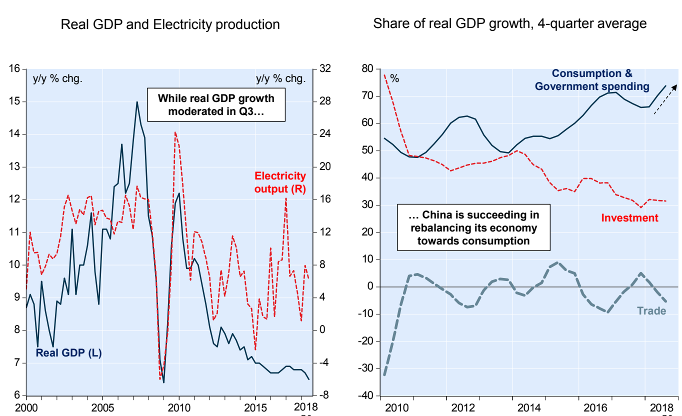
World: Rising oil prices hurting growth



NBF Economics and Strategy (data via Datastream, EIA)

That explains part of the deceleration in the world's second largest economy. Recall that China's real GDP growth is on track to slow to around 6.5% this year after a sharper than expected deceleration in Q3. Growth indeed slowed in that quarter to 6.5% on a year-on-year basis, the lowest since the 2009 global recession.

World: China's growth moderated in Q3



NBF Economics and Strategy (data via Datastream)

But don't underestimate the power of fiscal and monetary stimulus, especially in a centrally-planned economy like China. Fiscal stimulus is helping to boost growth but also assisting in rebalancing the economy away from exports, something that somewhat reduces China's vulnerability to a further escalation of the ongoing trade war with the U.S. Lower reserve requirements announced recently by the People's Bank of China should also prop up credit and support growth. So while China's GDP growth will continue to moderate towards more sustainable levels, we continue to expect it to remain above 6% over the next couple of years.

World Economic Outlook

	Forecast		
	2018	**2019**	**2020**
Advanced countries	***2.3***	***2.1***	***1.7***
United States	2.9	2.4	2.0
Euroland	2.0	1.9	1.7
Japan	1.1	0.9	0.3
UK	1.4	1.5	1.5
Canada	2.0	2.0	1.7
Australia	3.2	2.8	2.7
New Zealand	3.1	3.0	3.1
Hong Kong	3.8	2.9	3.0
Korea	2.8	2.6	2.8
Taiwan	2.7	2.4	2.3
Singapore	2.9	2.5	2.7
Emerging Asia	***6.5***	***6.2***	***6.3***
China	6.6	6.2	6.2
India	7.3	7.4	7.7
Indonesia	5.1	5.1	5.2
Malaysia	4.7	4.6	4.8
Philippines	6.5	6.6	6.6
Thailand	4.6	3.9	3.7
Latin America	***1.2***	***2.2***	***2.7***
Mexico	2.2	2.5	2.7
Brazil	1.4	2.4	2.3
Argentina	-2.6	-1.6	2.2
Venezuela	-18.0	-5.0	-2.0
Colombia	2.8	3.6	3.7
Eastern Europe and CIS	***3.0***	***2.2***	***2.6***
Russia	1.7	1.8	1.8
Czech Rep.	3.1	3.0	2.5
Poland	4.4	3.5	3.0
Turkey	3.5	0.4	2.6
Middle East and N. Africa	***2.0***	***2.6***	***2.9***
Sub-Saharan Africa	***3.1***	***3.8***	***4.0***
Advanced economies	***2.3***	***2.1***	***1.7***
Emerging economies	***4.6***	***4.6***	***4.9***
World	***3.7***	***3.6***	***3.6***

Source: NBF Economics and Strategy

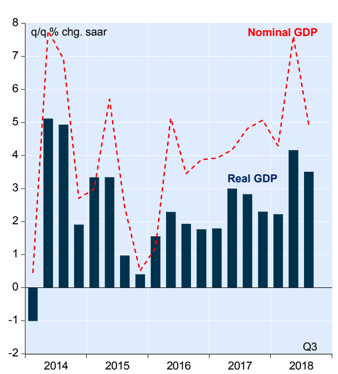
U.S.: Wages accelerate

With another strong quarter under its belt, the U.S. economy is well on track to register its highest annual growth rate in years. A tight labour market finally seems to be pushing up wages, fueling concerns about inflation. As such, the Federal Reserve is likely to stick with its approach to gradually normalize monetary policy over the near term. But with the effects of fiscal stimulus expected to fade, U.S. GDP growth and hence Fed tightening should pace down in 2019.

