Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

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Highlights

By Krishen Rangasamy

- With China and the Eurozone seemingly on the ropes, it's difficult to be optimistic about the global economy's performance this year. Fortunately, the persistence of low inflation should allow major central banks to keep monetary policy accommodative while some governments, including China's, also have room to dispatch fiscal stimulus should downside risks to growth materialize.

- While last month`s government shutdown will temporarily restrain Q1 output, we are leaving our 2019 forecast for U.S. GDP growth unchanged at 2.3% expecting a subsequent rebound. Concerns about a trade war, a slowing housing market and the possibility of an inverted yield curve should keep the Federal Reserve in pause mode for a while.

- Canada's economy is decelerating in synch with a softening housing market and related fading wealth effects which are curtailing consumption spending, the latter already under pressure from rising interest rates and a low household savings rate. Barring fiscal relief from the federal government in 2019, consumption growth is on track for its worst year in a decade.

				Change from Previous Forecast	
	2018	2019	2020	2019	2020
United States					
GDP	2.9%	2.3%	1.9%	unch	unch
CPI inflation	2.4%	2.1%	2.1%	unch	unch
Fed Fund Target Rate*	2.50%	2.75%	2.75%	unch	unch
Ten-year bond yield*	2.69%	3.34%	2.71%	unch	unch
Canada					
GDP	2.0%	1.8%	1.7%	unch	unch
CPI inflation	2.3%	1.7%	2.1%	unch	unch
Overnight rate*	1.75%	2.25%	2.00%	unch	unch
Ten-year bond yield*	1.96%	2.67%	2.65%	unch	unch

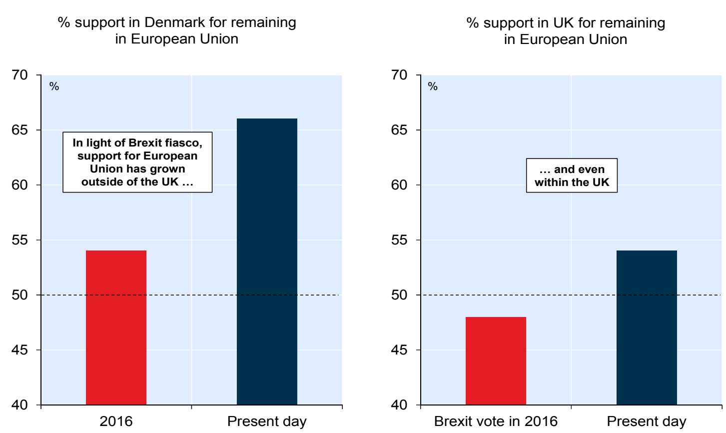
* end of period

World: Is the Eurozone headed for recession?

With China and the Eurozone seemingly on the ropes, it's difficult to be optimistic about the global economy's performance this year. Fortunately, the persistence of low inflation should allow major central banks to keep monetary policy accommodative while some governments, including China's, also have room to dispatch fiscal stimulus should downside risks to growth materialize.

If you're downbeat about prospects for the global economy, you're not alone. The IMF just downgraded its 2019 forecast for world GDP growth which now matches our own call of 3.5%. Some downside risks seem to be materializing (e.g China slowdown) while those that are yet to unfold are looking increasingly menacing. Take Brexit for instance. The UK Parliament's outright rejection in January of the deal steadfastly crafted over the last two years by Prime Minister May and the European Union has opened the door to a "hard" Brexit on March 29th whereby the UK leaves the single market and the customs union. As we explained in the last *Monthly Economic Monitor* such an event would have negative spillovers well beyond British and European borders. Our base case scenario is one of a "soft" Brexit and hence minimal interruptions to trade flows, something that could still happen either via a new UK elections or another referendum. Regardless of what happens, from the perspective of Brussels there's a silver lining to the Brexit fiasco because current members of the European Union will now think twice about following the UK's path. Thanks to the chaos at Westminster, support for the European Union is growing even in euroskeptic member countries such as Denmark.

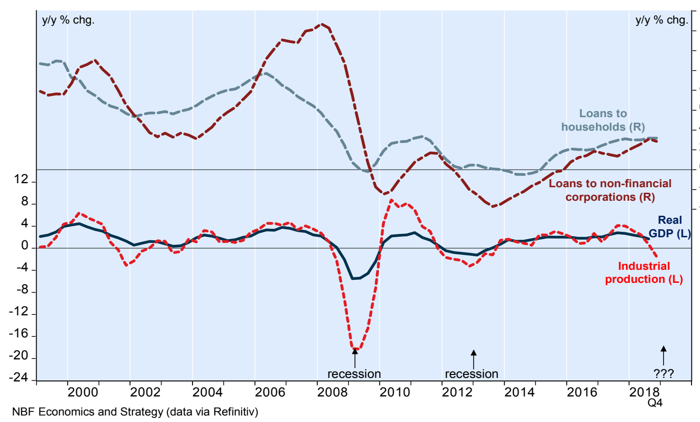
World: Silver lining to Brexit fiasco



NBF Economics and Strategy (data via Berlingske, BBC)

A hard Brexit would not be good news for an already fragile eurozone. True, the common currency area grew a decent 1.8% last year. But the second semester, which saw real GDP grow less than 1% annualized, was the worst in five years. The zone's industrial production even seems to have contracted on a year-on-year basis in the final quarter of 2018. The last two times this happened (2008 and 2012), the eurozone eventually fell into recession. Does this latest blotch of red ink on industrial output mean the eurozone is headed for yet another recession? Disappointing purchasing managers indices in January do not suggest a quick rebound in the first quarter of 2019. Indeed, a recession cannot be ruled out amid Brexit-related uncertainties and social unrest in places such as France and Italy.

