

Contributors**Jean-François Perrault**

SVP & Chief Economist
Scotiabank Economics
416.866.4214
jean-francois.perrault@scotiabank.com

René Lalonde

Director, Modelling and Forecasting
Scotiabank Economics
416.862.3174
rene.lalonde@scotiabank.com

Economy Evolving Largely as Expected

Our updated forecast remains very similar to our last [published](#) views. Incoming data in Canada and the US have generally been modestly stronger than anticipated leading to minor upgrades to our growth forecast. Inflation remains a challenge though headline data continue to generally trend down as measures of underlying inflation in both countries remains firmer than policymakers would like. We remain of the view that risks to the inflation outlook remain tilted to the upside. The key elements of our forecast remain:

- No recessions are expected in Canada or the US. US growth in 2024 (2.3%) is expected to more than double Canadian growth (1%).
- Inflation remains a challenge for central banks. We continue to expect a sustained return to inflation targets in 2025. Given the greater economic momentum observed that expected so far this year along with strong wage growth and risks to supply chains, risks to inflation are tilted to the upside.
- We remain comfortable with our views that the Bank of Canada will cut in September and that the Fed will cut in July given recent developments. Cuts of 75 basis points are forecast for Canada this year and 100 basis points of cuts are predicted in the US. We continue to believe the Fed will cut interest rates more rapidly than the Bank of Canada given overwhelmingly better productivity outcomes in the US. Further strength in economic activity, such as a stronger rebound in the Canadian housing market for instance, or upside surprises to inflation could push those rate cuts out further.

International												
	2010-19	2021	2022	2023e	2024f	2025f	2010-19	2021	2022	2023e	2024f	2025f
	Real GDP (annual % change)						Consumer Prices (annual average % change, unless noted)					
World (based on purchasing power parity)	3.7	6.3	3.2	3.1	2.8	2.8						
Canada	2.2	5.3	3.8	1.1	1.0	1.8	1.6	3.4	6.8	3.9	2.6	2.0
United States	2.4	5.8	1.9	2.5	2.3	1.4	1.8	4.7	8.0	4.1	2.9	2.3
Mexico	2.3	5.7	3.9	3.2	3.1	1.6	4.0	5.7	7.9	5.6	4.6	3.9
United Kingdom	2.0	8.7	4.3	0.1	0.1	1.3	2.2	2.6	9.1	7.3	2.4	2.0
Eurozone	1.4	5.9	3.4	0.5	0.4	1.3	1.4	2.6	8.4	5.4	2.3	2.0
Germany	2.0	3.1	1.9	-0.1	0.2	1.4	1.4	3.2	8.7	3.0	2.4	2.0
France	1.4	6.4	2.5	0.9	0.7	1.2	1.3	2.1	5.9	5.7	2.5	2.0
China	7.7	8.4	3.0	5.2	4.6	4.3	2.6	0.9	2.0	0.2	0.8	1.6
India	6.7	9.1	7.0	6.9	6.4	6.5	6.2	6.7	5.7	5.4	4.6	4.5
Japan	1.2	2.7	1.0	1.9	0.7	1.1	0.5	-0.3	2.5	3.3	2.2	1.7
South Korea	3.3	4.3	2.6	1.4	2.1	2.2	1.7	2.5	5.1	3.6	2.4	2.0
Australia	2.6	5.7	3.8	1.9	1.4	2.2	2.1	2.9	6.6	5.6	3.3	2.8
Thailand	3.6	1.6	2.5	1.9	2.8	3.3	1.6	1.2	6.1	1.3	1.2	1.8
Brazil	1.4	4.8	3.0	2.9	1.8	2.0	5.8	8.3	9.3	4.5	3.8	3.6
Colombia	3.7	10.8	7.3	0.6	1.4	2.2	3.7	3.5	10.2	11.8	6.3	3.8
Peru	4.5	13.4	2.7	-0.6	2.7	2.5	2.8	4.0	7.9	6.3	2.4	2.3
Chile	3.3	11.3	2.1	0.2	2.0	2.5	3.0	4.5	11.6	7.7	3.0	3.0
Commodities												
	(annual average)											
WTI Oil (USD/bbl)	74	68	95	78	76	75						
Brent Oil (USD/bbl)	82	70	101	83	81	80						
WCS - WTI Discount (USD/bbl)	-18	-14	-21	-19	-17	-15						
Nymex Natural Gas (USD/mmbtu)	3.39	3.85	6.61	2.73	2.75	3.75						
Copper (USD/lb)	3.10	4.23	4.00	3.85	4.00	4.50						
Zinc (USD/lb)	1.02	1.36	1.58	1.20	1.20	1.20						
Nickel (USD/lb)	7.00	8.37	11.66	9.75	8.00	8.00						
Iron Ore (USD/tonne)	101	160	121	120	110	90						
Metallurgical Coal (USD/tonne)	179	204	372	288	265	225						
Gold, (USD/oz)	1,342	1,799	1,803	1,943	2,000	1,950						
Silver, (USD/oz)	21.64	25.15	21.80	23.38	24.00	23.50						

