October 2021

Summary

By Matthieu Arseneau and Jocelyn Paquet

- The pandemic picture has brightened greatly in recent weeks. Despite this relief, economic recovery has been slow to materialize. The reason is that many countries are now dealing with sharp rises in energy costs. Though a number of governments have announced measures to cushion the impact on households of gas price increases, their assistance is unlikely to offset all of the decline in purchasing power of consumers. Businesses will also be affected. Their production costs, already boosted by the rise of prices for raw materials and transportation, are at risk of rising further, eroding profit margins. To add to the woes of the global economy, China's real estate sector seems to be in trouble following the inability of Evergrande and Fantasia, two of the world's largest real estate promoters, to meet some of their debt obligations. In view of the worldwide heightening of economic risks, we have reduced our forecast of 2021 global GDP growth from 5.6% to 5.5%. The revision is due to deterioration in the positions of emerging markets, Europe, and the United States. Also, we do not exclude the possibility that these prospective pitfalls could have repercussions extending into early 2022, whence our revision of next year's global growth from 4.5% to 4.0%.

- Although the disappointing September non-farm payroll report was partly offset by an upward revision of data from previous months, U.S. employment is undeniably sluggish. And despite the sums released by Washington to limit the repercussions of the layoffs linked to COVID-19, some households - especially those at the bottom of the income scale - are at risk now that income support programs are a thing of the past. So a recovery of the labour market is required for the economic recovery to continue. The more so under conditions where labour scarcity has reduced production capacity. Running out of options to attract potential candidates, American businesses have had to resolve to raise compensations; average hourly earnings rose at an annual rate of 6.0% over the last six months. Pay raises are good news for workers but could push prices up, and for a longer period than the Federal Reserve expected. Inflation seems already more widespread than the central bank is suggesting. The persistence of inflation suggests a coming normalization phase of U.S. monetary policy. That could act to brake sectors more sensitive to interest-rate rises (housing and investment, for example). Upward pressure on prices could also erode the purchasing power of U.S. consumers. Given this outlook, we have revised down our scenario for U.S. growth in 2022, to 3.4% from 4.1%.

- Our forecast for real growth in 2021 is unchanged this month at 5.0%, but our forecast for 2022 is revised down to 3.8% from 4.0%. Soaring commodity prices will continue to benefit Canada's economy, but supply chain disruptions and resulting inflation are a risk under current conditions. Nonetheless, consumers are equipped to support the on-going recovery. In barely 19 months, employment has returned to its pre-pandemic count. This is not only the quickest recovery of the last four recessions but also spectacular compared to the U.S., whose employment count is still more than 3% short of its pre-recession peak. Such a turnaround and the resulting rise in incomes suggests that households are ready to stand on their own two feet, without extraordinary government support. The amount of excess savings already accumulated by households is substantial (11.4% of GDP) and represents a cushion to mitigate the impact of price increases on living standards.

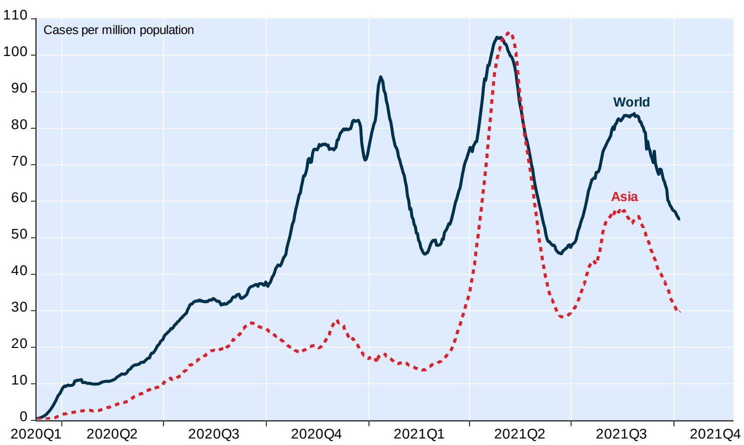
World: From Charybdis to Scylla

How better to introduce our survey than with a brief invocation of Greek mythology. Homer's *Odyssey* recounts the voyage home of Ulysses, king of Ithaca, after the Trojan War. Among the many trials in the hero's path, that of Scylla and Charybdis is strangely apposite to today's world. After peregrinations taking him to the four corners of the Mediterranean, Ulysses arrives one day at the Strait of Messina, guarded on one side by Charybdis, a monster in the shape of a gigantic maelstrom, and on the other by Scylla, a six-headed creature of terrible voracity. The proximity of the two beasts means that in trying to avoid the one Ulysses must confront the other. The outcome: Ulysses' ship escapes the maelstrom, but six sailors are devoured by Scylla.

The story is a striking metaphor for the global economy in the time of pandemic: the worst seems to have been avoided but the effort to limit the damage of Covid-19 has exposed the globe to other risks, notably output constraints and price rises.

The pandemic picture has brightened greatly in recent weeks. With the rapid rollout of vaccinations, the daily number of new cases declared around the globe has begun to decline, particularly in Asia where the Delta variant hit hard.

World: The Delta wave is slowly losing steam
Daily new cases of Covid-19, 7-day moving average



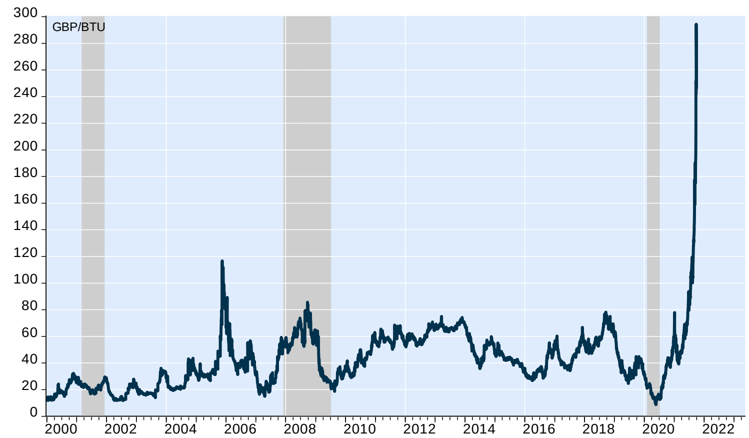
NBF Economics and Strategy (data from Our World in Data)

Despite this relief, economic recovery has been slow to materialize. The reason is that many countries are now dealing with sharp rises in energy costs. In Europe the rise of natural gas prices has been explosive. The reasons are multiple:

1. A strong rebound of demand related to post-pandemic economic recovery together with the desire of many countries to move to less polluting means of energy production (from coal and oil to gas and renewable energies).
2. A decline of global gas output, owing in part to a slowdown in investment due to pressure to decarbonize.
3. Low output of renewable energy in Europe this past summer (low winds, cloudy skies).

Although the crisis affects Europe as a whole, the U.K. seems especially vulnerable because its storage capacity is very limited, leaving it dependent on imports that are often paid for at spot prices.

