

Fingers Crossed

- **President Trump's erratic and irrational approach to policymaking is imposing an increasingly heavy toll on the US and other economies. There is very little doubt that the United States is shifting to an overtly protectionist trade stance even as the costs of this approach are becoming increasingly obvious.**
- **Our fingers are crossed: we remain hopeful that rationality will prevail and that President Trump will prove to be more conciliatory on the trade front as we move forward. For the time being, we are only modestly reducing our forecasts for key countries. We do not foresee a recession at this time.**
- **We should have greater clarity on the evolution of trade-related risks by the end of June, at which time we will know how aggressively the US will move on Mexican tariffs, and whether there is any hope for a China-US deal following the G20 meeting at the end of June. A much larger revision to our forecast would be likely if our hope of progress is misplaced.**
- **If the trade situation deteriorates further, the Federal Reserve is likely to cut interest rates, possibly as early as July. The President may well be proven right in his view that the Federal Reserve should cut rates, but if this happens, it is largely because Chairman Powell and his colleagues are working to safeguard the US from the damage caused by Mr. Trump.**

President Trump's erratic and irrational approach to policymaking is imposing an increasingly heavy toll on the US and other economies. His threat to impose escalating tariffs on all Mexican imports as of next week represents a dangerous escalation and broadening of President Trump's assault on free trade and the rules-based trading system. There is very little doubt that the United States is shifting to an overtly protectionist trade stance even as the costs of this approach are becoming increasingly obvious.

Despite this, we remain hopeful that rationality will prevail and that President Trump will prove to be more conciliatory as we move forward. On Mexico, for instance, the Administration has given itself plenty of off-ramps to walk away from the tariff increase. Indeed, at the time of writing, the US and Mexico are negotiating to find a way out of this problem. While negotiations with China appear to be in a very difficult position, we are looking to the end-of-June G20 meeting for better signals as to how the situation might evolve. Principally for these reasons, we are only modestly shaving our forecasts for North American growth at this point in time. A much larger revision will be considered in our July forecast if our hope of progress in June is misplaced.

These revisions to growth and the increasing uncertainty surrounding the outlook are leading us to scale back what had been reasonably aggressive calls on rates in the US and Canada relative to current market pricing. We now believe the Federal Reserve and the Bank of Canada are done raising interest rates. We

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aren't yet ready to forecast a cut to rates in either country. In the US, growth is still expected to be well above 2% this year, slowing to slightly below 2% in 2020. Inflation is well below the Federal Reserve's objective and markets are signalling concerns about a recession next year. The odds of a cut are high, reflecting a combination of weaker-than-expected inflation, and increasing concern by Federal Reserve officials that Trump's policies are causing harm to the US economy. Again, if our hope of progress on trade issues through June fails to materialize, it is likely the Federal Reserve may cut rates as soon as July. While this would help insulate the US from the damage of Trump's policies, a cut would, in our view, be a worrisome development as it would be a clear signal by the Federal Reserve that Administration policies are having the opposite impact President Trump assumes.

In Canada, indicators suggest a solid rebound in the second quarter, as domestic demand was much firmer than expected in 2019Q1. Measures of confidence in both countries are generally improving, suggesting that the uncertainty in markets is not fully reflected in business and household sentiment. With inflation generally at the Bank of Canada's target and consumption and investment on the rise, it is not clear that Governor Poloz would follow the Federal Reserve if it does in fact opt to cut rates.

Turbulence in trade policy is having a significant impact on markets. The yield curve is solidly inverted, oil and copper prices are significantly lower than a month ago, and the US dollar remains very well bid as investors seek safety in US assets. The bearish signals coming from credit and commodity markets have not been translated into equity markets, which are only moderately off their recent highs. Over time, markets should align themselves: either credit markets adjust to reflect a more benign environment, or equity markets correct to reflect the outlook currently implied by the yield curve. Clarity as to which view will prevail should come in coming weeks.