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

North America												
	2010-19	2021	2022	2023	2024f	2025f	2010-19	2021	2022	2023	2024f	2025f
	Canada						United States					
	(annual % change, unless noted)						(annual % change, unless noted)					
Real GDP	2.2	5.3	3.8	1.1	1.0	1.8	2.4	5.8	1.9	2.5	2.3	1.4
Consumer spending	2.5	5.1	5.1	1.7	0.9	1.2	2.3	8.4	2.5	2.2	2.4	1.4
Residential investment	2.4	14.6	-12.0	-10.1	5.6	6.1	4.7	10.7	-9.0	-10.6	1.8	1.1
Business investment*	3.0	9.1	4.3	-0.6	-2.1	3.1	5.6	5.9	5.2	4.4	2.5	1.5
Government	1.1	4.6	3.3	2.1	1.6	1.9	0.2	-0.3	-0.9	4.0	1.7	1.3
Exports	3.5	2.7	3.2	5.7	2.0	1.0	3.9	6.3	7.0	2.7	4.2	1.7
Imports	3.7	8.1	7.6	1.0	0.6	0.5	4.3	14.5	8.6	-1.6	2.3	0.8
Inventories, contribution to annual GDP growth	0.1	0.7	2.3	-0.9	-0.4	-0.3	0.1	0.2	0.5	-0.4	-0.2	-0.2
Nominal GDP	4.0	13.4	11.8	2.7	3.9	3.3	4.0	10.7	9.1	6.3	4.1	3.1
GDP deflator	1.7	7.7	7.7	1.6	2.9	1.5	1.6	4.6	7.1	3.6	1.7	1.7
Consumer price index (CPI)	1.6	3.4	6.8	3.9	2.6	2.0	1.8	4.7	8.0	4.1	2.9	2.3
Core inflation rate**	1.7	2.8	5.1	4.0	2.8	2.1	1.6	3.6	5.2	4.1	2.5	2.2
Pre-tax corporate profits	6.3	33.2	14.7	-18.1	1.8	10.3	5.9	22.6	9.8	0.6	2.7	2.4
Employment	1.3	5.0	4.0	2.4	1.4	1.7	1.2	2.9	4.3	2.3	1.4	1.0
Unemployment rate (%)	6.9	7.5	5.3	5.4	6.0	6.5	6.2	5.4	3.6	3.6	3.8	4.2
Current account balance (CAD, USD bn)	-56.9	0.4	-10.3	-17.8	-89.2	-89.5	-407	-831	-972	-827	-757	-733
Merchandise trade balance (CAD, USD bn)	-13.6	2.5	19.7	-1.8	-62.6	-50.4	-763	-1084	-1183	-1059	-1041	-1044
Federal budget balance (FY, CAD, USD bn) ***	-18.7	-90.2	-35.3	-40.0	-38.4	-38.3	-829	-2,775	-1,376	-1,695	-1,507	-1,772
percent of GDP	-1.0	-3.6	-1.3	-1.4	-1.3	-1.2	-4.8	-11.8	-5.3	-6.2	-5.3	-6.0
Housing starts (000s, mn)	201	271	262	240	248	260	0.99	1.61	1.55	1.42	1.49	1.49
Motor vehicle sales (000s, mn)	1,816	1,663	1,523	1,684	1,740	1,776	15.7	14.9	13.8	15.5	15.9	16.7
Industrial production	2.4	5.0	3.9	-0.6	0.6	2.2	1.7	4.4	3.4	0.2	0.3	1.4
	Mexico											
	(annual % change)											
Real GDP	2.3	5.7	3.9	3.2	3.1	1.6						
Consumer price index	4.0	5.7	7.9	5.6	4.6	3.9						
Unemployment rate (%)	4.4	4.1	3.3	2.8	3.1	3.4						