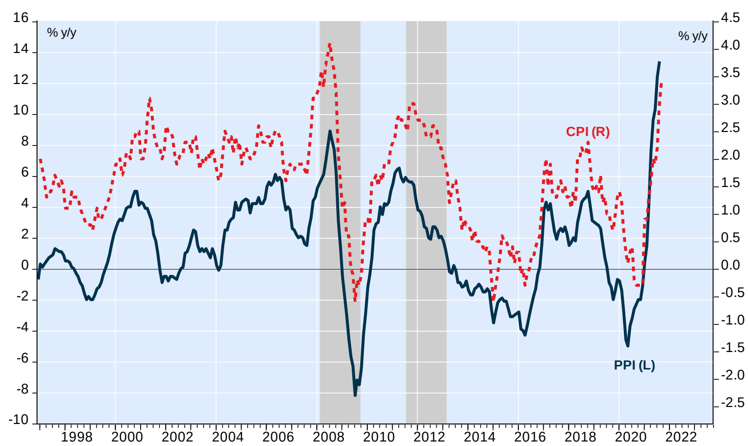
U.K.: Price of natural gas smashes record
Price of first natural gas futures contract



NBF Economics and Strategy (Bloomberg data)

Though a number of governments – those of Italy and France among others – have announced measures to cushion the impact on households of gas price increases, their assistance is unlikely to offset all of the decline in purchasing power of European consumers. Businesses will also be affected. Their production costs, already boosted by the rise of prices for raw materials and transportation, are at risk of rising further, eroding profit margins. To remain afloat, many businesses will be obliged to raise prices, another pothole in the path of consumer spending. In short, the European recovery looks to be less vigorous in the medium term than had been expected.

Eurozone: Rising prices threaten purchasing power
12-month change in producer price index vs. 12-month change in consumer price index



NBF Economics and Strategy (Bloomberg data)

The effects of the energy price run-up do not stop at Europe's borders. Out-of-reach prices for gas have driven a number of countries elsewhere to other sources of energy such as diesel fuel, fuel oil or coal. Prices of these goods have spiked accordingly.

Emerging economies that are especially dependent on them, notably China and India, are now feeling the pinch.

China: Electric power output hit by coal price spike
Price of first coal futures contract

NBF Economics and Strategy (Bloomberg data)

In India the rise in the price of coal has been exacerbated by a marked decline in domestic production following an unusually rainy monsoon. In China it is rather the government's banning of imports from Australia that is to blame. In both countries, the impact on industrial production has been severe, with several regions obliged to introduce periodic cuts in power. The resulting plant shutdowns have prolonged already-substantial delays in the global production chain.

To add to China's misfortunes, its real estate sector seems to be in deep trouble following the inability of Evergrande and Fantasia, two of the world's largest real estate promoters, to meet some of their debt obligations. This sowed fear among investors; yields on Chinese corporate bonds denominated in U.S. dollar duly spiked.

China: Evergrande's troubles spooks investors
Yield of Chinese high-yield corporate bonds denominated in USD

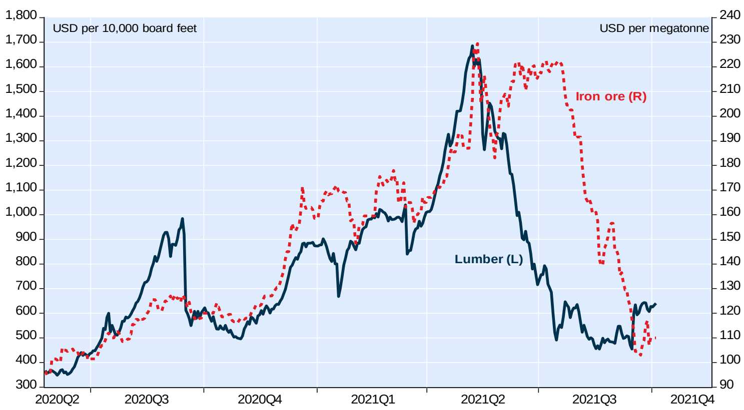
NBF Economics and Strategy (Bloomberg data)

Bankruptcies of these companies, if they materialize, could affect the Chinese economy on several fronts:

1. By slowing construction, which accounts for about one-fifth of all Chinese GDP.
2. Chinese households might be unable to recover deposits made to real estate promoters to secure future possession of a housing unit.
3. Investors in an investment vehicle offered by the real estate promoters could incur substantial losses.
4. Some banks exposed to real estate could see a hefty share of their outstanding loans become non-performing.
5. The fallout could extend to a more general loss of confidence in real estate, depressing its prices. Recall real estate accounts for about 40% of Chinese household assets.

Given the possible consequences of failure of the real estate giants, the likeliest scenario is that Beijing will orchestrate an "orderly" liquidation or even partial or total nationalization of the companies in trouble. But even if this scenario materializes, residential construction, and ipso facto economic growth, can be expected to slow. Recent price drops in some building materials such as wood and steel seem to discount this eventuality.

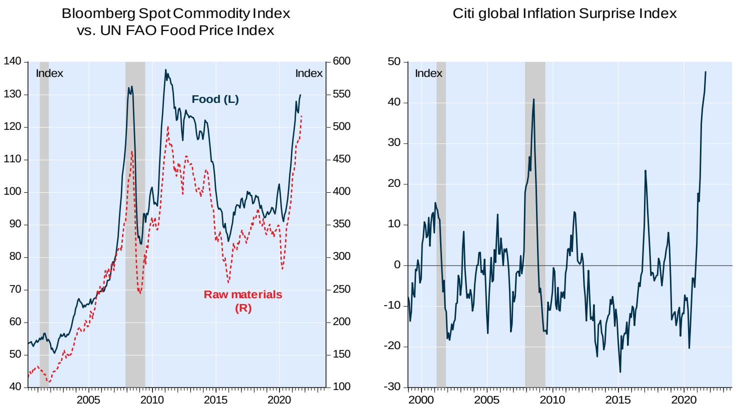
World: Evergrande debacle deflates prices for some materials
Prices of first futures contracts for lumber and iron ore



NBF Economics and Strategy (Bloomberg data)

These isolated declines will not suffice to relieve overall inflationary pressure, since they are more than offset by price rises for other raw materials and food.

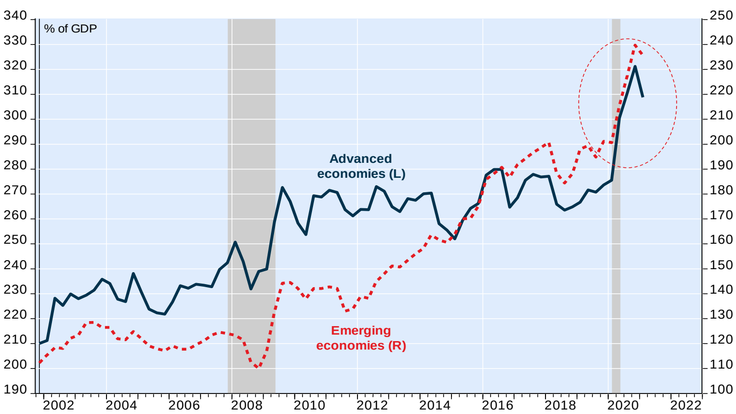
World: Inflationary pressures intensify



NBF Economics and Strategy (Bloomberg data)

Which brings us to the last subject of this section: monetary policy. The central banks of many emerging countries, facing inflationary pressures much stronger than expected, and of some developed countries (South Korea, Norway, New Zealand), have begun hiking their policy rates. Given marked increases in debt, these central banks must manoeuvre cautiously if they are to reduce pressure on prices without slowing economic output unduly.

