

# Global Economic Outlook: A bull in a China shop

October 4, 2019

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# Agenda

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## **1. Risks to the outlook: trade, the US and the global economy**

- Uncertainty is very high but risks of recession are overblown

## **2. Monetary policy**

- Central banks are easing and will continue to do so.

## **3. Canada: macro overview**

- Domestic economy to remain on solid footing, if trade risks are contained

## **4. Canada: the perspective from households**

- Jobs, jobs, jobs

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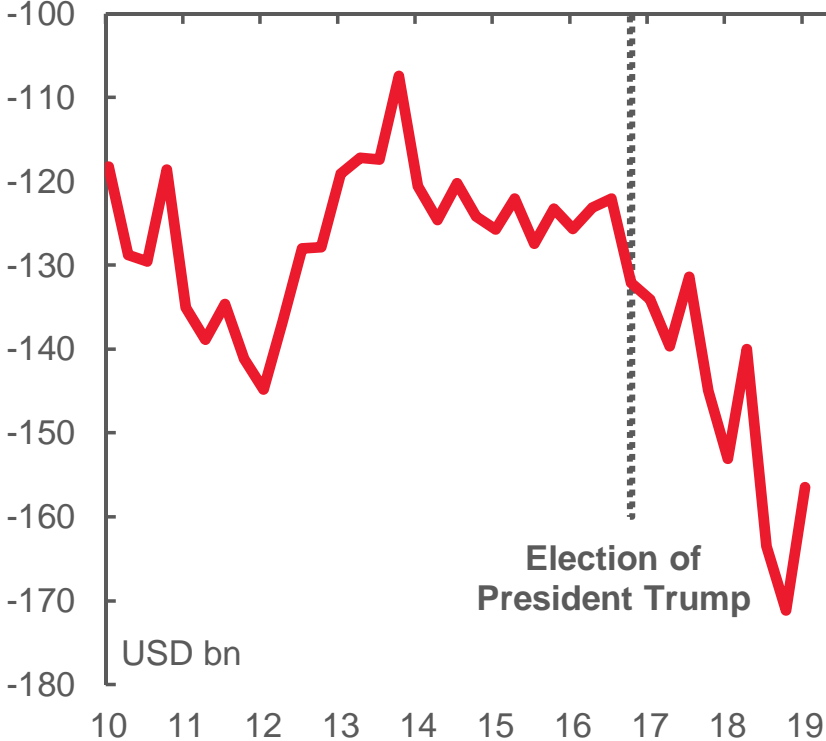
# 1. Risks to the outlook: trade, the US and the global economy

# Main risks to the global economic outlook



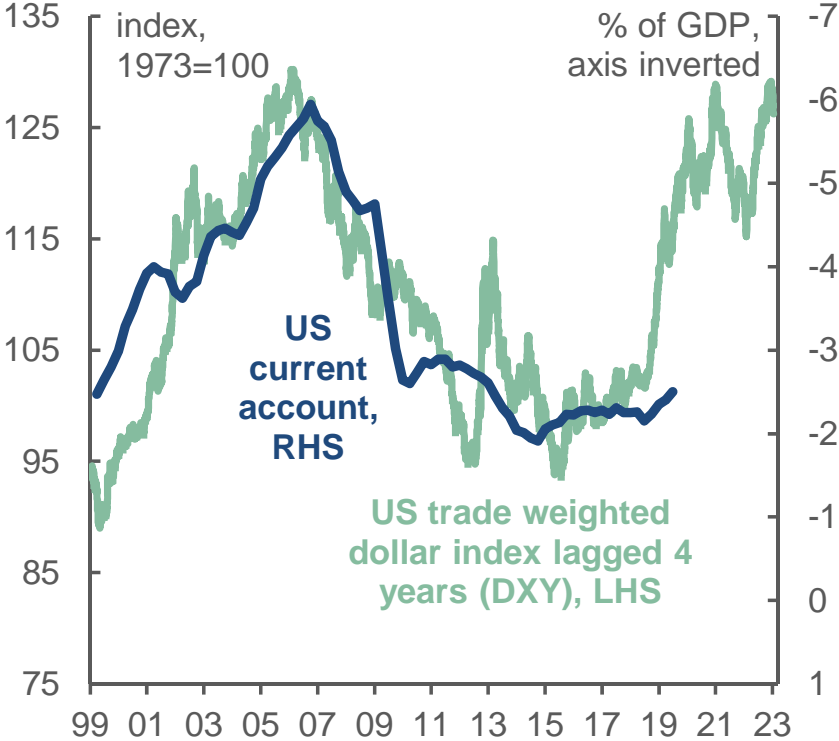
# Key Risk: US trade deficit to remain large, pushing Trump to act

### US External Trade Balance, Goods & Services



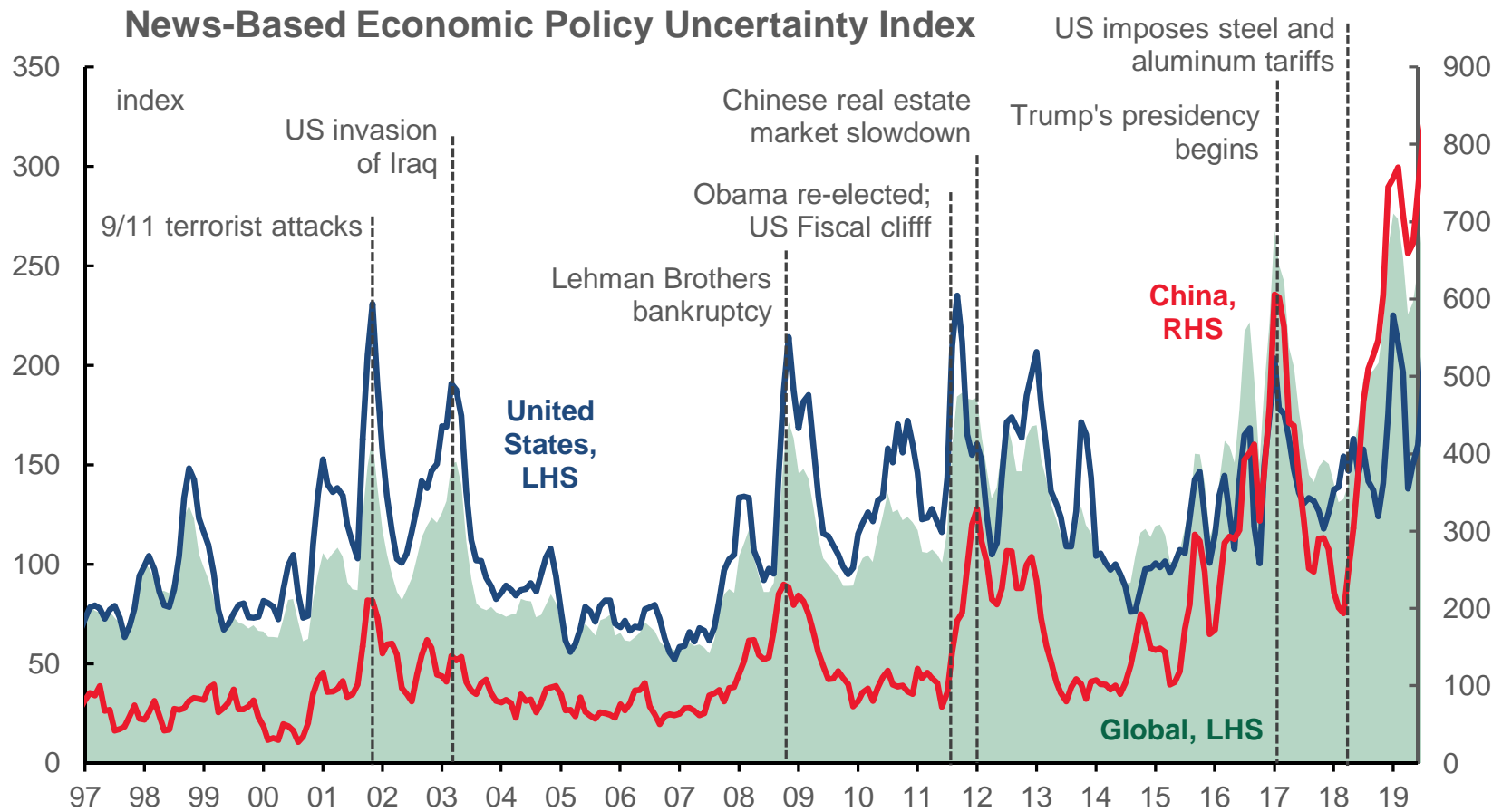
Sources: Scotiabank Economics, BEA.

### US Current Account Deficit and US Trade-Weighted Dollar



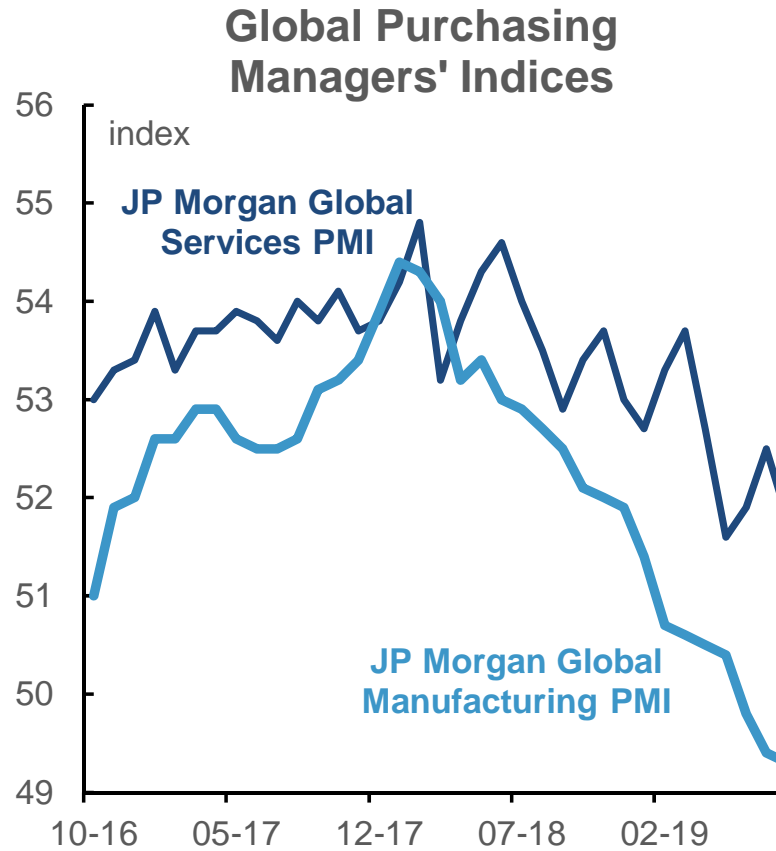
Source: Scotiabank Economics, Federal Reserve, Bloomberg.