Sources: Scotiabank Economics, Statistics Canada, CMHC, BEA, BLS, Bloomberg. *For Canada it includes capital expenditures by businesses and non-profit institutions.
 ** US: core PCE deflator; Canada: average of 2 core measures published by the BoC. *** In order to align with US reporting, as of the August 2020 issue of Scotiabank's Forecast Tables, Canadian Federal and Provincial Budget Balances for FY2020/21 are noted in calendar year 2020, FY2021/22 in calendar year 2021.

Quarterly Forecasts																
	2022				2023				2024				2025			
Canada	Q4	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f			
Real GDP (q/q ann. % change)	-0.9	2.6	0.6	-0.5	1.0	1.5	0.8	1.1	1.8	1.7	2.4	2.0	1.9			
Real GDP (y/y % change)	2.2	1.8	1.0	0.5	0.9	0.7	0.7	1.1	1.3	1.4	1.8	2.0	2.0			
Consumer prices (y/y % change)	6.7	5.1	3.5	3.7	3.2	2.9	2.6	2.4	2.4	2.0	2.0	1.9	1.9			
Average of new core CPIs (y/y % change)*	5.4	4.8	4.0	3.8	3.5	3.3	2.9	2.5	2.3	2.2	2.2	2.1	2.0			
CPIXFET (y/y % change)**	5.4	4.8	4.0	3.4	3.4	3.1	2.8	2.5	2.2	2.1	2.0	1.9	1.8			
Unemployment Rate (%)	5.1	5.1	5.3	5.5	5.8	5.8	5.8	6.1	6.3	6.4	6.5	6.6	6.6			
United States																
Real GDP (q/q ann. % change)	2.6	2.2	2.1	4.9	3.2	2.2	1.0	1.2	1.3	1.3	1.4	1.7	1.7			
Real GDP (y/y % change)	0.7	1.7	2.4	2.9	3.1	3.1	2.8	1.9	1.4	1.2	1.3	1.4	1.5			
Consumer prices (y/y % change)	7.1	5.7	4.0	3.6	3.2	3.1	2.7	2.8	2.9	2.5	2.4	2.1	2.0			
Total PCE deflator (y/y % change)	5.9	5.0	3.9	3.3	2.8	2.4	2.3	2.5	2.7	2.3	2.2	1.9	1.8			
Core PCE deflator (y/y % change)	5.1	4.8	4.6	3.8	3.2	2.7	2.4	2.5	2.6	2.3	2.2	2.1	2.0			
Unemployment Rate (%)	3.6	3.5	3.6	3.7	3.7	3.8	3.8	3.8	3.9	4.0	4.1	4.2	4.3			

* Average of 2 core measures published by the BoC. ** CPI ex. food, energy and indirect taxes. Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, Bloomberg.