World: Increased sensitivity to a rise of interest rates
Credit extended to nonfinancial sector as % of GDP



NBF Economics and Strategy (BIS data)

In view of the worldwide heightening of economic risks, we have reduced our forecast of 2021 global GDP growth from 5.6% to 5.5%. The revision is due mainly to deterioration in the positions of emerging markets, Europe, and the United States (see below). Also, we do not exclude the possibility that these prospective pitfalls could have repercussions extending into early 2022, whence our revision of next year's global growth from 4.5% to 4.0%. Beyond this scenario of cooler growth, we remain optimistic about the prospects for the longer term. The bottlenecks now in evidence are likely to abate in 2022, leaving inflation to subside toward central bank targets. That is likely to reduce pressure on large central bankers and allow progressive normalization of monetary policies. To return to our Greek metaphor, the ship that is the world economy should succeed in crossing the dire strait in which it finds itself, but not without losing a few sailors on the way.

World Economic Outlook

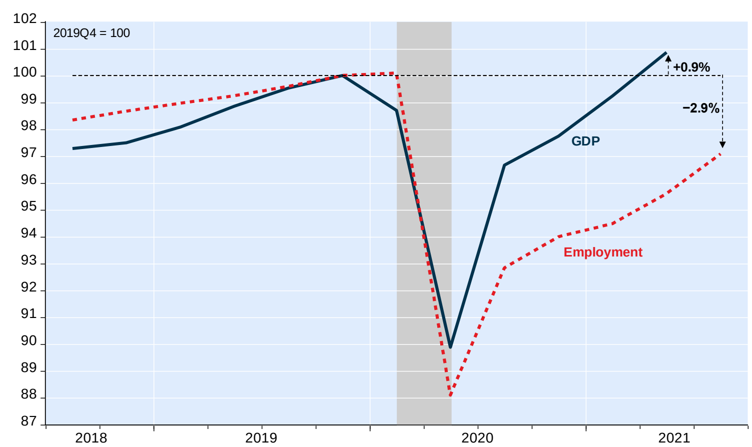
	2020	2021	2022
Advanced Economies	-4.5	4.9	3.3
United States	-3.4	5.5	3.4
Eurozone	-6.3	4.7	3.5
Japan	-4.6	2.4	2.2
UK	-9.8	6.6	4.0
Canada	-5.3	5.0	3.8
Australia	-2.5	3.7	3.1
Korea	-0.9	3.8	2.5
Emerging Economies	-2.1	6.0	4.5
China	2.3	7.8	5.0
India	-7.3	9.0	7.5
Mexico	-8.3	6.0	3.3
Brazil	-4.1	5.0	1.4
Russia	-3.0	3.4	2.8
World	-3.1	5.5	4.0

NBF Economics and Strategy (data via NBF and Conensus Economics)

U.S.: The limits of a jobless recovery

Another month, another disappointing jobs report: nonfarm employment increased only 194,000 in September, way less than the 500,000 expected by the consensus. Though this disappointment is offset in part by an upward revision of data of previous months (+169,000) and a stronger showing in the household survey (+526,000), U.S. employment is undeniably sluggish. In September, three months after real GDP finished the second quarter above its pre-recession level, employment was still about 3% short of its own pre-recession count.

U.S.: GDP recovery has been way ahead of employment recovery
Real GDP vs. nonfarm employment

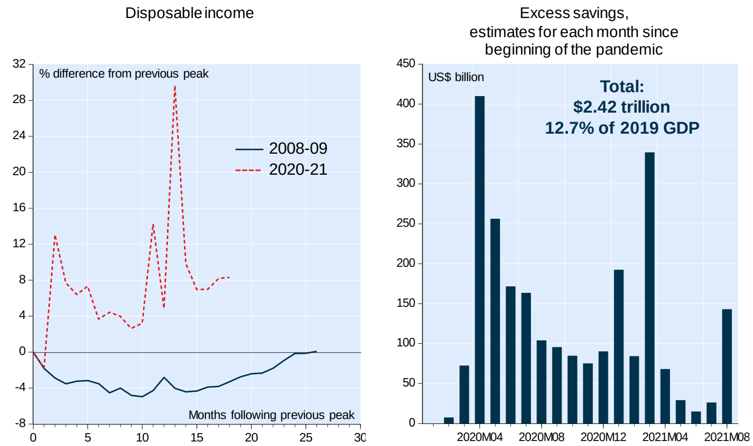


NBF Economics and Strategy (Refinitiv data)

The divergence between GDP and employment growth can be laid in part to the labour-intensiveness of the industries most affected by the pandemic. The other noteworthy factor is the emergency assistance deployed by Washington during the pandemic. In normal times, an employment deficit like today's

would mean a sharp drop in household incomes and thus in demand. Not this time. The assistance deployed by Washington to minimize the hit from the pandemic raised the disposable income of U.S. households, a development quite unusual in a recession. Consumers could accordingly maintain a relatively brisk rate of spending while accumulating excess savings amounting to about $2.4 trillion, or 12.7% of pre-crisis GDP.

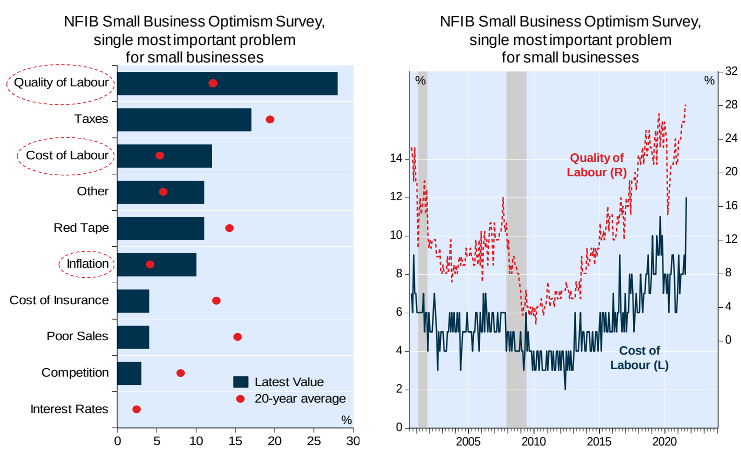
U.S.: Households still in good shape



NBF Economics and Strategy (Bloomberg and Refinitiv data)

Lavish as these benefits may have been, their expiry leaves some households at risk, especially those with low incomes. So a recovery of the labour market is required for the economic recovery to continue. The more so under conditions where labour scarcity has reduced production capacity. No fewer than 28% of businesses surveyed by the NFIB in September said scarcity of skilled labour was their most important problem, a share far above the historical average of 12.3% for this indicator.

