May 2024

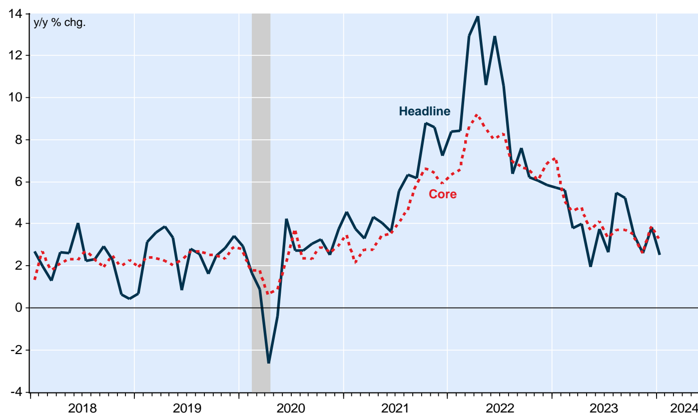
Summary

By Matthieu Arseneau, Jocelyn Paquet and Daren King

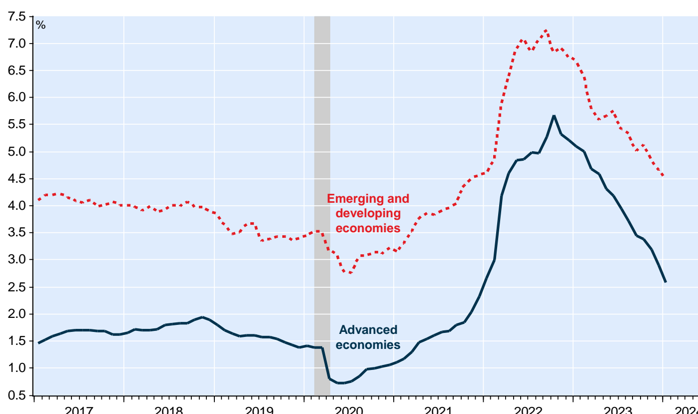
- On both the headline and core measures, global inflation has continued its downward trend in recent weeks, with the result that price pressures are now only slightly more intense than in the pre-pandemic period. The battle is not won, however, and there are signs that inflation could remain stuck around the 3% mark in some parts of the world, which explains why several central banks - particularly those in advanced economies - are proceeding cautiously in the current environment, waiting for more evidence that price pressures have subsided before delivering rate cuts. However, easing remains necessary because, positive as it is, falling inflation also means rising real policy rates. And while there are many good reasons to keep the latter above their neutral level as long as inflation remains higher than central banks' target, it is more difficult to justify making them *more restrictive* at a time when the objective seems within reach. Fortunately, this does not appear to be the intention of the major central bankers, many of whom have already begun to lower their nominal key rates. For the time being, this course of action remains limited to emerging markets, but judging by their most recent communications, central banks in advanced economies seem determined to follow suit before the end of the year. This perspective encourages us to revise upwards our growth scenario for the advanced economies this month. For the global economy as a whole, we see growth of 3.1% this year and 2.9% in 2025.
- More than the composition of growth, it was the inflation measures included in the Q1 GDP report in the United States that caught the markets' attention, with the core personal consumption expenditures deflator posting a quarter-on-quarter rise of 3.7%. As this reacceleration in inflation was confirmed by other economic releases, market expectations of monetary easing were duly reduced. Without questioning the logic that higher-than-expected inflation leaves less room for rate cuts this year, we remain concerned about the risks associated with maintaining a restrictive monetary policy for such a long period. Although the U.S. economy has performed surprisingly well so far in a high interest rate environment, we can't take it for granted that the same will be true in the future, especially as several "soft" indicators are currently showing signs of weakness. As such, we continue to expect the U.S. economy to slow in the second half of the year. The easing of monetary policy should keep this temporization from developing into something worse, without however preventing growth from being below potential for a few quarters. According to this scenario, GDP should grow by 2.4% in 2024 and by only 1.0% in 2025.
- Economic growth and job creation in early 2024 may seem too strong at first glance for an interest rate cut. But make no mistake. Economic growth in the first quarter remains below population growth, and the job creation that looks spectacular in April is good, but no more than that, given the staggering increase in population. Given the cooling of the labor market in recent months, and the risks of further deterioration due in part to employee retention in 2023, it is clear to us that such restrictive interest rates are no longer appropriate. Core inflation has eased considerably, as evidenced by the recent trend of CPI-median and CPI-common evolving over the past three months at annualized rates well below the Bank of Canada's target. Given the 6-8 quarter lag in the transmission of monetary policy to the economy, the risk of interest rates inflicting too much damage on the economy remains high. This overly restrictive policy is reflected in our economic outlook for the coming months. With the slight contractions we anticipate in Q2 and Q3, this should limit growth to 0.7% in 2024, with a slight acceleration to 1.2% expected the following year. This would translate into an unemployment rate of around 7.0% at the end of the year.

World: Spring brings hope to Europe

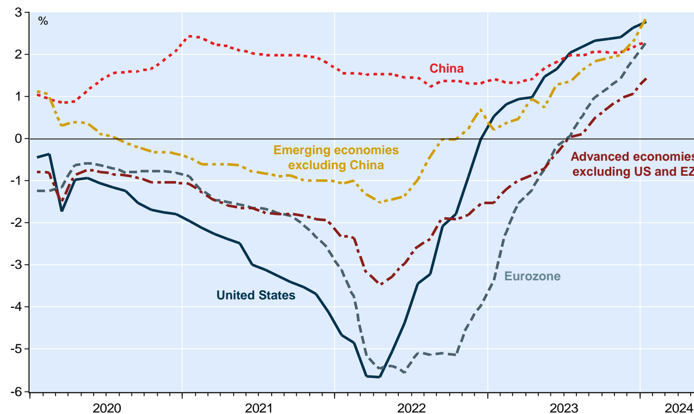
On both the headline and core measures, global inflation has continued its downward trend in recent weeks, with the result that price pressures are now only slightly more intense than in the pre-pandemic period.



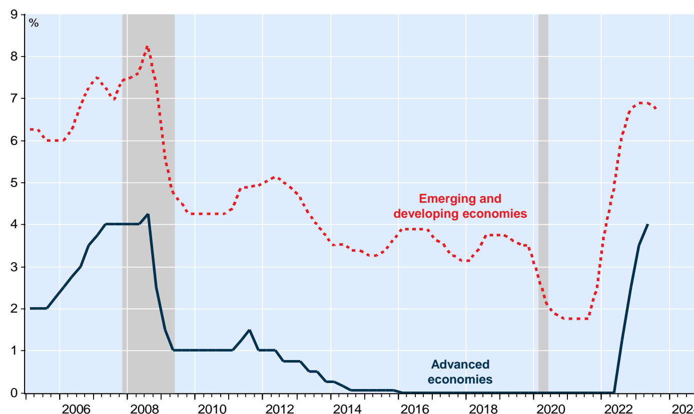
This is undoubtedly good news, as it shows that, after a late start, the effects of the coordinated monetary tightening orchestrated by the majority of the world's central banks are now clearly being felt, and are also helping to lower inflation expectations.



The battle is not won, however, and there are signs that inflation could remain stuck around the 3% mark in some parts of the world, which explains why several central banks - particularly those in advanced economies - prefer to be cautious in the current environment, waiting for more evidence that price pressures have subsided before proceeding with rate cuts. However, easing remains necessary because, positive as it is, falling inflation also means rising real policy rates. And while there are many good reasons to keep the latter above their neutral level as long as inflation remains above the central banks' target, it is more difficult to justify making them *more restrictive* at a time when the objective seems within reach.