Central Bank Rates													
	2022	2023				2024				2025			
	Q4	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas	(% , end of period)												
Bank of Canada	4.25	4.50	4.75	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.50	3.25	3.00
US Federal Reserve (upper bound)	4.50	5.00	5.25	5.50	5.50	5.50	5.50	5.25	4.50	4.25	3.75	3.25	3.00
Bank of Mexico	10.50	11.25	11.25	11.25	11.25	11.00	10.50	10.00	9.50	9.00	8.50	8.00	7.50
Central Bank of Brazil	13.75	13.75	13.75	12.75	11.75	10.75	9.75	9.00	9.00	8.75	8.50	8.50	8.50
Bank of the Republic of Colombia	12.00	13.00	13.25	13.25	13.00	12.00	10.50	8.50	7.00	6.25	5.75	5.50	5.50
Central Reserve Bank of Peru	7.50	7.75	7.75	7.50	6.75	6.25	5.50	4.75	4.25	4.25	4.00	4.00	4.00
Central Bank of Chile	11.25	11.25	11.25	9.50	8.25	7.25	5.00	4.25	4.25	4.25	4.25	4.25	4.25
Europe													
European Central Bank MRO Rate	2.50	3.50	4.00	4.50	4.50	4.50	4.25	3.40	3.15	2.90	2.65	2.40	2.15
European Central Bank Deposit Rate	2.00	3.00	3.50	4.00	4.00	4.00	3.75	3.25	3.00	2.75	2.50	2.25	2.00
Bank of England	3.50	4.25	5.00	5.25	5.25	5.25	5.00	4.50	4.00	3.75	3.50	3.25	3.00
Asia/Oceania													
Reserve Bank of Australia	3.10	3.60	4.10	4.10	4.35	4.35	4.35	4.10	3.85	3.60	3.60	3.35	3.25
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.00	0.00	0.10	0.10	0.10
People's Bank of China	2.75	2.75	2.65	2.50	2.50	2.50	2.40	2.30	2.30	2.30	2.30	2.30	2.30
Reserve Bank of India	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00	6.00	5.75	5.75	5.50
Bank of Korea	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.25	3.00	2.75	2.50	2.50	2.50
Bank of Thailand	1.25	1.75	2.00	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.00
Currencies and Interest Rates													
Americas	(end of period)												
Canadian dollar (USDCAD)	1.36	1.35	1.32	1.36	1.32	1.33	1.33	1.28	1.28	1.27	1.27	1.25	1.25
Canadian dollar (CADUSD)	0.74	0.74	0.76	0.74	0.76	0.75	0.75	0.78	0.78	0.79	0.79	0.80	0.80
Mexican peso (USDMXN)	19.50	18.05	17.12	17.42	16.97	17.40	17.70	18.00	18.40	18.70	18.90	19.25	19.50