World: Is the eurozone headed for recession?
Eurozone Real GDP, Industrial production, Loans to households and non-financial corporations

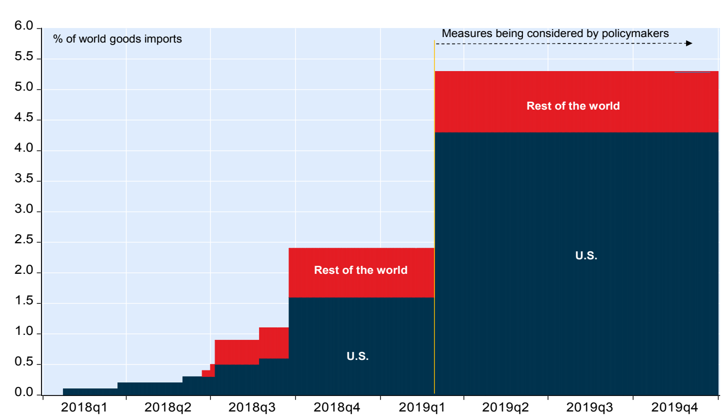


NBF Economics and Strategy (data via Refinitiv)

But if policymakers can manage ongoing challenges, the eurozone has potential to bounce back. Last year's weak second half was partly due to extraordinary events that impacted Germany's economic activity, including tougher pollution standards (which hurt auto sales) and an extended drought which affected major waterways (and hence goods transportation) including the crucial Rhine river. So, a rebound is possible in Q2 this year, especially if financial markets continue to function properly. Unlike in 2008 and 2012, loans to households and non-financial corporations continue to grow at a healthy clip, which bode well for consumption spending and business investment.

That said, even free-flowing credit won't be enough to save an export-centric eurozone from a ramp up in protectionist policies. Already reeling from U.S. tariffs on steel and aluminum, the eurozone would struggle should the Trump Administration make use of section 232 of the U.S. Trade Expansion Act to impose tariffs on auto imports on grounds of national security. Worsening U.S.-China trade relations – barring a deal, tariff increases in the U.S. and China are slated to become binding on March 1st – could also wreak havoc. All in all, 5% of global trade flows could be affected this year if all measures being considered by world policymakers are implemented, something that would not leave the eurozone and global economy unscathed.

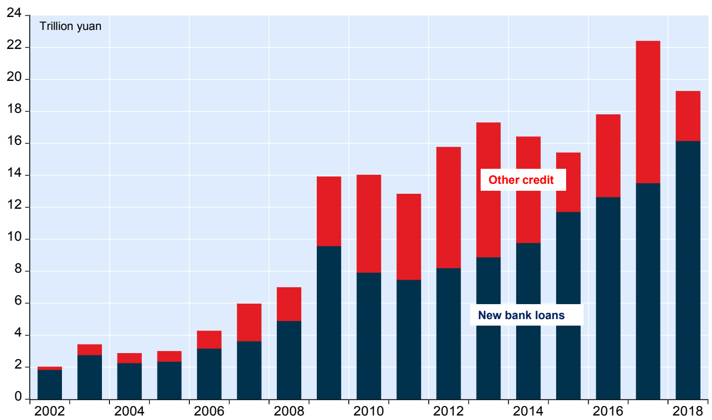
World: Ramp up of protectionism in 2019?
Imports affected by tariffs



NBF Economics and Strategy (data via World Bank)

China's slowdown is also hurting investor confidence. While the world's second largest economy grew a decent 6.6% last year, that was the lowest GDP growth print since 1990. The deceleration should, however, not be surprising all things considered. Actions by Beijing to curtail risks posed by shadow banking, while necessary for long term stability of the financial system, have capped credit expansion. Social financing, the broad measure of credit flows in China, totalled 19.3 trillion yuan in 2018, or roughly 3 trillion yuan lower than the preceding year. Investment outlays (including real estate), and hence GDP growth, were restrained as a result. We suspect a similar outcome in 2019.

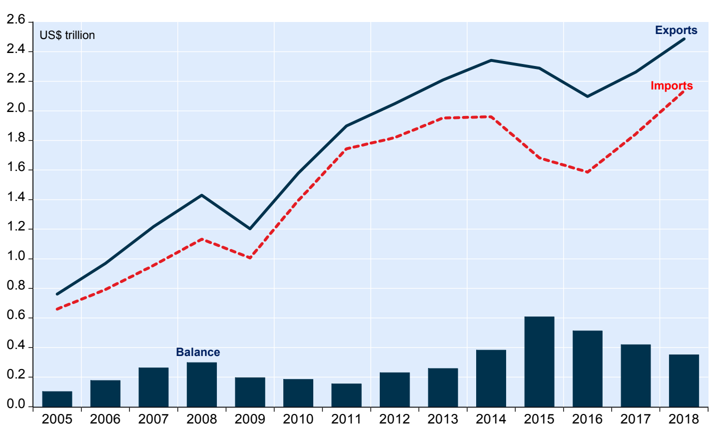
World: Why is China's economy slowing?
Social financing



NBF Economics and Strategy (data via Refinitiv)

Trade was also a drag on China's growth last year as imports grew faster than exports. Because of an elevated real effective yuan, we're not expecting that dynamic to change in 2019, even if a trade deal is struck with the U.S. But that's not to say China's GDP growth is about to collapse. The central government has proven in the past that it can support the economy via fiscal and monetary policy stimulus. Announcements in January including tax relief for small businesses and cuts to the reserve requirement ratio are likely to be followed by additional measures should growth fall short of Beijing's expectations. As such we continue to expect China to post annual growth rates north of 6% this year and next.

China: Goods trade surplus falls for third consecutive year
Goods trade by year



NBF Economics and Strategy (data via Refinitiv)

World Economic Outlook

	Forecast		
	2018	**2019**	**2020**
Advanced countries	***2.3***	***1.9***	***1.8***
United States	2.9	2.3	1.9
Euroland	1.8	1.6	1.7
Japan	0.9	1.1	0.5
UK	1.4	1.5	1.6
Canada	2.0	1.8	1.7
Australia	3.2	2.7	2.7
New Zealand	3.1	2.7	3.1
Hong Kong	3.8	2.4	3.0
Korea	2.8	2.5	2.8
Taiwan	2.7	2.2	2.3
Singapore	2.9	2.6	2.7
Emerging Asia	***6.5***	***6.3***	***6.3***
China	6.6	6.3	6.2
India	7.3	7.4	7.7
Indonesia	5.1	5.1	5.2
Malaysia	4.7	4.5	4.8
Philippines	6.5	6.3	6.6
Thailand	4.6	3.8	3.7
Latin America	***1.1***	***1.8***	***2.0***
Mexico	2.1	1.9	2.2
Brazil	1.3	2.4	2.2
Argentina	-2.6	-1.1	2.2
Venezuela	-18.0	-12.8	-2.0
Colombia	2.8	3.4	3.7
Eastern Europe and CIS	***3.0***	***2.0***	***2.1***
Russia	1.7	1.5	1.7
Czech Rep.	3.1	2.9	2.5
Poland	4.4	3.7	3.0
Turkey	3.5	-0.2	2.6
Middle East and N. Africa	***2.1***	***2.5***	***3.0***
Sub-Saharan Africa	***3.1***	***3.7***	***3.9***
Advanced economies	***2.3***	***1.9***	***1.8***
Emerging economies	***4.6***	***4.6***	***4.7***
World	***3.7***	***3.5***	***3.5***