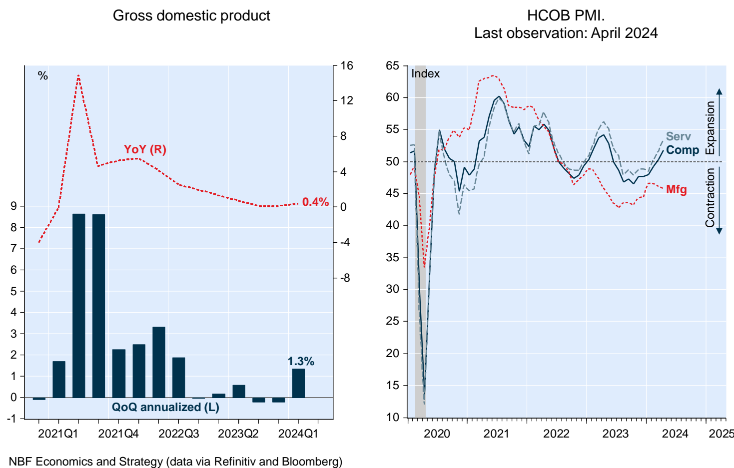


Fortunately, this does not appear to be the intention of policymakers, many of whom have already begun to lower their nominal benchmark rates. For the time being, this course of action remains limited to emerging markets, but judging by their most recent communications, central banks in advanced economies seem determined to follow suit before the end of the year.



The European Central Bank should be the first to pull the trigger, breathing some life into a nascent recovery. The single currency zone indeed emerged from technical recession in the first quarter, and seems to have gained further momentum at the start of the second quarter, if the PMI indices published by the Hamburg Commercial Bank (HCOB) are anything to go by.

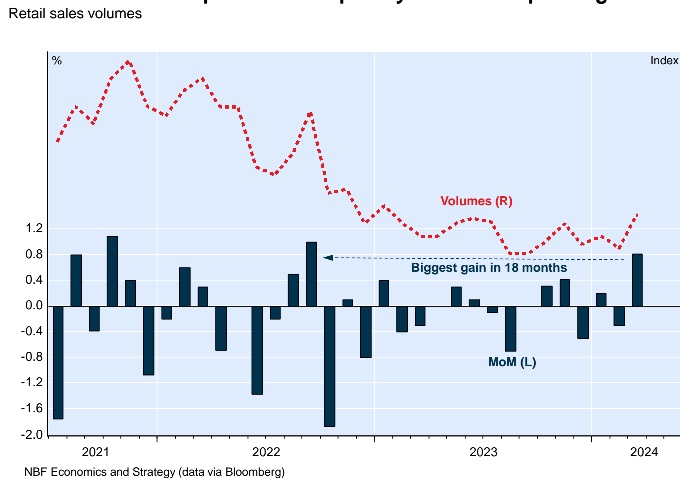
Eurozone: Single currency area emerged from technical recession in Q1



NBF Economics and Strategy (data via Refinitiv and Bloomberg)

The rebound in growth in the first three months of the year was largely due to stronger external demand, but the situation of households also seems to have improved. This is at least suggested by the strongest monthly rise in retail sales for 18 months in March.

Eurozone: Growth spurt driven in part by consumer spending
Retail sales volumes

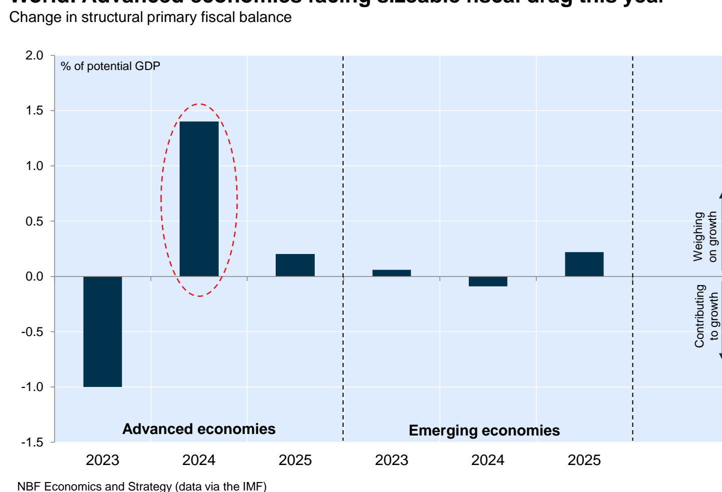


NBF Economics and Strategy (data via Bloomberg)

The strong performance of the Eurozone economy is the main reason why we are revising upwards our growth forecast for the advanced economies this month. However, we remain aware of the many risks to this scenario. That of seeing the disinflation process stagnate, or worse, reverse, is probably the first to come to mind in a context where labour markets remain tight in many countries. Since this would result in a more restrictive monetary policy than is currently anticipated, this eventuality would undoubtedly translate into weaker growth, all other things being equal.

Although less publicized, the uncertainty surrounding the future evolution of fiscal policy presents at least as much potential for disruption. One of the reasons why advanced economies escaped a full-blown recession in 2023 is that the rise in policy rates was at least partially offset by an extremely accommodating fiscal policy. Last year's deterioration in the primary budget balance was even the worst ever recorded outside a recession, according to the IMF. And however powerful this laissez-faire approach may have been in terms of economic growth, it has nevertheless left many countries in a precarious fiscal situation. Some of these have already announced spending rationalization in 2024, increasing the likelihood that fiscal policy will dampen growth more than expected in advanced economies this year.

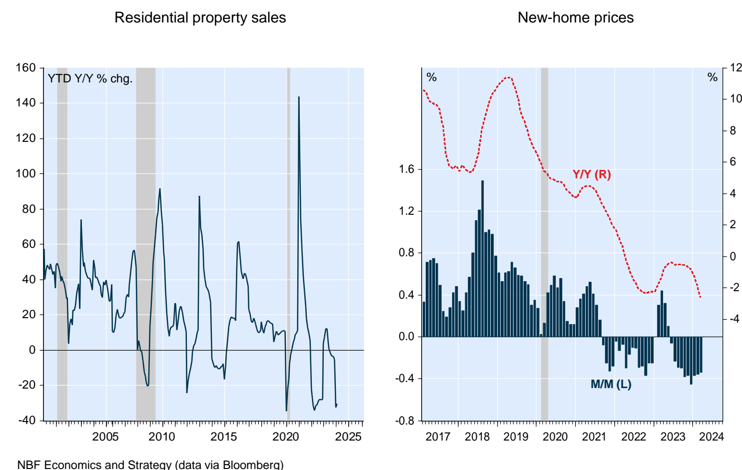
World: Advanced economies facing sizeable fiscal drag this year
Change in structural primary fiscal balance



NBF Economics and Strategy (data via the IMF)

What about emerging markets? As ever, their performance will be intrinsically linked to that of China, and the latest data from that side blew hot and cold. While first-quarter growth in the world's second-largest economy exceeded consensus expectations (+1.6% q/q in non-annualized terms), the details of the report published by China's National Bureau of Statistics left something to be desired. Growth remained dependent on foreign buyers and public investment. Private domestic demand, meanwhile, continued to weaken, weighed down by weaker-than-expected household spending and persistently depressed activity in the real estate sector.

China: Residential sector continues to weigh on growth

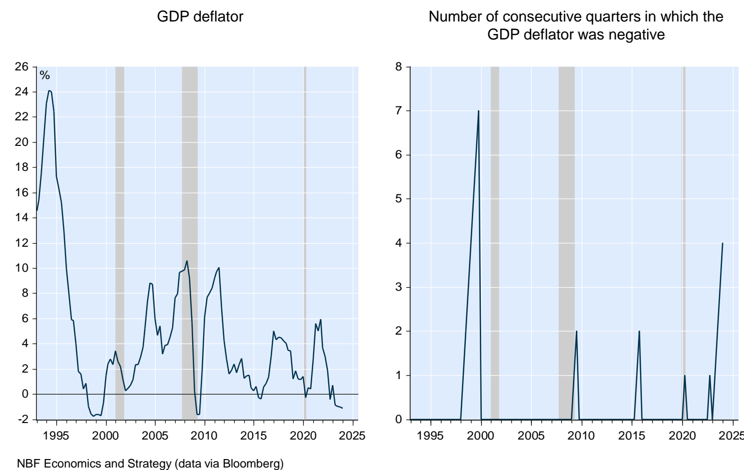


NBF Economics and Strategy (data via Bloomberg)

Recent inflation trends are also raising questions. Producer prices fell for an 19th consecutive month in April (the longest sequence

since 2016), while the GDP deflator declined for a fourth consecutive quarter in Q1, something not seen since 1999.