Brazilian real (USDBRL)	5.28	5.06	4.79	5.03	4.86	4.94	4.96	4.95	4.94	4.95	4.97	5.00	5.03
Colombian peso (USDCOP)	4,853	4,623	4,172	4,067	3,855	4,049	4,078	4,102	4,116	4,120	4,125	4,140	4,150
Peruvian sol (USDPEN)	3.81	3.76	3.63	3.78	3.70	3.78	3.70	3.80	3.75	3.75	3.75	3.80	3.75
Chilean peso (USDCLP)	851	795	802	892	879	870	870	870	870	870	870	870	870
Europe													
Euro (EURUSD)	1.07	1.08	1.09	1.06	1.10	1.10	1.10	1.12	1.12	1.15	1.15	1.18	1.18
UK pound (GBPUSD)	1.21	1.23	1.27	1.22	1.27	1.25	1.25	1.30	1.30	1.32	1.32	1.35	1.35
Asia/Oceania													
Japanese yen (USDJPY)	131	133	144	149	141	150	150	140	140	135	135	130	130
Australian dollar (AUDUSD)	0.68	0.67	0.67	0.64	0.68	0.66	0.66	0.68	0.68	0.70	0.70	0.72	0.72
Chinese yuan (USDCNY)	6.90	6.87	7.25	7.30	7.10	7.20	7.16	7.10	7.04	6.98	6.92	6.86	6.80
Indian rupee (USDINR)	82.7	82.2	82.0	83.0	83.2	83.0	82.9	82.8	82.8	82.7	82.9	83.1	83.2
South Korean won (USDKRW)	1,265	1,302	1,318	1,349	1,288	1,308	1,293	1,277	1,262	1,250	1,242	1,235	1,227
Thai baht (USDTHB)	34.6	34.2	35.5	36.4	34.1	35.1	34.8	34.6	34.3	34.0	33.8	33.6	33.4
Canada (Yields, %)													
3-month T-bill	4.32	4.42	4.91	5.11	5.03	4.95	4.90	4.50	3.90	3.55	3.35	3.05	3.00
2-year Canada	4.05	3.73	4.58	4.87	3.89	4.05	3.80	3.60	3.30	3.20	3.15	3.15	3.15
5-year Canada	3.41	3.02	3.68	4.25	3.17	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
10-year Canada	3.30	2.90	3.27	4.02	3.11	3.40	3.45	3.40	3.45	3.60	3.60	3.60	3.60
30-year Canada	3.28	3.00	3.09	3.81	3.03	3.30	3.30	3.25	3.35	3.45	3.50	3.50	3.50
United States (Yields, %)													
3-month T-bill	4.41	4.80	5.31	5.46	5.35	5.40	5.30	4.95	4.40	4.00	3.20	3.10	3.10
2-year Treasury	4.43	4.03	4.90	5.04	4.25	4.50	3.95	3.60	3.40	3.20	3.20	3.20	3.20
5-year Treasury	4.00	3.57	4.16	4.61	3.85	4.10	3.80	3.70	3.60	3.50	3.50	3.50	3.50
10-year Treasury	3.88	3.47	3.84	4.57	3.88	4.15	4.00	3.85	3.75	3.75	3.75	3.75	3.75
30-year Treasury	3.97	3.65	3.86	4.70	4.03	4.30	4.25	4.05	4.00	4.00	4.00	4.00	4.00