Owing in large part to this turbulence, we now expect the Canadian dollar to be weaker than earlier expected. A decline in oil prices and a wider rate differential in favour of the US relative to our previous forecast suggest the Canadian dollar will appreciate to about 0.77 cents by year-end.

Much rides on developments in the next month. A further deterioration in US trading relationships could well lead to a significantly weaker outlook than we are currently assuming, with commensurate implications on policy rates, financial markets and financial stability. The President may well be proven right in his view that the Federal Reserve should cut rates, but if this happens, it is largely because Chairman Powell and his colleagues are working to safeguard the US from the damage caused by Mr. Trump.

International	2000–17	2017	2018	2019f	2020f	2000–17	2017	2018	2019f	2020f
	Real GDP (annual % change)					Consumer Prices (y/y % change, year-end)				
World (based on purchasing power parity)	3.9	3.8	3.7	3.1	3.2					
Canada	2.1	3.0	1.9	1.4	2.0	1.9	1.8	2.0	1.9	2.1
United States	2.0	2.2	2.9	2.4	1.5	2.2	2.1	2.2	1.8	2.2
Mexico	2.2	2.1	2.0	1.4	1.3	4.4	6.8	4.8	4.0	3.8
United Kingdom	1.9	1.8	1.4	1.1	1.2	2.1	3.0	2.1	1.9	2.0
Eurozone	1.4	2.4	1.9	1.1	1.5	1.8	1.3	1.5	1.2	1.5
Germany	1.4	2.2	1.4	0.9	1.4	1.5	1.4	1.6	1.5	1.6
France	1.4	2.3	1.7	1.3	1.4	1.4	1.2	1.6	1.3	1.5
China	9.3	6.8	6.6	6.2	6.0	2.3	1.8	1.8	2.2	2.3
India	7.1	6.9	7.4	6.5	7.0	6.8	5.2	2.1	4.3	4.8
Japan	0.9	1.9	0.8	0.8	0.7	0.1	1.1	0.3	1.9	1.0
South Korea	4.1	3.1	2.7	2.4	2.8	2.5	1.4	1.3	1.3	1.6
Australia	2.9	2.4	2.8	2.3	2.6	2.7	1.9	1.8	1.7	2.0
Thailand	4.1	4.0	4.1	3.5	3.5	1.9	0.8	0.4	1.5	1.6
Brazil	2.5	1.1	1.1	0.9	1.8	6.5	3.0	3.8	4.9	4.6
Colombia	3.9	1.4	2.6	3.4	3.8	5.1	4.1	3.2	3.2	3.1
Peru	5.0	2.5	4.0	4.0	4.0	2.7	1.4	2.2	2.4	2.5
Chile	3.9	1.5	4.0	3.2	3.2	3.3	2.3	2.6	2.8	3.0
Commodities	(annual average)									
WTI Oil (USD/bbl)	62	51	65	59	61					
Brent Oil (USD/bbl)	65	55	72	67	68					
WCS - WTI Discount* (USD/bbl)	-16	-13	-26	-15	-21					
Nymex Natural Gas (USD/mmbtu)	4.83	3.02	3.07	2.90	2.80					
Copper (USD/lb)	2.38	2.80	2.96	3.00	3.20					
Zinc (USD/lb)	0.84	1.31	1.33	1.25	1.20					
Nickel (USD/lb)	7.12	4.72	5.95	5.75	6.00					
Aluminium (USD/lb)	0.87	0.89	0.96	0.90	0.90					
Iron Ore (USD/tonne)	67	72	70	77	70					
Metallurgical Coal (USD/tonne)	131	187	206	185	160					
Gold, London PM Fix (USD/oz)	890	1,257	1,268	1,300	1,300					
Silver, London PM Fix (USD/oz)	14.80	17.05	15.71	16.00	17.00					

* 2008-16 average.
 Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, IMF, Bloomberg.