# Trade uncertainty is high and will remain so

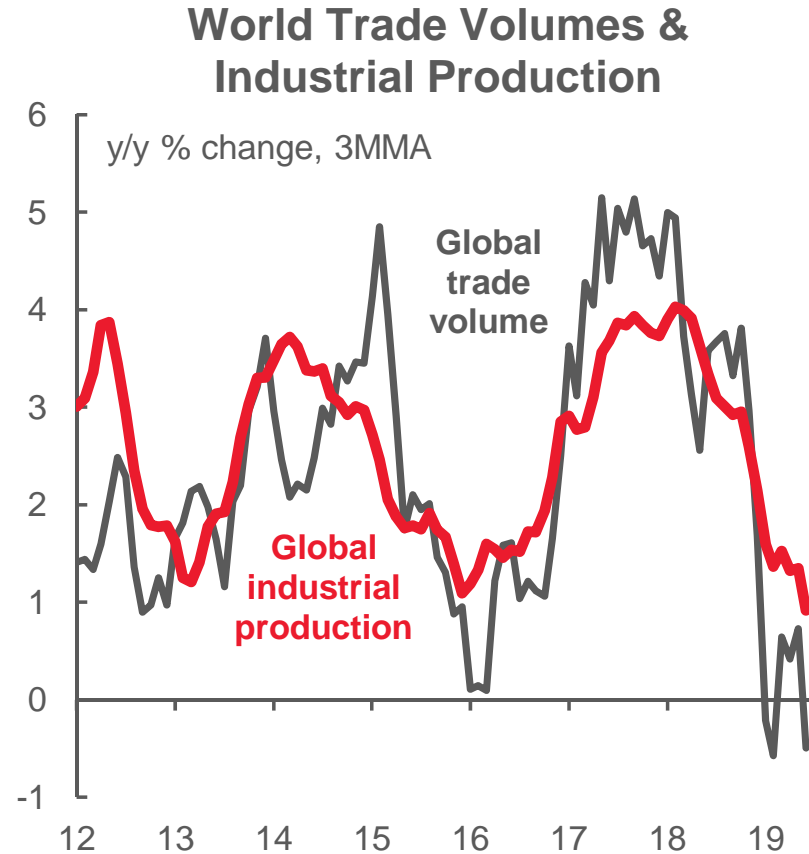


Sources: Scotiabank Economics, Haver Analytics.

# ...Reflected in a number of global indicators

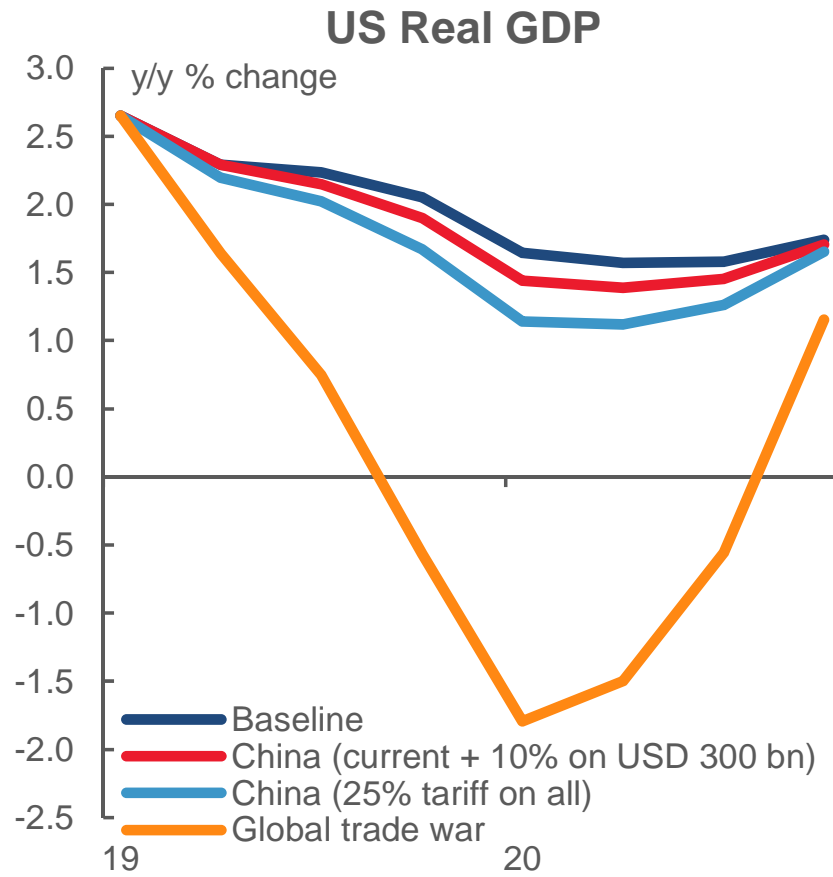


Sources: Scotiabank Economics, Markit, Bloomberg.

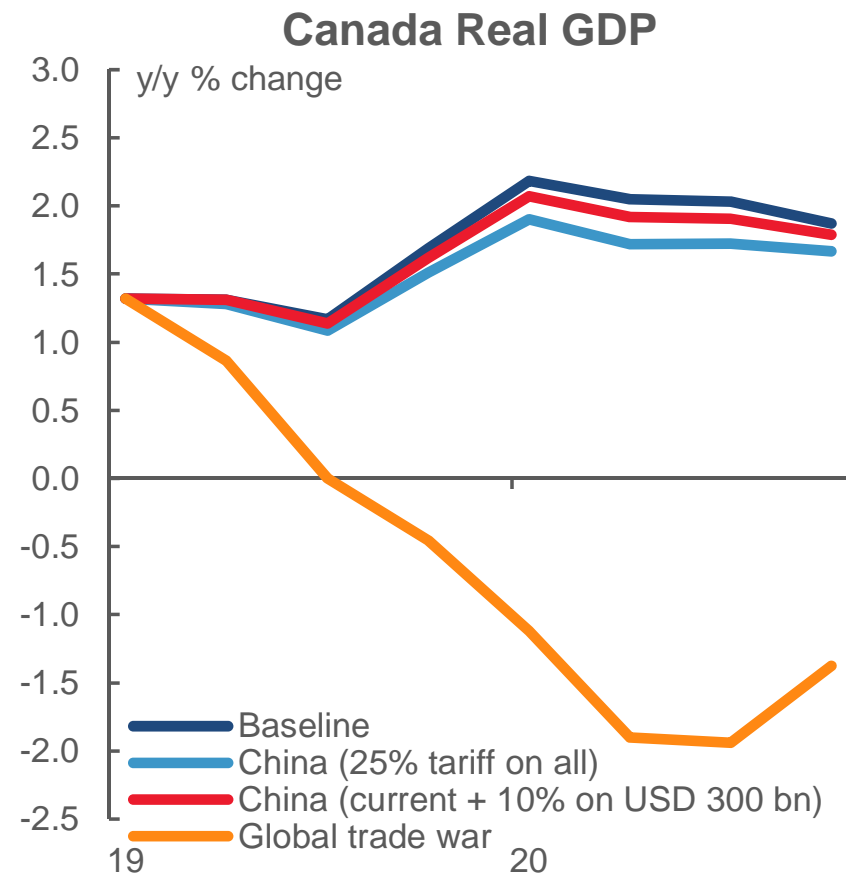


Sources: Scotiabank Economics, Netherlands Bureau for Economic Policy Analysis.

# Global trade war— a sure way to engineer a recession



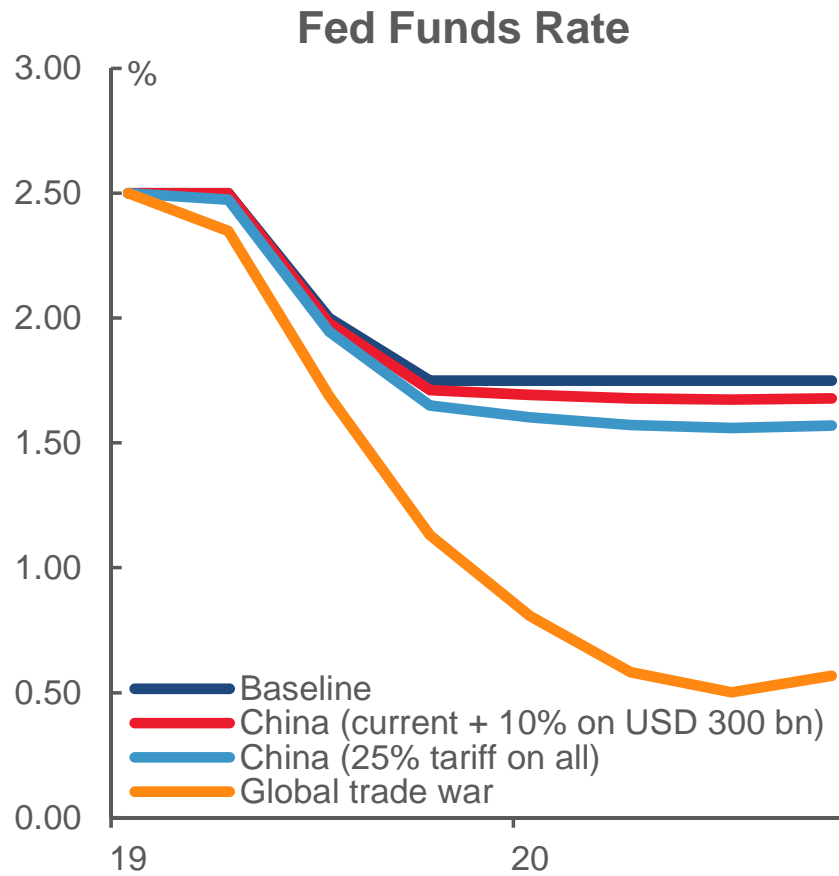
Source: Scotiabank Economics.