China: An economy flirting with deflation

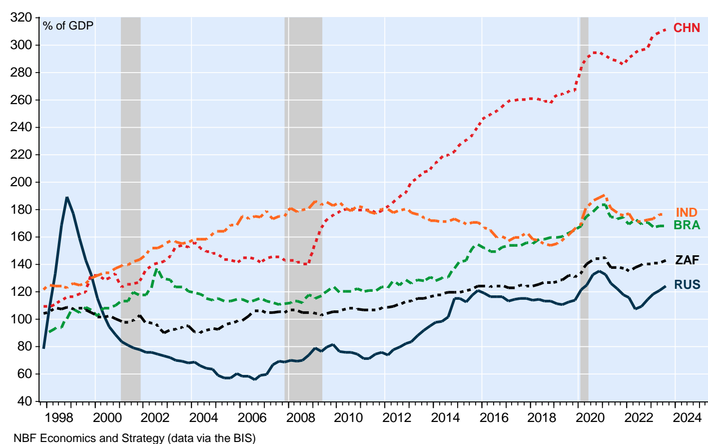


NBF Economics and Strategy (data via Bloomberg)

While deflation is helping to make Chinese exports more attractive relative to those of its competitors (and thus boosting growth in the short term), it does come with significant risks, as it makes it more likely that China's trading partners will implement protectionist policies, as they are increasingly keen to defend their own industries/workers against what they perceive as "dumping". Falling prices also threaten to trigger a deflationary spiral, with consumers delaying purchases in the hope of seeing prices fall further in the future, further depressing demand.

By weighing on the nominal revenues of local governments and businesses, deflation also risks making the massive debt of these economic agents more difficult to sustain. It should be remembered that, expressed as a percentage of GDP, credit to the non-financial sector in China is at a much higher level than in other economies at a similar stage of development.

China: Deflation risks making debt burden more of a problem
Credit to the non-financial sector in BRICS country



NBF Economics and Strategy (data via the BIS)

Against this backdrop, we would describe our view of emerging markets as cautiously optimistic. We believe that China will come close to achieving its growth target this year (5.0%), but only thanks to a new round of subsidized lending by state banks, which will only increase the risks to financial stability.

As for the global economy as a whole, we see it growing by 3.1% this year and 2.9% in 2025.

World Economic Outlook

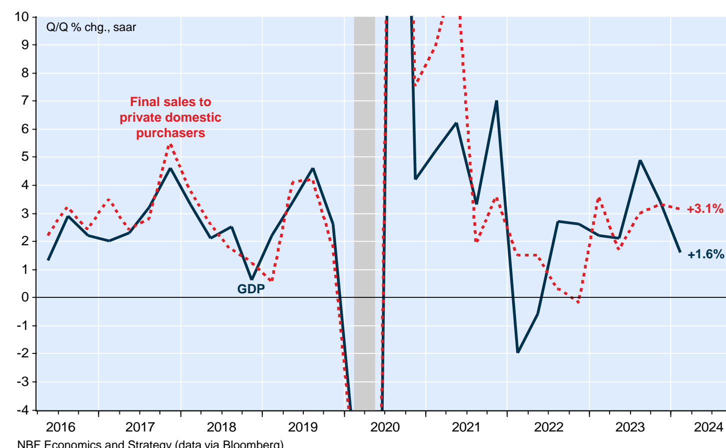
	2023	2024	2025
Advanced Economies	**1.6**	**1.7**	**1.1**
United States	2.5	2.4	1.0
Eurozone	0.5	0.9	0.7
Japan	1.9	0.8	0.8
UK	0.1	1.1	0.7
Canada	1.1	0.7	1.2
Australia	2.1	1.5	2.0
Korea	1.3	2.2	2.0
Emerging Economies	**4.1**	**4.1**	**4.1**
China	5.2	4.7	4.5
India	6.3	6.9	6.3
Mexico	3.2	2.1	1.3
Brazil	2.9	2.1	2.0
Russia	3.6	3.0	1.5
World	**3.1**	**3.1**	**2.9**

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

United States: Inflation forces the Fed to be more patient

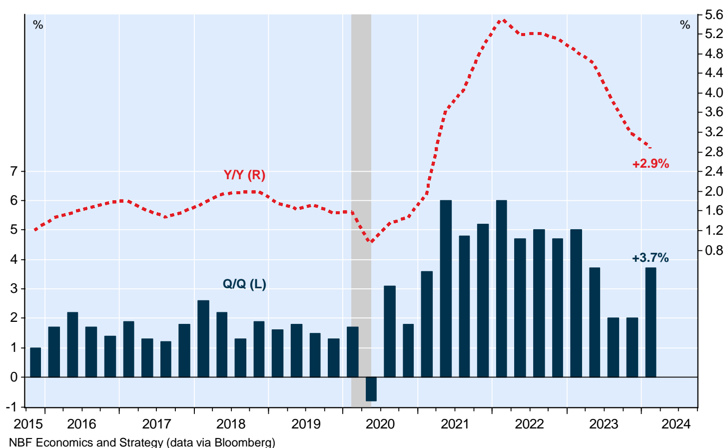
GDP growth in the United States surprised on the downside for the first time in a year in the first quarter, coming in at 1.6% annualized instead of the 2.5% expected by economists. However, the disappointment was largely due to larger-than-expected negative contributions from inventories and international trade. Final private domestic demand, which is a better indicator of the underlying strength of the economy, remained solid, rising by no less than 3.1% on an annualized basis, reflecting notable increases in residential investment (+13.9%) and consumption of services (+4.0%).

U.S.: Private demand remained solid in Q1
Real GDP vs. final sales to private domestic purchasers (household consumption + gross private investment)

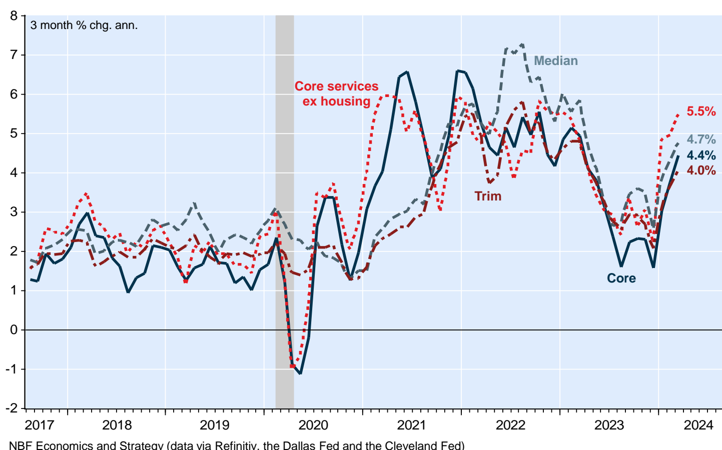


NBF Economics and Strategy (data via Bloomberg)

More than the composition of growth, it was the inflation measures included in the report that caught the markets' attention, with the core personal consumption expenditures deflator posting a quarter-on-quarter rise of 3.7%, a significant increase on the 2.0% recorded in the previous quarter.

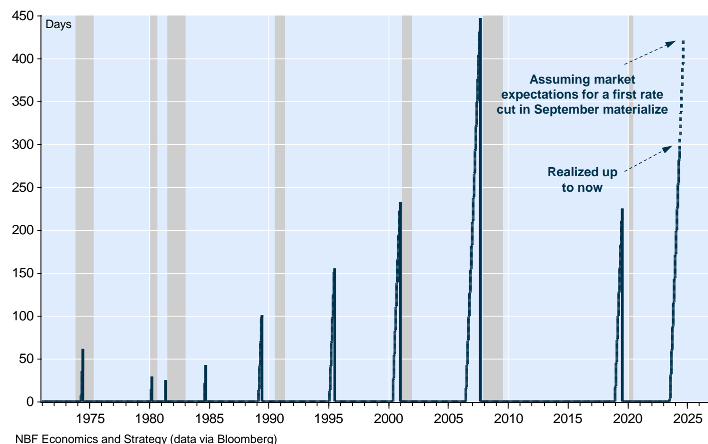


This rebound in inflation was confirmed one day after the release of GDP data, when the Bureau of Economic Analysis published its monthly series. These revealed a widespread reacceleration in the core measures most closely watched by the Federal Reserve, none of which has risen by less than 4% annualized over the past three months.