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North America	2000–17	2017	2018	2019f	2020f	2000–17	2017	2018	2019f	2020f
	Canada					United States				
	(annual % change, unless noted)					(annual % change, unless noted)				
Real GDP	2.1	3.0	1.9	1.4	2.0	2.0	2.2	2.9	2.4	1.5
Consumer spending	2.9	3.5	2.1	2.0	1.9	2.4	2.5	2.6	2.2	1.8
Residential investment	3.6	2.4	-1.5	-3.6	1.3	-0.3	3.3	-0.3	-2.3	0.7
Business investment*	2.2	2.2	2.2	0.1	5.6	3.0	5.3	6.9	3.4	2.0
Government	2.2	2.7	3.0	1.7	1.7	1.0	-0.1	1.5	1.8	1.6
Exports	1.3	1.1	3.2	1.3	2.5	3.7	3.0	4.0	1.8	1.8
Imports	3.0	4.2	2.9	1.3	2.8	3.7	4.6	4.5	1.6	2.8
Nominal GDP	4.3	5.6	3.6	2.7	4.0	4.0	4.2	5.2	4.0	3.2
GDP deflator	2.1	2.6	1.7	1.3	2.0	1.9	1.9	2.3	1.6	1.6
Consumer price index (CPI)	1.9	1.6	2.3	1.7	2.1	2.2	2.1	2.4	1.7	2.2
CPI ex. food & energy	1.6	1.6	1.9	1.9	2.0	2.0	1.8	2.1	2.1	2.2
Pre-tax corporate profits	0.0	20.1	0.5	-4.1	2.1	5.3	3.2	7.8	3.4	1.9
Employment	1.4	1.9	1.3	2.0	1.0	0.7	1.6	1.7	1.5	1.0
Unemployment rate (%)	7.1	6.3	5.8	5.7	5.9	6.1	4.4	3.9	3.8	4.1
Current account balance (CAD, USD bn)	-18.7	-59.4	-58.5	-58.9	-57.2	-501	-449	-488	-506	-568
Merchandise trade balance (CAD, USD bn)	22.9	-23.9	-22.0	-27.4	-29.3	-680	-807	-891	-912	-989
Federal budget balance (FY, CAD, USD bn)	-3.6	-17.8	-19.0	-11.8	-19.8	-540	-665	-779	-896	-892
percent of GDP	-0.2	-0.9	-0.9	-0.5	-0.8	-3.7	-3.4	-3.8	-4.2	-4.1
Housing starts (000s, mn)	200	220	213	201	199	1.26	1.20	1.25	1.24	1.26
Motor vehicle sales (000s, mn)	1,678	2,036	1,983	1,940	1,915	15.6	17.1	17.2	16.8	16.7
Industrial production	0.0	4.9	3.0	0.6	1.9	0.7	2.3	4.0	2.1	1.5
	Mexico									
	(annual % change)									
Real GDP	2.2	2.1	2.0	1.4	1.3					
Consumer price index (year-end)	4.4	6.8	4.8	4.0	3.8					
Current account balance (USD bn)	-15.0	-19.6	-21.6	-27.4	-26.1					
Merchandise trade balance (USD bn)	-7.2	-11.0	-13.6	-17.5	-19.3					

Sources: Scotiabank Economics, Statistics Canada, CMHC, BEA, BLS, Bloomberg. *For Canada it includes capital expenditures by businesses and non-profit institutions.

Quarterly Forecasts	2018		2019			2020			
	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Canada									
Real GDP (q/q ann. % change)	0.3	0.4	2.2	2.0	2.2	2.1	2.1	1.7	1.9
Real GDP (y/y % change)	1.6	1.3	1.2	1.2	1.7	2.1	2.1	2.0	1.9
Consumer prices (y/y % change)	2.0	1.6	1.6	1.6	1.9	2.2	2.1	2.1	2.1
Avg. of new core CPIs (y/y % change)	1.9	1.9	1.9	1.9	1.8	1.9	1.9	1.9	2.0
United States									
Real GDP (q/q ann. % change)	2.2	3.1	1.4	1.7	1.4	1.4	1.5	1.7	2.0
Real GDP (y/y % change)	3.0	3.2	2.5	2.1	1.9	1.5	1.5	1.5	1.6
Consumer prices (y/y % change)	2.2	1.6	1.6	1.6	1.8	2.1	2.1	2.2	2.2
CPI ex. food & energy (y/y % change)	2.2	2.1	2.1	2.0	2.1	2.1	2.2	2.2	2.2
Core PCE deflator (y/y % change)	1.9	1.6	1.7	1.7	1.8	1.8	1.9	1.9	1.9

Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, Bloomberg.

