

Virus-Fighting Central Banks

- **The emergence of the coronavirus and its direct and indirect impacts will knock up to 0.4 percentage points from our global growth forecast, as global growth is now expected to fall to its lowest level since 2009.**
- **At this time, there is risk that fear will overtake reason owing to a lack of confidence that authorities will be able to prevent further spread of the disease.**
- **We are now in a period of activist fiscal and monetary policies. Central banks have been the first out of the gate. Further central bank action is expected in a range of countries, and we expect fiscal authorities to intercede in countries most affected by the pathogen. Given the fragile state of markets and sentiment, it will be important for policymakers not to disappoint.**

The evolution of COVID-19 necessitates a significant revision to global growth prospects. What started as a major health issue in China, with limited impact on global financial markets, has evolved into a development whose scope and impact are as yet difficult to pin down. All that is clear at this time is that global growth will slow relative to earlier forecasts. What remains unclear is an extensive list: How will the infection evolve? How many more individuals will be affected? How are global supply chains being affected? How will corporate earnings be impacted? How will households react? How will policymakers work to respond to and contain the virus? Where do financial markets go from here? Is this a global supply or demand shock? What is the appropriate policy response from an economic perspective?

There is very little clarity along all these dimensions. As a consequence, fear risks taking over reason, and there is potential for developments to deteriorate significantly from here. At this point, we believe worst-case outcomes can and will be avoided as policymakers will act decisively with regard to the public health and economic and financial consequences of the pathogen.

We now believe global growth will only be 2.7% this year, its lowest level since 2009. This reflects wide-spread revisions to the outlook: a sharp markdown in Chinese growth owing to efforts to contain the virus there; the impacts of these efforts on the price of global commodities; the impact in turn of weaker Chinese growth and lower commodities prices on other economies; the impact of virus-related effects on supply chains and household and business behaviour in a range of other countries; and of course, the dramatic fall in global equity markets, leading to wealth effects in a number of countries.

We remain hopeful that containment efforts will eventually prove successful in advanced economies, leading to a recovery in activity in the second half of the year. This is more easily believed in countries that are treating the virus as a true public health emergency as opposed to those, such as the United States, which seem, for the time being, to be treating this as a public relations exercise. This lack of leadership and sense of purpose is in part why so much emphasis is being

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placed on central banks to act as a line of defence against the transmutation of the virus from a serious public health issue to a serious economic and financial challenge. In the absence of reassurance that the US leadership is decisively tackling the virus, markets have been left without confidence that the economic and financial consequences would be contained, and so fear fed upon fear, leading to a potential for extrapolative expectations taking hold in markets. To counter these expectations, some central banks have effectively become the first responders to the economic damage underway.

In Canada, the outbreak is particularly harmful, leading us to pare half a percentage point from our forecast for 2020 growth. We now expect growth will come in at 1.1% this year. While some of this revision comes from the consequences of the rail blockades on economic activity in the first quarter of the year, that impact is dwarfed by the effects of dramatically lower oil prices than earlier observed, combined with the large decline in equity markets, which reduces household wealth. Both these developments are directly linked to COVID-19. At this point, these issues suggest growth in the first half of the year will average less than 1%. As this is well below potential, the output gap will become more negative, necessitating at least one additional cut by the Bank of Canada to ensure that inflation remains on target.

A similar story is unfolding in other economies. Weaker growth in China will lead to a substantial reduction in exports in some countries (tourism in Europe, for instance), while in others, supply chain disruptions will be the dominant channel (e.g. South Korea), and yet others will suffer from the decline in commodity prices (Latin America, for example), while all countries will be affected by the decline in stock values (the US likely being the most affected in this dimension). In most countries, measures to contain the virus and the associated human response will lead to lower consumption and discretionary expenses.

As a result, we believe we are entering a period of activist fiscal and monetary policies. Further rate cuts are expected in North America. We expect European countries and the UK to follow suit. It is clear that fiscal measures will be used to deal with the direct impacts of the shock, and that more substantial fiscal measures are likely to be required to deal with the expected slowdown in growth, even if it proves temporary.