With a 3.5% annualized print in Q3, U.S. real GDP growth managed to comfortably top the economy's estimated potential for the sixth consecutive quarter. While trade was an expected drag on growth, courtesy of rising imports and declining exports, domestic demand provided more than just an offset. Indeed, consumption had another strong quarter, while government spending accelerated sharply, both more than making up for drag from residential investment. Inventories contributed to economic growth in the third quarter thanks to surging imports, and that may somewhat limit production in the fourth quarter. We are keeping unchanged our forecast of 2.9% for 2018 real GDP growth.

U.S.: Economic growth strong again in the third quarter

Real and Nominal GDP



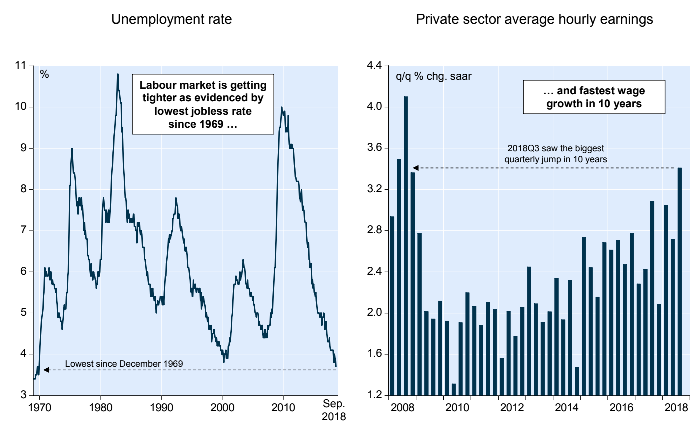
Contributions to real GDP

	2018Q3	2018Q2
GDP	3.5	4.2
Consumption	2.7	2.6
Business Investm. Equip./Intell.	0.4	0.7
Business Investm. Struct.	-0.3	0.4
Residential Investm.	-0.2	0.0
Government	0.6	0.4
Domestic Demand	3.2	4.1
Exports	-0.5	1.1
Imports	-1.3	0.1
Trade	-1.8	1.2
Final Sales	1.4	5.3
Inventories	2.1	-1.2

NBF Economics and Strategy (data via Bureau of Economic Analysis)

The Q3 output surge has not surprisingly given a lift to the labour market. Non-farm payrolls grew by more than half a million during the quarter. And that despite September's weather-related deceleration — the number of people who missed work because of hurricane Florence/bad weather was the highest in months. Diminishing labour market slack is evidenced by a jobless rate of just 3.7%, the lowest since December 1969. Also, while average hourly earnings were little changed on a year-on-year basis at 2.8% in September, they seem to be gaining momentum. On a quarterly basis, i.e. looking at the more recent trend, wage growth accelerated to 3.4% annualized in Q3, the fastest pace in 10 years.

U.S.: Biggest wage increase in 10 years

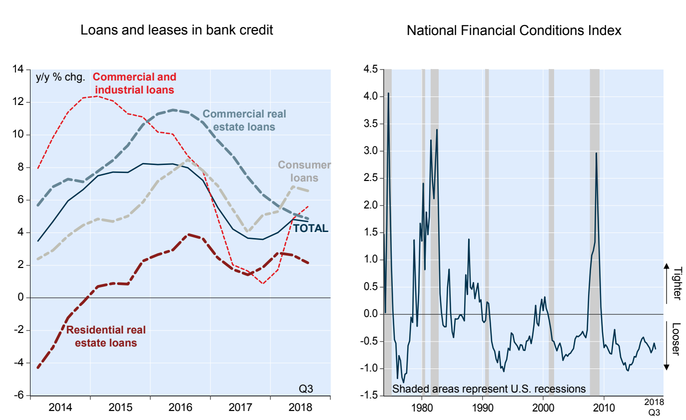


NBF Economics and Strategy (data via Datastream)

With margins under pressure, it's a matter of time before firms start to pass on those increased costs to consumers. So, inflation pressures are likely to intensify over the near to medium term. Note that the annual core PCE deflator, the Federal Reserve's preferred measure of inflation, was already at the 2% target in the third quarter, the highest since 2012. As such, the Fed is likely to stick with its approach to gradually normalize monetary policy over the near to medium term.

Will the Fed's interest rate hikes cause the U.S. economy to choke? Probably not. Our optimism rests on the belief that the Fed will opt to exert restraint and not disrupt well-functioning U.S. credit markets which, despite earlier interest rate hikes, continue to flourish. While real estate loan growth (both residential and commercial) is softening, that's being more than offset by stronger growth for commercial and industrial loans. The latter bodes well for business investment and hence economic growth.

