

Light at the End of the Tunnel Getting Brighter

- **Good progress in controlling the spread of COVID-19 is allowing many economies to re-open, setting the stage for a strong rebound in growth in the second half of the year. The economic disruption is nevertheless severe, with dramatic reductions in activity expected in most countries in 2020, followed by robust growth in 2021 if the virus remains contained.**
- **Despite the acceleration in economic growth, the level of economic activity will remain well below that observed pre-COVID until early 2022 given the severity of the downturn.**
- **Downside risks remain high. A second wave of COVID-19 is likely, and President Trump's volatile nature may add to the uncertainty heading into the US election.**

Efforts by many countries to slow the spread of the virus are clearly paying off. Daily new cases are now on a downward trend in most countries, though the virus continues to spread rapidly in some parts of Latin America. Where the curve has been flattened, economies are gradually re-opening non-essential business and reducing limitations on social distancing. While this is occurring generally as expected at the time of our [April forecast](#), there had been a risk that virus containment measures would not prove to be as effective as they have been, and that lockdowns and shut-ins would last longer than assumed at that time. As a consequence, it is a great relief, and very good news, that economies are fully engaged in the re-opening process. The light at the end of the tunnel is getting brighter.

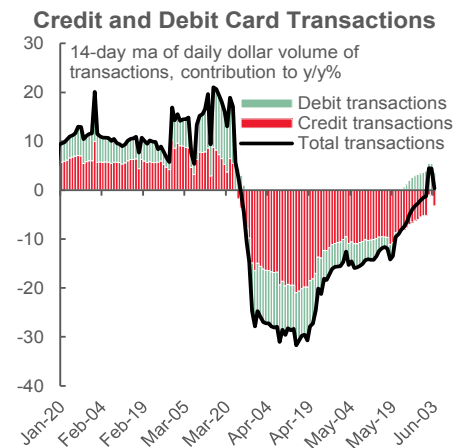
Despite this progress, we are still facing a historic decline in economic activity in 2020, given the massive disruption that occurred in the first half of the year. Virus-related risks remain front and centre given the risk of a second wave, the potential for reactivation as economies re-open, and the current lack of cure or vaccine. Unfortunately, other risks are coming back to the fore. Following a COVID-related respite from President Trump's obsession with trade, trade tensions are once again on the rise. Further, as his electoral chances continue to dim, we expect more destabilizing actions or statements from his administration. Dark clouds may be forming at the end of the tunnel.

From a Canadian perspective, the outlook isn't as dire as we earlier feared. First quarter data pointed to a less dramatic decline than initially reported, setting the year off on a substantially less negative footing. Furthermore, as the economy re-opens, there are signs of vigour on the retail side as captured by Scotiabank's proprietary credit and debit card data (chart 1). Auto and home sales have picked up sharply in May from April levels, though they still remain well below pre-COVID levels, of course. Moreover, since our April forecast, oil prices have rebounded sharply owing to increased confidence that the global economy is firmly on the re-opening path. That has also led to a very significant improvement in equity markets, supported in large measure by substantial central bank liquidity. Taken together, these developments suggest the Canadian economy will contract by a

CONTACTS

Jean-François Perrault, SVP & Chief Economist
 416.866.4214
 Scotiabank Economics
jean-francois.perrault@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

Note that the evolution of our credit and debit card data also reflects increased use of electronic payments through the crisis. As a result, one should not necessarily infer that total spending has returned to year ago levels. These data are simply demonstrative of a directional improvement in purchasing activity since the outset of the downturn.

still-large 7.3% in 2020 (we had forecast a decline of 9.1% in our April forecast) and rebound by 6.6% in 2021. Despite the strong rebound, it will take until roughly the beginning of 2022 before economic activity returns to pre-COVID levels. Some industries will come back more slowly than others, notably those where social distancing measures are more impactful on business models (table 1). While we expect inflation to be dragged down because of the fall in GDP and remain well below the Bank of Canada's target level, the fall in inflation may not be as large as we currently expect if some affected businesses raise prices to account for the effect of social distancing on their operations. We continue to believe the Bank of Canada's policy rate will remain at current levels through the end of 2021, at least.