United States: Labour shortage hits small businesses hard

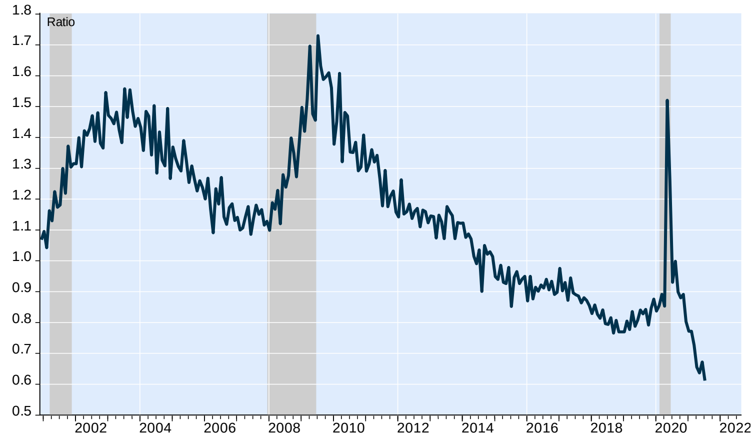


NBF Economics and Strategy (data via Refinitiv)

It is no surprise, therefore, that job openings are at a record. Hiring, on the other hand, is flattening.

U.S.: Hiring is slow despite increased demand for workers

Ratio of new hires to job openings



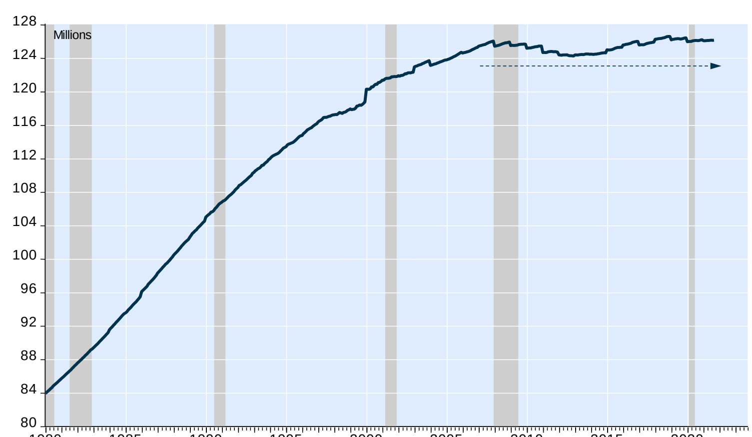
NBF Economics and Strategy (Refinitiv data)

The reasons for this asymmetry are multiple:

1. Fear of the virus may be delaying the return of some workers. (Abatement of the Delta wave could improve this situation.)
2. Closing of schools and daycare centres is requiring many parents to stay home to take care of children. (Here again, improvement in the public-health picture could help.)
3. The skills most in demand are unevenly matched to the skills of those who lost jobs in the pandemic. (Acquisition of new skills is generally a fairly long process.)
4. Washington's generous supplements to unemployment insurance benefits have a dissuasive effect on jobholding. (Though the phase-out of these benefits seemed to have little effect in September, it could provide a fillip in coming months.)
5. Departures for retirement have increased in recent months.
6. The prime-working-age population is flat, a structural problem that has been amplified by a reduced inflow of skilled immigrants during the pandemic.

U.S.: The population of prime working age has stopped growing

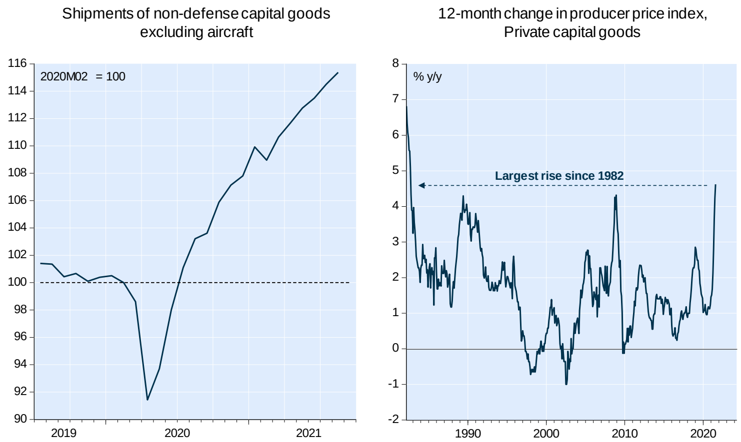
Population aged 25-54



NBF Economics and Strategy (Refinitiv data)

The upshot? U.S. businesses are grappling with a severe shortage of labour. In an attempt to ease this problem, many employers have increased their capital spending, as attested by shipments of non-military equipment excluding aircraft, a proxy of capital spending. In August such shipments were up 15.4% from their pre-pandemic level, a possible signal of future productivity growth. But this avenue seems more and more expensive. August data on producer prices showed the largest rise in capital equipment costs since the 1980s. Enough to cool the ardour of some business executives.

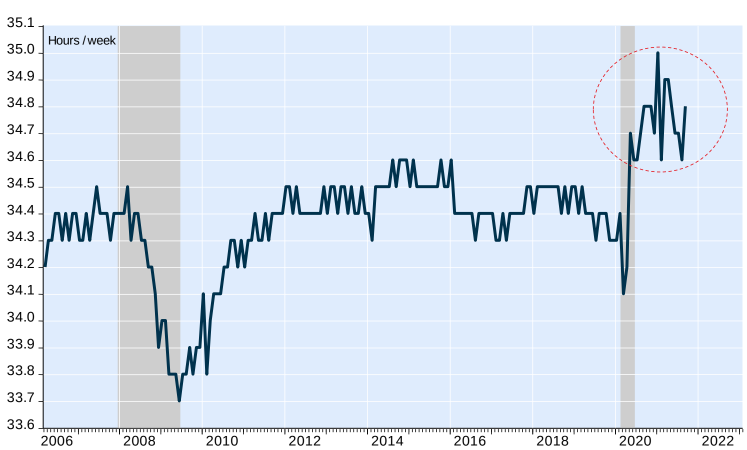
U.S.: Workers are more expensive, and so is capital equipment



NBF Economics and Strategy (Refinitiv data)

Another way of getting around the scarcity of labour has been to lengthen the workweek of existing employees. But this option has its own limits. Employee output tends to decline when working hours exceed a certain threshold, and overtime can be costly for employers.

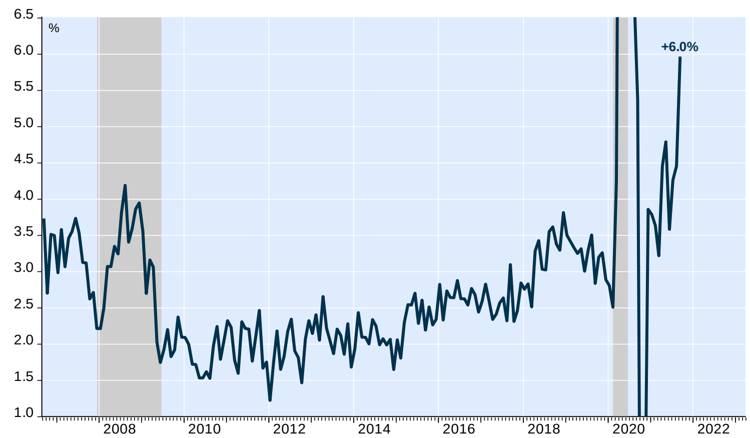
U.S.: With hiring slow, existing employees are working harder
Average weekly hours worked, private sector



NBF Economics and Strategy (Bloomberg data)

Left with a shortage of options, U.S. employers have had to grant raises in pay. The average hourly wage rose at an annual rate of 6.0% over the last six months, the largest increase outside the shutdown period.