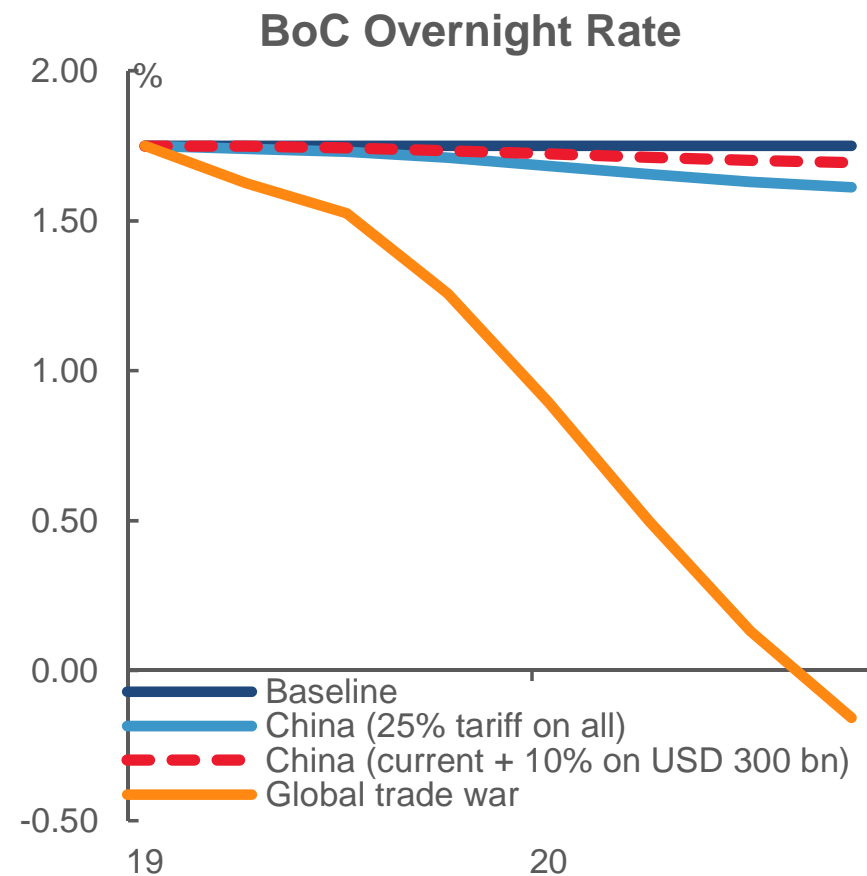
Source: Scotiabank Economics.



# Global trade war— a sure way to engineer a recession

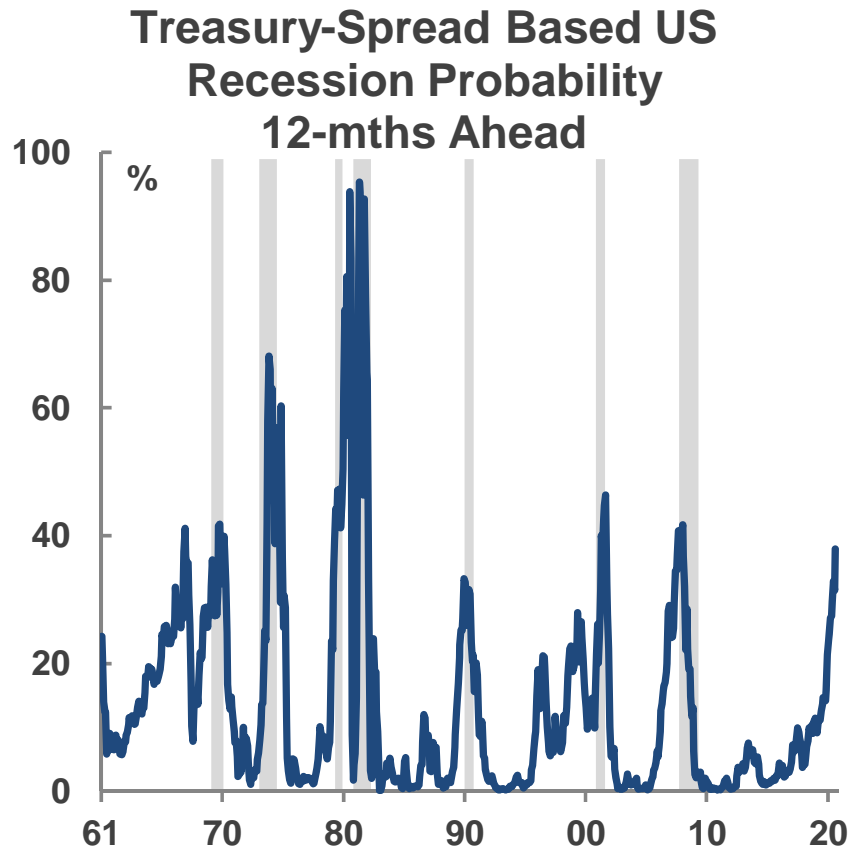


Source: Scotiabank Economics.

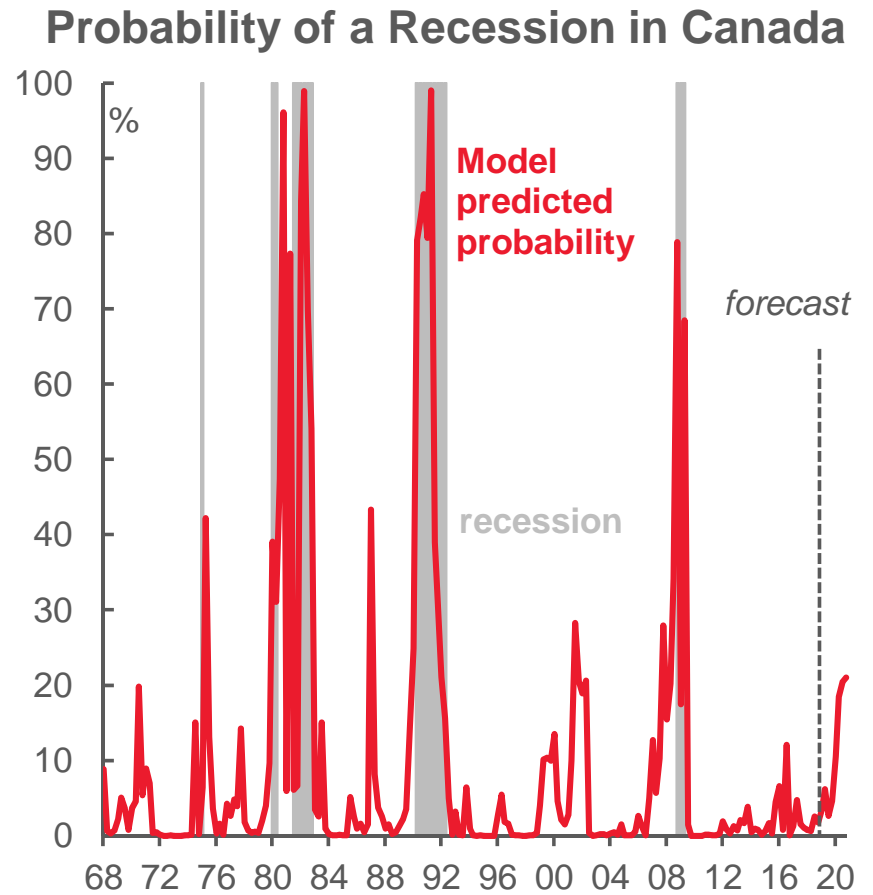


Source: Scotiabank Economics.

... So the probability of recession has picked up



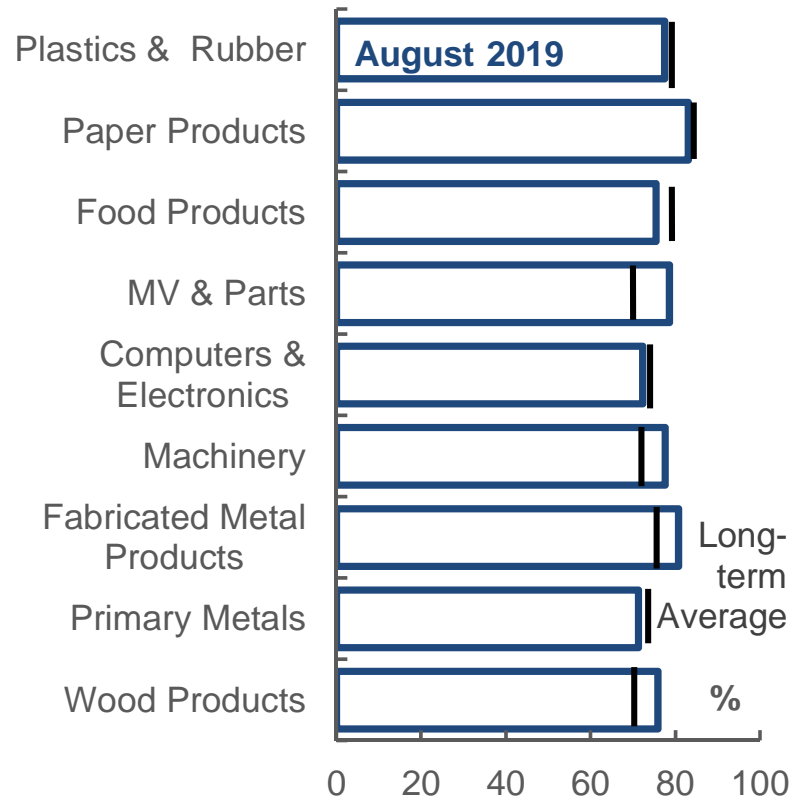
Sources: Scotiabank Economics, FRBNY. Shaded areas represent recession periods.