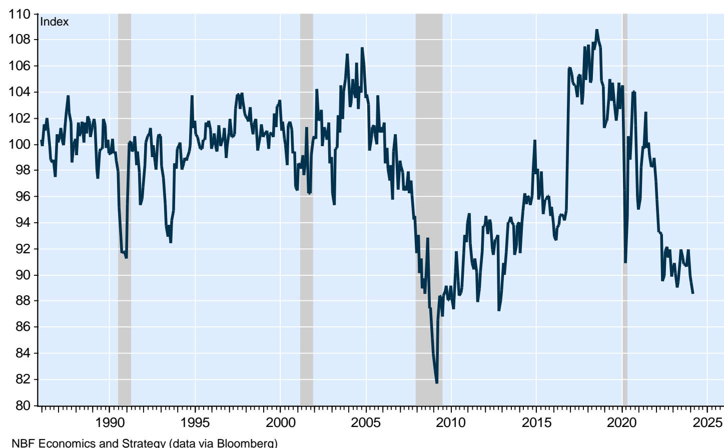


This was all it took for the markets to lower their expectations of a rate cut by the end of the year, and Jerome Powell's slightly less hawkish comments in the wake of the Fed's policy meeting only partially reversed this trend.

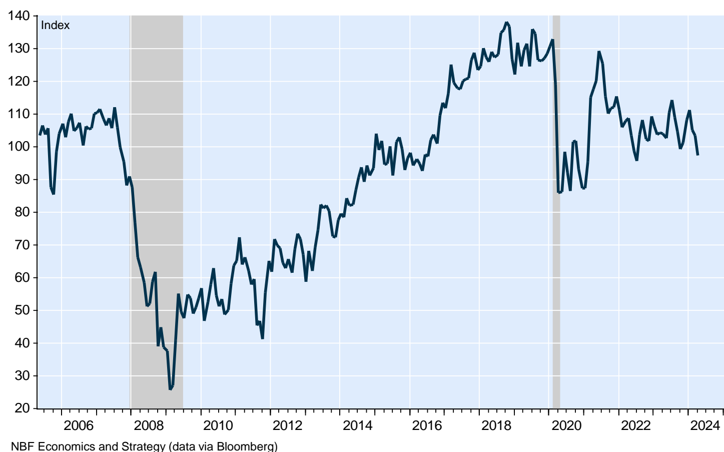
Without questioning the logic of higher-than-expected inflation leaving less room for rate cuts this year, we remain concerned about the risks associated with maintaining a restrictive monetary policy for such a long period. For, if market expectations of a first rate cut in September prove correct, policy rates are likely to remain at their peak for a grand total of 421 calendar days, the second longest sequence on record after that which preceded the Great Recession.



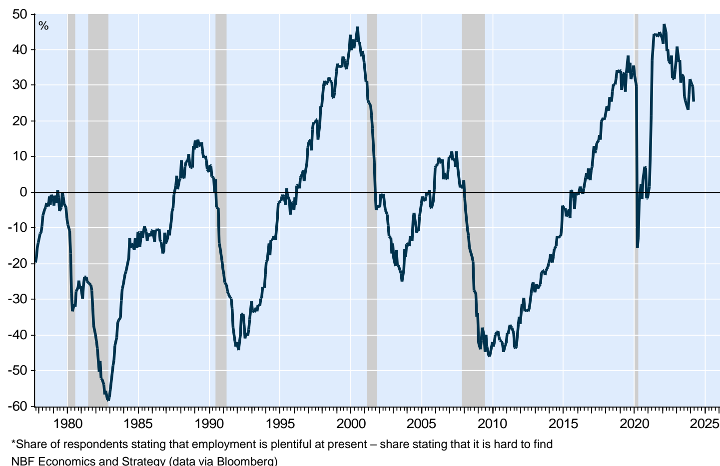
And while the U.S. economy has performed surprisingly well so far in a high interest rate environment, we can't take it for granted that the same will be true in the future. The full impact of past rate hikes is yet to be felt in the economy, not to mention the fact that real interest rates continue to rise. Combined with a much less generous fiscal policy, these factors could expose certain weaknesses in the economy in the second half of the year. While GDP figures remain robust, several "soft" indicators - some of which are known to give a good idea of the economy's future development - are showing signs of weakness. This is particularly true of the NFIB Small Business Confidence Index, which fell to an 11-year low in March.



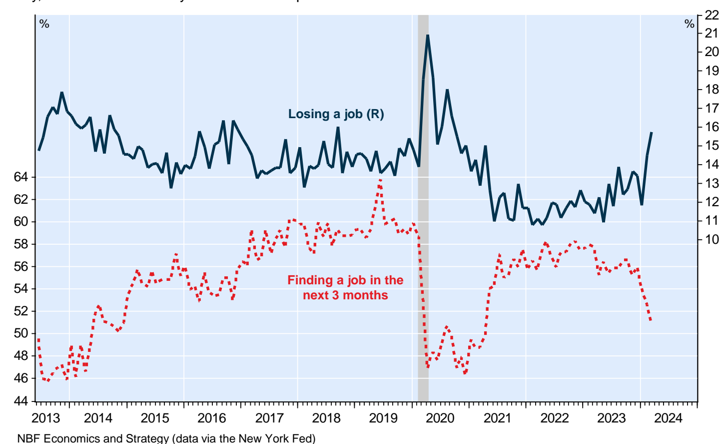
Although less worrying, the Conference Board's consumer confidence index has nonetheless been trending downwards of late, and in any case remains well below its pre-pandemic levels.



In the latter case, the more pessimistic outlook seems to be linked to a looser labour market, with the number of respondents describing jobs as plentiful having fallen recently relative to those saying they are hard to find.

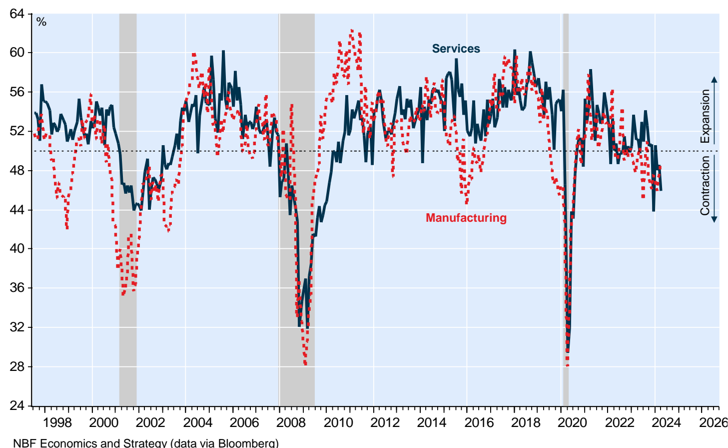


It's true that the official employment data published on the first Friday of each month remains fairly robust, but it's undeniable that perceptions of labour demand have changed. This observation is not confined to the Conference Board survey. On the contrary, consumers surveyed by the New York Fed see the loss of their livelihood as increasingly likely. They are also less optimistic about their chances of finding work after a job loss.



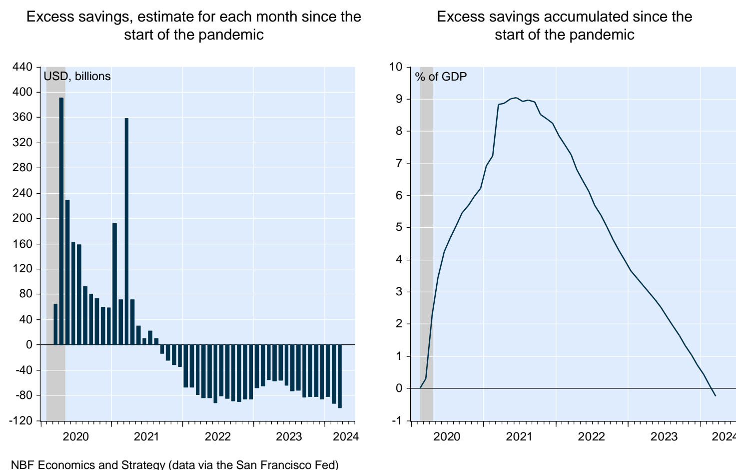
These concerns seem justified in a context where companies are reporting a decline in their demand for labour. Indeed, the employment sub-indices contained in the PMI survey published by ISM are below the 50-point mark in both the manufacturing and service sectors. Simultaneous contractions of this kind in the two main sectors of activity rarely occur outside recessionary periods.