Our hope is that fears are overblown at present and that competent crisis management will emerge in the United States and, in so doing, provide some degree of comfort that the world's largest economy will not be unduly affected by the virus. If this happens, the prospects of the virus triggering a global recession are slim. If not, no amount of central bank easing will be able to prevent a more serious downturn.

International	2010–18	2018	2019	2020f	2021f	2010–18	2018	2019	2020f	2021f
	Real GDP (annual % change)					Consumer Prices (y/y % change, year-end)				
World (based on purchasing power parity)	3.8	3.8	2.9	2.7	3.5					
Canada	2.2	2.0	1.6	1.1	2.2	1.7	2.0	2.1	1.5	2.4
United States	2.3	2.9	2.3	1.6	2.0	1.7	2.2	2.0	2.2	2.6
Mexico	3.0	2.1	-0.1	0.6	1.6	4.1	4.8	2.8	3.8	3.7
United Kingdom	1.9	1.3	1.4	1.1	1.4	2.2	2.1	1.8	1.6	1.9
Eurozone	1.4	1.9	1.2	1.0	1.2	1.3	1.5	1.3	1.2	1.4
Germany	2.1	1.5	0.6	0.7	1.2	1.3	1.6	1.5	1.4	1.5
France	1.4	1.7	1.3	1.0	1.3	1.1	1.6	1.5	1.3	1.3
China	7.9	6.8	6.1	5.0	6.5	2.5	1.8	4.5	2.3	2.5
India	7.2	6.8	5.3	5.8	6.5	7.3	2.1	7.4	4.3	4.9
Japan	1.4	0.3	0.8	0.2	1.4	0.6	0.3	0.8	0.6	0.8
South Korea	3.4	2.7	2.0	1.8	2.6	1.8	1.3	0.7	1.6	2.1
Australia	2.7	2.7	1.8	1.9	2.5	2.1	1.8	1.8	1.9	2.1
Thailand	3.8	4.1	2.4	1.6	2.8	1.5	0.4	0.9	1.2	1.6
Brazil	1.4	1.3	1.1	1.8	2.1	6.0	3.8	4.3	4.2	4.1
Colombia	3.8	2.5	3.3	3.6	3.6	3.9	3.2	3.8	3.3	3.1
Peru	4.8	4.0	2.1	3.0	3.5	3.0	2.2	1.9	1.8	2.1
Chile	3.5	4.0	1.2	1.4	2.5	3.1	2.6	3.0	3.0	3.0
Commodities										
	(annual average)									
WTI Oil (USD/bbl)	74	65	57	51	61					
Brent Oil (USD/bbl)	82	72	64	55	64					
WCS - WTI Discount (USD/bbl)	-18	-26	-14	-16	-23					
Nymex Natural Gas (USD/mmbtu)	3.39	3.07	2.53	2.39	2.63					
Copper (USD/lb)	3.10	2.96	2.72	2.80	3.00					
Zinc (USD/lb)	1.02	1.33	1.16	1.10	1.05					
Nickel (USD/lb)	7.00	5.95	6.32	6.50	7.00					
Aluminium (USD/lb)	0.89	0.96	0.81	0.90	0.90					
Iron Ore (USD/tonne)	101	70	94	78	70					
Metallurgical Coal (USD/tonne)	179	207	184	145	150					
Gold, (USD/oz)	1,342	1,268	1,393	1,525	1,450					
Silver, (USD/oz)	21.64	15.71	16.21	18.75	17.75					