Sources: Scotiabank Economics, Haver Analytics.

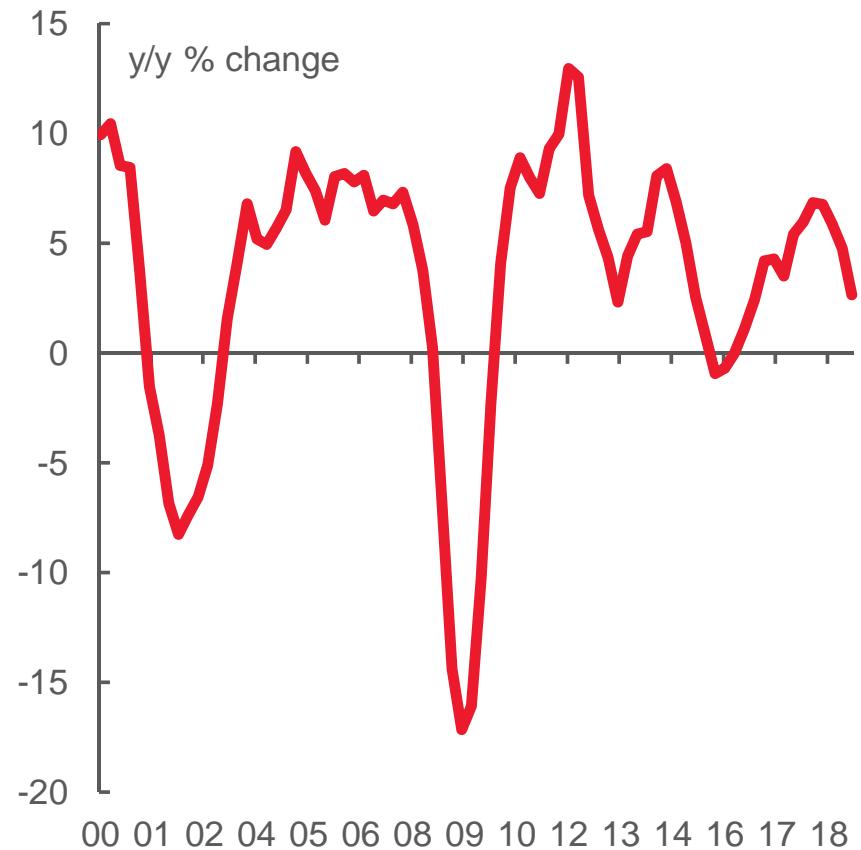
# US: Firms running at full capacity but uncertainty slowing investment

## Mfg Capacity Utilization Rates



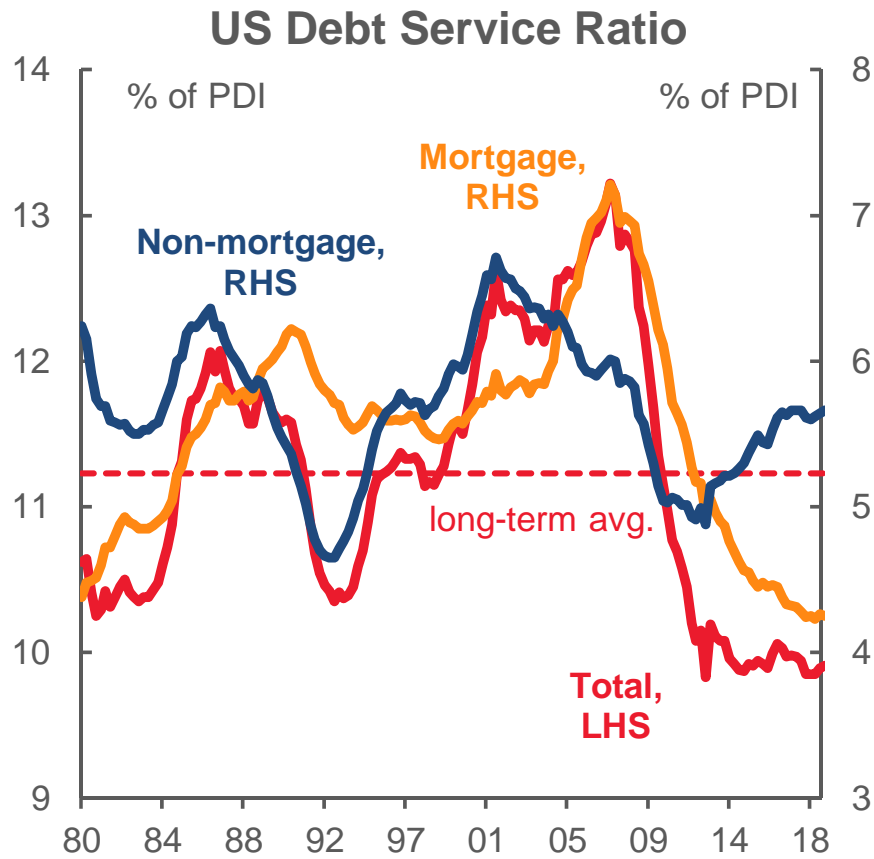
Sources: Scotiabank Economics, BEA.

## US Business Investment

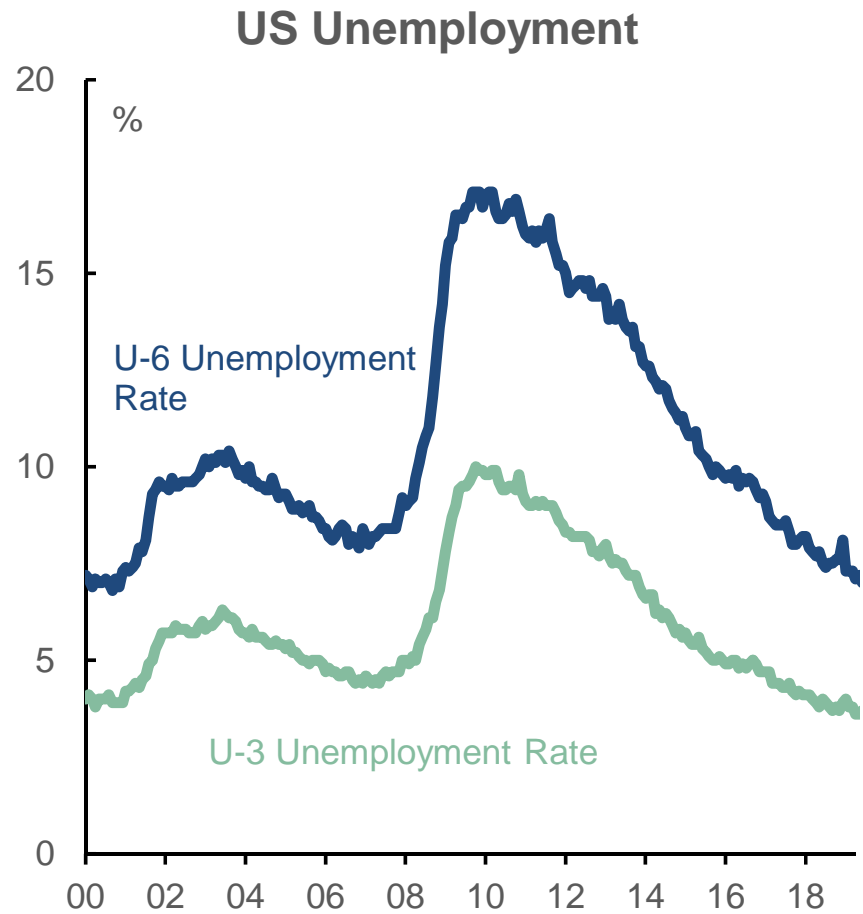


Sources: Scotiabank Economics, BEA.

... Even as households have ability to spend



Sources: Scotiabank Economics, US Federal Reserve.



Sources: Scotiabank Economics, BLS.