U.S.: ISM reports signal fading demand for labour from businesses
ISM Services and ISM Manufacturing, employment sub-indices



If confirmed by hard data, this slowdown in hiring would come at a bad time, as households have become more dependent on their wages to support consumption. Not that having a job had become completely irrelevant in the post-pandemic period, but it had certainly lost some of its importance as a driver of spending in a world where households could rely on a large pool of excess savings. However, according to a recent study by the San Francisco Fed, this safety net has now been completely depleted, leaving households more exposed to the vagaries of the labour market.

U.S. : Excess savings are now fully depleted

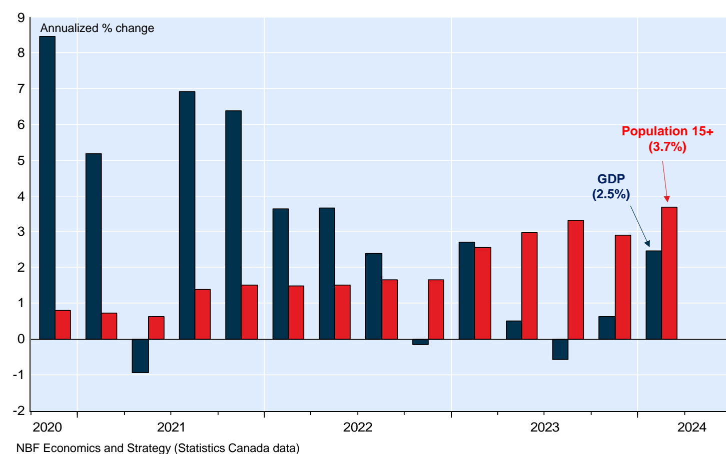


Aware of these risks, we expect the U.S. economy to slow in the second half of the year, which should prompt the Fed to cut rates a little more aggressively than markets currently expect. The easing of monetary policy should help to prevent this temporisation from developing into something worse, without however preventing growth from being below potential for a few quarters. Growth should accelerate again in the course of 2025 under the impetus of additional rate cuts. This scenario would result in growth of 2.4% in 2024 and 1.0% in 2025.

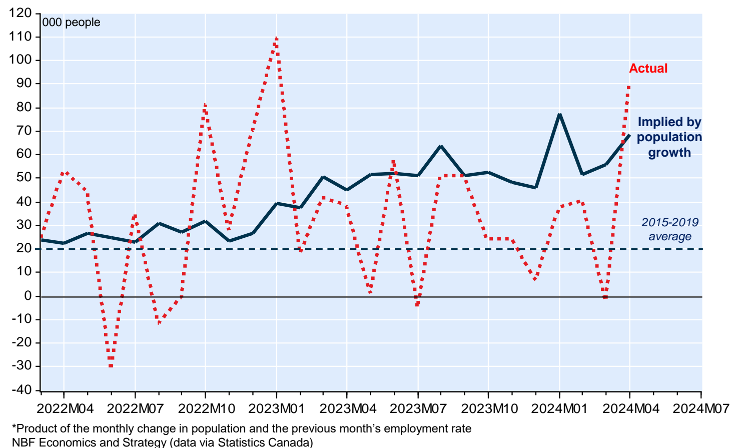
Canada: The job market is not about to get any firmer

Economic growth in the first quarter of the year promises to be vigorous on a historical basis. Indeed, monthly GDP data show growth of 2.5%, the strongest in a year (including the preliminary March estimate). However, this increase should not be taken as a sign that the Canadian economy is warming up, which could prompt the central bank to postpone rate cuts. Record population growth (+3.7% annualized) during the quarter means that economic potential is growing at an even more vigorous pace. To illustrate the quarter's counter-performance, we need only look at GDP per capita, which continued its downward trend during the quarter and is now 3% below the peak recorded in September 2022. A drop of this magnitude has never been recorded outside of a recession.

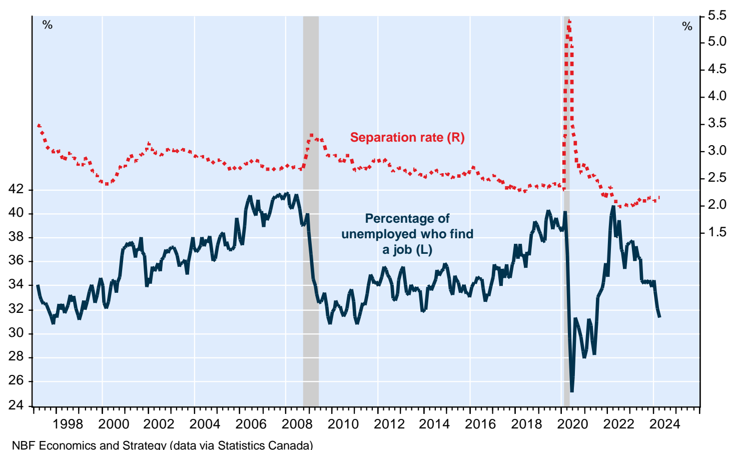
Canada: GDP boosted by record population growth
Gross domestic product and population 15+, quarterly data, annualized growth



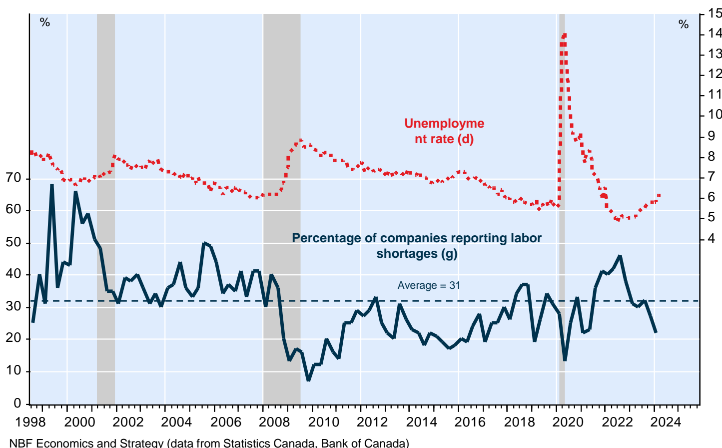
This apparently solid growth during the quarter did not prevent the unemployment rate from reaching its highest level since February 2022, at 6.1% in March (5.8% in December). Despite a spectacular gain of 90,000 jobs in April, its biggest increase in 15 months, the unemployment rate remained unchanged in March, meaning that the labor market has not tightened. The big surprise of the report was population growth, with the population aged 15 and over increasing by 112K, the second highest increase on record (after last January's 125K). At the current rate of population growth, the labor market needs to create 70K jobs to maintain the employment rate, well above the 20K that prevailed before the pandemic. According to this criterion, job creation in April was good, but no more than that.



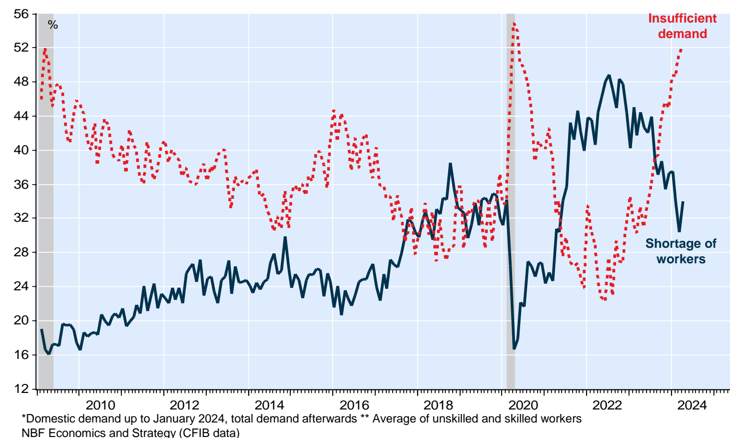
Since the start of the monetary tightening cycle, the unemployment rate has risen by 1.3 percentage points. The easing labor market is characterized by individuals finding it difficult to enter the job market, as evidenced by the sharp rise in the unemployment rate for young people and recent immigrants. The percentage of unemployed people who have found a job is currently at its lowest level for ten years, excluding the pandemic. Meanwhile, the number of layoffs is limited for the time being, as evidenced by the rate of separation rate (voluntary departures and layoffs), which remains very low on a historical basis.



