

A note to our readers: Owing to the speed at which developments are occurring and the uncertainty associated with them, we will be publishing more frequent, but irregular, updates to our forecast. The pace at which we update our forecasts will be dictated by developments.

Forecast Update: Recession is Now Unavoidable

- Despite remarkably timely and aggressive responses by global central banks and some fiscal authorities, recessions appear unavoidable in a number of countries. Global growth is expected to average 1.3% in 2020, the lowest level since the decline in global GDP recorded in 2009.
- A number of countries are adopting “whatever it takes” approaches to policy interventions, as they recognize the gravity of the situation. This year will see a remarkably large increase in sovereign debt, as coordinated monetary and fiscal policies are deployed to limit the damage caused by the pandemic.
- As policymakers work to support their economies, the near term hit to GDP will be very large. In the US, for instance, we expect GDP will fall by almost 8% (QAAR) in the second quarter. In Canada, that decline is expected to be closer to 11% (QAAR) as more aggressive containment measures are deployed and the decline in oil prices begins to be felt. For the year, GDP is expected to fall by 2.2% and 0.8% in Canada and the US, respectively.
- Once COVID-19 is behind us, we expect a sharp rebound in growth as activity ramps up, pent-up demand is unleashed and economies benefit from the massive amount of stimulus being thrown at them earlier in the year.

The mounting costs of the COVID-19 pandemic are leading us to sharply scale back our forecasts for economic activity. Despite remarkably timely and aggressive responses by global central banks and some fiscal authorities, recessions appear unavoidable in a number of countries, including Canada and the US, owing to the combined impact of lock-downs, sector shutdowns, the impact of lower prices in some countries, rising economic uncertainty and the impact of the sharp correction in stock markets. These developments are too formidable to be fully offset by policy stimulus. We now believe global growth will average 1.3% in 2020, the lowest level since the decline in global GDP recorded in 2009.

Efforts by global policymakers are now largely designed to help firms and households manage through the unprecedented challenges, rather than insulate them from the damage. This is also true in Canada and the US, where we assume that virus-related curtailment of activities extends to the end of the third quarter. While this may be a pessimistic assumption, it seems clear that virus-related disruptions will increase through time. Moreover, in the absence of a vaccine

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against the virus, we assume policymakers will play it safe and maintain aggressive containment efforts until there is compelling evidence that the virus has largely run its course.

While there is now limited scope for monetary policy to provide additional stimulus, we believe we are still in the early days of the global fiscal response. A number of countries are adopting “whatever it takes” approaches to policy interventions as they recognize the gravity of the situation. A large fiscal package is being developed in the US, some of which is incorporated in this forecast. European policymakers are uncharacteristically open to supporting their economies through fiscal action. The federal deficit in Canada is likely to rise above \$100 billion next fiscal year (which begins April 1, 2020), and we expect significantly more stimulus to come. This year will see a remarkable increase in sovereign debt, as coordinated monetary and fiscal policies are deployed to limit the damage caused by the pandemic.

As policymakers work to support their economies, the near term hit to GDP will be very large. In the US, for instance, we expect GDP will fall by almost 8% (QAAR) in the second quarter. In Canada, that decline is expected to be closer to 11% (QAAR) as more aggressive containment measures are deployed and the decline in oil prices begins to be felt.

Given the unprecedented nature of the public health emergency, the measures required to deal with it, and the rapidly evolving response to the health and economic dimensions of the pandemic, we do not have a high degree of confidence in point estimates of growth. It may well be, for instance, that Canadian growth does not fall by the 2.2% we currently expect, or that Eurozone output will decline nearly 3%. We are certain, however, that growth will fall, and that a recession is now inevitable in many countries. How bad that recession ends up being will depend on the effectiveness of current and future containment measures and how aggressive and targeted the economic policy response is.

Once COVID-19 is behind us, we expect a sharp rebound in growth as activity ramps up, pent-up demand is unleashed and economies continue to benefit from the massive amount of stimulus being thrown at them. We currently expect this to happen around the third or fourth quarter of this year, depending on the country. That is too late to save us from bad outcomes this year, but it should lead to a strong start to 2021. Of course, this depends on proper management of the pandemic from a public health perspective. This is unfortunately not assured, particularly in the US, where efforts to date appear to significantly lag those in other countries.