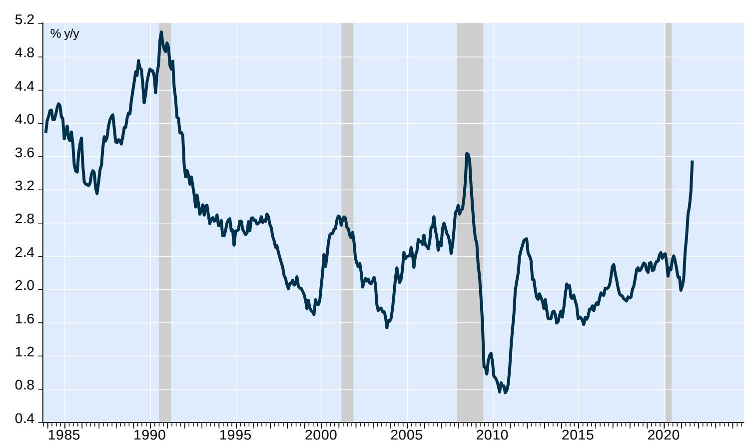
U.S.: Wages on the rise
Average hourly wage of all private-sector employees, 6-month change annualized



NBF Economics and Strategy (Bloomberg data)

Pay raises are good news for workers but could push prices up, and for a longer period than the Federal Reserve expected. Inflation seems already more widespread than the central bank is suggesting. Twelve-month inflation of the trimmed mean CPI, a measure posted by the Cleveland Fed that excludes the most and least volatile components each month, was 3.5% in September, the fourth highest reading since the early 1990s.

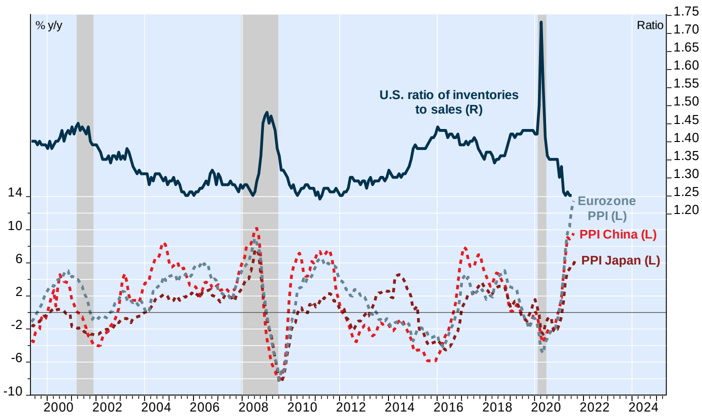
U.S.: Inflation is more widespread than would appear
12-month trimmed mean CPI inflation (CPI excluding most-volatile 8% and least-volatile 8% of components)



NBF Economics and Strategy (data from Cleveland Fed)

We expect inflation to remain above the central bank's target for a good while yet, fuelled by pay increases as noted above, but also by rising costs for energy, transportation and food. Inventory rebuilding could also support prices over the medium term, since producer prices have increased almost everywhere in the world.

U.S.: Inventory rebuilding, a source of future inflation?
Ratio of inventory to sales for all U.S. businesses vs. 12-month change of international producer price indexes



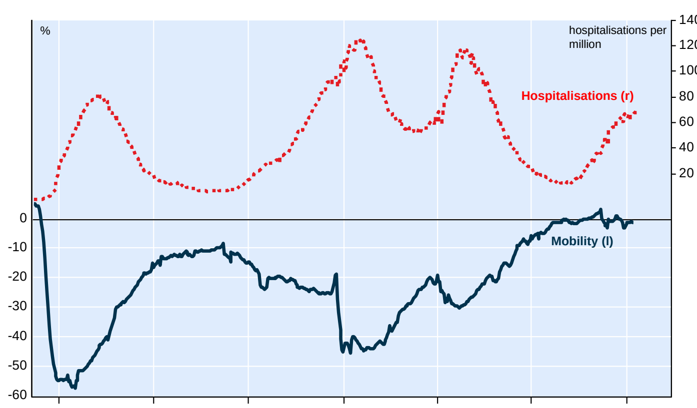
NBF Economics and Strategy (data from Bloomberg and St.Louis Fed)

The persistence of inflation suggests a coming normalization phase of U.S. monetary policy. That could act to brake sectors more sensitive to interest-rate rises (housing and investment, for example). Upward pressure on prices could also erode the purchasing power of U.S. consumers. Given this outlook, we have revised down our scenario for U.S. growth in 2022, to 3.4% from 4.1%. Under conditions in which monetary policies are likely to remain fairly accommodative, that is still above potential.

Canada: Employment is defying gravity

The fourth wave of Covid-19 boosted the daily rate of new cases but did not brake the economy as previous waves did. Hospitalization numbers have remained manageable in most provinces, allowing continuation of the summer's easing of public-health restrictions. In Q3 the Canadian mobility index for retail trade and recreation remained well above its Q2 average, with readings comparable to its pre-pandemic level.

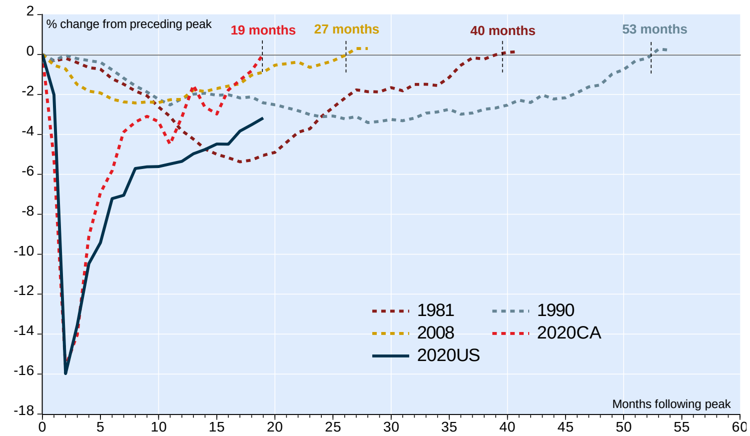
Canada: The fourth wave is not as threatening as the others
Google mobility index for retail and recreation and hospitalisations per million persons



NBF Economics and Strategy (data via Public Health Agency of Canada, Radio-Canada, Google)

Such conditions were very favourable to hiring in the third quarter, which ended in strength with Canada gaining an impressive 157,000 jobs in September. In barely 19 months, employment has returned to its pre-pandemic count. This is not only the quickest recovery of the last four recessions but also spectacular compared to the U.S., whose employment count is still more than 3% short of its pre-recession peak.

