

## A Bull in a China Shop

- **Trade uncertainties are slowing global growth. We expect the trade conflict between China and the US to remain largely unresolved, increasing the drag on global growth going forward.**
- **Central banks will continue to ease policy. Though the Canadian economy has thus far proven resilient in the face of strong external headwinds and uncertainty, we continue to believe the Bank of Canada will need to cut rates by the end of the year as insurance against potential damage to come.**

There is increasing evidence that trade-related uncertainty is affecting the business sector in the major global economies. In the United States, indicators of business activity point to a contraction in that sector. In Canada, consumer and business sentiment has remained remarkably resilient, though domestic demand softened considerably in the second quarter. In Europe, the circus that is Brexit is compounding a reduction in activity that is largely the result of frictions in global trade and their impact on large economies. In Asia, the Chinese economy is clearly slowing, despite the efforts of policymakers to counter the headwinds to growth.

Developments in trade policy remain the dominant risk to the outlook. We believe trade tensions will remain elevated throughout President Trump's first term. This will act as a drag on growth in large segments of the global economy. This view is rooted in our belief that President Trump does not believe his policies are creating hardship in the US, and will thus remain on course to ratchet up trade tensions as he seeks to reduce the US trade deficit, which has been increasing under his stewardship. There will be head fakes and misdirection as we have seen over the last few weeks, which will some days lead to optimism that the situation will improve, but we believe it is more likely that the situation remains tense and uncertain for the foreseeable future.

The heightened uncertainty and its impact on financial markets is leading to a markdown in our forecasts. We now expect growth in the US to be below 1.5% next year, for example. In Canada, while incoming data continue to suggest decent momentum, growth is expected to average 1.9% next year, slightly lower than our earlier forecast of 2.0%. This is despite an anticipated 50 basis point cut by the Bank of Canada, and a weaker-than-expected Canadian dollar.

The outlook is also deteriorating in the Pacific Alliance countries, though growth generally remains well above that expected in advanced economies this year and next. The outlook in Mexico is less favourable, with growth of only 0.2% expected this year, followed by a modest rebound of 1.0% in 2020, as the impacts of the domestic reform agenda, slowdown in US business activity, and trade-related concerns act as a brake on growth.

In light of the deteriorating outlook, central banks are expected to ease monetary policy further. In the US and Europe, the easing is in response to real-time signs of loss of momentum and below-target inflation. In Canada, with inflation at target, strong wage growth, very robust job gains and still-strong confidence, we think the Bank of Canada will be driven to ease as insurance against rapidly deteriorating external conditions.

### CONTACTS

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International	2000–17	2017	2018	2019f	2020f	2000–17	2017	2018	2019f	2020f
		<b>Real GDP</b> (annual % change)					<b>Consumer Prices</b> (y/y % change, year-end)			
World (based on purchasing power parity)	3.9	3.9	3.7	2.9	3.1					
Canada	2.1	3.0	1.9	1.6	1.9	1.9	1.8	2.0	2.0	1.9
United States	2.0	2.4	2.9	2.3	1.4	2.2	2.1	2.2	1.9	2.2
Mexico	2.2	2.1	2.0	0.2	1.0	4.4	6.8	4.8	3.7	3.8
United Kingdom	1.9	1.8	1.4	1.1	1.2	2.1	3.0	2.1	1.8	2.0
Eurozone	1.4	2.4	1.9	1.0	1.1	1.8	1.3	1.5	1.2	1.3
Germany	1.4	2.5	1.5	0.5	1.0	1.5	1.4	1.6	1.3	1.4
France	1.4	2.3	1.7	1.3	1.3	1.4	1.2	1.6	1.3	1.4
China	9.3	6.8	6.6	6.2	6.0	2.3	1.8	1.8	2.8	2.3
India	7.1	6.9	7.4	5.8	6.7	6.8	5.2	2.1	3.9	4.8
Japan	0.9	1.9	0.8	0.8	0.6	0.1	1.1	0.3	1.7	0.8
South Korea	4.0	3.2	2.7	1.9	2.5	2.5	1.4	1.3	0.5	1.6
Australia	2.9	2.4	2.8	1.8	2.4	2.7	1.9	1.8	1.6	1.9
Thailand	4.1	4.0	4.1	2.4	2.3	1.9	0.8	0.4	0.9	1.4
Brazil	2.5	1.1	1.1	1.0	1.8	6.5	3.0	3.8	3.9	4.6
Colombia	3.9	1.4	2.6	3.2	3.6	5.1	4.1	3.2	3.7	3.2
Peru	5.0	2.5	4.0	3.1	3.7	2.7	1.4	2.2	2.0	2.0
Chile	3.9	1.5	4.0	2.6	3.2	3.3	2.3	2.6	3.0	2.6
<b>Commodities</b>		(annual average)								
WTI Oil (USD/bbl)	62	51	65	56	55					
Brent Oil (USD/bbl)	65	55	72	65	62					
WCS - WTI Discount* (USD/bbl)	-16	-13	-26	-14	-21					
Nymex Natural Gas (USD/mmbtu)	4.83	3.02	3.07	2.71	2.75					
Copper (USD/lb)	2.38	2.80	2.96	2.80	3.00					
Zinc (USD/lb)	0.84	1.31	1.33	1.22	1.20					
Nickel (USD/lb)	7.12	4.72	5.95	5.70	6.00					
Aluminium (USD/lb)	0.87	0.89	0.96	0.90	0.90					
Iron Ore (USD/tonne)	67	72	70	90	72					
Metallurgical Coal (USD/tonne)	131	187	206	195	170					
Gold, London PM Fix (USD/oz)	890	1,257	1,268	1,350	1,350					
Silver, London PM Fix (USD/oz)	14.80	17.05	15.71	15.37	15.00					