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	3.7	2.9	1.3	3.6					
Canada	2.2	2.0	1.6	-2.2	2.1	1.7	2.0	2.1	0.3	2.2
United States	2.3	2.9	2.3	-0.8	2.1	1.7	2.2	2.0	0.8	2.6
Mexico	3.0	2.1	-0.1	-5.8	1.8	4.1	4.8	2.8	4.4	4.1
United Kingdom	1.9	1.3	1.4	-1.5	2.1	2.2	2.1	1.8	0.6	1.6
Eurozone	1.4	1.9	1.2	-2.7	2.5	1.3	1.5	1.3	0.5	1.1
Germany	2.1	1.5	0.6	-2.0	2.7	1.3	1.6	1.5	0.6	1.1
France	1.4	1.7	1.3	-1.8	2.3	1.1	1.6	1.5	0.5	1.0
China	7.9	6.8	6.1	4.7	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	0.7	0.0	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	2.6	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	-3.0	1.5	6.0	3.8	4.3	7.3	8.2
Colombia	3.8	2.5	3.3	2.9	3.2	3.9	3.2	3.8	3.2	3.0
Peru	4.8	4.0	2.2	0.3	3.5	3.0	2.2	1.9	1.4	2.0
Chile	3.5	4.0	1.1	-0.1	3.6	3.1	2.6	3.0	3.0	3.0
Commodities	(annual average)									
WTI Oil (USD/bbl)	74	65	57	36	47					
Brent Oil (USD/bbl)	82	72	64	39	48					
WCS - WTI Discount (USD/bbl)	-18	-26	-14	-14	-21					
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	-2.2	2.1	2.3	2.9	2.3	-0.8	2.1
Consumer spending	2.6	2.1	1.6	-0.2	2.7	2.4	3.0	2.6	0.5	2.4
Residential investment	2.7	-1.5	-0.5	-1.8	0.5	4.8	-1.5	-1.5	-5.1	-0.7
Business investment*	2.4	1.8	-0.8	-7.3	0.2	5.2	6.4	2.1	-6.0	1.3
Government	1.2	3.4	1.6	1.4	2.3	-0.3	1.7	2.3	2.1	2.2
Exports	3.6	3.1	1.2	-4.5	1.5	4.1	3.0	0.0	-4.7	1.2
Imports	3.9	2.6	0.3	-0.5	1.9	4.9	4.4	1.6	-0.3	1.9
Nominal GDP	3.9	3.9	3.6	-3.0	3.5	4.0	5.4	4.1	0.4	3.4
GDP deflator	1.7	1.8	1.9	-0.8	1.4	1.7	2.4	1.7	1.3	1.3
Consumer price index (CPI)	1.7	2.3	1.9	1.0	1.6	1.8	2.4	1.8	1.1	2.2
Core inflation rate**	1.9	1.9	2.0	1.6	1.2	1.6	1.9	1.6	1.5	1.6
Pre-tax corporate profits	5.8	2.5	0.3	-12.9	1.2	4.6	3.4	-0.6	-5.7	-1.2
Employment	1.2	1.3	2.1	-0.2	0.7	1.4	1.6	1.4	0.3	0.5
Unemployment rate (%)	7.0	5.8	5.7	6.8	7.0	6.5	3.9	3.7	4.5	5.0
Current account balance (CAD, USD bn)	-58.4	-55.5	-45.4	-63.3	-62.5	-421	-491	-507	-582	-608
Merchandise trade balance (CAD, USD bn)	-13.0	-22.1	-18.2	-43.3	-46.5	-754	-887	-879	-947	-991
Federal budget balance (FY, CAD, USD bn)	-19.4	-19.0	-14.0	-26.6	-110.0	-813	-779	-960	-1,008	-1,784
percent of GDP	-1.0	-0.9	-0.6	-1.2	-4.8	-4.6	-3.8	-4.5	-4.7	-8.0
Housing starts (000s, mn)	200	213	209	133	198	0.96	1.25	1.30	1.13	1.11
Motor vehicle sales (000s, mn)	1,810	1,983	1,922	1,773	1,930	15.5	17.2	16.9	15.7	17.1
Industrial production	2.7	3.1	-1.1	-6.6	0.2	2.2	4.0	0.8	-8.6	2.8
	Mexico									
	(annual % change)									
Real GDP	3.0	2.1	-0.1	-5.8	1.8					
Consumer price index (year-end)	4.1	4.8	2.8	4.4	4.1					
Current account balance (USD bn)	-21.2	-23.0	-2.4	-0.3	-10.8					
Merchandise trade balance (USD bn)	-6.8	-13.6	5.8	8.9	-1.8					

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	-1.3	-10.7	-3.4	4.6	5.2	3.0	2.9	3.0
Real GDP (y/y % change)	1.5	0.9	-2.8	-3.9	-2.9	-1.3	2.3	3.9	3.5
Consumer prices (y/y % change)	2.1	2.1	0.7	0.9	0.3	0.3	1.8	2.1	2.2
Avg. of new core CPIs (y/y % change)	2.1	1.9	1.7	1.5	1.2	1.2	1.2	1.2	1.2
United States									
Real GDP (q/q ann. % change)	2.1	-0.8	-7.7	-0.6	3.2	4.2	2.8	2.7	2.7
Real GDP (y/y % change)	2.3	1.3	-1.2	-1.8	-1.6	-0.4	2.4	3.2	3.1
Consumer prices (y/y % change)	2.0	2.1	0.8	0.6	0.8	1.4	2.3	2.6	2.6
Total PCE deflator (y/y % change)	1.4	1.5	0.6	0.5	0.6	1.3	1.9	2.2	2.4
Core PCE deflator (y/y % change)	1.6	1.7	1.6	1.4	1.3	1.5	1.6	1.7	1.8