U.S.: Financial conditions still conducive to growth

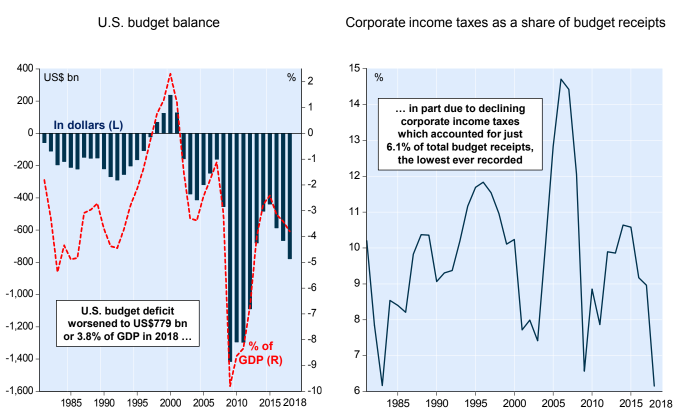


NBF Economics and Strategy (data via Federal Reserve, Chicago Fed)

We doubt the Fed can hike as aggressively as suggested by its dot plot. Recall that last September, the FOMC's median projections showed one more rate hike before year end followed by three rate hikes in 2019. We also expect an additional rate hike from the Fed before the end of 2018. But because we're not as optimistic as the Fed about 2019 U.S. GDP growth, we have pencilled in just two hikes for next year. While growth should remain above potential next year, we suspect a sharp deceleration from this year's pace amid fading impacts of fiscal stimulus. True, Congress could vote for another round of tax cuts — Trump recently floated the idea of a "10% tax cut for the middle class" —, something that would prompt us to revise our 2019 growth outlook. But we have serious doubts of such additional tax cuts materializing in light of the deteriorating fiscal picture.

Note that the U.S. budget deficit rose for a third year in a row, reaching US$779 billion or nearly 4% of GDP in fiscal year 2018 (which ended last September). While expenditures grew 3.2% (same as previous year), budget receipts rose only 0.4% or a full percentage point lower than the previous year's increase. The deceleration in receipts is attributable to tax cuts, particularly for corporations. Corporate income tax receipts fell to US$205 bn, or just 6.1% of total budget receipts, the lowest ever recorded. According to the non-partisan Congressional Budget Office, even assuming no recession, based on current law the U.S. budget deficit is projected to soar past 5% of GDP by 2022, a clearly unsustainable path.

U.S.: Make the budget deficit great again

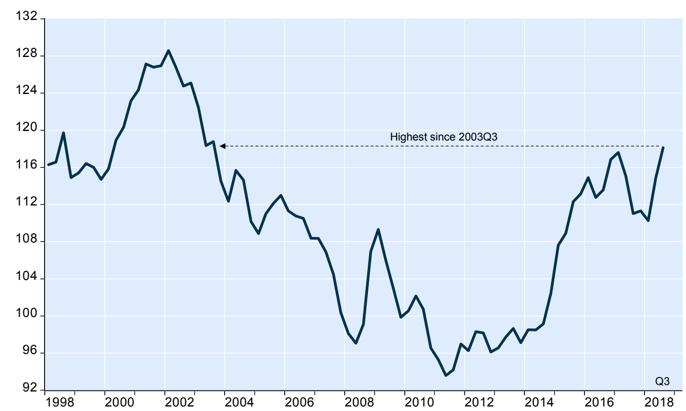


NBF Economics and Strategy (data via Datastream)

Another reason we're less optimistic than the Fed about 2019 growth and hence the pace of monetary tightening is the U.S. dollar's surge. The combination of nominal dollar appreciation and rising inflation since the start of the year has pushed the greenback to a 15-year high in real effective terms. This decline in relative competitiveness will eventually hurt American exporters. And this, even before considering the damage done by the White House's trade spat with China.

U.S.: Dollar is the least competitive in 15-years

Real effective USD exchange rate



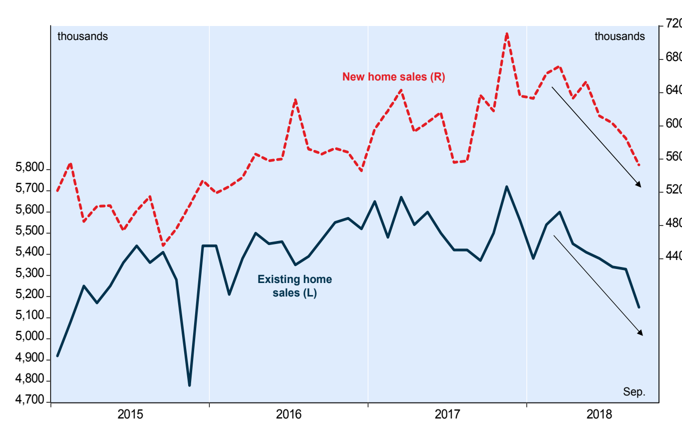
NBF Economics and Strategy (data via Bank of International Settlements)

The Fed may also be underestimating the sensitivity of the economy to higher interest rates. While consumption spending is unlikely to fold amidst rate hikes — after deleveraging during the Great recession, household balance sheets are largely in good shape —, business investment could struggle if rising borrowing costs cause commercial and industrial loan growth to stall. Moreover, highly levered firms which have arguably over-indulged in corporate bond issuance in recent years, will find it more challenging to roll over maturing debt.