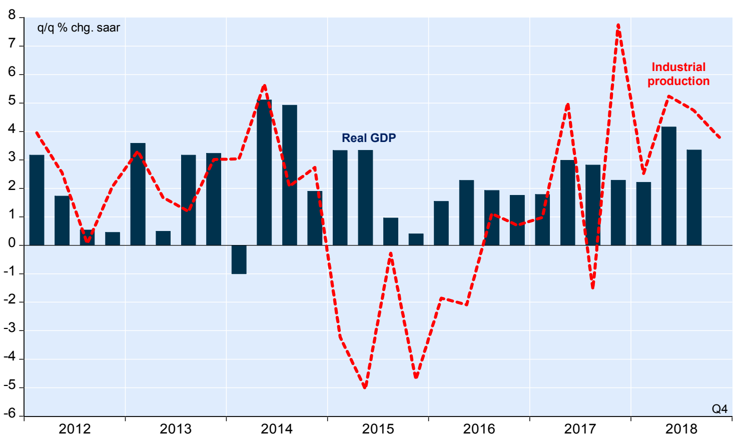
Source: NBF Economics and Strategy

U.S.: Can government shutdown derail growth?

While last month`s government shutdown will temporarily restrain Q1 output, we are leaving our 2019 forecast for U.S. GDP growth unchanged at 2.3% expecting a subsequent rebound. Concerns about a trade war, a slowing housing market and the possibility of an inverted yield curve should keep the Federal Reserve in pause mode for a while.

The dearth of U.S. data, courtesy of last month's government shutdown, makes it difficult to gauge the handoff from last year. Real GDP growth probably remained above 2% annualized in the final quarter of 2018 based on Federal Reserve data which showed decent gains for industrial production.

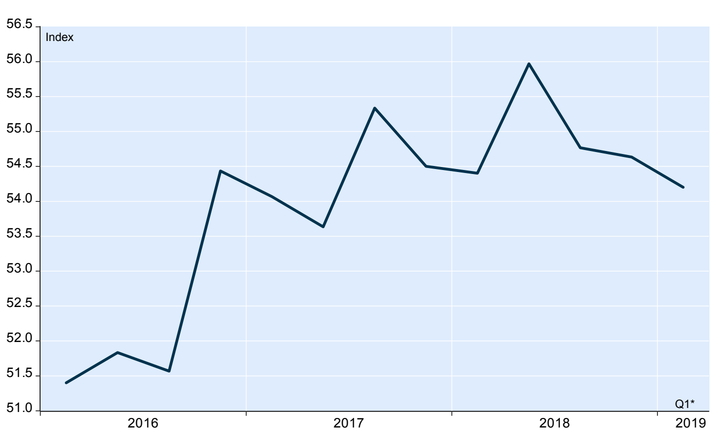
U.S.: Economic growth strong again in the fourth quarter



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

But the economy seems to be slowing down in the current quarter, i.e. Q1. True, the manufacturing sector is still in good shape as evidenced by January's increase for the Philly index as well as factory purchasing managers indices. But the services sector, which accounts for about 70% of the U.S. economy, seems to be moving down a gear based on Markit's purchasing managers index which sank to a four-month low in January.

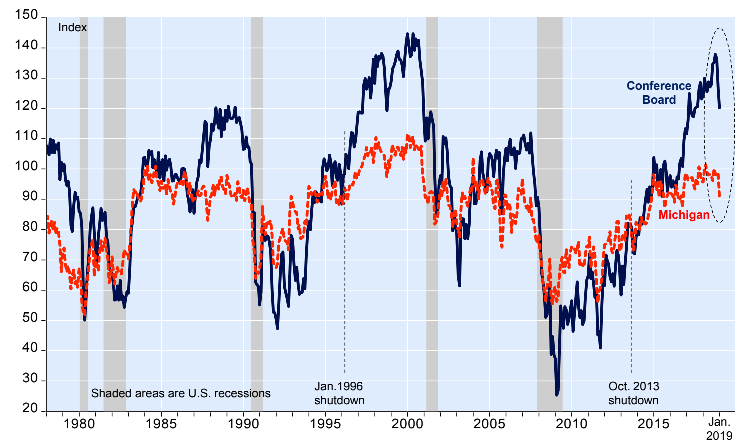
U.S.: Services sector losing steam
Markit services purchasing managers index



** Q1 estimate is based on January data only*
NBF Economics and Strategy (data via Markit)

As Markit puts it: "New business growth (in the services sector) remained subdued in comparison to the peaks seen in the first half of 2018. The latest rise in new work was one of the weakest seen in the past year-and-a-half". Consumer confidence also took a hit in January due to the earlier stock market collapse, although the government shutdown did not help either. The Michigan consumer sentiment indicator actually saw its biggest monthly slump in six years.

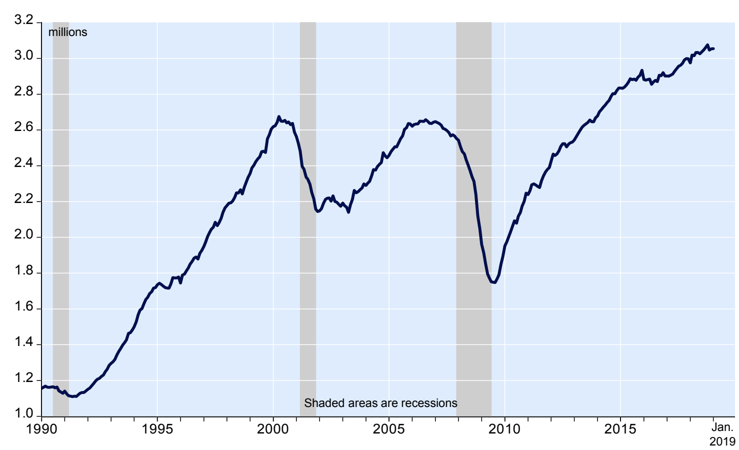
U.S.: Consumer sentiment dives in January amid government shutdown
Conference Board consumer confidence index and Michigan consumer sentiment



NBF Economics and Strategy (data via Refinitiv)

True, employment remained strong in January: +304K according to the establishment survey and +237K according to the household survey after removing "population effects. But temporary help, a reliable leading indicator, was stagnant again while wage inflation fell to 3.2%.