But will it last? Some may have been reassured by the 50K jump in private-sector employment in April, after a lethargy that began in mid-2023. For our part, we remain skeptical about the sustainability of this strength. According to Bank of Canada's latest Business Outlook Survey, only 22% of large companies reported labor shortages in the first quarter, half as many as at the peak of 2022 (46%) and below the historical average of 31%.

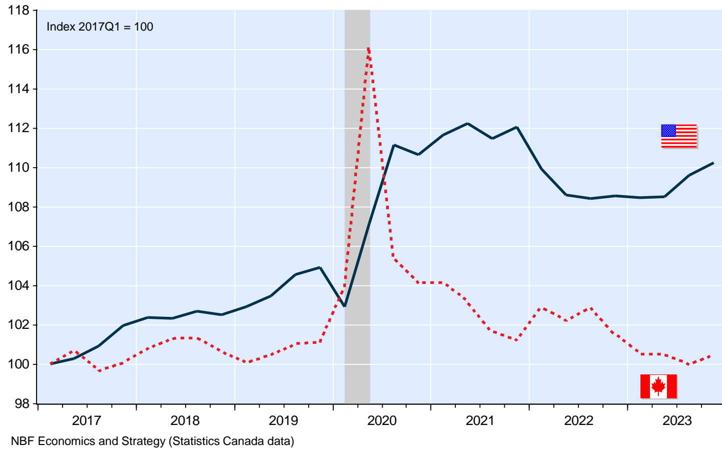


Nor can we count on SMEs to boost employment in the months ahead. According to the latest data from the Canadian Federation of Independent Business, a significant drop in SME confidence has begun with the onset of monetary policy tightening in 2022. No less than 52% of SMEs report that weak demand is limiting their production. These levels are comparable to those observed during the 2008-2009 financial crisis, and at the start of the pandemic.



The likelihood of layoffs is all the greater when companies appear to have over-hired or retained workers on the assumption that the current weakness will be temporary. This is indicated by output per worker, which has fallen sharply since the start of interest rate hikes. In the fourth quarter of 2023, output per employee was essentially at the same level as in 2017, whereas in the United States it is 10% higher. If we're right and the economy proves shaky over the next few months, the aftershocks on employment could be significant. And even if the economy is stronger than we think, that may not translate into hiring either.

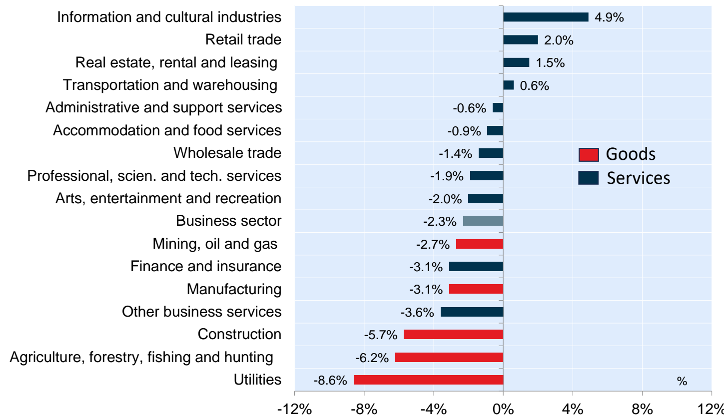
Canada: Output per worker down from 2022
Production per employee



NBF Economics and Strategy (Statistics Canada data)

Interestingly, this phenomenon of employee retention in Canada is widespread across all industries. No less than 13 out of 16 sectors experienced a decline in output per employee between Q3 2022 and Q4 2023, with the goods sector showing much greater contractions than the services sector. Against this backdrop, it comes as no surprise that the goods sector experienced a contraction in employment so far in 2024. Utilities, agriculture and construction, which have seen the sharpest declines in output per employee since 2022, recorded job losses in April.

Canada: A majority of sectors have too many employees?
Production per employee (% change from Q3 2022 to Q4 2023)

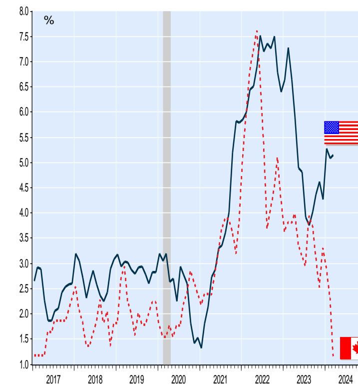


NBF Economics and Strategy (Statistics Canada data)

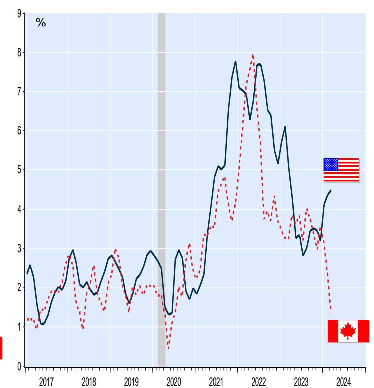
Given the slowdown in the labor market and the risks of further deterioration, it is clear to us that such restrictive interest rates are no longer appropriate. Core inflation has eased considerably, as shown by the recent trend of CPI-median (1.1%) and CPI-common (1.4%) evolving over the last three months at annualized rates well below the Bank of Canada's target. Given the 6-8 quarter lag in the transmission of monetary policy to the economy, the risk remains high that it will inflict too much damage on the economy. This overly restrictive monetary policy is reflected in our economic outlook for the coming months. With the slight contractions we expect in Q2 and Q3, this should limit growth to 0.7% in 2024, with a slight acceleration to 1.2% expected the following year. This would translate into an unemployment rate close to 7.0% at the end of the year.

Canada: Inflation down sharply

CPI-Median (annualized 3-month change)



CPI-Common (annualized 3-month change)



NBF Economics and Strategy (Statistics Canada data)

United States
Economic Forecast

(Annual % change)*	2021	2022	2023	2024	2025	Q4/Q4 2023	Q4/Q4 2024	Q4/Q4 2025
Gross domestic product (2012 $)	5.8	1.9	2.5	2.4	1.0	3.1	1.4	1.4
Consumption	8.4	2.5	2.2	2.5	1.2	2.7	2.0	1.3
Residential construction	10.7	(9.0)	(10.6)	5.3	0.8	0.4	4.3	1.2
Business investment	5.9	5.2	4.5	2.3	0.1	4.6	1.0	0.6
Government expenditures	(0.3)	(0.9)	4.1	2.8	1.7	4.6	1.7	1.7
Exports	6.3	7.0	2.6	1.5	0.1	1.8	0.6	0.6
Imports	14.5	8.6	(1.7)	2.9	0.6	(0.1)	2.9	1.0
Change in inventories (bil. $)	12.5	128.1	43.7	35.1	18.8	54.9	15.0	30.0
Domestic demand	6.6	1.7	2.3	2.6	1.1	3.2	1.9	1.3
Real disposable income	3.2	(6.0)	4.2	1.5	1.5	4.1	1.3	2.0
Payroll employment	2.9	4.3	2.3	1.4	0.3	1.9	0.7	0.9
Unemployment rate	5.4	3.6	3.6	4.0	4.6	3.7	4.2	4.6
Inflation	4.7	8.0	4.1	3.3	2.6	3.2	3.0	2.7
Before-tax profits	22.6	9.8	1.5	1.3	1.3	5.1	-3.7	3.8
Current account (bil. $)	(939.8)	(971.6)	(818.8)	(858.8)	(906.3)	...	...	...