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

North America	2010–18	2018	2019	2020f	2021f	2010–18	2018	2019	2020f	2021f
	Canada					United States				
	(annual % change, unless noted)					(annual % change, unless noted)				
Real GDP	2.2	2.0	1.6	1.1	2.2	2.3	2.9	2.3	1.6	2.0
Consumer spending	2.6	2.1	1.6	1.7	2.0	2.4	3.0	2.6	2.1	2.0
Residential investment	2.7	-1.5	-0.5	2.8	2.8	4.8	-1.5	-1.5	1.8	1.9
Business investment*	2.4	1.8	-0.8	-0.9	2.5	5.2	6.4	2.1	-1.6	2.6
Government	1.2	3.4	1.6	1.5	1.9	-0.3	1.7	2.3	2.3	1.8
Exports	3.6	3.1	1.2	0.0	2.7	4.1	3.0	0.0	0.7	2.4
Imports	3.9	2.6	0.3	0.4	2.5	4.9	4.4	1.7	1.5	2.7
Nominal GDP	3.9	3.9	3.6	2.9	4.5	4.0	5.4	4.1	3.2	4.0
GDP deflator	1.7	1.8	1.9	1.8	2.3	1.7	2.4	1.7	1.6	2.0
Consumer price index (CPI)	1.7	2.3	1.9	1.8	2.1	1.8	2.4	1.8	2.1	2.5
Core inflation rate**	1.9	1.9	2.0	1.9	1.9	1.6	1.9	1.6	1.8	2.1
Pre-tax corporate profits	5.8	2.5	0.3	-0.1	1.8	4.6	3.4	-0.6	0.9	1.6
Employment	1.2	1.3	2.1	0.8	1.1	1.4	1.6	1.4	1.1	1.0
Unemployment rate (%)	7.0	5.8	5.7	5.8	5.8	6.5	3.9	3.7	3.8	3.8
Current account balance (CAD, USD bn)	-58.4	-55.5	-45.4	-37.2	-30.9	-421	-491	-510	-506	-523
Merchandise trade balance (CAD, USD bn)	-13.0	-22.1	-18.2	-17.2	-14.9	-754	-887	-881	-906	-949
Federal budget balance (FY, CAD, USD bn)	-19.4	-19.0	-14.0	-26.6	-28.1	-813	-779	-960	-1,008	-1,034
percent of GDP	-1.0	-0.9	-0.6	-1.1	-1.1	-4.6	-3.8	-4.5	-4.6	-4.5
Housing starts (000s, mn)	200	213	209	205	203	0.96	1.25	1.30	1.26	1.26
Motor vehicle sales (000s, mn)	1,810	1,983	1,922	1,915	1,915	15.5	17.2	16.9	16.9	17.0
Industrial production	2.7	3.1	-1.1	-0.8	1.8	2.2	4.0	0.8	0.1	1.8
	Mexico									
	(annual % change)									
Real GDP	3.0	2.1	-0.1	0.6	1.6					
Consumer price index (year-end)	4.1	4.8	2.8	3.8	3.7					
Current account balance (USD bn)	-21.2	-23.0	-2.4	-9.9	-12.3					
Merchandise trade balance (USD bn)	-6.8	-13.6	5.8	-2.8	-5.2					

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 3 core measures published by the BoC.

Quarterly Forecasts	2019		2020				2021			
	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
Canada										
Real GDP (q/q ann. % change)	0.3	0.8	0.8	1.3	2.5	2.5	2.4	2.3	2.3	
Real GDP (y/y % change)	1.5	1.4	0.8	0.8	1.3	1.8	2.2	2.4	2.4	
Consumer prices (y/y % change)	2.1	2.2	1.8	1.7	1.5	1.7	2.1	2.2	2.4	
Avg. of new core CPIs (y/y % change)	2.1	2.0	1.9	1.8	1.8	1.8	1.9	1.9	1.9	
United States										
Real GDP (q/q ann. % change)	2.1	1.0	1.0	2.0	1.9	2.1	2.1	2.1	2.1	
Real GDP (y/y % change)	2.3	1.8	1.6	1.5	1.5	1.7	2.0	2.0	2.1	
Consumer prices (y/y % change)	2.0	2.2	2.0	2.1	2.2	2.3	2.5	2.6	2.6	
Total PCE deflator (y/y % change)	1.4	1.6	1.5	1.5	1.7	2.1	2.3	2.4	2.5	
Core PCE deflator (y/y % change)	1.6	1.7	1.8	1.8	1.9	2.0	2.1	2.1	2.1	