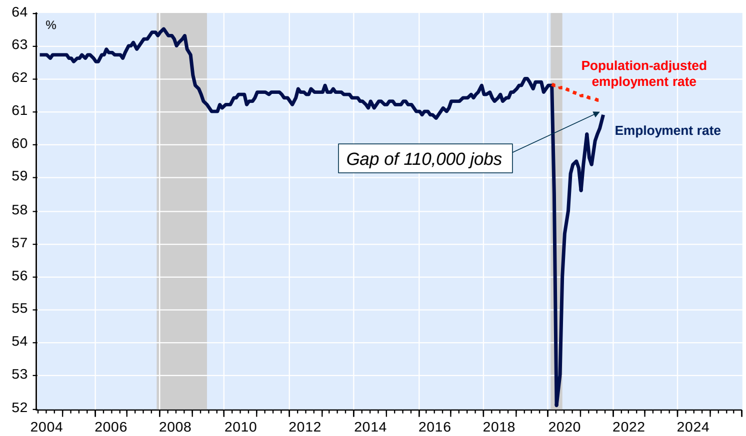
Canada: Fastest employment recovery on record
Employment recoveries: Canadian recessions since 1981 and U.S. for 2020



NBF Economics and Strategy (data from Statistics Canada)

Though that is major progress in this economic recovery, it doesn't mean the labour market has fully recovered. We need to keep in mind that the pool of potential workers has grown and other indicators bear close monitoring. The central bank implied in its July monetary policy report that what needed to be brought back to pre-pandemic level was the employment rate rather than the employment count. September employment fell 272,000 jobs short of that goal. Though that criterion would take account of the increase in the denominator of the employment-to-population ratio, in our view it raises other issues. First, that objective seems highly ambitious because it does not take into account population aging and the increase in departures for retirement. It is a goal that was not reached in the previous cycle (graph) despite the full recovery of the labour market. If set as a goal it could lead the central bank to overestimate the margin of unused labour. If the employment rates by age group prevailing before the pandemic (February 2020) are applied to the population structure of September 2021, the resulting employment rate adjusted for population structure is 0.5 percentage points below that of before the pandemic. If demographic changes are taken into account, no more than 110,000 jobs would be needed to return to an employment rate as favourable as before the pandemic. That is substantially less than the 272,000 suggested by the central bank. Ironically, it is also the monthly average of jobs added over the last three months.

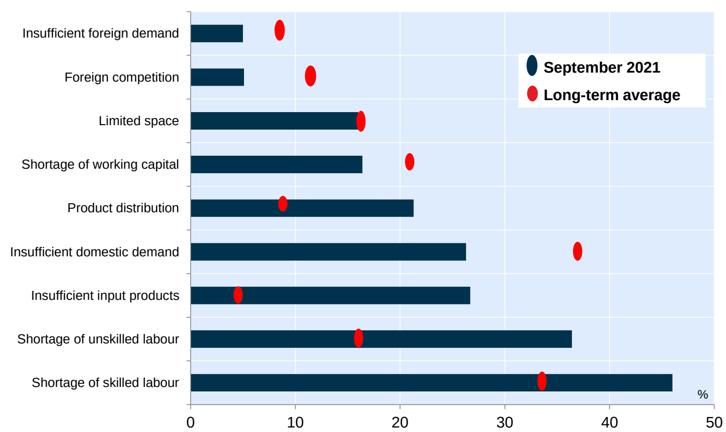
Canada: Labor market short of just 110,000 jobs
Employment rate with and without adjustment for population change by age group since February 2020



NBF Economics and Strategy (data via Statistics Canada and NBF demographic projections starting in July 2021)

The survey by the Canadian Federation of Independent Businesses (CFIB) suggests, moreover, that the unused share of the labour pool is not very large. Again in September, the two main factors limiting small-business sales were scarcities of skilled and unskilled labour. Survey respondents reported these problems in proportions well above the historical norm (chart). There is reason to think that the progressive elimination of extraordinary income-support programs now under way could attenuate these pressures to some extent, but the current mismatch between types of jobs offered by employers and the profile of workers still on the sidelines suggests a continuing tight labour market.

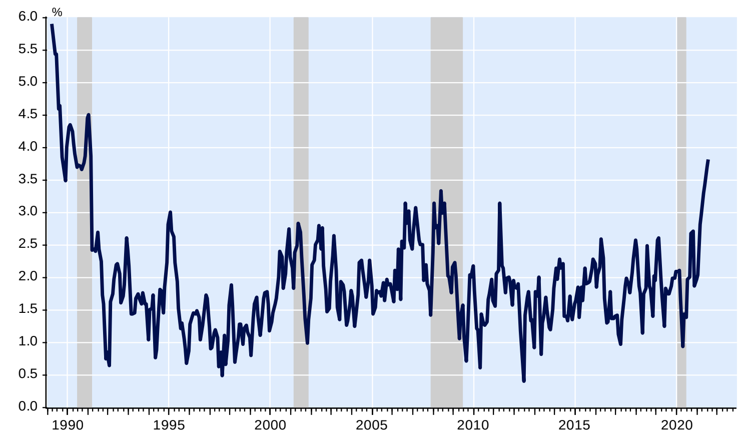
Canada: Small businesses report acute scarcities of labour
Factors limiting sales, September 2021 vs. long-term average



NBF Economics and Strategy (data via CFIB)

To the labour-force issues, the CFIB survey adds that of input shortages. This is hardly surprising under current conditions of global supply-chain problems, which have been propitious for the past summer's surge of inflation. The CPI has surprised on the upside in four of the last five months. Its 12-month inflation of 4.1% reported in August was the highest in 18 years. The broad base of the inflation acceleration is reflected in the average of the three measures favoured by the central bank, which at 2.6% was the highest since March 2009. In addition, these 12-month figures understate the recent trend. In our in-house replications of CPI Median and CPI Trim, they have been inflating at annual rates of 3.2% and 4.4% respectively over the last three months. The average of these two rises is a rate unequalled in more than three decades (chart).

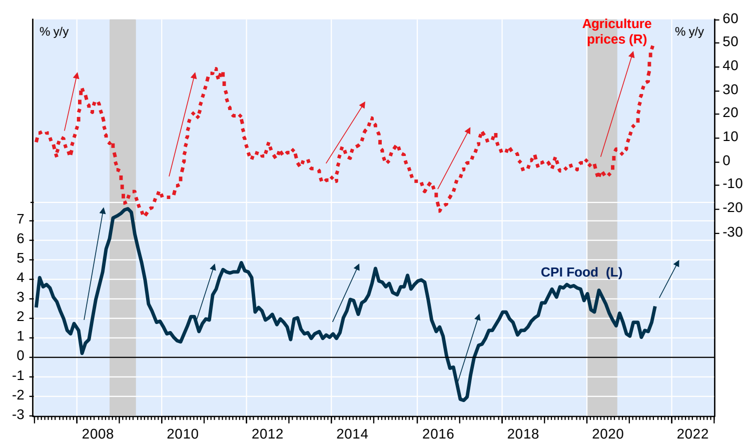
Canada: Inflationary pressures are broad-based
Average of CPI-Trim and CP-Median, 3-month change annualized



NBF Economics and Strategy (data via Statistics Canada)

In addition to the labour force and supply chains, there is another factor that could contribute to inflation in the coming months. Prices for food, like those for many raw materials, have risen spectacularly over the last year. The Bank of Canada's index of agricultural prices in Canadian dollars is up almost 50% from a year earlier, the largest increase ever recorded. These price increases tend to affect grocery bills with a lag of six to eight months, implying that the price acceleration recorded so far is only a beginning.