Sources: Scotiabank Economics, Bloomberg, Consensus Economics.

The Provinces											
	(annual % change except where noted)										
Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2010-19	2.2	1.1	2.1	1.2	0.7	1.9	2.3	2.2	2.3	2.6	2.9
2021	5.3	1.0	8.4	5.9	5.3	6.7	5.4	1.3	-0.7	4.6	7.1
2022	3.8	-1.7	2.9	2.9	1.1	2.5	3.9	3.3	6.0	5.0	3.8
2023e	1.1	-0.6	2.6	1.3	1.2	0.2	1.3	1.2	1.4	2.3	0.7
2024f	1.0	0.8	1.4	0.7	0.5	0.6	0.9	1.0	1.2	1.8	0.7
2025f	1.8	1.6	1.9	1.4	1.3	1.6	1.8	1.6	1.6	1.9	2.0
Nominal GDP											
2010-19	4.0	3.7	4.2	3.0	2.8	3.8	4.1	3.9	3.5	3.7	4.5
2021	13.4	18.5	14.9	10.0	10.9	11.6	9.8	9.2	13.9	24.9	15.8
2022	11.8	6.8	9.3	7.1	7.4	8.4	9.2	8.6	29.1	22.0	11.0
2023e	2.7	-1.8	5.5	4.2	3.8	3.8	4.3	4.0	-1.0	-2.1	3.6
2024f	3.9	4.2	4.2	3.3	3.3	3.4	3.6	3.7	5.2	5.5	3.5
2025f	3.3	3.0	3.9	3.1	3.0	3.4	3.5	3.1	2.7	2.9	3.5
Employment											
2010-19	1.3	0.6	1.5	0.3	0.0	1.2	1.4	1.0	0.9	1.3	2.0
2021	5.0	3.4	4.0	5.6	3.1	4.3	5.2	3.7	2.6	5.4	6.2
2022	4.0	4.4	5.4	3.6	2.8	3.0	4.6	3.2	3.5	5.2	3.2
2023	2.4	1.8	5.7	2.6	3.5	2.3	2.4	2.5	1.8	3.6	1.6
2024f	1.4	1.5	5.0	2.2	2.0	1.0	1.1	1.9	2.1	2.8	1.6
2025f	1.7	1.3	3.6	2.0	2.0	1.4	1.6	1.5	1.7	2.4	1.7
Unemployment Rate (%)											
2010-19	6.9	13.3	10.6	8.7	9.4	7.1	7.0	5.6	5.3	6.2	6.2
2021	7.5	13.1	9.8	8.6	9.2	6.1	8.1	6.5	6.6	8.6	6.6
2022	5.3	11.3	7.6	6.5	7.2	4.3	5.6	4.6	4.7	5.8	4.6
2023	5.4	10.0	7.3	6.3	6.6	4.5	5.7	4.8	4.8	5.9	5.2
2024f	6.0	10.4	7.8	6.7	6.9	5.0	6.5	5.1	5.0	6.0	5.8
2025f	6.5	10.8	7.7	7.0	7.2	5.4	7.0	5.6	5.5	6.5	6.4
Total CPI, annual average											
2010-19	1.6	2.0	1.6	1.7	1.8	1.5	1.9	1.8	1.8	1.7	1.6
2021	3.4	3.7	5.1	4.1	3.8	3.8	3.5	3.2	2.6	3.2	2.8
2022	6.8	6.4	8.9	7.5	7.3	6.7	6.8	7.9	6.6	6.5	6.9
2023	3.9	3.3	2.9	4.0	3.5	4.5	3.8	3.6	3.9	3.3	4.0
2024f	2.6	2.2	2.0	2.6	2.4	2.8	2.7	2.2	2.1	2.4	2.5
2025f	2.0	1.8	1.9	1.9	1.9	1.8	2.1	2.0	2.1	2.1	1.8
Housing Starts (units, 000s)											
2010-19	201	2.2	0.8	4.2	2.7	44	70	6.6	6.0	31	34
2021	271	1.0	1.3	6.0	3.8	68	100	8.0	4.2	32	48
2022	262	2.7	1.2	5.2	3.7	41	87	3.5	2.6	41	24
2023	240	1.0	1.1	7.2	4.5	39	89	7.1	4.6	36	50
2024f	248	1.4	1.0	7.3	4.5	44	97	7.6	5.3	36	52
2025f	260	1.9	1.1	6.5	4.2	53	97	8.1	6.1	37	49
Motor Vehicle Sales (units, 000s)											
2010-19	1,816	33	7	52	42	441	738	56	54	239	199
2021	1,663	29	8	45	38	413	667	50	43	197	203
2022	1,523	24	7	39	34	369	635	45	41	182	181
2023	1,684	27	8	42	37	408	714	49	44	208	204
2024f	1,740	28	8	44	38	412	714	50	45	202	200
2025f	1,776	29	8	45	38	420	729	51	45	206	204
Budget Balances, (CAD mn)											
2020	-327,729	-1,492	-6	-342	409	-7,539	-16,404	-2,124	-1,127	-16,962	-5,507
2021	-90,200	-272	84	339	769	-772	2,025	-704	-1,468	3,915	1,265
2022	-35,300	784	-66	116	1,013	-6,150	-5,863	-378	1,581	11,641	704
2023e	-40,000	-154	-86	-279	247	-3,995	-4,534	-1,612	-251	5,234	-5,914
2024f	-38,400	297	-85	40	27	-2,982	-5,300	-294	208	367	-7,911

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

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

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