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

	2019		2020				2021			
	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
Central Bank Rates										
Americas										
									(%, end of period)	
Bank of Canada	1.75	1.25	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
US Federal Reserve (upper bound)	1.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	
Bank of Mexico	7.25	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25	
Central Bank of Brazil	4.50	3.75	3.25	3.25	3.50	3.75	4.25	4.75	5.25	
Bank of the Republic of Colombia	4.25	4.25	4.50	4.50	4.50	4.75	4.75	4.75	4.75	
Central Reserve Bank of Peru	2.25	2.00	2.00	2.00	2.00	2.25	2.25	2.25	2.25	
Central Bank of Chile	1.75	1.75	1.50	1.00	1.00	1.00	1.25	1.75	2.00	
Europe										
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	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	
Bank of England	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	
Asia/Oceania										
Reserve Bank of Australia	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	
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	4.15	3.95	3.90	3.90	3.90	3.90	3.90	3.90	3.90	
Reserve Bank of India	5.15	5.15	4.90	4.90	4.90	4.90	5.00	5.25	5.50	
Bank of Korea	1.25	1.25	1.00	1.00	1.00	1.00	1.00	1.25	1.25	
Bank of Thailand	1.25	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.25	
Currencies and Interest Rates										
Americas										
									(%, end of period)	
Canadian dollar (USDCAD)	1.30	1.34	1.34	1.32	1.31	1.30	1.30	1.28	1.28	
Canadian dollar (CADUSD)	0.77	0.75	0.75	0.76	0.76	0.77	0.77	0.78	0.78	
Mexican peso (USDMXN)	18.93	19.49	19.78	20.21	20.78	20.88	20.89	21.34	21.86	
Brazilian real (USDBRL)	4.02	4.65	4.21	4.32	4.37	4.44	4.22	4.17	4.11	
Colombian peso (USDCOP)	3,287	3,402	3,237	3,258	3,250	3,233	3,215	3,198	3,180	
Peruvian sol (USDPEN)	3.31	3.44	3.40	3.41	3.40	3.37	3.38	3.34	3.35	
Chilean peso (USDCLP)	753	800	760	740	740	730	720	710	700	
Europe										
Euro (EURUSD)	1.12	1.12	1.14	1.15	1.15	1.17	1.18	1.19	1.20	
UK pound (GBPUSD)	1.33	1.30	1.30	1.32	1.32	1.34	1.36	1.38	1.38	
Asia/Oceania										
Japanese yen (USDJPY)	109	107	107	106	106	105	105	105	105	
Australian dollar (AUDUSD)	0.70	0.66	0.66	0.67	0.67	0.68	0.68	0.69	0.69	
Chinese yuan (USDCNY)	6.96	6.90	6.80	6.70	6.70	6.60	6.60	6.50	6.50	
Indian rupee (USDINR)	71.4	71.0	70.5	70.0	70.0	69.5	69.5	69.0	69.0	
South Korean won (USDKRW)	1,156	1,220	1,200	1,180	1,180	1,160	1,160	1,140	1,140	
Thai baht (USDTHB)	30.0	31.6	31.6	31.4	31.4	31.2	31.2	31.0	31.0	
Canada (Yields, %)										
3-month T-bill	1.66	0.95	1.00	1.00	1.00	1.00	1.00	1.05	1.05	
2-year Canada	1.69	0.80	0.90	1.00	1.15	1.20	1.25	1.30	1.35	
5-year Canada	1.68	0.75	0.90	1.05	1.25	1.30	1.40	1.45	1.55	
10-year Canada	1.70	0.90	0.95	1.15	1.35	1.45	1.55	1.60	1.65	
30-year Canada	1.76	1.20	1.35	1.45	1.65	1.75	1.90	1.95	2.05	
United States (Yields, %)										
3-month T-bill	1.51	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	
2-year Treasury	1.57	0.60	0.65	0.75	0.90	1.00	1.05	1.10	1.10	
5-year Treasury	1.69	0.65	0.80	0.95	1.15	1.25	1.35	1.40	1.45	
10-year Treasury	1.92	0.90	1.00	1.15	1.40	1.60	1.65	1.70	1.75	
30-year Treasury	2.39	1.55	1.70	1.75	1.85	2.00	2.10	2.20	2.25	

Sources: Scotiabank Economics, Bloomberg.