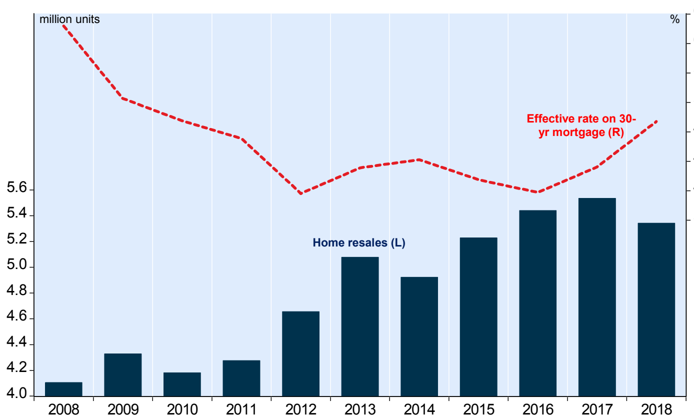
U.S.: Has temporary employment peaked?
Temporary employment



NBF Economics and Strategy (data via Refinitiv)

Considering temporary factors at play (disruptions caused by the shutdown), we suspect GDP growth will bounce back. The housing market in particular has room for improvement after a rather weak 2018. Recall that rising mortgage rates slammed home resales which registered an annual decline last year for the first time since 2014.

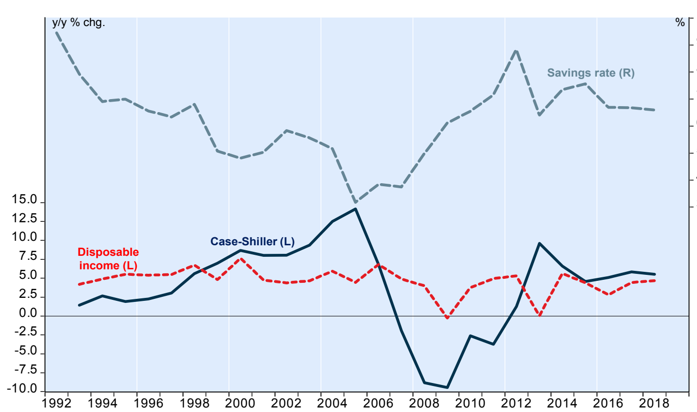
U.S.: Home resales see annual decline for the first time since 2014
Sales of existing homes versus Effective mortgage rate



NBF Economics and Strategy (data via National Association of Realtors)

But with the Fed making clear that it is pacing down monetary policy tightening, home sales can recover in 2019. For clues about the sensitivity of home buyers to rates, one just needs to look at the surge in mortgage applications which coincided with the recent drop in long rates. Also supporting our positive view of the U.S. housing market is the fact that over the last decade the gap between resale price inflation and income growth hasn't diverged a whole lot, unlike the excesses observed before the 2006 crash. Positive housing wealth effects, a high savings rate, and the best household balance sheet in 34 years (see January's *Monthly Economic Monitor*) bode well for consumption spending this year.

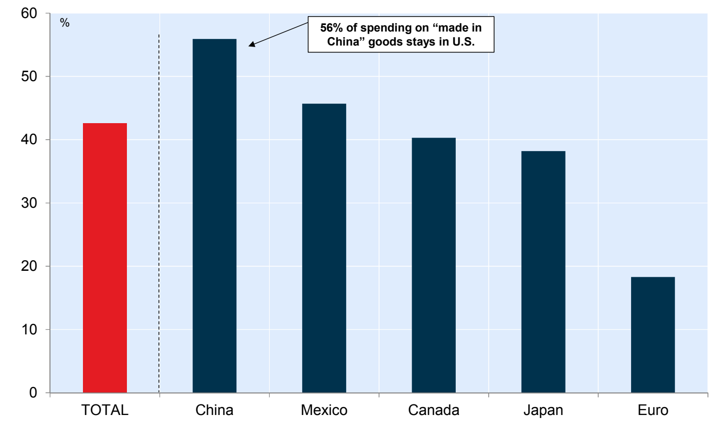
U.S.: Housing market in a better position than in 2006
Case-Shiller house price index, disposable income and personal savings rate



NBF Economics and Strategy (data via Refinitiv)

That's not to say the U.S. is in the clear. As we've pointed out before, another financial crisis cannot be ruled out, more so considering a bubbly-looking corporate bond market. The U.S. government is ironically also a threat to growth. January's shutdown has already shown that politicians are willing to sacrifice prosperity for popularity. Another shutdown is possible in February (when the temporary truce ends) or later in the year when the debt ceiling debate heats up. Reckless trade policies could also be implemented by Washington to gain votes. While popular in "Rust Belt" states, protectionist measures could backfire on the U.S. economy, and not just through retaliatory tariffs from slighted trade partners. According to the Federal Reserve Bank of San Francisco, the local content of imports into the U.S. is roughly 43% on average. In other words, 43% of U.S. expenditures on goods made in foreign countries stays in America either through payments to retailers or for logistics. At 56%, the local content of "made in China" is even larger than the average.

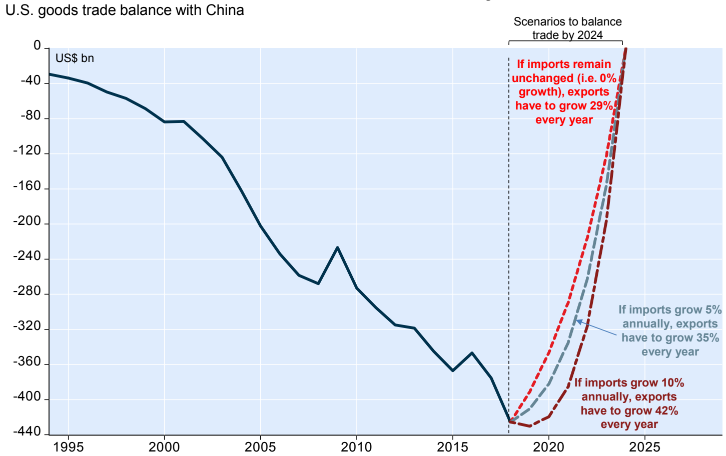
U.S.: More than half of spending on "made in China" goods stays in U.S.
Share of local content of U.S. imports