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## 2. Monetary Policy

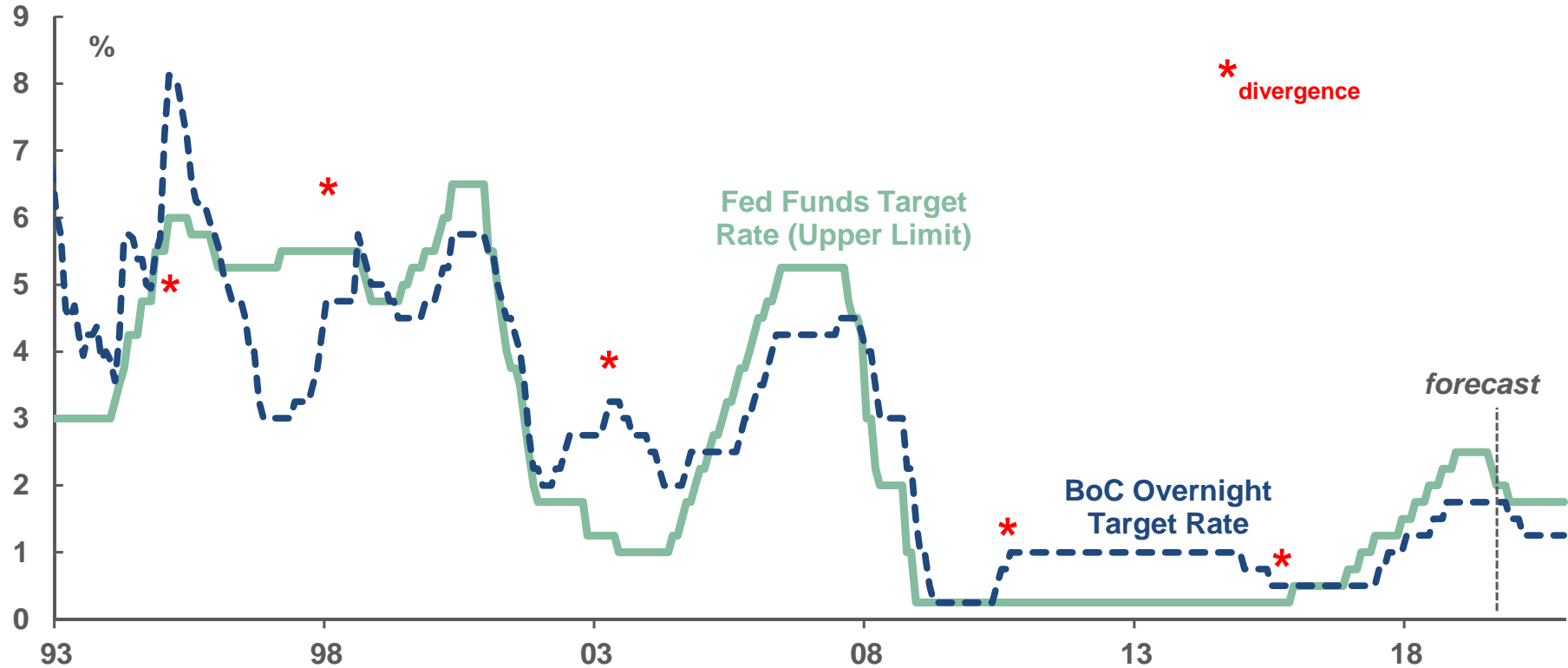
# Central banks must cut rates in light of elevated trade risks

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- Fed has cut by 50bps, and is likely to cut by another 25 before year is out
  - That's been driven by lower inflation, and concern about trade-related risks
  - Since we think those risks will remain, and likely increase, we anticipate more cuts in the US
- In Canada, inflation is at the BoC's target and the economy is on a more solid footing than the US heading into 2020
  - Downside risks coming from US trade policy—as that reverberates through markets and around the world—will likely compel the BoC to ease by 50 bps through 2020Q1
  - From a modelling perspective, these cuts are not needed, but they help to balance risks to the inflation outlook.
- A globally coordinated cut in policy rates is possible as most advanced economy central banks are responding to a weaker outlook or elevated risks
  - Limited conventional firepower left, coordinated action could be a force multiplier
  - Would also help allay fears of a global currency war, as coordinated cuts are a clear signal that weaker exchange rates are not the policy intent behind monetary easing

# Fed to cut more than the BoC

## Fed & Bank of Canada Policy Rates



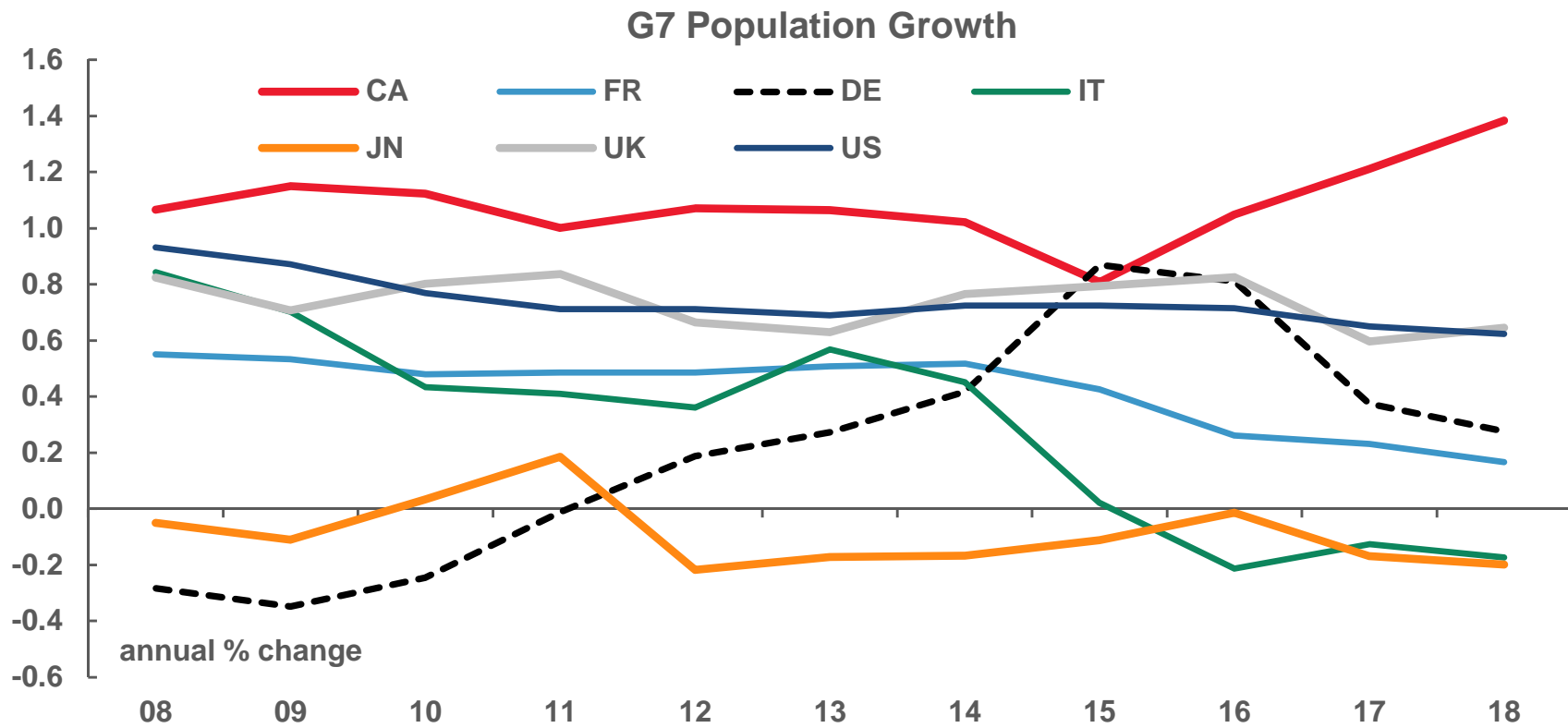
Sources: Scotiabank Economics, Haver Analytics.

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### 3. Canada: Macro Overview