We have been updating our forecasts for Latin American countries almost weekly given the ongoing spread of COVID-19 in the region ([Latam Weekly](#)). Hopes that the progression of the virus would be limited by public-health measures have, unfortunately, not been realized across the region. Although massive fiscal, monetary, and financial support measures have been implemented in many countries to cushion the blow of extensive lockdowns, Latam's economies are expected to suffer downturns similar to those being experienced in Europe and North America. The relative stability of the region's financial markets has been one silver lining to the COVID-19 storm in Latam, and moves in several countries to begin selective re-openings may staunch some of the economic pain. Recent spikes in some areas and the re-imposition of quarantines show, however, that the path out of the pandemic is unlikely to be linear.

Table 1

	Share of total GDP as of Feb. 2020, %	2020			Level of GDP in Sept. 2020, (Jan. 2020 = 100)
		Q1	Q2f	Q3f	
		Q/Q SAAR, %			
All industries	100	-8	-42	28	92
Goods-producing industries	29	-4	-11	9	98
Manufacturing	10	-8	-26	20	95
Services-producing industries	71	-9	-52	38	89
Wholesale trade	5	-2	-9	8	98
Retail trade	5	-9	-54	55	91
Transportation and warehousing	4	-19	-82	67	73
Finance and insurance	7	-1	-13	1	97
Real estate, and rental and leasing	13	1	-10	6	99
Educational services	5	-22	-92	215	72
Health care and social assistance	7	-11	-67	85	87
Arts, entertainment and recreation	1	-46	-100	237520	40
Accommodation and food services	2	-43	-100	2078	42

Sources: Scotiabank Economics, Statistics Canada.

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	3.1	-3.2	6.1					
Canada	2.2	2.0	1.7	-7.3	6.6	1.7	2.0	2.1	0.2	1.6
United States	2.3	2.9	2.3	-4.5	6.7	1.7	2.2	2.0	0.7	2.6
Mexico	3.0	2.1	-0.3	-8.4	1.1	4.1	4.8	2.8	3.5	3.9
United Kingdom	1.9	1.3	1.4	-8.0	6.2	2.2	2.1	1.4	0.8	1.4
Eurozone	1.4	1.9	1.2	-8.1	5.0	1.3	1.5	1.3	0.5	1.0
Germany	2.1	1.5	0.6	-6.3	5.8	1.3	1.6	1.5	0.5	1.3
France	1.4	1.7	1.3	-8.9	5.9	1.1	1.6	1.6	0.4	1.2
China	7.9	6.8	6.1	1.6	8.5	2.5	1.8	4.5	1.6	2.5
India	7.2	6.8	4.8	-2.0	8.5	7.3	2.1	7.4	2.8	4.3
Japan	1.4	0.3	0.7	-3.8	2.3	0.6	0.3	0.8	-0.6	0.5
South Korea	3.5	2.9	2.0	-1.6	3.1	1.8	1.3	0.7	-0.3	1.7
Australia	2.7	2.7	1.8	-3.6	2.7	2.1	1.8	1.8	1.5	1.6
Thailand	3.8	4.1	2.4	-5.4	4.0	1.5	0.4	0.9	-2.5	1.5
Brazil	1.4	1.3	1.1	-4.3	2.0	6.0	3.8	3.8	3.7	5.6
Colombia	3.8	2.5	3.3	-4.9	4.2	3.9	3.2	3.2	3.2	3.1
Peru	4.8	4.0	2.2	-9.0	7.0	3.0	2.2	1.9	1.1	1.7
Chile	3.6	4.0	1.1	-4.5	2.9	3.2	2.6	3.0	2.8	3.0
Argentina	1.8	-2.5	-2.2	-7.9	6.5	23.0	47.6	53.8	45.7	46.8
Commodities		(annual average)								
WTI Oil (USD/bbl)	74	65	57	37	44					
Brent Oil (USD/bbl)	82	72	64	41	47					
WCS - WTI Discount (USD/bbl)	-18	-26	-14	-10	-16					
Nymex Natural Gas (USD/mmbtu)	3.39	3.07	2.53	1.95	2.40					
Copper (USD/lb)	3.10	2.96	2.72	2.25	2.75					
Zinc (USD/lb)	1.02	1.33	1.16	0.90	1.00					
Nickel (USD/lb)	7.00	5.95	6.32	5.40	6.00					
Aluminium (USD/lb)	0.89	0.96	0.81	0.90	0.90					
Iron Ore (USD/tonne)	101	70	94	77	70					
Metallurgical Coal (USD/tonne)	179	207	184	134	140					
Gold, (USD/oz)	1,342	1,268	1,393	1,650	1,700					
Silver, (USD/oz)	21.64	15.71	16.21	16.50	18.00					