NBF Economics and Strategy (data via Federal Reserve Bank of San Francisco)

China has been trying to de-escalate tensions by reportedly agreeing to boost its imports from the U.S. enough to eliminate the bilateral trade deficit by the end of 2024. Recall that last year's U.S. goods trade deficit with China amounted to more than US$420 billion. Cutting that massive tally to zero in six years would entail an unprecedented combination of strong growth of U.S. exports to China and weak growth of U.S. imports from China. Even if U.S. imports from China remain flat from now through 2024, exports would have to grow at least 29% every year for six years to erase the trade deficit. Such pace of sustained growth for U.S. exports to China has never happened before, not even when China's real GDP growth was in double digits. In other words, Beijing is unlikely to deliver on its promises, which suggests the ongoing trade war is far from over.

U.S.: Can the trade deficit with China be erased by 2024?
U.S. goods trade balance with China



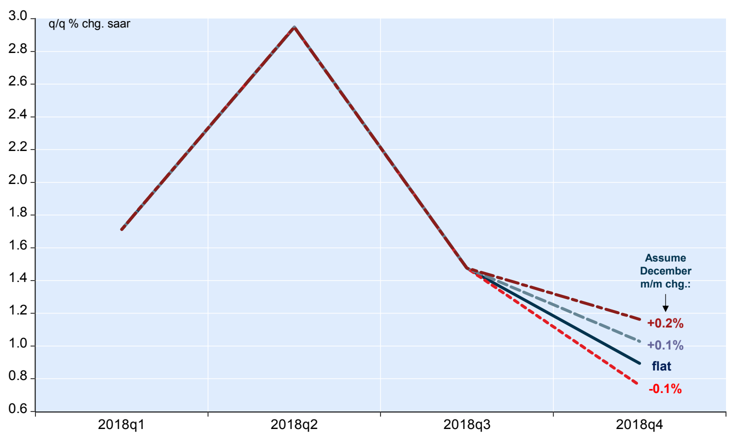
NBF Economics and Strategy (data via U.S. Census Bureau, NBF calculations)

Canada: Fading wealth effects

Canada's economy is decelerating in synch with a softening housing market and related fading wealth effects which are curtailing consumption spending, the latter already under pressure from rising interest rates and a low household savings rate. Barring fiscal relief from the federal government in 2019, consumption growth is on track for its worst year in a decade.

We'll have to wait a few more weeks to get Q4 GDP results, but data released so far suggest Canada's economy lost momentum towards the end of last year. Output reportedly fell 0.1% in November, erasing some of the prior month's gains. So much so that Q4 growth is tracking less than 1.5% annualized, i.e. a deceleration from the prior quarter's pace.

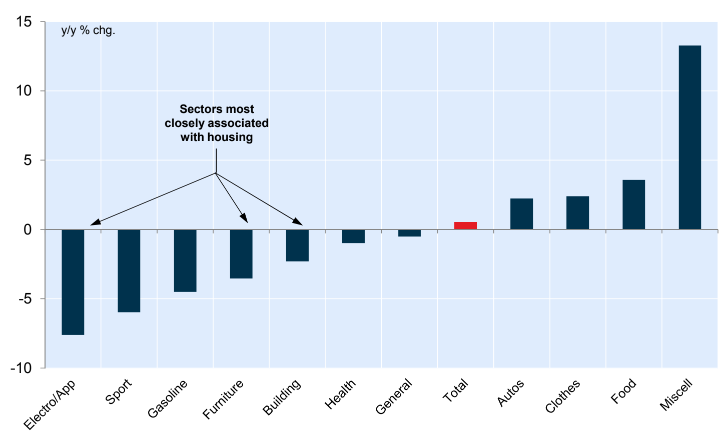
Canada: Real GDP growth likely softened in Q4
Real GDP by industry



NBF Economics and Strategy (data via Statistics Canada)

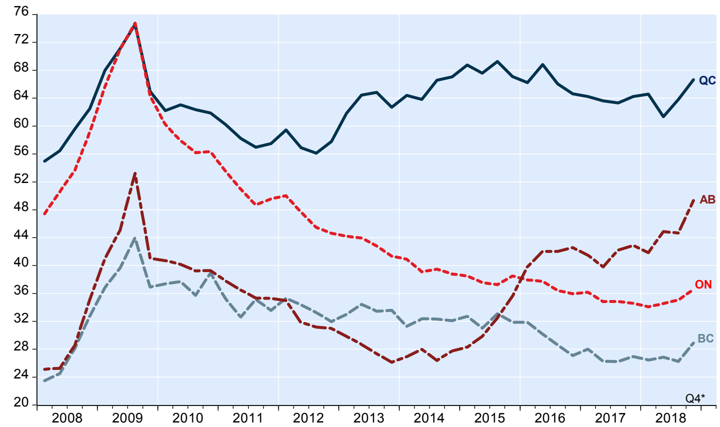
Part of the loss of momentum can be attributed to a softening housing market which is not only restraining resales and home prices but also hurting consumption spending via fading housing wealth effects. Real retail spending in Q4 is on track for its worst quarterly performance since 2009. Also hurting the ability of households to spend are higher interest rates. Note that personal bankruptcies shot up last quarter in all of the country's four largest provinces.