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

September 6, 2019

North America	2000-17	2017	2018	2019f	2020f	2000-17	2017	2018	2019f	2020f
	<b>Canada</b> (annual % change, unless noted)					<b>United States</b> (annual % change, unless noted)				
Real GDP	2.1	3.0	1.9	1.6	1.9	2.0	2.4	2.9	2.3	1.4
Consumer spending	2.9	3.5	2.1	1.7	1.9	2.4	2.6	3.0	2.6	2.0
Residential investment	3.6	2.4	-1.5	-1.7	2.7	-0.3	3.5	-1.5	-2.6	0.1
Business investment*	2.2	2.2	2.2	-2.2	3.5	3.0	4.4	6.4	2.7	1.3
Government	2.2	2.7	3.0	1.6	1.6	1.1	0.7	1.7	2.2	1.7
Exports	1.3	1.1	3.2	2.5	2.1	3.7	3.5	3.0	0.0	1.3
Imports	3.0	4.2	2.9	0.8	2.2	3.7	4.7	4.4	1.9	2.8
Nominal GDP	4.3	5.6	3.6	3.2	3.8	4.0	4.3	5.4	4.0	3.1
GDP deflator	2.1	2.6	1.7	1.6	1.9	1.9	1.9	2.4	1.7	1.6
Consumer price index (CPI)	1.9	1.6	2.3	1.9	2.0	2.2	2.1	2.4	1.8	2.2
CPI ex. food & energy	1.6	1.6	1.9	2.2	2.1	2.0	1.8	2.1	2.1	2.2
Pre-tax corporate profits	0.0	20.1	0.5	1.7	3.4	5.0	-0.3	3.4	0.9	3.0
Employment	1.4	1.9	1.3	2.1	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	4.0
Current account balance (CAD, USD bn)	-18.7	-59.4	-58.5	-37.1	-30.2	-500	-440	-491	-557	-631
Merchandise trade balance (CAD, USD bn)	22.9	-23.9	-22.0	-11.8	-10.1	-680	-805	-887	-899	-981
Federal budget balance (FY, CAD, USD bn)	-3.6	-17.8	-19.0	-11.8	-19.8	-540	-665	-779	-960	-1,008
percent of GDP	-0.2	-0.9	-0.9	-0.5	-0.8	-3.7	-3.4	-3.8	-4.5	-4.6
Housing starts (000s, mn)	200	220	213	205	199	1.26	1.20	1.25	1.25	1.26
Motor vehicle sales (000s, mn)	1,678	2,036	1,983	1,940	1,915	15.6	17.1	17.2	17.0	16.7
Industrial production	0.0	4.9	3.1	0.9	2.1	0.7	2.3	4.0	1.0	1.5
	<b>Mexico</b> (annual % change)									
Real GDP	2.2	2.1	2.0	0.2	1.0					
Consumer price index (year-end)	4.4	6.8	4.8	3.7	3.8					
Current account balance (USD bn)	-13.8	-20.1	-22.0	-16.3	-20.0					
Merchandise trade balance (USD bn)	-7.2	-11.0	-13.6	-7.0	-15.1					