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	1.7	-7.3	6.6	2.3	2.9	2.3	-4.5	6.7
Consumer spending	2.6	2.1	1.6	-7.5	6.5	2.4	3.0	2.6	-4.8	6.6
Residential investment	2.7	-1.5	-0.5	-5.7	7.6	4.8	-1.5	-1.5	1.6	5.8
Business investment*	2.4	1.8	-0.4	-10.4	11.2	5.2	6.4	2.1	-8.5	12.7
Government	1.2	3.4	1.8	-0.1	2.8	-0.3	1.7	2.3	1.8	2.8
Exports	3.6	3.1	1.3	-11.4	9.0	4.1	3.0	0.0	-10.7	9.7
Imports	3.9	2.6	0.6	-10.1	9.1	4.9	4.4	1.0	-10.7	9.6
Nominal GDP	3.9	3.9	3.6	-8.5	8.7	4.0	5.4	4.1	-3.3	8.3
GDP deflator	1.7	1.8	1.9	-1.4	2.1	1.7	2.4	1.7	1.3	1.5
Consumer price index (CPI)	1.7	2.3	1.9	0.9	1.2	1.8	2.4	1.8	1.1	2.1
Core inflation rate**	1.9	1.9	2.0	1.4	1.0	1.6	1.9	1.6	1.1	1.8
Pre-tax corporate profits	5.8	2.5	-0.1	-23.6	10.7	4.6	3.4	0.0	-21.2	3.2
Employment	1.2	1.3	2.1	-6.5	6.6	1.4	1.6	1.4	-6.2	4.9
Unemployment rate (%)	7.0	5.8	5.7	10.3	6.8	6.5	3.9	3.7	9.8	7.0
Current account balance (CAD, USD bn)	-58.4	-55.5	-47.0	-52.0	-51.2	-421	-491	-498	-428	-474
Merchandise trade balance (CAD, USD bn)	-13.0	-22.1	-18.4	-24.6	-27.5	-754	-887	-866	-774	-862
Federal budget balance (FY, CAD, USD bn)	-19.4	-19.0	-14.0	-22.0	-260.0	-813	-779	-960	-3,700	-2,100
percent of GDP	-1.0	-0.9	-0.6	-1.0	-11.3	-4.6	-3.8	-4.5	-17.8	-9.4
Housing starts (000s, mn)	200	213	209	145	191	0.96	1.25	1.30	1.24	1.35
Motor vehicle sales (000s, mn)	1,810	1,983	1,922	1,426	1,593	15.5	17.2	16.9	13.5	15.1
Industrial production	2.7	3.1	-0.9	-5.8	5.0	2.2	4.0	0.9	-9.3	5.3
	Mexico									
	(annual % change)									
Real GDP	3.0	2.1	-0.3	-8.4	1.1					
Consumer price index (year-end)	4.1	4.8	2.8	3.5	3.9					
Current account balance (USD bn)	-21.2	-23.0	-4.3	-15.4	-16.9					
Merchandise trade balance (USD bn)	-6.8	-13.6	5.4	7.9	6.0					