Canada: Housing sector slowdown impacts consumption
Retail sales by sector in November 2018



NBF Economics and Strategy (data via Statistics Canada)

Canada: Personal insolvencies on the rise
Number of insolvencies per 10,000 inhabitants aged 20+, seasonally adjusted

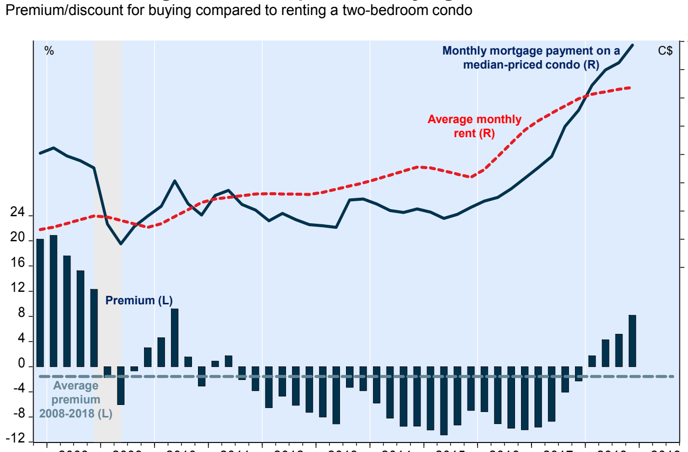


* Based on October and November data
NBF Economics and Strategy (data via Office of Superintendent of Bankruptcy Canada and Statistics Canada)

Could those concerning trends for consumers be interrupted in 2019? Fiscal relief from the federal government, a distinct possibility given that we're in an election year, could temporarily give a boost to households. But considering elevated household debt and a low savings rate, it's difficult to imagine a scenario other than smaller and smaller contributions to GDP growth from consumption spending going forward. The last time Canada suffered a commodity price shock in 2015-2016 (and hence a hit to real disposable incomes), consumption growth managed to remain stable as households resorted to their savings to maintain their spending habits. This time, however, the savings cushion is much thinner.

House price inflation, which was less than 4% last year according to the Teranet-National Bank House Price Index, is unlikely to accelerate enough to rekindle wealth effects. Tough macro prudential measures implemented last year will continue to restrict mortgage growth, while affordability issues should allow renting to remain a much cheaper option than buying in several cities including Vancouver, Toronto and Montreal – for more details please see our latest *Housing Affordability Monitor* for 2018Q4.

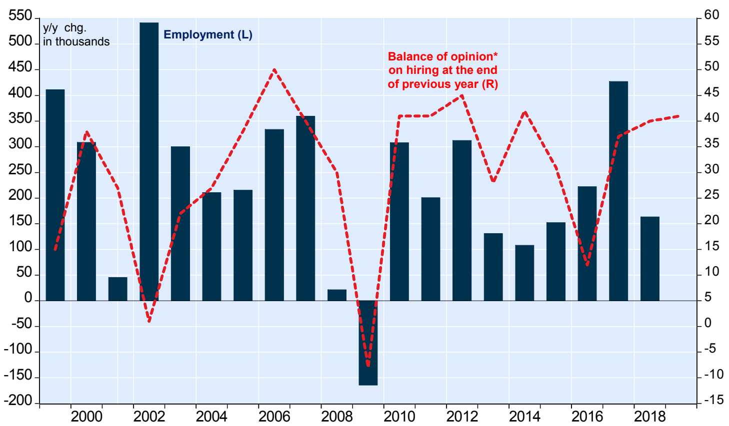
Canada: Renting is now cheaper than buying
Premium/discount for buying compared to renting a two-bedroom condo



NBF Economics and Strategy (data via Statistics Canada, Teranet-National Bank)

Fortunately for consumers, not all is bleak. The labour market is expected to continue generating jobs in 2019, albeit at a slower pace than last year. The Bank of Canada's latest Business Outlook Survey indeed suggested firms were still willing to expand headcount to address shortages in some areas. At the end of 2018, the balance of opinion on hiring (over the next 12 months) rose to 41. In the past, such levels of intention translated into decent job growth.

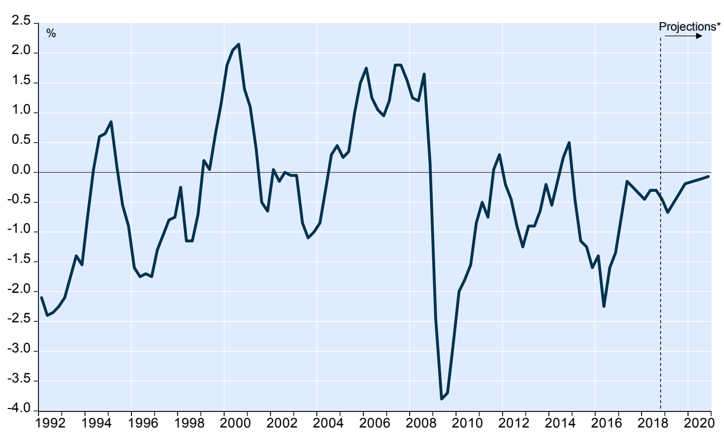
Canada: Firms positive about hiring plans
Employment according to Labour Force Survey versus Balance of opinion* on hiring over the next 12 months



** Share of firms that expect increased employment over the next 12 months minus share expecting lower employment*
NBF Economics and Strategy (data via Statistics Canada, Bank of Canada)

Also limiting the damage somewhat on consumers is the likelihood of a slower pace of monetary policy tightening by the Bank of Canada. The central bank indeed expressed concerns about the economic outlook and downgraded its 2019 growth forecast last month for Canada to just 1.7% (roughly in line with our own call of 1.8%). And with the central bank's projected GDP growth forecast over 2019-2020 averaging close to the estimated potential of 1.8%, the output gap is set to remain open for several quarters. As such we expect the Bank of Canada's overnight rate to remain unchanged through at least the first half this year.

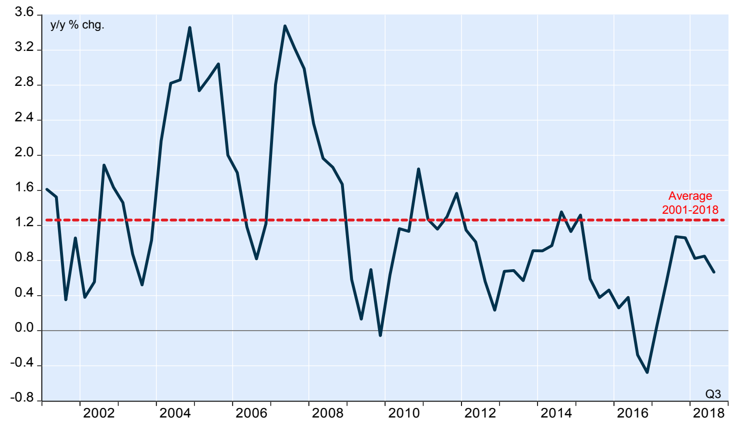
Canada: Output gap likely to remain open for several quarters
Bank of Canada's estimate of the output gap (average of Integrated framework and Extended multivariate filter)



* Projections based on BoC's GDP growth forecasts and Potential GDP growth of 1.8% over forecast horizon
NBF Economics and Strategy (data via Bank of Canada)

Just a few days after the Bank of Canada published its downgraded growth forecasts, Statistics Canada provided more bad news with updated data on business creation, one of Governor Poloz's "favourite variables". The number of private sector firms in Q3 last year was up just 0.7% compared to the same quarter the previous year. That's about half a percentage point lower than the average since 2001. The softness in business formation is in part due to declines in the population of firms in hard-hit sectors such as mining and oil & gas, but also in retailing, wholesaling and utilities. The tepid pace of business creation coupled with depressed commodity prices does not bode well for business investment spending going forward.