Central Bank Rates	2018		2019			2020			
	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas	(% , end of period)								
Bank of Canada	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
US Federal Reserve (upper bound)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Bank of Mexico	8.25	8.25	8.25	8.25	8.25	8.25	8.00	7.75	7.50
Central Bank of Brazil	6.50	6.50	6.50	6.50	7.00	7.75	8.25	8.50	8.50
Bank of the Republic of Colombia	4.25	4.25	4.25	4.50	4.50	4.75	4.75	4.75	4.75
Central Reserve Bank of Peru	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Central Bank of Chile	2.75	3.00	3.00	3.00	3.00	3.25	3.50	3.50	3.75
Europe									
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of England	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00
Asia/Oceania									
Reserve Bank of Australia	1.50	1.50	1.25	1.25	1.00	1.00	1.00	1.00	1.00
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
People's Bank of China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Reserve Bank of India	6.50	6.25	5.75	5.50	5.50	5.50	5.50	5.50	5.50
Bank of Korea	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Bank of Thailand	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Currencies and Interest Rates									
Americas	(end of period)								
Canadian dollar (USDCAD)	1.36	1.33	1.35	1.33	1.30	1.28	1.28	1.25	1.25
Canadian dollar (CADUSD)	0.73	0.75	0.74	0.75	0.77	0.78	0.78	0.80	0.80
Mexican peso (USDMXN)	19.65	19.55	19.90	20.48	21.26	21.40	21.26	21.36	21.71
Brazilian real (USDBRL)	3.88	3.92	3.91	3.97	4.18	4.08	4.11	4.07	4.18
Colombian peso (USDCOP)	3,254	3,189	3,105	3,150	3,120	3,050	3,100	3,182	3,167
Peruvian sol (USDPEN)	3.37	3.32	3.37	3.34	3.35	3.36	3.32	3.33	3.30
Chilean peso (USDCLP)	694	680	670	658	645	643	643	647	639
Europe									
Euro (EURUSD)	1.15	1.12	1.12	1.13	1.15	1.19	1.22	1.24	1.24
UK pound (GBPUSD)	1.28	1.30	1.26	1.25	1.25	1.28	1.30	1.32	1.40
Asia/Oceania									
Japanese yen (USDJPY)	110	111	110	108	108	107	107	105	105
Australian dollar (AUDUSD)	0.70	0.71	0.70	0.70	0.71	0.72	0.72	0.73	0.73
Chinese yuan (USDCNY)	6.88	6.71	6.80	6.70	6.70	6.60	6.60	6.50	6.50
Indian rupee (USDINR)	69.8	69.1	67.0	68.0	68.0	67.0	67.0	66.0	66.0
South Korean won (USDKRW)	1,116	1,135	1,160	1,140	1,140	1,120	1,120	1,100	1,100
Thai baht (USDTHB)	32.5	31.7	31.6	31.8	31.8	31.6	31.6	31.4	31.4
Canada (Yields, %)									
3-month T-bill	1.65	1.67	1.65	1.65	1.65	1.65	1.65	1.65	1.65
2-year Canada	1.86	1.55	1.35	1.30	1.30	1.30	1.30	1.30	1.30
5-year Canada	1.89	1.52	1.30	1.35	1.35	1.35	1.35	1.35	1.35
10-year Canada	1.97	1.62	1.45	1.50	1.55	1.60	1.60	1.60	1.60
30-year Canada	2.18	1.89	1.75	1.80	1.95	2.05	2.05	2.10	2.10
United States (Yields, %)									
3-month T-bill	2.36	2.39	2.35	2.35	2.35	2.35	2.35	2.35	2.35
2-year Treasury	2.49	2.26	1.85	1.90	2.00	2.05	2.05	2.05	2.05
5-year Treasury	2.51	2.23	1.85	1.95	2.10	2.15	2.15	2.15	2.15
10-year Treasury	2.68	2.41	2.15	2.20	2.30	2.35	2.35	2.35	2.35
30-year Treasury	3.01	2.82	2.60	2.65	2.75	2.80	2.80	2.85	2.85

Sources: Scotiabank Economics, Bloomberg.