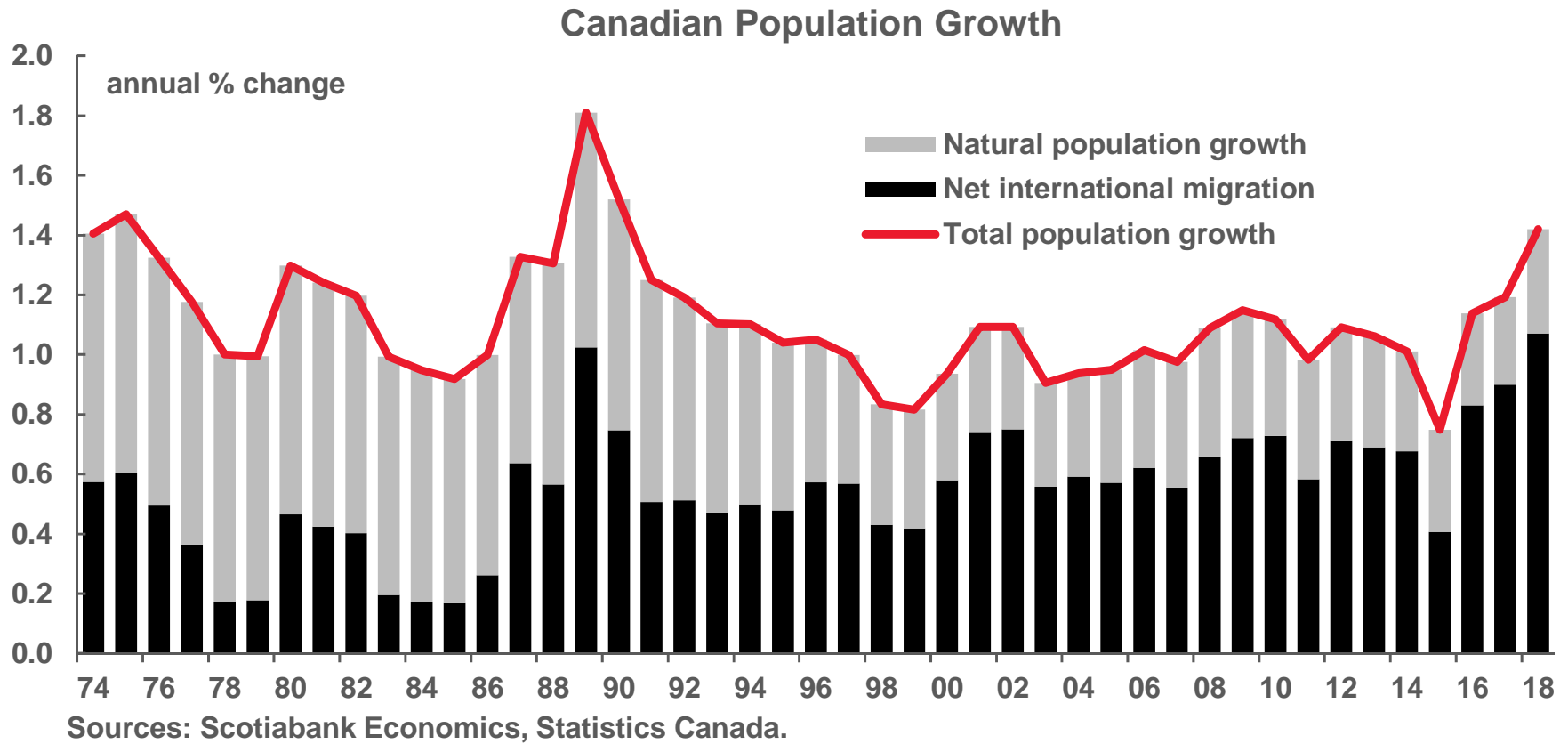


# Canada: Population growth, human stimulus key differentiator

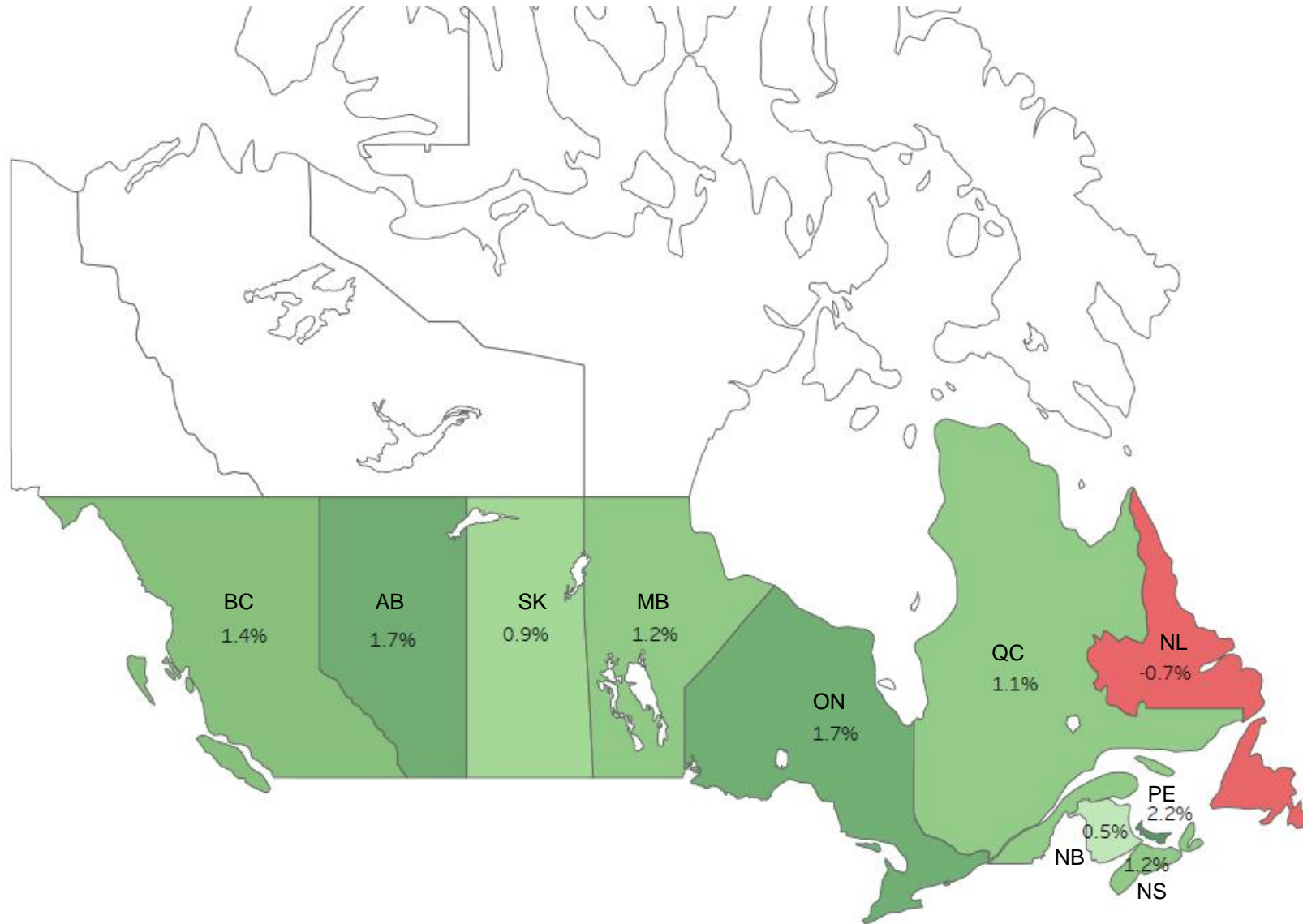


Sources: Scotiabank Economics, IMF.

# Rising immigration rates are key

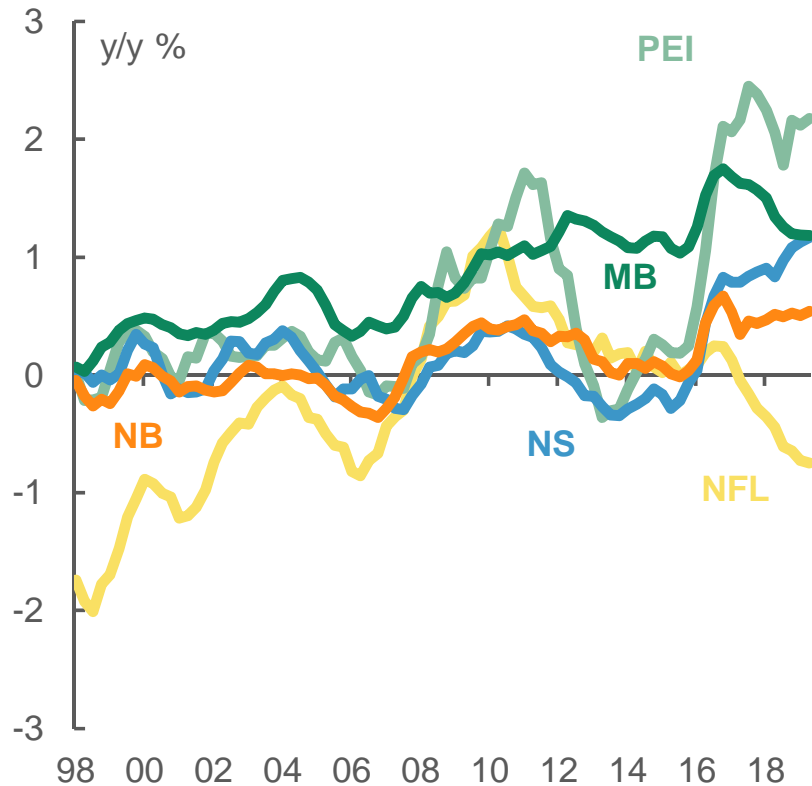


# Population gains are broadly distributed, but larger in major centres



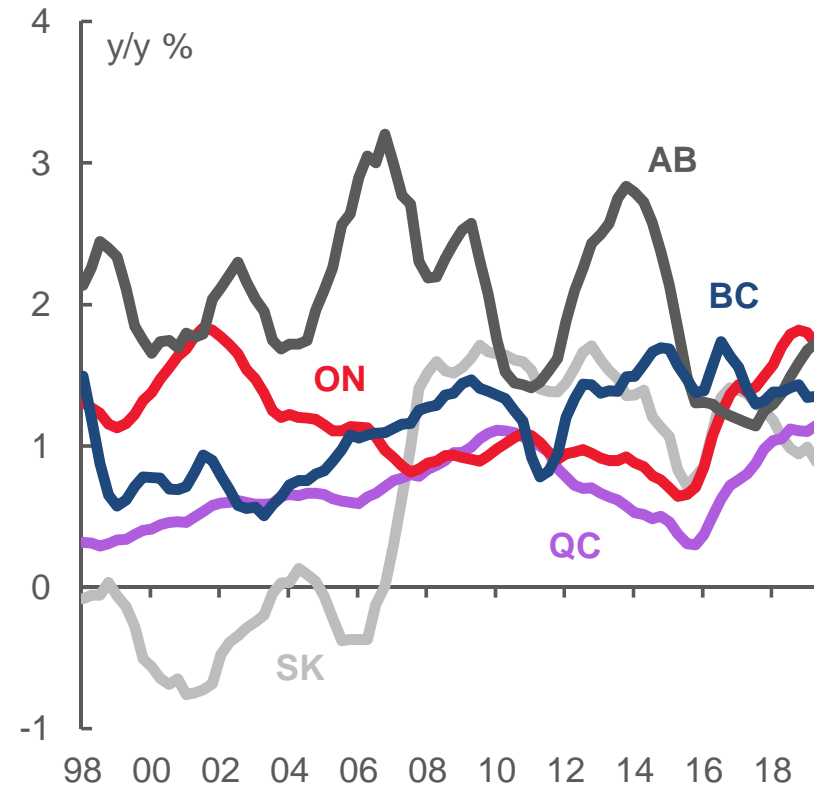
# Population gains are broadly distributed, but larger in major centres

## Population Growth by Province



Sources: Scotiabank Economics, Statistics Canada.