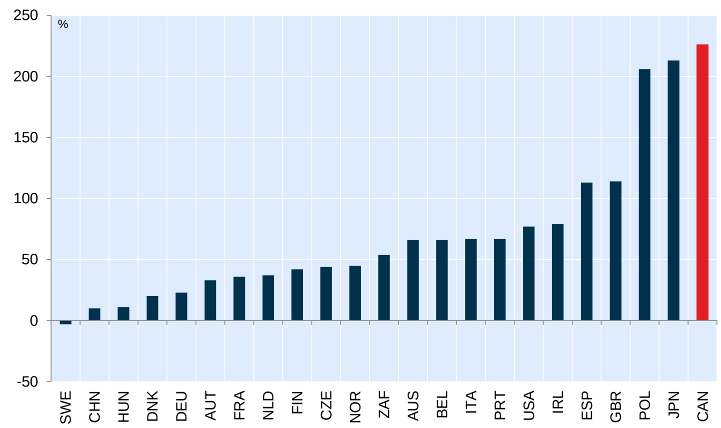
Canada: Food inflation is still to come
Change in BoC Agriculture price index (C$) and change in CPI food



NBF Economics and Strategy (data via Refinitiv)

Given this inflationary environment, will real consumption suffer from a loss of household purchasing power, holding back economic growth? Our upward revisions of inflation have indeed prompted us to moderate our optimism for consumer spending in 2022. That said, we still think Canadian consumers are in a good position to support the economic recovery. Households have accumulated excess savings amounting to an astronomical 11.4% of GDP. How does this cushion compare with those of other countries? The IMF puts Canada solidly in the lead among developed countries.

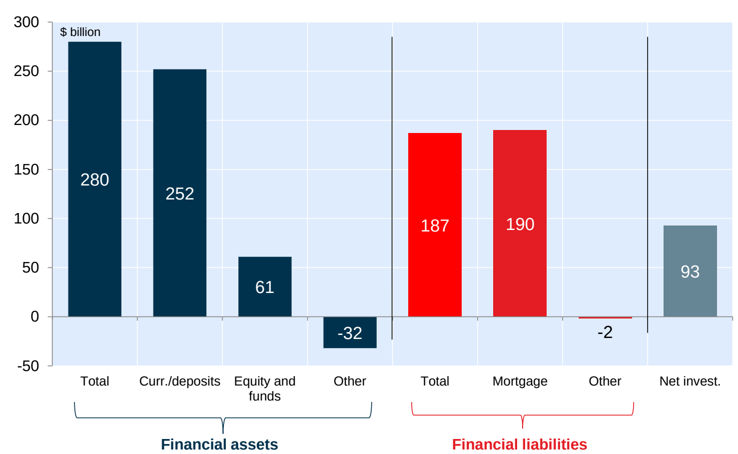
Canada: Households have accumulated a mass of savings
Excess savings as % of total expected savings



NBF Economics and Strategy (data via IMF)

So how much of these savings will be directed to consumption in coming quarters? Our analyses indicate that households have not massively invested these savings, nor used them to reduce their indebtedness. By far the largest share of them are on deposit, waiting to be deployed by households. A survey conducted by the Bank of Canada this summer reported that households expect to spend 35% of their excess savings by the end of next year. That is considerable.

Canada: Surging deposits since the start of the pandemic
Changes in household financial assets and liabilities from 2020Q1 to 2021Q2



NBF Economics and Strategy (data via Statistics Canada)

Our forecast for real growth in 2021 is unchanged this month at 5.0%, but our forecast for 2022 is revised down to 3.8% from 4.0%. Soaring commodity prices will continue to benefit Canada's economy, but supply chain disruptions and resulting inflation are a risk under current conditions. Nonetheless, consumers and businesses are equipped to support the on-going recovery.

United States
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	2.3	(3.4)	5.5	3.4	2.4	4.9	2.9	2.1
Consumption	2.2	(3.8)	7.8	3.4	2.5	6.7	3.0	2.2
Residential construction	(0.9)	6.8	9.9	(0.2)	1.0	(0.3)	1.0	1.0
Business investment	4.3	(5.3)	7.9	3.0	1.8	7.7	1.5	2.4
Government expenditures	2.2	2.5	0.8	1.0	1.5	1.3	1.2	1.5
Exports	(0.1)	(13.6)	4.7	5.0	3.2	3.3	4.7	2.2
Imports	1.2	(8.9)	12.1	1.1	1.5	4.1	0.7	2.0
Change in inventories (bil. $)	75.1	(42.3)	(114.2)	81.3	50.0	(75.0)	175.0	25.0
Domestic demand	2.4	(2.5)	6.6	2.8	2.2	5.6	2.4	2.1
Real disposable income	2.3	6.2	2.6	(1.9)	2.1	1.5	1.0	2.9
Payroll employment	1.3	(5.7)	2.7	2.9	1.9	4.2	1.9	2.0
Unemployment rate	3.7	8.1	5.4	4.4	4.1	4.6	4.3	4.0
Inflation	1.8	1.3	4.4	3.7	2.4	5.7	2.5	2.8
Before-tax profits	2.7	(5.2)	20.2	4.9	2.6	12.2	5.5	1.4
Current account (bil. $)	(472.1)	(616.1)	(743.8)	(770.5)	(710.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 10/08/21	Q4 2021	Q1 2022	Q2 2022	Q3 2022	2021	2022	2023
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.50
3 month Treasury bills	0.05	0.05	0.10	0.10	0.15	0.05	0.40	1.40
Treasury yield curve								
2-Year	0.32	0.40	0.55	0.70	0.80	0.40	1.00	1.65
5-Year	1.05	1.15	1.30	1.50	1.55	1.15	1.70	2.05
10-Year	1.61	1.70	1.80	1.90	2.00	1.70	2.10	2.30
30-Year	2.16	2.20	2.30	2.35	2.40	2.20	2.45	2.60
Exchange rates								
U.S.$/Euro	1.16	1.17	1.18	1.18	1.17	1.17	1.17	1.16
YEN/U.S.$	112	111	111	112	112	111	111	109

*** end of period*

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 actual	Q2 2022 actual	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	6.3	6.7	2.8	3.9	3.4	2.8	3.0	2.5
CPI (y/y % chg.)	1.9	4.8	5.3	5.7	5.5	4.0	2.8	2.4
CPI ex. food and energy (y/y % chg.)	1.4	3.7	4.1	4.4	4.8	3.3	2.5	2.5
Unemployment rate (%)	6.2	5.9	5.1	4.6	4.6	4.5	4.4	4.3