The Provinces											
	(annual % change except where noted)										
	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Real GDP											
2000–17	2.1	2.4	1.8	1.3	1.2	1.8	2.0	2.3	2.0	2.8	2.7
2017	3.0	0.9	3.5	1.5	1.8	2.8	2.8	3.2	2.2	4.4	3.8
2018e	1.9	-1.8	1.9	1.2	0.8	2.1	2.2	1.6	1.4	1.7	1.9
2019f	1.4	2.0	1.5	1.0	0.7	1.6	1.6	1.5	1.5	0.7	2.2
2020f	2.0	0.8	1.1	0.9	0.9	1.7	1.7	1.5	1.7	2.4	3.4
Nominal GDP											
2000–17	4.3	5.6	4.2	3.3	3.4	3.7	3.9	4.4	5.4	5.9	4.7
2017	5.6	4.3	4.8	2.9	4.3	5.0	4.1	5.4	4.8	10.0	6.9
2018e	3.6	1.3	3.7	3.0	2.5	4.2	3.4	3.3	3.4	3.8	3.8
2019f	2.7	3.0	3.4	2.7	2.3	2.6	2.6	3.3	3.4	1.5	4.2
2020f	4.0	3.8	3.0	2.9	2.6	3.5	3.5	3.3	4.2	4.5	6.2
Employment											
2000–17	1.4	0.6	1.1	0.6	0.4	1.3	1.3	1.0	1.1	2.2	1.5
2017	1.9	-3.7	3.1	0.6	0.4	2.2	1.8	1.7	-0.2	1.0	3.7
2018	1.3	0.5	3.0	1.5	0.3	0.9	1.6	0.6	0.4	1.9	1.1
2019f	2.0	2.3	1.2	2.0	0.4	1.4	2.4	1.3	1.5	1.1	2.7
2020f	1.0	0.2	0.7	0.3	0.2	0.9	1.2	0.6	0.7	1.0	1.5
Unemployment Rate (%)											
2000–17	7.1	14.3	11.1	8.8	9.5	7.9	7.0	5.1	5.0	5.3	6.5
2017	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1
2018	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
2019f	5.7	11.6	9.0	6.8	8.0	5.3	5.7	5.6	5.7	6.6	4.7
2020f	5.9	11.4	9.0	6.7	8.0	5.4	5.8	5.6	5.7	6.7	4.7
Housing Starts (units, 000s)											
2000–17	200	2.5	0.8	4.3	3.4	44	72	5.2	5.2	34	29
2017	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44
2018	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
2019f	201	1.0	0.7	3.9	1.8	45	72	6.2	3.2	26	41
2020f	199	1.3	0.8	3.8	2.0	41	71	6.0	4.8	30	37
Motor Vehicle Sales (units, 000s)											
2000–17	1,657	29	6	48	38	413	635	47	45	216	180
2017	2,041	33	9	59	42	453	847	62	56	245	235
2018	1,984	28	8	51	38	449	853	67	47	226	217
2019f	1,940	30	8	49	37	432	829	60	48	221	226
2020f	1,915	30	8	47	35	424	816	56	48	217	234
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2017	-18,957	-1,148	-1	151	-117	2,361	-2,435	-789	-1,218	-10,784	2,727
2018	-18,961	-911	1	230	67	2,622	-3,672	-695	-303	-8,023	301
2019e	-11,815	-522	14	28	5	2,500	-11,700	-470	-380	-6,930	374

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

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