Also warranting a go-slow approach from the Fed is a fragile housing market. Home sales and housing starts have been weak this year, coinciding with the ramp up of interest rates. Little surprise then that homeownership rates remain well below pre-recession levels across all demographic groups.

U.S.: Housing market struggling this year

Resales and new home sales



NBF Economics and Strategy (data via Datastream)

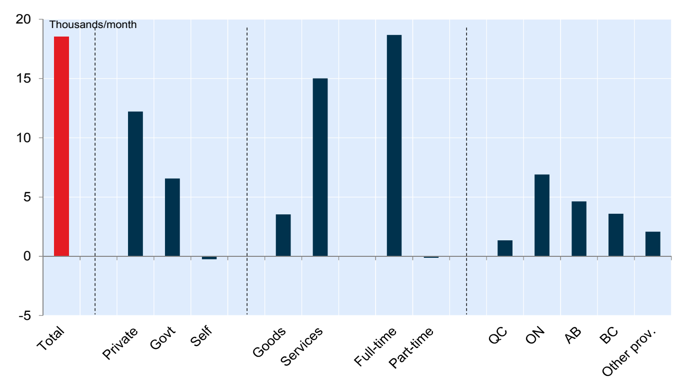
All told, despite the tough talk, the Fed is likely to keep rates below what it considers as neutral for a while, enough in our view to allow U.S. real GDP growth to remain above 2% next year.

Canada: Labour shortages

The Canadian economy remains well on track to grow about 2% this year despite an expected moderation in the third quarter. Reduced trade-related uncertainties courtesy of the USMCA, expectations of accelerating wages amidst labour shortages, the stabilization of the housing market, and generally positive signals from businesses about investment, have all made the Bank of Canada more confident about the economic outlook, which explains the central bank's increasingly hawkish signals. We continue to call for three more interest rate hikes before end-2019, which would put the overnight rate in the lower end of the estimated range of 2.50%-3.50% for the neutral rate.

After a hot second quarter, Canada's economic growth likely returned to more sustainable levels in Q3. Monthly GDP results for July and August indeed point to a quarterly growth rate of slightly under 2% annualized, not far from the economy's estimated potential. Solid output growth over the past year has not surprisingly been beneficial to the labour market. According to the Labour Force Survey, Canada has created 19K jobs/month on average in the last 12 months, two-thirds of which were in the private sector. Also positive is the fact that all of the job creation was in full-time positions.

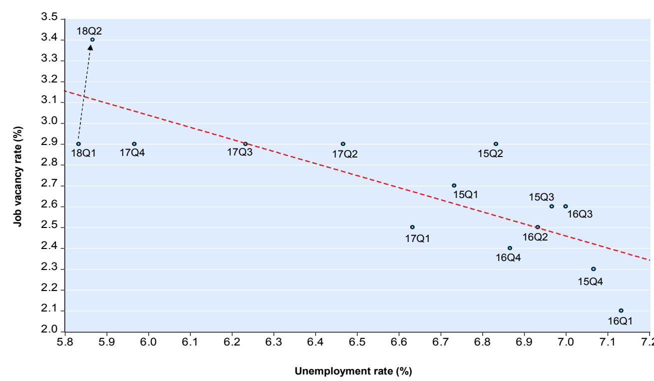
Canada: Robust job creation
Employment created in last 12 months according to the Labour Force Survey (Oct2017-Sep2018)



NBF Economics and Strategy (data via Statistics Canada)

The labour market is so hot that employers are finding it increasingly difficult to find qualified workers. The job vacancy rate — the number of job vacancies as a share of the sum of all occupied and vacant jobs — jumped in the second quarter to 3.4%, the highest on records. And that despite little change in the jobless rate. That typically suggests the labour market is becoming less efficient via a worsening of the skills mismatch problem. Further evidence of labour market tightness can be found in the Bank of Canada's latest Business Outlook Survey (BOS). The proportion of respondents facing labour shortages increased again, with the balance of opinion on the intensity of labour shortages surging to a 12-year high.