The Provinces	(annual % change except where noted)										
	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Real GDP											
2010–18	2.2	0.5	2.0	0.9	0.6	1.7	2.2	2.2	2.5	2.8	2.8
2018	2.0	-3.5	2.6	1.5	0.8	2.5	2.2	1.3	1.3	1.6	2.6
2019e	1.6	2.1	2.7	1.7	0.6	2.5	1.7	1.3	1.0	0.5	2.1
2020f	1.1	1.1	2.0	1.3	0.7	1.8	1.5	1.1	1.2	1.6	2.1
2021f	2.2	0.5	2.0	1.3	0.7	1.7	1.8	1.4	1.6	2.5	2.4
Nominal GDP											
2010–18	3.9	3.2	3.9	2.7	2.8	3.7	4.1	4.0	3.3	3.8	4.5
2018	3.9	1.7	4.2	3.3	3.2	4.8	3.7	2.2	1.4	3.8	4.5
2019e	3.6	3.6	4.6	3.4	2.2	4.1	3.3	3.0	2.6	2.0	4.2
2020f	2.9	3.0	3.9	3.2	2.3	3.5	3.2	3.0	2.9	3.3	4.4
2021f	4.5	3.0	4.0	3.1	2.1	3.6	4.0	3.2	4.1	5.2	5.1
Employment											
2010–18	1.2	0.5	1.2	0.2	-0.2	1.1	1.3	0.8	0.9	1.5	1.4
2018	1.3	0.5	3.0	1.5	0.3	0.9	1.6	0.6	0.4	1.9	1.1
2019e	2.1	0.6	2.7	2.2	0.8	1.8	2.9	0.9	1.8	0.5	2.6
2020f	0.8	-0.1	0.8	0.3	0.2	0.9	1.2	0.6	0.7	1.0	1.3
2021f	1.1	0.0	0.6	0.1	0.2	0.8	1.0	0.6	0.6	1.2	1.3
Unemployment Rate (%)											
2010–18	7.0	13.3	10.8	8.8	9.3	7.4	7.3	5.5	5.2	6.1	6.4
2018	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
2019e	5.7	11.9	8.8	7.2	8.0	5.1	5.6	5.3	5.4	6.9	4.7
2020f	5.8	12.0	8.8	7.2	8.0	5.2	5.7	5.4	5.4	7.0	4.9
2021f	5.8	11.8	9.0	7.3	7.9	5.3	5.7	5.5	5.4	6.9	5.0
Housing Starts (units, 000s)											
2010–18	200	2.4	0.8	4.1	2.7	44	70	6.5	6.4	31	33
2018	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
2019e	209	0.9	1.3	4.7	2.9	48	69	7.0	2.4	27	45
2020f	205	1.2	1.1	4.3	2.4	46	75	6.0	3.3	30	37
2021f	203	1.1	1.0	4.2	2.4	44	77	5.9	3.7	31	33
Motor Vehicle Sales (units, 000s)											
2010–18	1,810	33	7	52	42	439	725	56	54	241	197
2018	1,983	28	8	51	38	449	853	67	47	226	217
2019e	1,922	31	9	51	40	442	820	57	48	218	207
2020f	1,915	28	8	50	40	430	815	52	49	227	213
2021f	1,915	25	8	50	40	430	815	50	50	232	218
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2019	-14,000	-552	57	120	73	4,803	-7,435	-163	-268	-6,711	1,535
2020f*	-26,600	-944	1	41	98	1,400	-9,023	-325	37	-7,540	203
2021f	-28,100	-796	7	55	33	100	-6,800	-234	49	-6,810	227

* NL budget balance in 2020 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 transfers.

Note: The provincial forecasts above come from our January *Provincial Outlook* (accessed here <https://www.scotiabank.com/ca/en/about/global-economics/provincial-trends.html>). We will next update our provincial forecasts in the April 2020 *Provincial Outlook* report.

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