** or as noted*

Financial Forecast**

	Current 5/10/24	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2023	2024	2025
Fed Fund Target Rate	5.50	5.50	5.50	5.25	5.00	5.50	5.00	3.75
3 month Treasury bills	5.26	5.23	5.30	5.05	4.75	5.20	4.75	3.55
Treasury yield curve								
2-Year	4.87	4.59	4.75	4.65	4.50	4.23	4.50	3.55
5-Year	4.52	4.21	4.50	4.35	4.20	3.84	4.20	3.60
10-Year	4.50	4.20	4.45	4.40	4.25	3.88	4.25	3.90
30-Year	4.64	4.34	4.65	4.60	4.50	4.03	4.50	4.15
Exchange rates								
U.S.$/Euro	1.08	1.08	1.06	1.04	1.03	1.10	1.03	1.08
YEN/U.S.$	156	151	152	148	145	141	145	133

*** end of period*

Quarterly pattern

	Q1 2023 actual	Q2 2023 actual	Q3 2023 actual	Q4 2023 actual	Q1 2024 actual	Q2 2024 forecast	Q3 2024 forecast	Q4 2024 forecast
Real GDP growth (q/q % chg. saar)	2.2	2.1	4.9	3.4	1.6	3.0	0.8	0.4
CPI (y/y % chg.)	5.8	4.0	3.6	3.2	3.2	3.6	3.4	3.0
CPI ex. food and energy (y/y % chg.)	5.5	5.2	4.4	4.0	3.8	3.6	3.7	3.4
Unemployment rate (%)	3.5	3.6	3.7	3.7	3.8	3.8	4.0	4.2

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2021	2022	2023	2024	2025	Q4/Q4 2023	Q4/Q4 2024	Q4/Q4 2025
Gross domestic product (2012 $)	5.3	3.8	1.1	0.7	1.2	0.9	0.6	1.8
Consumption	5.2	5.1	1.7	1.0	1.2	1.2	0.9	1.7
Residential construction	14.6	(12.1)	(10.2)	0.9	1.6	(3.0)	0.5	2.1
Business investment	8.7	4.0	(0.7)	(4.1)	(0.1)	(3.0)	(2.0)	1.4
Government expenditures	4.6	3.3	2.1	2.0	1.7	2.0	2.1	1.8
Exports	2.7	3.2	5.7	0.8	1.5	5.5	(0.4)	2.5
Imports	8.1	7.6	1.0	0.1	1.6	1.9	(0.1)	2.5
Change in inventories (millions $)	4,425	55,290	33,855	28,750	28,875	32,025	27,500	30,000
Domestic demand	6.1	2.8	0.5	0.8	1.3	0.6	1.0	1.8
Real disposable income	0.5	(0.1)	1.8	1.5	1.3	1.8	0.7	1.5
Employment	5.0	4.0	2.4	1.4	1.0	2.3	0.9	1.4
Unemployment rate	7.5	5.3	5.4	6.4	6.8	5.8	6.9	6.8
Inflation	3.4	6.8	3.9	2.3	2.2	3.2	2.0	2.0
Before-tax profits	33.2	14.7	(18.1)	(0.3)	4.9	(9.7)	(3.8)	6.8
Current account (bil. $)	0.4	(10.3)	(17.8)	(24.8)	(19.6)	....	....	....

** or as noted*

Financial Forecast**

	Current 5/10/24	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2023	2024	2025
Overnight rate	5.00	5.00	5.00	4.75	4.25	5.00	4.25	3.00
Prime rate	7.00	7.00	7.00	6.75	6.25	7.00	6.25	5.00
3 month T-Bills	4.90	5.01	4.80	4.45	3.95	5.05	3.95	2.85
Treasury yield curve								
2-Year	4.31	4.19	4.10	3.85	3.50	3.89	3.50	2.85
5-Year	3.77	3.54	3.60	3.50	3.35	3.17	3.35	3.00
10-Year	3.70	3.47	3.60	3.50	3.35	3.11	3.35	3.10
30-Year	3.55	3.36	3.50	3.45	3.35	3.03	3.35	3.15
CAD per USD	1.37	1.35	1.38	1.40	1.42	1.32	1.42	1.37
Oil price (WTI), U.S.$	80	84	80	77	75	72	75	80

*** end of period*

Quarterly pattern

	Q1 2023 actual	Q2 2023 actual	Q3 2023 actual	Q4 2023 actual	Q1 2024 forecast	Q2 2024 forecast	Q3 2024 forecast	Q4 2024 forecast
Real GDP growth (q/q % chg. saar)	2.6	0.6	(0.5)	1.0	2.4	(0.3)	(0.6)	1.1
CPI (y/y % chg.)	5.2	3.5	3.7	3.2	2.9	2.5	1.9	2.0
CPI ex. food and energy (y/y % chg.)	4.8	4.0	3.4	3.4	2.9	2.4	2.1	2.1
Unemployment rate (%)	5.1	5.3	5.5	5.8	5.9	6.2	6.6	6.9

National Bank Financial

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Provincial economic forecast

	Real GDP (% growth)						Nominal GDP (% growth)					
	2020	2021	2022	2023f	2024f	2025f	2020	2021	2022	2023f	2024f	2025f
Newfoundland & Labrador	-4.8	1.0	-1.7	-2.5	2.0	2.3	-10.2	18.5	6.8	-3.6	4.4	3.6
Prince Edward Island	-3.0	8.4	2.9	2.2	3.5	3.0	0.3	14.9	9.3	5.2	6.5	5.6
Nova Scotia	-4.5	5.9	2.9	1.3	1.0	1.0	-1.4	10.0	7.1	3.4	3.3	3.0
New Brunswick	-3.6	5.3	1.1	1.3	0.6	0.8	-1.8	10.9	7.4	3.5	3.1	2.9
Quebec	-4.7	6.7	2.5	0.0	0.5	0.9	-1.8	11.6	8.4	3.7	3.5	3.3
Ontario	-4.5	5.4	3.9	1.2	0.5	1.2	-2.1	9.8	9.2	4.3	3.4	3.2
Manitoba	-4.1	1.3	3.3	1.3	0.6	1.2	-2.2	9.2	8.6	3.2	3.3	2.9
Saskatchewan	-4.3	-0.7	6.0	1.6	0.8	1.4	-8.0	13.9	29.2	1.2	2.2	2.8
Alberta	-7.8	4.6	5.0	1.5	1.2	1.7	-14.4	24.9	22.0	-1.3	4.9	4.1
British Columbia	-3.1	7.1	3.8	1.6	0.6	1.1	-0.5	15.8	11.0	1.7	3.1	3.3
Canada	-5.3	5.3	3.8	1.1	0.7	1.2	-4.6	13.4	11.8	2.7	3.6	3.4

	Employment (% growth)						Unemployment rate (%)					
	2020	2021	2022	2023f	2024f	2025f	2020	2021	2022	2023f	2024f	2025f
Newfoundland & Labrador	-6.4	3.6	4.3	1.7	2.5	0.3	14.5	13.1	11.2	9.9	10.2	10.5
Prince Edward Island	-3.5	4.2	5.3	5.7	3.8	1.5	10.7	9.9	7.5	7.4	7.5	7.8
Nova Scotia	-4.6	5.6	3.6	2.7	3.4	0.9	9.9	8.6	6.6	6.4	6.5	7.0
New Brunswick	-3.0	3.2	2.7	3.4	2.3	1.0	10.3	9.1	7.2	6.6	7.2	7.4
Quebec	-5.4	4.4	3.1	2.3	0.5	0.7	8.9	6.1	4.3	4.4	5.4	6.2
Ontario	-5.4	5.2	4.6	2.4	0.9	1.0	9.8	8.1	5.6	5.7	7.1	7.5
Manitoba	-4.3	3.7	3.2	2.5	1.3	1.2	8.2	6.4	4.5	4.8	5.4	6.0
Saskatchewan	-5.0	2.6	3.5	1.8	1.1	1.3	8.3	6.5	4.7	4.8	5.3	5.8
Alberta	-7.0	5.5	5.2	3.6	2.8	1.4	11.4	8.5	5.8	5.9	7.0	7.3
British Columbia	-6.2	6.2	3.1	1.6	2.3	0.9	9.1	6.5	4.6	5.2	5.5	5.5
Canada	-5.6	5.0	4.0	2.4	1.4	1.0	9.7	7.5	5.3	5.4	6.4	6.8