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	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	
US Federal Reserve (upper bound)	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	
Bank of Mexico	7.25	6.25	6.00	6.00	6.00	6.00	6.00	6.00	6.00	
Central Bank of Brazil	4.50	3.75	3.75	4.25	4.75	5.75	6.75	7.75	8.25	
Bank of the Republic of Colombia	4.25	4.00	3.50	3.50	3.50	3.75	4.25	4.25	4.25	
Central Reserve Bank of Peru	2.25	1.25	0.75	0.75	1.00	1.25	1.50	1.75	1.75	
Central Bank of Chile	1.75	1.00	0.75	0.75	0.75	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	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	
Bank of England	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
Asia/Oceania										
Reserve Bank of Australia	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	
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	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00	
Bank of Thailand	1.25	1.00	0.75	0.75	0.75	0.75	0.75	1.00	1.00	
Currencies and Interest Rates										
Americas										
									(%, end of period)	
Canadian dollar (USDCAD)	1.30	1.48	1.48	1.45	1.42	1.40	1.37	1.34	1.32	
Canadian dollar (CADUSD)	0.77	0.68	0.68	0.69	0.70	0.71	0.73	0.75	0.76	
Mexican peso (USDMXN)	18.93	23.90	23.13	22.66	22.84	22.93	22.75	22.68	22.74	
Brazilian real (USDBRL)	4.02	5.37	5.12	4.72	4.84	5.11	4.64	4.52	4.49	
Colombian peso (USDCOP)	3,287	4,050	3,860	3,670	3,480	3,473	3,465	3,458	3,450	
Peruvian sol (USDPEN)	3.31	3.57	3.56	3.47	3.45	3.42	3.43	3.39	3.40	
Chilean peso (USDCLP)	753	860	820	800	790	780	760	740	720	
Europe										
Euro (EURUSD)	1.12	1.08	1.09	1.10	1.12	1.13	1.14	1.15	1.16	
UK pound (GBPUSD)	1.33	1.15	1.16	1.17	1.18	1.20	1.21	1.23	1.25	
Asia/Oceania										
Japanese yen (USDJPY)	109	108	108	107	107	106	106	106	105	
Australian dollar (AUDUSD)	0.70	0.57	0.57	0.58	0.58	0.59	0.59	0.60	0.60	
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	0.40	0.20	0.25	0.25	0.25	0.25	0.25	0.25	
2-year Canada	1.69	0.65	0.40	0.45	0.55	0.70	0.80	0.90	1.00	
5-year Canada	1.68	0.85	0.55	0.65	0.75	0.90	1.05	1.15	1.20	
10-year Canada	1.70	1.00	0.80	0.90	1.00	1.20	1.30	1.40	1.50	
30-year Canada	1.76	1.40	1.20	1.25	1.35	1.45	1.55	1.65	1.80	
United States (Yields, %)										
3-month T-bill	1.51	0.00	0.10	0.10	0.10	0.10	0.10	0.10	0.15	
2-year Treasury	1.57	0.45	0.45	0.50	0.60	0.70	0.80	0.90	1.00	
5-year Treasury	1.69	0.65	0.60	0.70	0.90	1.00	1.10	1.20	1.30	
10-year Treasury	1.92	1.10	1.00	1.05	1.15	1.25	1.35	1.45	1.60	
30-year Treasury	2.39	1.80	1.70	1.80	1.95	2.00	2.05	2.05	2.10	

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	-2.2	-3.2	-1.0	-1.4	-2.1	-1.8	-2.2	-1.5	-2.5	-2.8	-1.7
2021f	2.1	0.4	2.2	1.6	0.7	1.8	2.1	1.6	1.9	2.5	2.2
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	3.8	4.7	3.5	2.3	4.3	3.5	3.1	2.7	2.2	4.4
2020f	-3.0	-5.8	-0.9	-2.1	-2.7	-2.2	-2.7	-2.2	-4.5	-4.8	-2.2
2021f	3.5	2.4	3.6	3.0	1.8	3.3	3.5	1.8	3.7	4.5	3.6
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	-0.2	-3.1	1.9	-0.2	0.3	0.1	0.3	0.3	-0.4	-1.7	-0.5
2021f	0.7	0.0	0.6	0.4	0.4	0.7	0.8	0.4	0.4	0.7	1.0
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	6.8	13.6	8.5	8.0	7.9	5.8	6.7	5.7	6.5	8.8	5.9
2021f	7.0	13.4	8.7	7.9	7.7	6.0	6.8	5.9	6.7	9.3	6.3
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	1.5	4.7	2.9	48	69	6.9	2.4	27	45
2020f	133	0.6	0.3	3.3	1.0	31	49	3.2	2.0	19	23
2021f	198	1.1	1.0	4.2	2.3	43	75	5.7	3.6	30	32
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	30	8	51	40	442	818	56	48	218	204
2020f	1,773	27	8	49	36	418	758	52	43	190	193
2021f	1,930	27	9	50	37	442	830	53	46	227	210
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	1,900	-9,023	-325	37	-7,540	203
2021f	-110,000	-796	7	55	92	0	-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.

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