## Population Growth by Province

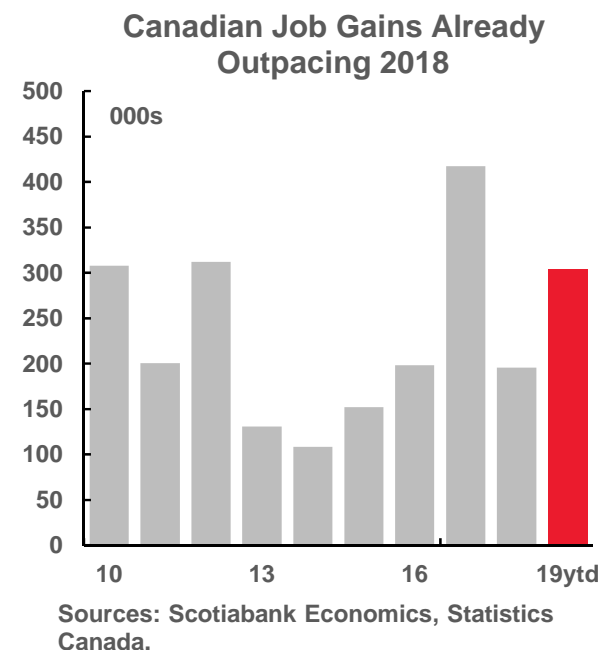
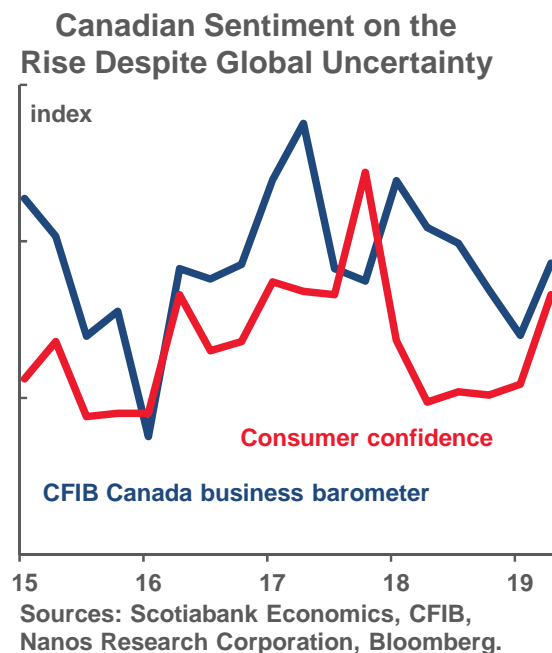
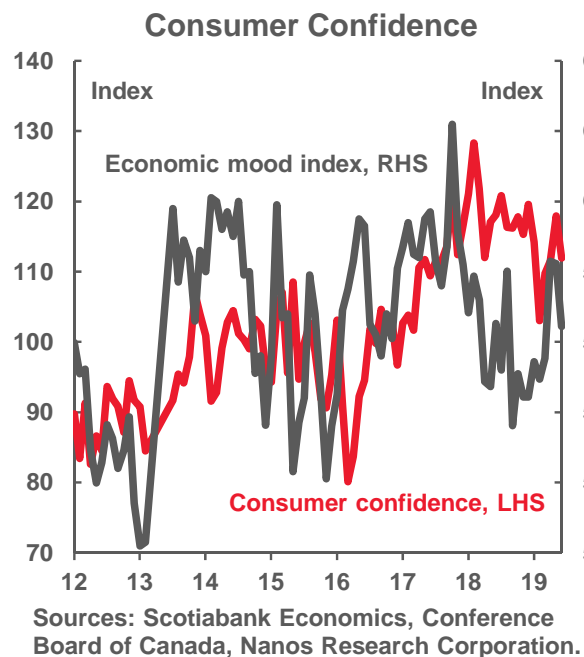


Sources: Scotiabank Economics, Statistics Canada.

# Canada: Confidence has rebounded, labour markets remain strong

Canada	2017	2018	2019f	2020f
Real GDP (annual % change)	3.0	1.9	1.4	2.0
CPI (y/y %, eop)	1.8	2.0	1.9	1.9
Central bank policy rate (% , eop)	1.00	1.75	1.50	1.25
Canadian dollar (CADUSD, eop)	0.80	0.73	0.76	0.78

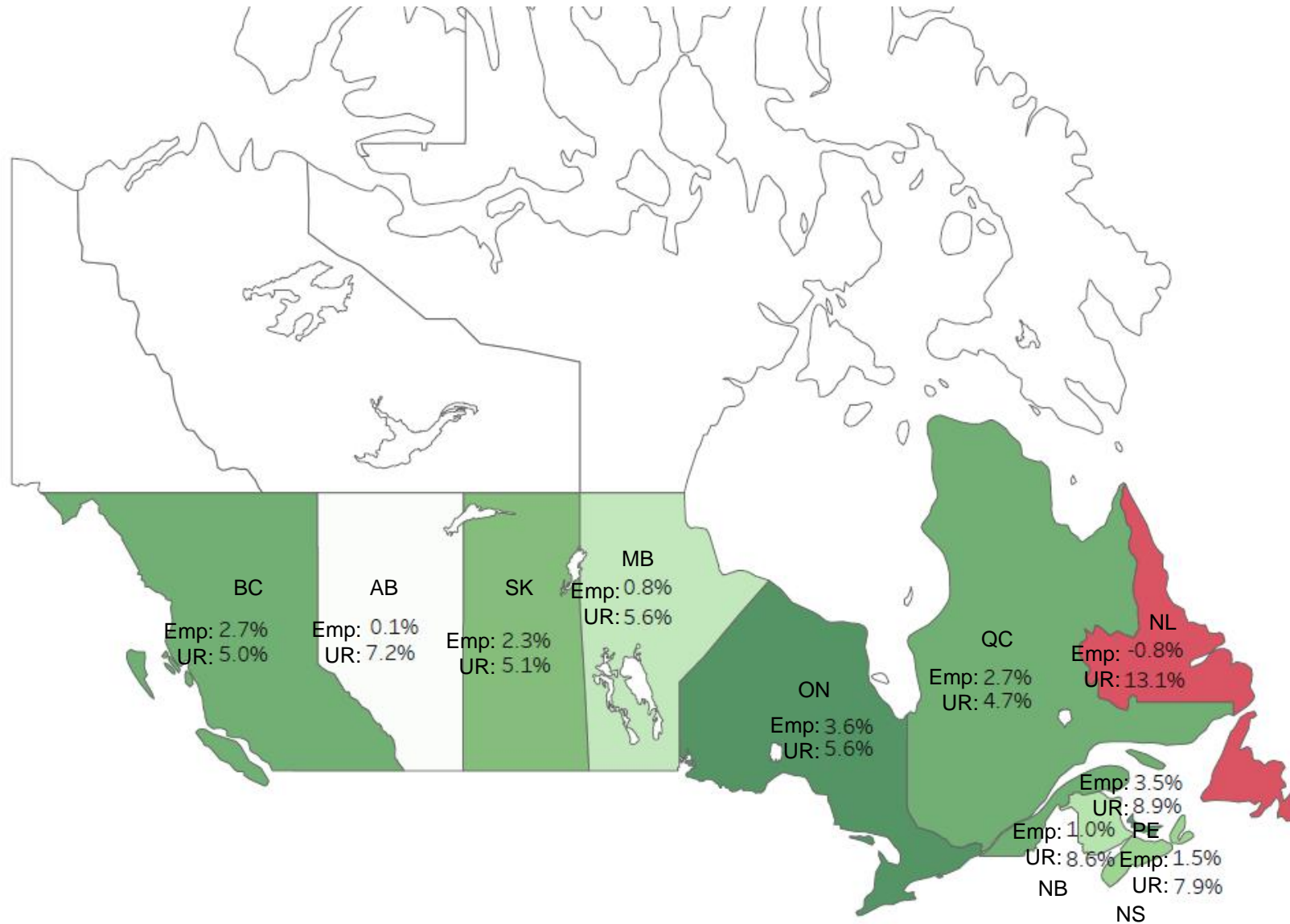
Source: Scotiabank Economics.



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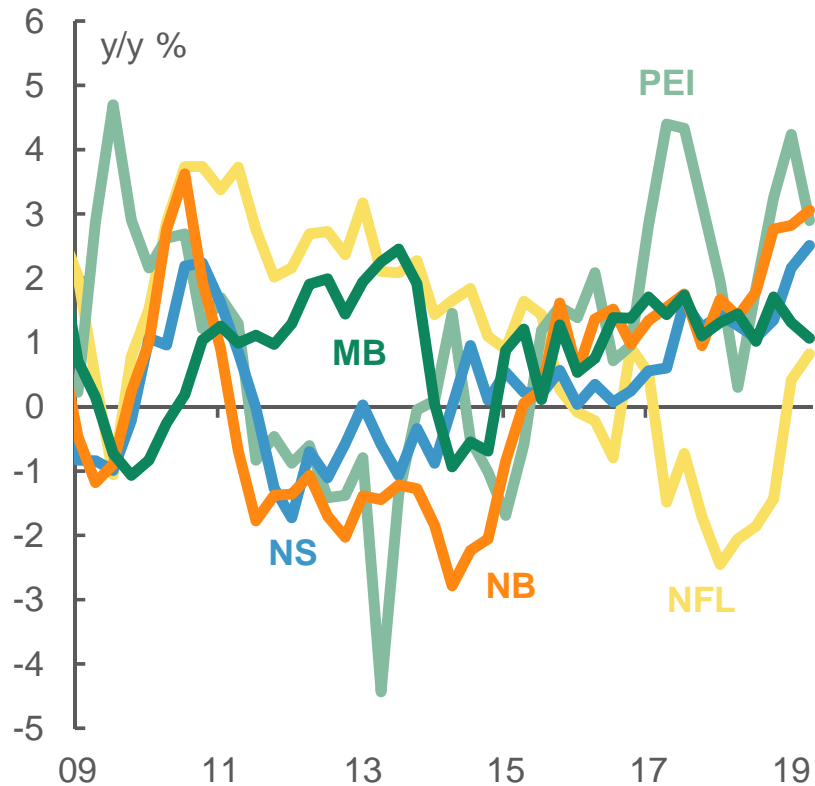
## 4. Canada: the perspective from households