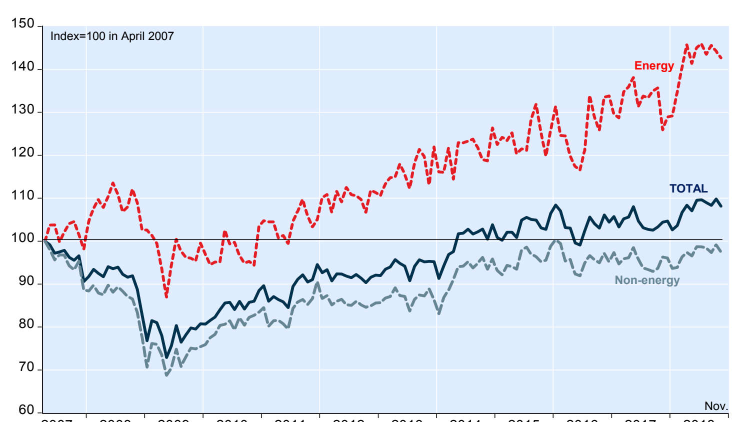
Canada: Business formation stalls
Number of active employer businesses in the private sector



NBF Economics and Strategy (data via Statistics Canada)

Could trade provide an offset to what is expected to be a disappointing year for domestic demand? That's possible if, as we expect, the U.S. Congress approves the USMCA trade deal. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which became binding last month and opened up new markets, also bodes well for exporters. Expectations are high that those new trade deals will rekindle underperforming non-energy exports, the latter still below the peak reached almost 12 years ago. Another bonus for exporters is last year's currency depreciation which, coupled with low inflation, has allowed the Canadian dollar to become a bit more competitive in real effective terms. The question now is whether or not exporters will be able to exploit those advantages. The federal government, in conjunction with provinces, could assist in that regard by stepping up marketing initiatives abroad and investing aggressively at home in roads, railways and ports to address transportation bottlenecks.

Canada: Non-energy exports still below 2007 peak
Real exports



NBF Economics and Strategy (data via Statistics Canada)

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	2.3	1.9	3.1	1.9	1.8
Consumption	2.7	2.5	2.6	2.6	1.9	2.6	2.1	1.8
Residential construction	6.5	3.3	(0.0)	0.4	1.4	(2.1)	1.5	1.5
Business investment	0.5	5.3	6.6	2.0	1.4	5.7	1.6	1.7
Government expenditures	1.4	(0.1)	1.7	1.4	1.6	2.4	1.2	1.2
Exports	(0.1)	3.0	4.2	1.8	0.9	3.2	1.2	1.0
Imports	1.9	4.6	4.5	2.2	1.1	3.4	1.2	1.0
Change in inventories (bil. $)	23.4	22.5	37.7	39.9	24.9	67.4	32.1	23.7
Domestic demand	2.3	2.5	2.9	2.2	1.8	2.8	1.8	1.7
Real disposable income	1.7	2.6	2.7	1.8	1.7	2.6	1.7	1.7
Household employment	1.7	1.3	1.6	1.3	1.0	1.8	1.0	0.9
Unemployment rate	4.9	4.4	3.9	3.7	3.5	3.8	3.6	3.5
Inflation	1.3	2.1	2.4	2.1	2.1	2.2	2.3	2.0
Before-tax profits	(1.1)	3.2	8.4	6.6	4.1	9.7	4.5	3.7
Federal balance (unified budget, bil. $)	(587.0)	(666.0)	(779.0)	(897.0)	(903.0)	...	...	...
Current account (bil. $)	(432.9)	(449.1)	(473.8)	(516.0)	(516.3)	...	...	...

** or as noted*

Financial Forecast**

	Current 2-01-19	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2018	2019	2020
Fed Fund Target Rate	2.50	2.50	2.50	2.75	2.75	2.50	2.75	2.75
3 month Treasury bills	2.35	2.43	2.46	2.68	2.71	2.40	2.71	2.52
Treasury yield curve								
2-Year	2.52	2.58	2.64	2.87	2.95	2.48	2.95	2.45
5-Year	2.51	2.54	2.65	3.04	3.11	2.51	3.11	2.49
10-Year	2.70	2.72	2.78	3.19	3.34	2.69	3.34	2.71
30-Year	3.03	3.05	3.12	3.52	3.66	3.02	3.66	2.98
Exchange rates								
U.S.$/Euro	1.15	1.15	1.19	1.22	1.23	1.14	1.23	1.23
YEN/U.S.$	109	111	114	115	113	110	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	3.4	2.5	1.2	2.8	1.9	1.6
CPI (y/y % chg.)	2.3	2.6	2.6	2.2	1.7	2.1	2.2	2.3
CPI ex. food and energy (y/y % chg.)	1.9	2.2	2.2	2.2	2.1	2.2	2.3	2.3
Unemployment rate (%)	4.1	3.9	3.8	3.8	3.7	3.7	3.7	3.6