	Housing starts (000)						Consumer Price Index (% growth)					
	2020	2021	2022	2023f	2024f	2025f	2020	2021	2022	2023f	2024f	2025f
Newfoundland & Labrador	0.8	1.1	1.5	1.0	1.1	1.2	0.2	3.7	6.4	3.3	2.0	2.1
Prince Edward Island	1.1	1.2	1.0	0.9	1.0	1.2	0.0	5.1	8.9	2.9	1.9	2.2
Nova Scotia	4.9	6.0	5.6	7.2	7.0	7.2	0.3	4.1	7.5	4.0	2.3	2.2
New Brunswick	3.6	3.9	4.7	4.9	4.5	4.6	0.2	3.8	7.3	3.5	1.8	2.2
Quebec	53.8	69.4	58.2	39.6	43.0	50.5	0.8	3.8	6.7	4.5	2.5	2.2
Ontario	81.2	100.4	96.1	90.0	86.0	94.5	0.6	3.5	6.8	3.8	2.3	2.2
Manitoba	7.3	8.0	8.1	7.1	6.8	8.0	0.5	3.2	7.9	3.6	1.7	2.2
Saskatchewan	3.1	4.3	4.2	4.6	4.5	4.8	0.6	2.6	6.6	3.9	1.6	2.2
Alberta	24.2	31.9	36.4	35.9	38.0	40.0	1.1	3.2	6.5	3.3	2.2	2.1
British Columbia	38.0	47.6	46.7	50.6	48.5	51.5	0.8	2.8	6.9	4.0	2.3	2.2
Canada	218.0	273.8	262.5	241.7	240.4	263.5	0.7	3.4	6.8	3.9	2.3	2.2

e: estimate f: forecast

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

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Economics and Strategy

Montreal Office
514 879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@bnc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@bnc.ca

Kyle Dahms
Economist
kyle.dahms@bnc.ca

Daren King, CFA
Economist
daren.king@bnc.ca

Jocelyn Paquet
Economist
jocelyn.paquet@bnc.ca

Alexandra Ducharme
Economist
alexandra.ducharme@bnc.ca

Angelo Katsoras
Geopolitical analyst
angelo.katsoras@bnc.ca

Toronto Office
416 869-8598

Warren Lovely
Senior Strategist, Interest Rates and Public Sector
warren.lovely@bnc.ca

Taylor Schleich
Strategist, Interest Rates
taylor.schleich@bnc.ca

General

This report was prepared by National Bank Financial Inc. (NBF), (a Canadian investment dealer and member of CIRO), an indirect wholly-owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The information contained herein has been obtained from sources we believe to be reliable, but is not guaranteed, may be incomplete and is subject to change without notice. The information is current as of the date indicated herein. Neither the author(s) nor NBF assumes any obligation to update this information or to communicate any new facts concerning the subjects or titles mentioned. The opinions expressed are based on the analysis and interpretation of the author(s) of this information, and should not be construed as a solicitation or offer to buy or sell any of the securities mentioned herein, nor does anything in this report constitute a representation that any investment strategy or recommendation contained herein is suitable for the individual circumstances of any recipient. In all cases, investors should conduct their own due diligence and analysis of such information before taking or omitting to take any action whatsoever in connection with the securities or markets discussed herein. It is important not to base investment decisions on this report alone, which is not a substitute for the due diligence or analytical work required on your part to support an investment decision.

This report may be distributed only as permitted by applicable law. This report is not directed to you if NBF or any affiliate distributing this report is prohibited or restricted from making it available to you by any law or regulation in any jurisdiction. Before reading this report, you should ensure that NBF is authorized to provide it to you under applicable laws and regulations.

National Bank of Canada Financial Markets is a trademark used by National Bank Financial and National Bank of Canada Financial Inc.

Residents of Canada

NBF or its affiliates may implement any of the trading strategies described herein for their own account or on a discretionary basis for the account of certain clients; they may, as market conditions change, modify their investment strategy, including divesting entirely. The trading positions of NBF and its affiliates may also be contrary to the opinions expressed in this report.

NBF or its affiliates may act as financial advisors, agents or underwriters for certain issuers mentioned herein and receive compensation for such services. In addition, NBF and its affiliates, their officers, directors, representatives or assistants may hold a position in the securities referred to herein and may from time to time purchase or sell such securities in the public markets or otherwise. NBF and its affiliates may act as market makers for the securities mentioned herein. This report should not be construed as independent from the proprietary interests of NBF and its affiliates.

This report is not considered a research product under Canadian laws and regulations. Consequently, this document is not governed by the rules applicable to the publication and distribution of research reports, including any restrictions or relevant disclosures that must be included in research reports.

UK residents

This report is a marketing document. It has not been prepared in accordance with the requirements of European Union legislation established to promote the independence of investment research, nor is it subject to any prohibition on pre-distribution negotiation of investment research. FBN has approved the contents of this report for distribution to UK residents (including for the purposes, where necessary, of section 21(1) of the *Financial Services and Markets Act 2000*). This report is provided for information purposes only and does not constitute a personalized recommendation or legal, tax or investment advice. FNB and its parent company, or companies of National Bank of Canada or its affiliates, or their directors, officers and employees may hold or have held long or short interests or positions in the investments or related investments which are the subject of this report. Such persons may at any time make sales or purchases in respect of the investments or related investments in question, whether as principals or agents. They may act or have acted in the past as market makers for such related investments, or may act or have acted in the past as investment or commercial bankers in respect thereof. The value of investments and the income derived from them may go down as well as up, and you may not get back the amount invested. Past performance is no guarantee of future returns. If an investment is denominated in a foreign currency, exchange rate fluctuations may adversely affect the value of the investment. It may be difficult to sell or realize illiquid investments, or to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, particularly those involving futures, swaps and other derivatives, involve serious risk and are not suitable for all investors. The investments described in this report are not offered to retail customers, and this report should not be distributed to them (within the meaning of the rules of the Financial Conduct Authority). Retail investors should not act or rely on the information contained in this report. This report does not constitute or form part of an offer to sell or subscribe, or the solicitation of an offer to buy or subscribe, any of the securities described herein. Nor should this report be relied upon in connection with any contract or commitment whatsoever, nor does it serve or will it serve as the basis or foundation for any such contract or commitment.

This information should only be disclosed to eligible counterparties and professional clients in the United Kingdom as defined by the rules of the Financial Conduct Authority. NBF is authorized and regulated by the Financial Conduct Authority in the United Kingdom, and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

FBN is not authorized by the Prudential Regulation Authority or the Financial Conduct Authority to accept deposits in the United Kingdom.

U.S. residents

In connection with the distribution of this report in the United States, National Bank of Canada Financial Inc ("NBCFI"), which is regulated by the Financial Industry Regulatory Authority (FINRA) and is a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, assumes responsibility for the contents of this report, subject to the terms and conditions set forth above. For more information about this report, U.S. residents should contact their NBCFI registered representative.

This report is not a research report and is intended for large institutional investors in the United States only. This report is not subject to the U.S. independence and disclosure requirements applicable to research reports.

HK residents

With respect to the distribution of this document in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA"), which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (securities trading) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this publication are for information purposes only. It has not been approved, reviewed or verified by any Hong Kong regulatory authority, nor has it been filed with any such authority. Nothing in this document constitutes a recommendation, advice, offer or solicitation to buy or sell any product or service, or an official confirmation of any transaction. None of the product issuers, NBCFMA or any of its affiliates, or any other person or entity named herein is under any obligation to advise you of any changes in any information and none of the foregoing assumes any loss suffered by you in reliance thereon.

This document may contain information about investment products that are not authorized for public offering in Hong Kong by the SFC, and such information will only be made available to persons who are professional investors [as defined by the Securities and Futures Ordinance of Hong Kong ("SFO")]. If you are in any doubt about your status, you should consult a financial advisor or contact us. This document is not a marketing document and is not intended for public distribution. Please note that neither this document nor the product mentioned herein is licensed for sale by the SFC. Please refer to the product prospectus for more detailed information.

Conflicts of interest concerning NBCFMA or the activities of its affiliates are possible. These activities and interests include multiple advisory, transactional and financial interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment instruments that are managed by NBCFMA or its affiliates that may purchase or sell such securities or instruments. No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc. is licensed or registered with the SFC. Accordingly, these entities and their employees are not authorized to and do not intend to: (i) engage in a regulated activity in Hong Kong; (ii) hold themselves out as engaging in a regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright

This report may not be reproduced in whole or in part, nor may it be distributed, published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained herein be reproduced, distributed, published or referred to in any manner whatsoever, without the prior written consent of NBF.