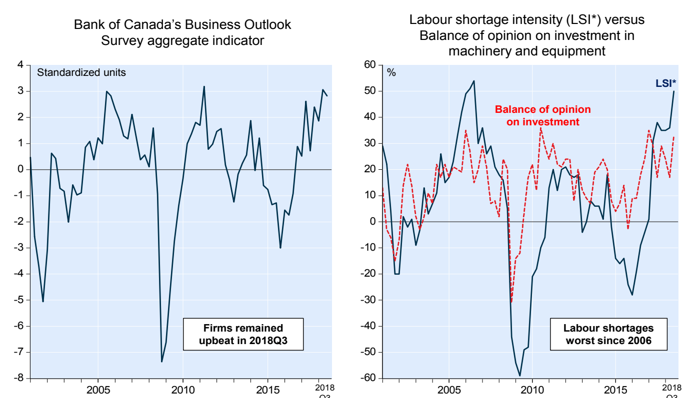
Canada: Is the problem of skills mismatch getting worse?
Job vacancy rate versus Jobless rate



NBF Economics and Strategy (data via Statistics Canada)

The BOS was largely positive with firms expressing optimism as evidenced by the survey's aggregate indicator remaining near all-time highs. A higher proportion of firms compared to last summer's survey expected sales growth to increase over the next year thanks in part to optimism about export growth particularly amid strong U.S. demand. Firms were keen to increase investment in machinery and equipment, the corresponding index rising to the highest in six quarters. Note that the surveys were conducted before the USMCA trade deal was struck and the massive LNG Canada project in British Columbia was announced. So, the largely positive results likely understate the current enthusiasm of Canadian firms.

Canada: Worst labour shortages since 2006

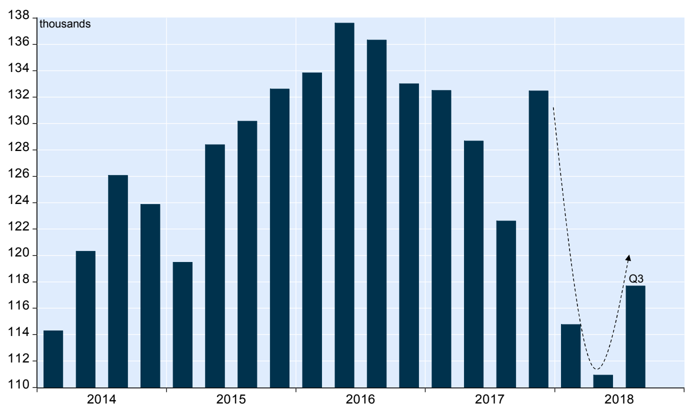


** LSI= % of firms reporting more intense labour shortages minus the % reporting less intense shortages*
NBF Economics and Strategy (data via Bank of Canada)

True, not all is rosy for Canada. Higher intentions to invest may not apply to the oil sector which continues to struggle from low prices. Western Canada Select oil prices remain grounded, hurt by record high inventories, a result of limited transportation capacity (e.g. lack of pipelines and oil freight trains) and record oil production. As such, unless transportation capacity increases in the coming months, Albertan oil producers may want to pare back output.

An otherwise buoyant economy, coupled with upward pressures on wages and hence inflation (due to labour shortages), reduced trade-related uncertainties (courtesy of the USMCA), a stabilization of the housing market, and positive signals from businesses about future investment and hiring plans, convinced the Bank of Canada to adopt a more hawkish tone in October. The central bank not only raised the overnight rate by 25 basis points to 1.75% (which was expected by markets), but also dropped its reference to future "gradual" rate hikes. That could mean a more aggressive path to monetary tightening than what was expected previously. The BoC, however, gave itself some room to go slower if needed, saying it will continue to monitor both domestic (sensitivity to rate hikes) and global conditions (i.e. trade developments) because of their implications for the inflation outlook.

Canada: Housing market is stabilizing
Seasonally adjusted home resales



NBF Economics and Strategy (data via CREA)

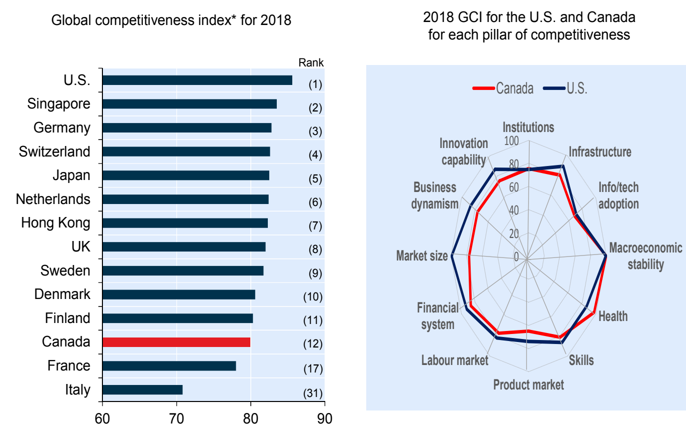
We're still calling for three more interest rate hikes of 25 basis points each before year end-2019, which would then put the overnight rate in the lower end of the estimated range of 2.50%-3.50% for the neutral rate. Of course, should fiscal policy turn more stimulative, we stand ready to adjust those forecasts.