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			
Canada	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Real GDP (q/q ann. % change)	0.6	-8.2	-42.0	28.1	18.9	8.0	5.3	3.5	4.3
Real GDP (y/y % change)	1.5	-0.9	-14.2	-9.0	-5.1	-1.2	14.7	8.8	5.3
Consumer prices (y/y % change)	2.1	1.8	0.5	1.3	0.2	0.2	1.5	1.4	1.6
Avg. of new core CPIs (y/y % change)	2.0	1.9	1.6	1.3	0.9	0.9	0.9	1.1	1.3
Unemployment Rate (%)	5.7	6.3	13.3	12.3	9.6	7.7	6.8	6.4	6.1
United States									
Real GDP (q/q ann. % change)	2.1	-5.0	-35.0	28.3	14.1	9.4	4.8	3.3	2.2
Real GDP (y/y % change)	2.3	0.3	-10.4	-5.2	-2.5	1.0	13.8	7.8	4.9
Consumer prices (y/y % change)	2.0	2.1	0.9	0.9	0.7	1.5	2.0	2.3	2.6
Total PCE deflator (y/y % change)	1.4	1.6	0.7	0.7	0.5	1.3	1.8	2.1	2.4
Core PCE deflator (y/y % change)	1.6	1.7	1.1	0.8	1.0	1.5	1.7	2.0	2.1
Unemployment Rate (%)	3.5	3.8	13.6	11.7	10.2	8.8	7.5	6.3	5.4