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2016	2017	2018	2019	2020	Q4/Q4 2018	Q4/Q4 2019	Q4/Q4 2020
Gross domestic product (2012 $)	1.1	3.0	2.0	1.8	1.7	1.9	1.9	1.5
Consumption	2.1	3.6	2.2	1.3	1.2	1.5	1.4	1.0
Residential construction	3.5	2.4	(0.7)	(1.1)	(1.9)	(2.4)	(2.0)	(1.8)
Business investment	(9.9)	2.5	5.1	1.6	3.7	2.3	3.3	3.2
Government expenditures	1.2	2.7	3.0	2.0	1.7	1.7	2.3	1.2
Exports	1.3	1.1	3.1	3.6	3.1	3.9	4.0	3.2
Imports	(0.0)	4.2	3.2	1.6	2.1	0.8	3.0	2.0
Change in inventories (millions $)	2,291	17,582	10,655	2,469	2,101	5,882	1,537	1,967
Domestic demand	0.6	3.1	2.5	1.4	1.4	1.4	1.6	1.1
Real disposable income	(0.7)	3.4	2.1	1.7	1.6	0.9	1.7	1.5
Employment	0.7	1.9	1.3	1.0	0.7	1.1	0.7	0.7
Unemployment rate	7.0	6.3	5.8	5.7	5.7	5.7	5.7	5.7
Inflation	1.4	1.6	2.3	1.7	2.1	2.1	2.2	2.0
Before-tax profits	6.4	20.1	5.1	7.5	4.2	10.0	5.0	3.5
Current account (bil. $)	(64.9)	(60.1)	(56.9)	(45.0)	(37.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 2-01-19	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2018	2019	2020
Overnight rate	1.75	1.75	1.75	2.00	2.25	1.75	2.25	2.00
3 month T-Bills	1.66	1.71	1.93	2.13	2.21	1.64	2.21	1.79
Treasury yield curve								
2-Year	1.77	1.90	2.03	2.22	2.40	1.86	2.40	2.27
5-Year	1.86	1.91	2.05	2.26	2.52	1.89	2.52	2.48
10-Year	1.96	1.99	2.14	2.34	2.67	1.96	2.67	2.65
30-Year	2.19	2.17	2.32	2.50	2.83	2.19	2.83	2.78
CAD per USD	1.31	1.30	1.27	1.27	1.28	1.37	1.28	1.32
Oil price (WTI), U.S.$	55	58	62	65	63	45	63	58

*** 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)	1.7	2.9	2.0	1.2	0.9	2.9	1.8	2.0
CPI (y/y % chg.)	2.1	2.3	2.7	2.1	1.3	1.7	1.7	2.2
CPI ex. food and energy (y/y % chg.)	1.8	1.8	2.1	2.0	1.4	1.8	1.7	2.0
Unemployment rate (%)	5.8	5.9	5.9	5.7	5.7	5.7	5.7	5.7

National Bank Financial

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Provincial economic forecast

	Real GDP (% growth)					Nominal GDP (% growth)				
	2016	2017	2018f	2019f	2020f	2016	2017	2018f	2019f	2020f
Newfoundland & Labrador	1.8	0.9	0.0	2.9	1.2	1.8	4.3	5.7	2.9	3.4
Prince Edward Island	1.8	3.5	2.5	2.0	1.1	4.5	4.8	4.6	4.5	3.7
Nova Scotia	1.5	1.5	1.0	0.8	1.4	2.2	2.9	3.3	2.8	3.7
New Brunswick	1.4	1.8	1.2	1.2	1.1	3.6	4.3	4.4	2.7	3.0
Quebec	1.4	2.8	2.3	1.8	1.3	2.8	5.0	4.0	3.6	3.1
Ontario	2.3	2.8	2.4	1.6	1.6	4.4	4.1	4.3	3.2	3.6
Manitoba	1.6	3.2	1.7	1.7	1.0	2.3	5.4	3.8	3.1	3.0
Saskatchewan	-0.4	2.2	0.9	1.9	1.6	-4.8	4.8	5.3	2.4	3.8
Alberta	-4.2	4.4	2.2	1.8	2.4	-6.8	10.0	4.1	4.1	5.6
British Columbia	3.2	3.8	2.3	2.4	2.6	6.0	6.9	4.6	4.1	4.6
Canada	1.1	3.0	2.0	1.8	1.7	1.9	5.6	4.0	3.6	3.6

	Employment (% growth)					Unemployment rate (%)				
	2016	2017	2018f	2019f	2020f	2016	2017	2018f	2019f	2020f
Newfoundland & Labrador	-1.4	-3.7	0.4	0.3	-0.9	13.4	14.8	13.9	12.4	12.6
Prince Edward Island	-2.2	3.0	3.0	1.4	1.0	10.7	9.8	9.4	9.0	9.0
Nova Scotia	-0.4	0.7	1.5	0.5	0.3	8.3	8.4	7.6	7.5	7.4
New Brunswick	-0.1	0.4	0.3	0.3	0.3	9.5	8.1	8.0	8.1	7.5
Quebec	0.9	2.2	0.9	0.7	0.6	7.1	6.1	5.4	5.4	5.2
Ontario	1.1	1.8	1.6	1.2	0.7	6.5	6.0	5.6	5.5	5.7
Manitoba	-0.5	1.6	0.6	0.9	0.7	6.1	5.4	6.0	5.8	5.8
Saskatchewan	-0.9	-0.1	0.4	0.6	0.6	6.3	6.3	6.1	6.0	5.6
Alberta	-1.6	1.0	1.9	1.5	0.8	8.1	7.8	6.6	6.2	5.9
British Columbia	3.1	3.7	1.1	0.8	1.0	6.0	5.1	4.7	4.5	4.5
Canada	0.7	1.9	1.3	1.0	0.7	7.0	6.3	5.8	5.7	5.7

	Housing starts (000)					Consumer Price Index (% growth)				
	2016	2017	2018f	2019f	2020f	2016	2017	2018f	2019f	2020f
Newfoundland & Labrador	1.4	1.4	1.1	1.3	1.2	2.7	2.3	1.8	1.6	2.1
Prince Edward Island	0.6	0.9	1.1	0.8	0.7	1.2	1.8	2.4	1.8	2.1
Nova Scotia	3.8	4.0	4.8	3.9	3.6	1.2	1.1	2.3	1.9	2.2
New Brunswick	1.8	2.3	2.3	1.6	1.5	2.2	2.3	2.3	1.5	2.0
Quebec	38.9	46.5	46.9	41.5	37.4	0.7	1.1	1.8	1.4	2.1
Ontario	75.0	79.0	78.7	68.6	65.0	1.8	1.7	2.5	1.8	2.1
Manitoba	5.3	7.5	7.4	6.0	5.5	1.3	1.6	2.6	1.5	2.0
Saskatchewan	4.8	4.9	3.6	3.5	3.5	1.1	1.7	2.4	1.4	1.9
Alberta	24.5	29.5	26.1	26.0	25.0	1.1	1.5	2.5	1.7	2.0
British Columbia	41.8	43.7	40.9	37.0	36.0	1.8	2.1	2.6	2.0	2.1
Canada	197.9	219.7	212.8	190.2	179.4	1.4	1.6	2.3	1.7	2.1

e: estimate f: forecast

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

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