The federal government already offered some handouts during its announcement on carbon pollution pricing in October. Since Ontario, New Brunswick, Manitoba, and Saskatchewan do not have a climate plan deemed acceptable by Ottawa, they will be subject to a federal fuel charge and an output-based pricing system for emissions-intensive industries as from 2019. Households in those provinces will be compensated through roughly C$2 bn in handouts. That's about 0.1% of GDP, although the growth impact is likely to be much smaller if, as we expect, people save part of that cash in anticipation of higher fuel bills later. So, we're not changing our growth forecasts based on this announcement — instead it's the LNG Canada project in BC that prompted us to slightly raise our GDP growth forecasts for 2019 and 2020 to 2.0% and 1.7% respectively.

But it's always possible Ottawa announces more impactful goodies for voters ahead of the 2019 federal elections. As such, the federal government's *Fall Economic Statement*, scheduled for November 21st, will be watched very closely. Canadian businesses too will be seeking new measures from Ottawa aimed at levelling the playing field with U.S. firms who already had an edge before recent tax cuts handed out by Congress further widened the competitiveness gap.

Recall that Canada ranked only 12th in the latest Global Competitiveness Report, down two spots from last year's world rankings. According to the World Economic Forum, the competitiveness gap with the U.S. widened further in 2018. While the federal government can do little about market size (which hugely favours the U.S.), it can address the competitiveness gap with the U.S. in other ways. For instance, Ottawa could help narrow the gap in innovation capability by increasing investment in research and development and/or by more aggressively courting highly skilled foreign workers. Inefficiencies in product markets could be addressed by lowering barriers to trade, including those that hinder inter-provincial flows. The labour market could also use a helping hand in light of observed inefficiencies e.g. shortages and skills mismatch. For instance, facilitating on-the-job training and recognizing foreign qualifications could help better integrate youth and immigrants in the labour market. Infrastructure spending also needs to increase significantly after Canada ranked only 25th in the world on that metric.

Canada: Slipping down the competitiveness rankings



*The GCI measures national competitiveness by taking an average of the 12 pillars of competitiveness
NBF Economics and Strategy (data via World Economic Forum's "The Global Competitiveness Report 2018")

So while our 2019 Canadian GDP growth forecast is 2.0%, we acknowledge upside risks should Ottawa deliver a larger-than-expected fiscal stimulus. Downside risks, including a deteriorating global economic outlook and slumping commodity prices, should not be underestimated either.

NATIONAL BANK OF CANADA FINANCIAL MARKETS

United States
Economic Forecast

(Annual % change)*	2016	2017	2018	2019	2020	Q4/Q4 2018	Q4/Q4 2019	Q4/Q4 2020
Gross domestic product (2012 $)	1.6	2.2	2.9	2.4	2.0	3.1	2.1	2.0
Consumption	2.7	2.5	2.7	2.4	2.0	2.7	2.0	2.0
Residential construction	6.5	3.3	(0.1)	0.5	2.4	(2.2)	2.0	2.2
Business investment	0.5	5.3	6.5	2.4	1.5	5.7	2.0	1.7
Government expenditures	1.4	(0.1)	1.8	2.4	1.6	2.6	2.0	1.2
Exports	(0.1)	3.0	4.3	1.7	0.9	3.5	1.0	1.0
Imports	1.9	4.6	4.5	2.2	1.1	3.3	1.2	1.0
Change in inventories (bil. $)	23.4	22.5	30.0	48.8	46.8	50.0	48.0	46.0
Domestic demand	2.3	2.5	2.9	2.3	1.9	2.9	2.0	1.9
Real disposable income	1.7	2.6	2.8	1.8	1.7	2.8	1.7	1.7
Household employment	1.7	1.3	1.5	1.1	1.0	1.5	1.0	0.9
Unemployment rate	4.9	4.4	3.9	3.6	3.5	3.8	3.6	3.5
Inflation	1.3	2.1	2.5	2.3	2.4	2.4	2.4	2.4
Before-tax profits	(1.1)	3.2	7.5	5.9	4.1	8.1	4.5	3.7
Federal balance (unified budget, bil. $)	(587.0)	(666.0)	(779.0)	(981.0)	(1,020.0)	...	...	...
Current account (bil. $)	(432.9)	(449.1)	(434.4)	(436.8)	(437.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 10-30-18	Q4 2018	Q1 2019	Q2 2019	Q3 2019	2018	2019	2020
Fed Fund Target Rate	2.25	2.50	2.50	2.75	3.00	2.50	3.00	3.50
3 month Treasury bills	2.29	2.41	2.44	2.71	2.93	2.41	2.93	3.43
Treasury yield curve								
2-Year	2.84	2.91	2.96	3.05	3.20	2.91	3.27	3.31
5-Year	2.94	3.03	3.06	3.16	3.25	3.03	3.37	3.27
10-Year	3.12	3.20	3.25	3.33	3.42	3.20	3.50	3.41
30-Year	3.36	3.39	3.41	3.47	3.55	3.39	3.62	3.51
Exchange rates								
U.S.$/Euro	1.14	1.16	1.19	1.21	1.22	1.16	1.23	1.25
YEN/U.S.$	113	113	114	115	115	113	113	111