National Bank Financial

Canada
Economic Forecast

*(Annual % change)**	*2019*	*2020*	*2021*	*2022*	*2023*	*Q4/Q4 2021*	*Q4/Q4 2022*	*Q4/Q4 2023*
Gross domestic product (2012 $)	1.9	(5.3)	5.0	3.8	2.2	3.3	3.6	1.6
Consumption	1.6	(6.0)	3.8	4.2	2.8	2.5	4.7	1.8
Residential construction	(0.2)	4.1	18.1	(5.3)	(4.8)	2.7	(4.5)	(5.0)
Business investment	1.1	(13.6)	(1.1)	5.9	3.6	2.4	6.5	2.2
Government expenditures	1.7	0.4	5.4	2.0	1.2	3.3	1.9	1.0
Exports	1.3	(10.0)	2.5	6.1	5.6	1.9	6.5	5.0
Imports	0.4	(11.2)	6.3	4.3	4.6	2.3	5.1	4.5
Change in inventories (millions $)	18,766	(15,937)	3,879	14,919	20,289	10,000	12,676	24,172
Domestic demand	1.4	(4.3)	5.0	2.7	0.6	2.7	3.1	0.9
Real disposable income	2.2	9.5	0.8	(1.1)	1.4	0.4	0.5	1.5
Employment	2.2	(5.1)	4.6	3.1	1.5	3.6	2.1	1.2
Unemployment rate	5.7	9.6	7.6	6.3	6.1	6.8	6.2	6.1
Inflation	1.9	0.7	3.2	3.2	2.3	4.2	2.4	2.4
Before-tax profits	0.6	(4.0)	42.2	8.4	0.1	31.9	3.4	0.3
Current account (bil. $)	(47.4)	(40.1)	5.0	(20.0)	(28.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 10/08/21	*Q4 2021*	*Q1 2022*	*Q2 2022*	*Q3 2022*	*2021*	*2022*	*2023*
Overnight rate	0.25	0.25	0.25	0.25	0.75	0.25	1.00	1.50
3 month T-Bills	0.12	0.15	0.20	0.30	0.75	0.15	0.90	1.45
Treasury yield curve								
2-Year	0.69	0.80	0.95	1.20	1.30	0.80	1.45	1.70
5-Year	1.21	1.30	1.45	1.60	1.80	1.30	1.90	2.05
10-Year	1.63	1.70	1.85	1.95	2.00	1.70	2.05	2.20
30-Year	2.09	2.15	2.25	2.30	2.35	2.15	2.40	2.45
CAD per USD	1.25	1.24	1.22	1.20	1.22	1.24	1.24	1.26
Oil price (WTI), U.S.$	78	82	85	80	75	82	75	70

*** end of period*

Quarterly pattern

	Q1 2021 actual	*Q2 2021 actual*	*Q3 2021 forecast*	*Q4 2021 forecast*	*Q1 2022 forecast*	*Q2 2022 forecast*	*Q3 2022 forecast*	*Q4 2022 forecast*
Real GDP growth (q/q % chg. saar)	5.5	(1.1)	4.0	5.0	4.9	3.7	3.0	2.9
CPI (y/y % chg.)	1.4	3.4	4.0	4.2	4.1	3.6	2.8	2.4
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.0	3.1	2.8	2.3	2.3
Unemployment rate (%)	8.4	8.0	7.2	6.8	6.5	6.4	6.3	6.2

National Bank Financial

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Provincial economic forecast

	Real GDP (% growth)					Nominal GDP (% growth)				
	2019	2020e	2021f	2022f	2023f	2019	2020e	2021f	2022f	2023f
Newfoundland & Labrador	4.0	-5.3	3.2	2.6	1.5	4.1	-8.3	14.9	6.3	2.5
Prince Edward Island	5.1	-3.0	3.5	3.8	2.4	7.0	-1.0	7.2	4.9	3.4
Nova Scotia	2.4	-3.2	3.8	3.3	1.8	3.8	-1.9	6.9	4.7	3.0
New Brunswick	1.2	-3.7	3.6	3.0	1.6	3.0	-1.7	8.6	4.7	2.8
Quebec	2.7	-5.3	6.5	3.0	2.0	4.3	-4.1	11.2	4.6	2.9
Ontario	2.1	-5.0	4.4	4.2	2.3	3.8	-4.8	8.7	5.3	3.3
Manitoba	0.6	-4.8	4.3	3.4	2.1	1.0	-3.9	11.1	5.5	3.5
Saskatchewan	-0.7	-5.2	4.8	3.9	2.3	0.1	-9.2	21.0	6.3	3.8
Alberta	0.1	-8.2	5.4	4.3	2.5	2.7	-11.6	22.5	9.2	3.1
British Columbia	2.7	-3.8	5.3	4.0	2.4	4.4	-2.0	11.4	5.1	3.8
Canada	1.9	-5.3	5.0	3.8	2.2	3.6	-4.6	12.1	5.8	3.2

	Employment (% growth)					Unemployment rate (%)				
	2019	2020e	2021f	2022f	2023f	2019	2020e	2021f	2022f	2023f
Newfoundland & Labrador	1.3	-5.9	2.5	1.3	0.5	12.3	14.2	13.2	12.8	12.4
Prince Edward Island	3.4	-3.2	3.0	2.2	2.2	8.6	10.6	10.0	9.3	8.6
Nova Scotia	2.3	-4.7	5.3	2.0	1.5	7.3	9.8	8.3	7.4	6.8
New Brunswick	0.7	-2.6	2.5	1.3	0.5	8.2	10.1	9.1	8.8	8.4
Quebec	2.0	-4.8	4.2	3.1	1.4	5.2	8.9	6.3	5.1	4.8
Ontario	2.8	-4.7	4.6	3.2	1.5	5.6	9.6	8.3	6.7	6.4
Manitoba	1.0	-3.7	3.6	2.3	1.0	5.4	8.0	6.4	5.1	5.1
Saskatchewan	1.7	-4.6	2.8	2.3	1.1	5.5	8.4	6.9	5.8	5.8
Alberta	0.6	-6.5	5.1	3.5	1.6	7.0	11.5	8.8	7.2	7.2
British Columbia	2.9	-6.5	6.4	3.3	1.8	4.7	9.0	6.6	5.0	4.7
Canada	2.2	-5.1	4.6	3.1	1.5	5.7	9.6	7.6	6.3	6.1

	Housing starts (000)					Consumer Price Index (% growth)				
	2019	2020e	2021f	2022f	2023f	2019	2020e	2021f	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.2	0.8	0.8	1.0	0.2	3.2	3.0	2.3
Prince Edward Island	1.5	1.2	1.2	1.0	1.0	1.2	0.0	3.7	3.1	2.3
Nova Scotia	4.7	4.9	4.4	4.2	4.1	1.6	0.3	3.6	3.2	2.2
New Brunswick	2.9	3.5	3.8	2.8	2.7	1.7	0.2	3.5	3.2	2.4
Quebec	48.0	54.1	71.0	56.0	55.0	2.1	0.8	3.4	3.2	2.3
Ontario	69.0	81.3	98.0	81.7	80.0	1.9	0.6	3.3	3.2	2.3
Manitoba	6.9	7.3	7.7	6.3	6.1	2.3	0.5	3.0	3.1	2.3
Saskatchewan	2.4	3.1	4.0	3.6	3.5	1.7	0.6	3.0	3.1	2.2
Alberta	27.3	24.0	30.7	27.0	26.5	1.7	1.1	3.0	3.2	2.3
British Columbia	44.9	37.7	48.0	36.6	35.8	2.3	0.8	3.3	3.2	2.3
Canada	208.7	217.8	270.0	220.0	215.5	1.9	0.7	3.2	3.2	2.3

e: estimate f: forecast

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

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