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

	2019	2020				2021			
Central Bank Rates	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas									
(% , end of period)									
Bank of Canada	1.75	0.25	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	6.50	5.00	4.75	4.75	4.75	4.75	4.75	4.75
Central Bank of Brazil	4.50	3.75	2.50	1.75	1.75	3.00	4.00	4.75	5.75
Bank of the Republic of Colombia	4.25	3.75	2.50	2.50	2.50	2.50	2.75	3.25	3.50
Central Reserve Bank of Peru	2.25	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
Central Bank of Chile	1.75	0.50	0.50	0.50	0.50	1.00	1.25	1.50	1.50
Central Bank of Argentina	55.00	38.00	37.00	36.00	36.00	36.00	37.00	38.00	40.00
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	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
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	4.05	3.80	3.75	3.75	3.75	3.75	3.75	3.75
Reserve Bank of India	5.15	4.40	4.00	3.50	3.50	3.50	3.50	3.75	4.00
Bank of Korea	1.25	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Bank of Thailand	1.25	0.75	0.50	0.25	0.25	0.25	0.25	0.25	0.25
Currencies and Interest Rates									
(end of period)									
Americas									
Canadian dollar (USDCAD)	1.30	1.41	1.36	1.34	1.32	1.30	1.30	1.28	1.28
Canadian dollar (CADUSD)	0.77	0.71	0.74	0.75	0.76	0.77	0.77	0.78	0.78
Mexican peso (USDMXN)	18.93	21.97	22.33	23.45	24.29	24.43	24.25	24.11	24.20
Brazilian real (USDBRL)	4.02	5.20	5.82	5.62	5.44	5.13	5.21	5.09	4.89
Colombian peso (USDCOP)	3287	4065	3765	3725	3654	3473	3465	3458	3450
Peruvian sol (USDPEN)	3.31	3.43	3.49	3.47	3.45	3.42	3.43	3.39	3.40
Chilean peso (USDCLP)	753	860	820	800	790	780	760	740	720
Argentine Peso (USDARS)	59.87	64.40	73.40	79.10	83.10	86.20	87.50	89.20	93.10
Europe									
Euro (EURUSD)	1.12	1.10	1.09	1.10	1.12	1.13	1.14	1.15	1.16
UK pound (GBPUSD)	1.33	1.24	1.25	1.27	1.28	1.29	1.30	1.31	1.32
Asia/Oceania									
Japanese yen (USDJPY)	109	108	108	107	107	106	106	106	105
Australian dollar (AUDUSD)	0.70	0.61	0.68	0.69	0.69	0.69	0.69	0.70	0.70
Chinese yuan (USDCNY)	6.96	7.08	7.05	7.10	7.10	7.00	7.00	6.90	6.90
Indian rupee (USDINR)	71.4	75.5	75.0	74.0	74.0	73.0	73.0	72.0	72.0
South Korean won (USDKRW)	1,156	1,219	1,200	1,220	1,220	1,200	1,200	1,180	1,180
Thai baht (USDTHB)	30.0	32.8	31.0	32.0	32.0	31.0	31.0	30.0	30.0
Canada (Yields, %)									
3-month T-bill	1.66	0.21	0.20	0.20	0.20	0.20	0.20	0.20	0.20
2-year Canada	1.69	0.42	0.35	0.45	0.55	0.65	0.75	0.85	0.95
5-year Canada	1.68	0.58	0.50	0.60	0.75	0.85	1.00	1.10	1.20
10-year Canada	1.70	0.69	0.70	0.80	1.00	1.10	1.20	1.35	1.50
30-year Canada	1.76	1.30	1.30	1.35	1.40	1.45	1.55	1.65	1.75
United States (Yields, %)									
3-month T-bill	1.51	0.05	0.10	0.10	0.10	0.10	0.10	0.10	0.10
2-year Treasury	1.57	0.25	0.25	0.35	0.50	0.70	0.80	0.90	1.00
5-year Treasury	1.69	0.38	0.40	0.55	0.80	1.00	1.10	1.20	1.30
10-year Treasury	1.92	0.67	0.80	0.90	1.05	1.20	1.30	1.45	1.60
30-year Treasury	2.39	1.32	1.60	1.65	1.75	1.85	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	1.7	4.0	4.5	2.1	1.0	2.7	1.6	1.0	-0.8	-0.6	2.8
2020f	-7.3	-9.5	-5.5	-5.8	-6.0	-7.5	-7.0	-5.3	-7.8	-10.1	-5.5
2021f	6.6	6.1	6.6	6.4	6.5	6.8	6.6	6.0	6.5	6.3	6.6
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	5.9	6.6	4.0	2.8	4.3	3.9	2.8	0.8	1.0	4.9
2020f	-8.5	-11.6	-6.6	-7.0	-7.1	-8.5	-8.1	-6.0	-10.1	-12.6	-6.5
2021f	8.7	8.2	8.7	8.3	8.7	8.9	8.8	8.1	8.8	9.0	9.0
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	-6.5	-7.9	-3.3	-5.6	-5.1	-7.0	-6.1	-5.1	-6.2	-7.7	-6.8
2021f	6.6	5.0	7.3	6.3	6.2	6.7	6.7	5.9	6.6	6.4	6.9
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	10.3	15.8	11.0	11.0	11.0	10.4	10.0	9.0	9.7	11.8	9.4
2021f	6.8	13.2	7.3	7.9	7.8	6.7	6.4	5.9	6.2	8.4	5.7
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	145	0.8	0.8	3.7	2.6	34	52	4.9	1.7	17	28
2021f	191	0.8	1.3	3.9	2.6	45	66	6.6	2.2	25	37
Motor Vehicle Sales (units, 000s)											
2010–18	1,847	33	7	52	42	439	725	56	54	241	197
2018	1,984	28	8	51	38	449	853	67	47	226	217
2019e	1,920	34	8	53	41	454	789	53	46	227	214
2020f	1,426	20	7	46	32	335	590	44	32	150	170
2021f	1,593	21	7	53	35	378	665	46	35	163	190
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*	-22,000	-944	-4	41	98	1,900	-9,184	-325	37	-7,540	203
2021f	-260,000	-796	7	55	-299	0	-20,500	-220	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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