*** end of period*

Quarterly pattern

	Q1 2018 actual	Q2 2018 actual	Q3 2018 actual	Q4 2018 forecast	Q1 2019 forecast	Q2 2019 forecast	Q3 2019 forecast	Q4 2019 forecast
Real GDP growth (q/q % chg. saar)	2.2	4.2	3.5	2.4	1.9	2.3	1.9	2.1
CPI (y/y % chg.)	2.3	2.6	2.6	2.4	2.1	2.3	2.4	2.4
CPI ex. food and energy (y/y % chg.)	1.9	2.2	2.2	2.2	2.2	2.4	2.5	2.6
Unemployment rate (%)	4.1	3.9	3.8	3.8	3.7	3.7	3.6	3.6

National Bank Financial

Monthly Economic Monitor

Canada
Economic Forecast

*(Annual % change)**	*2016*	*2017*	*2018*	*2019*	*2020*	*Q4/Q4 2018*	*2019*	*2020*
Gross domestic product (2007 $)	1.4	3.0	2.0	2.0	1.7	2.0	2.0	1.6
Consumption	2.4	3.5	2.2	2.1	1.3	2.1	2.0	1.0
Residential construction	3.3	2.9	(0.5)	(1.5)	(1.9)	(2.9)	(2.0)	(1.8)
Business investment	(9.4)	2.8	6.9	3.6	3.5	5.6	3.4	3.2
Government expenditures	2.7	2.6	2.7	2.0	1.7	2.0	2.0	1.5
Exports	1.0	1.1	3.2	4.6	3.1	6.0	3.2	3.5
Imports	(1.0)	3.6	3.1	2.4	2.1	1.9	2.7	2.0
Change in inventories (millions $)	978	13,921	6,116	-454	-53	-842	-1,024	83
Domestic demand	1.1	3.0	2.7	2.0	1.4	2.0	1.9	1.1
Real disposable income	1.3	3.7	1.9	1.5	1.5	1.0	1.5	1.5
Employment	0.7	1.9	1.2	1.0	0.7	0.8	0.8	0.7
Unemployment rate	7.0	6.3	5.9	5.7	5.7	5.8	5.7	5.7
Inflation	1.4	1.6	2.3	2.1	2.4	2.0	2.5	2.3
Before-tax profits	(1.9)	19.9	4.5	6.0	4.2	6.5	5.0	3.5
Current account (bil. $)	(65.4)	(63.3)	(62.1)	(48.5)	(37.3)	....	....	....

** or as noted*

Financial Forecast**

	Current 10-30-18	*Q4 2018*	*Q1 2019*	*Q2 2019*	*Q3 2019*	*2018*	*2019*	*2020*
Overnight rate	1.75	1.75	2.00	2.25	2.50	1.75	2.50	2.50
3 month T-Bills	1.74	1.91	2.11	2.40	2.46	1.91	2.44	2.43
Treasury yield curve								
2-Year	2.30	2.36	2.41	2.54	2.59	2.36	2.60	2.74
5-Year	2.40	2.48	2.51	2.70	2.79	2.48	2.80	2.90
10-Year	2.45	2.57	2.62	2.96	3.03	2.57	3.10	3.19
30-Year	2.50	2.60	2.65	2.99	3.06	2.60	3.13	3.24
CAD per USD	1.31	1.27	1.25	1.25	1.27	1.27	1.28	1.32
Oil price (WTI), U.S.$	66	72	73	71	70	72	69	68

*** end of period*

Quarterly pattern

	Q1 2018 actual	*Q2 2018 actual*	*Q3 2018 forecast*	*Q4 2018 forecast*	*Q1 2019 forecast*	*Q2 2019 forecast*	*Q3 2019 forecast*	*Q4 2019 forecast*
Real GDP growth (q/q % chg. saar)	1.4	2.9	1.7	2.0	1.9	2.2	1.6	2.2
CPI (y/y % chg.)	2.1	2.3	2.7	2.0	1.6	2.1	2.1	2.5
CPI ex. food and energy (y/y % chg.)	1.8	1.8	2.1	1.8	1.4	1.8	1.8	2.4
Unemployment rate (%)	5.8	5.9	5.9	5.8	5.8	5.7	5.7	5.7