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	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Canada</b>									
Real GDP (q/q ann. % change)	0.3	0.5	3.7	1.5	1.6	2.2	1.9	1.5	1.7
Real GDP (y/y % change)	1.6	1.4	1.6	1.5	1.8	2.3	1.8	1.8	1.8
Consumer prices (y/y % change)	2.0	1.6	2.1	1.9	2.0	2.2	1.9	2.0	1.9
Avg. of new core CPIs (y/y % change)	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1
<b>United States</b>									
Real GDP (q/q ann. % change)	1.1	3.1	2.0	1.9	1.3	1.3	1.3	1.3	1.3
Real GDP (y/y % change)	2.5	2.7	2.3	2.0	2.1	1.7	1.5	1.3	1.3
Consumer prices (y/y % change)	2.2	1.6	1.8	1.8	1.9	2.2	2.2	2.2	2.2
CPI ex. food & energy (y/y % change)	2.2	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2
Core PCE deflator (y/y % change)	1.9	1.6	1.5	1.6	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	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Americas</b>	(%, end of period)								
Bank of Canada	1.75	1.75	1.75	1.75	1.50	1.25	1.25	1.25	1.25
US Federal Reserve (upper bound)	2.50	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75
Bank of Mexico	8.25	8.25	8.25	8.00	7.75	7.50	7.50	7.50	7.50
Central Bank of Brazil	6.50	6.50	6.50	5.75	5.50	5.50	5.50	6.00	6.50
Bank of the Republic of Colombia	4.25	4.25	4.25	4.25	4.25	4.25	4.50	4.50	4.50
Central Reserve Bank of Peru	2.75	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.25
Central Bank of Chile	2.75	3.00	2.50	2.00	1.75	1.75	1.75	1.75	2.00
<b>Europe</b>									
European Central Bank MRO Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
European Central Bank Deposit Rate	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Bank of England	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
<b>Asia/Oceania</b>									
Reserve Bank of Australia	1.50	1.50	1.25	1.00	0.75	0.75	0.75	0.75	0.75
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	5.40	4.80	4.80	4.80	4.80	4.80
Bank of Korea	1.75	1.75	1.75	1.50	1.25	1.25	1.25	1.25	1.25
Bank of Thailand	1.75	1.75	1.75	1.50	1.25	1.25	1.25	1.25	1.25
<b>Currencies and Interest Rates</b>									
<b>Americas</b>	(end of period)								
Canadian dollar (USDCAD)	1.36	1.33	1.31	1.31	1.30	1.28	1.28	1.25	1.25
Canadian dollar (CADUSD)	0.73	0.75	0.76	0.76	0.77	0.78	0.78	0.80	0.80
Mexican peso (USDMXN)	19.65	19.43	19.22	20.21	20.83	21.08	20.93	21.04	21.36
Brazilian real (USDBRL)	3.88	3.92	3.85	3.97	4.18	4.08	4.11	4.07	4.18
Colombian peso (USDCOP)	3,254	3,189	3,211	3,382	3,120	3,050	3,100	3,182	3,167
Peruvian sol (USDPEN)	3.37	3.32	3.29	3.42	3.35	3.40	3.38	3.43	3.42
Chilean peso (USDCLP)	694	680	679	700	670	650	645	645	640
<b>Europe</b>									
Euro (EURUSD)	1.15	1.12	1.14	1.10	1.10	1.12	1.15	1.19	1.20
UK pound (GBPUSD)	1.28	1.30	1.27	1.22	1.22	1.25	1.30	1.32	1.40
<b>Asia/Oceania</b>									
Japanese yen (USDJPY)	110	111	108	108	108	107	107	105	105
Australian dollar (AUDUSD)	0.70	0.71	0.70	0.68	0.68	0.69	0.70	0.71	0.72
Chinese yuan (USDCNY)	6.88	6.71	6.87	7.10	6.90	6.80	6.80	6.70	6.70
Indian rupee (USDINR)	69.8	69.1	69.0	71.0	68.0	67.0	67.0	66.0	66.0
South Korean won (USDKRW)	1,116	1,135	1,155	1,180	1,180	1,160	1,160	1,140	1,140
Thai baht (USDTHB)	32.5	31.7	30.7	31.0	31.0	30.5	30.5	30.0	30.0
<b>Canada (Yields, %)</b>									
3-month T-bill	1.65	1.67	1.65	1.60	1.40	1.20	1.20	1.25	1.25
2-year Canada	1.86	1.55	1.47	1.45	1.30	1.20	1.25	1.30	1.30
5-year Canada	1.89	1.52	1.39	1.25	1.25	1.25	1.30	1.35	1.40
10-year Canada	1.97	1.62	1.46	1.25	1.35	1.45	1.50	1.55	1.60
30-year Canada	2.18	1.89	1.68	1.50	1.60	1.65	1.70	1.75	1.80
<b>United States (Yields, %)</b>									
3-month T-bill	2.36	2.39	2.09	1.85	1.60	1.60	1.60	1.60	1.60
2-year Treasury	2.49	2.26	1.76	1.55	1.60	1.65	1.75	1.80	1.80
5-year Treasury	2.51	2.23	1.77	1.45	1.50	1.70	1.80	1.90	2.00
10-year Treasury	2.68	2.41	2.00	1.55	1.60	1.75	1.90	2.00	2.20
30-year Treasury	3.01	2.82	2.53	2.05	2.20	2.30	2.40	2.50	2.60

Sources: Scotiabank Economics, Bloomberg.