National Bank Financial

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Provincial economic forecast

	2016	2017e	2018f	2019f	2020f	2016	2017e	2018f	2019f	2020f
	Real GDP (% growth)					**Nominal GDP** (% growth)				
Newfoundland & Labrador	1.9	2.1	0.6	3.0	1.2	2.6	8.6	7.4	4.8	2.2
Prince Edward Island	2.3	3.2	2.5	2.0	1.1	4.0	5.4	4.6	4.7	4.0
Nova Scotia	0.8	1.2	1.0	1.0	0.8	2.8	2.8	3.9	3.7	3.2
New Brunswick	1.2	1.9	1.2	1.3	1.1	3.6	5.4	4.9	3.7	3.6
Quebec	1.4	3.0	2.4	1.7	1.3	2.7	5.1	4.1	3.3	3.3
Ontario	2.6	2.7	2.2	1.8	1.6	4.3	4.5	3.7	3.7	3.9
Manitoba	2.2	2.8	1.6	1.5	1.0	2.3	4.9	4.1	3.6	3.2
Saskatchewan	-0.5	2.9	1.3	2.5	1.6	-4.0	6.4	6.1	3.9	3.4
Alberta	-3.7	4.9	2.2	2.1	1.8	-4.9	7.1	4.8	4.0	3.2
British Columbia	3.5	3.9	2.3	2.6	2.5	4.8	6.3	5.4	4.5	4.9
Canada	1.4	3.0	2.0	2.0	1.7	2.0	5.4	4.1	3.9	3.5
	Employment (% growth)					**Unemployment rate** (%)				
Newfoundland & Labrador	-1.4	-3.7	0.5	-1.6	-1.6	13.4	14.8	14.5	14.6	14.9
Prince Edward Island	-2.2	3.0	3.0	1.7	0.6	10.7	9.8	9.9	9.3	9.3
Nova Scotia	-0.4	0.7	1.4	0.2	0.2	8.3	8.4	7.7	7.7	7.2
New Brunswick	-0.1	0.4	0.4	0.7	0.4	9.5	8.1	8.1	7.7	6.9
Quebec	0.9	2.2	0.9	0.7	0.6	7.1	6.1	5.5	5.4	5.4
Ontario	1.1	1.8	1.5	1.3	0.9	6.5	6.0	5.7	5.4	5.4
Manitoba	-0.5	1.6	0.7	0.5	0.4	6.1	5.4	5.8	5.8	6.2
Saskatchewan	-0.9	-0.1	0.1	0.5	0.6	6.3	6.3	6.1	5.8	5.8
Alberta	-1.6	1.0	1.9	1.0	0.9	8.1	7.8	6.7	6.3	6.3
British Columbia	3.1	3.7	0.8	1.0	0.9	6.0	5.1	4.7	4.6	4.6
Canada	0.7	1.9	1.2	1.0	0.7	7.0	6.3	5.9	5.7	5.7
	Housing starts (000)					**Consumer Price Index (% growth)**				
Newfoundland & Labrador	1.4	1.4	1.6	1.3	1.3	2.7	2.3	1.7	1.9	2.2
Prince Edward Island	0.6	0.9	0.9	0.6	0.6	1.2	1.8	2.5	2.1	2.4
Nova Scotia	3.8	4.0	5.3	3.4	3.5	1.2	1.1	2.3	2.5	2.4
New Brunswick	1.8	2.3	2.0	1.6	1.7	2.2	2.3	2.2	2.0	2.3
Quebec	38.9	46.5	44.2	37.5	35.0	0.7	1.1	1.8	1.9	2.4
Ontario	75.0	79.0	77.9	68.6	70.0	1.8	1.7	2.5	2.2	2.4
Manitoba	5.3	7.5	7.9	5.0	5.5	1.3	1.6	2.5	2.1	2.3
Saskatchewan	4.8	4.9	3.5	4.0	4.4	1.1	1.7	2.5	2.0	2.2
Alberta	24.5	29.5	27.6	24.0	25.0	1.1	1.5	2.5	2.1	2.4
British Columbia	41.8	43.7	40.6	35.0	36.0	1.8	2.1	2.5	2.2	2.4
Canada	197.9	219.7	211.5	181.0	183.0	1.4	1.6	2.3	2.1	2.4

e: estimate f: forecast

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

Monthly Economic Monitor

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Monthly Economic Monitor

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