The Provinces	(annual % change except where noted)										
Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
<b>2000–17</b>	2.1	2.4	1.8	1.3	1.2	1.8	2.0	2.3	2.0	2.8	2.7
<b>2017</b>	3.0	0.9	3.5	1.5	1.8	2.8	2.8	3.2	2.2	4.4	3.8
<b>2018e</b>	1.9	-2.7	2.6	1.2	0.1	2.5	2.3	1.3	1.6	2.3	2.4
<b>2019f</b>	1.6	2.0	2.1	1.3	0.6	2.2	1.6	1.4	1.3	0.5	2.2
<b>2020f</b>	1.9	0.8	2.0	1.3	0.8	1.7	1.8	1.5	1.5	2.5	3.0
<b>Nominal GDP</b>											
<b>2000–17</b>	4.3	5.6	4.2	3.3	3.4	3.7	3.9	4.4	5.4	5.9	4.7
<b>2017</b>	5.6	4.3	4.8	2.9	4.3	5.0	4.1	5.4	4.8	10.0	6.9
<b>2018e</b>	3.6	0.5	4.6	3.2	1.9	4.2	3.5	3.1	3.8	4.5	4.4
<b>2019f</b>	3.2	3.5	4.1	3.0	2.2	3.6	3.0	3.4	3.4	2.0	4.5
<b>2020f</b>	3.8	3.1	3.9	3.3	2.5	3.4	3.5	3.3	3.8	4.6	5.6
<b>Employment</b>											
<b>2000–17</b>	1.4	0.6	1.1	0.6	0.4	1.3	1.3	1.0	1.1	2.2	1.5
<b>2017</b>	1.9	-3.7	3.1	0.6	0.4	2.2	1.8	1.7	-0.2	1.0	3.7
<b>2018</b>	1.3	0.5	3.0	1.5	0.3	0.9	1.6	0.6	0.4	1.9	1.1
<b>2019f</b>	2.1	1.1	1.8	2.2	0.6	1.6	2.6	1.2	1.7	0.8	3.0
<b>2020f</b>	1.0	0.0	0.8	0.3	0.2	0.8	1.2	0.6	0.7	1.0	1.5
<b>Unemployment Rate (%)</b>											
<b>2000–17</b>	7.1	14.3	11.1	8.8	9.5	7.9	7.0	5.1	5.0	5.3	6.5
<b>2017</b>	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1
<b>2018</b>	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
<b>2019f</b>	5.7	12.1	8.9	6.8	8.1	5.2	5.6	5.4	5.4	6.8	4.6
<b>2020f</b>	5.9	12.1	9.0	6.8	8.1	5.4	5.8	5.5	5.5	6.9	4.8
<b>Housing Starts (units, 000s)</b>											
<b>2000–17</b>	200	2.5	0.8	4.3	3.4	44	72	5.2	5.2	34	29
<b>2017</b>	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44
<b>2018</b>	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
<b>2019f</b>	205	0.9	1.1	4.3	2.4	47	69	6.8	2.4	26	45
<b>2020f</b>	199	1.3	0.8	4.0	2.0	42	73	6.0	3.1	30	37
<b>Motor Vehicle Sales (units, 000s)</b>											
<b>2000–17</b>	1,657	29	6	48	38	413	635	47	45	216	180
<b>2017</b>	2,041	33	9	59	42	453	847	62	56	245	235
<b>2018</b>	1,984	28	8	51	38	449	853	67	47	226	217
<b>2019f</b>	1,940	31	9	51	39	448	813	60	49	223	217
<b>2020f</b>	1,915	30	9	50	37	440	800	56	48	217	228
<b>Budget Balances, Fiscal Year Ending March 31 (CAD mn)</b>											
<b>2017</b>	-18,957	-1,148	-1	151	-117	2,361	-2,435	-789	-1,218	-10,784	2,727
<b>2018</b>	-18,961	-911	1	230	67	2,622	-3,672	-695	-303	-8,023	301
<b>2019e</b>	-11,815	-522	14	28	5	2,500	-11,700	-470	-380	-6,711	374

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

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