# Good geographic distribution of labour market strength...



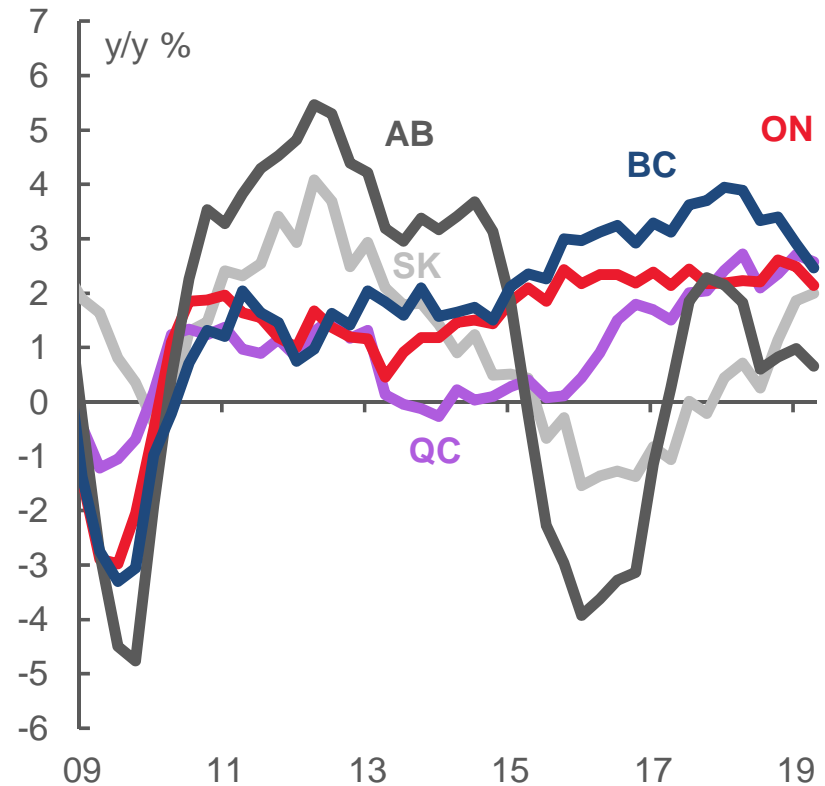
# Good geographic distribution of labour market strength...

## Employment Growth by Province



Sources: Scotiabank Economics, Statistics Canada.

## Employment Growth by Province

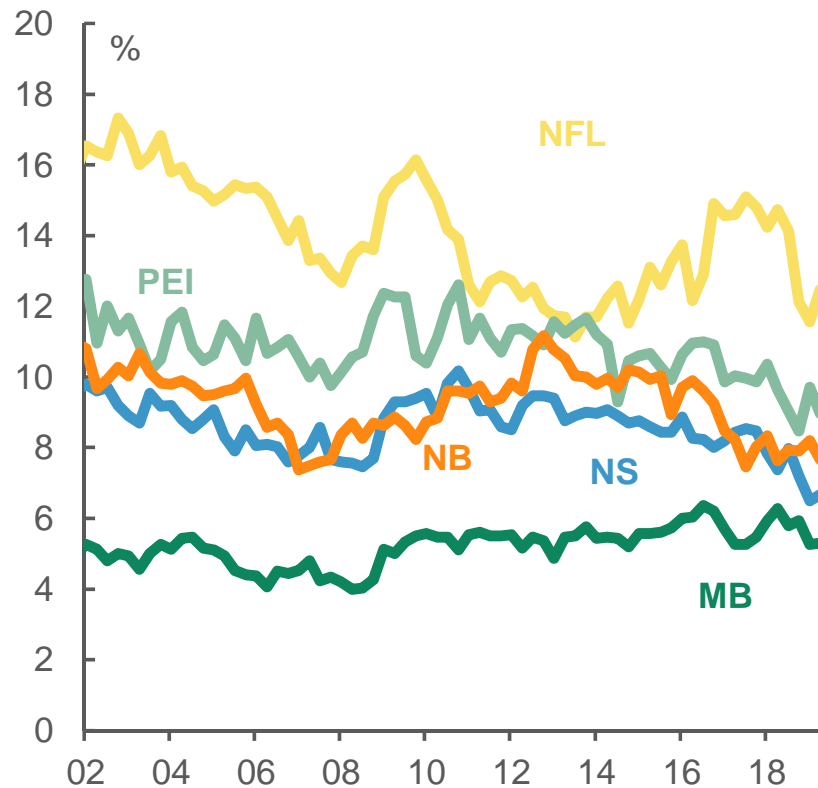


Sources: Scotiabank Economics, Statistics Canada.



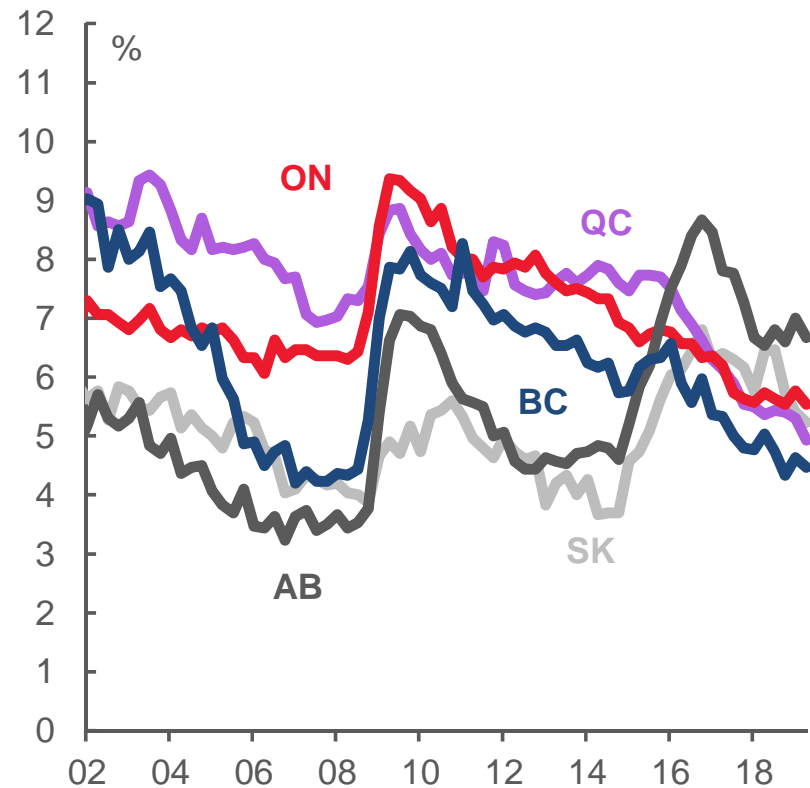
# Good geographic distribution of labour market strength...

## Unemployment Rate by Province



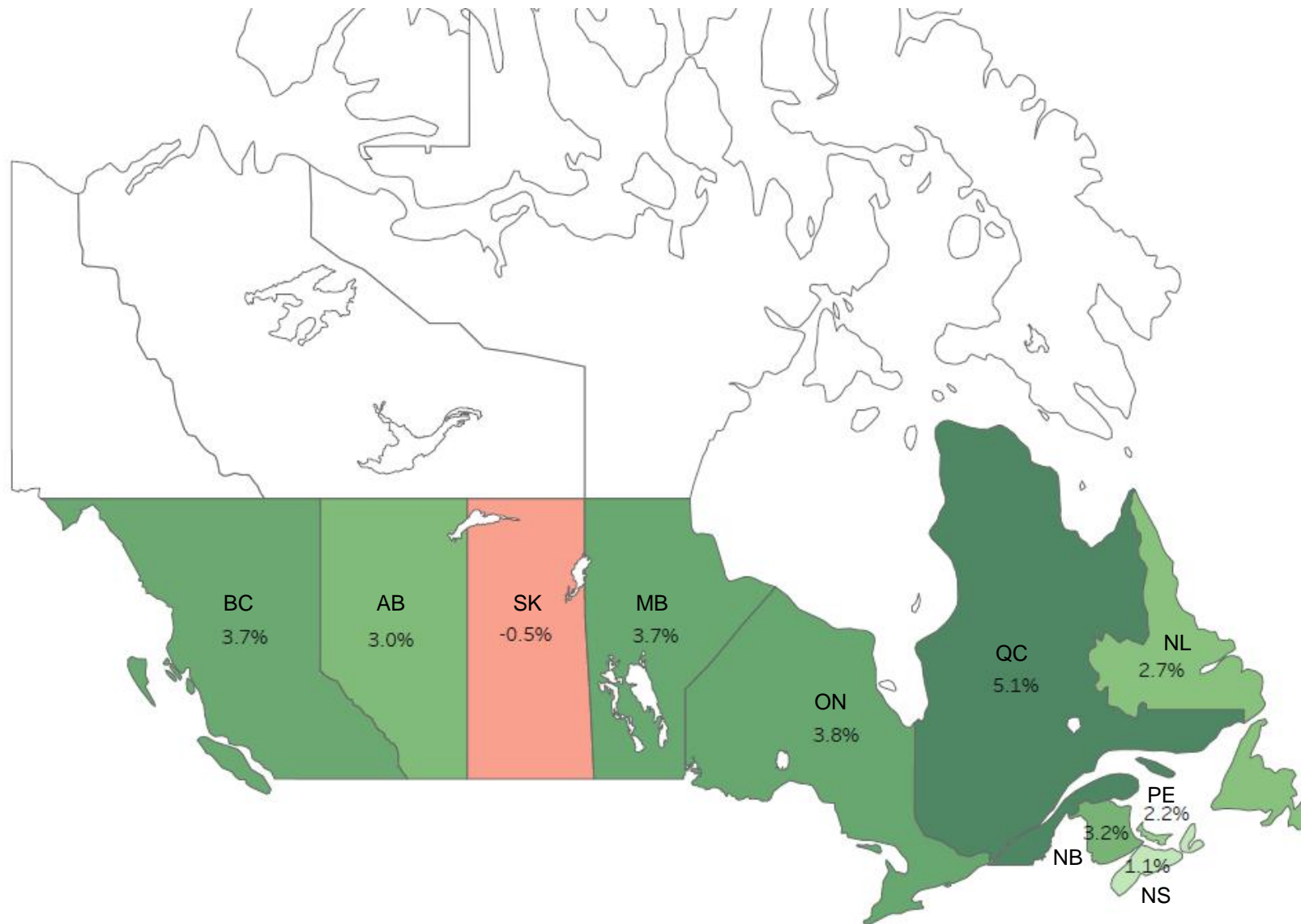
Sources: Scotiabank Economics, Statistics Canada.

## Unemployment Rate by Province



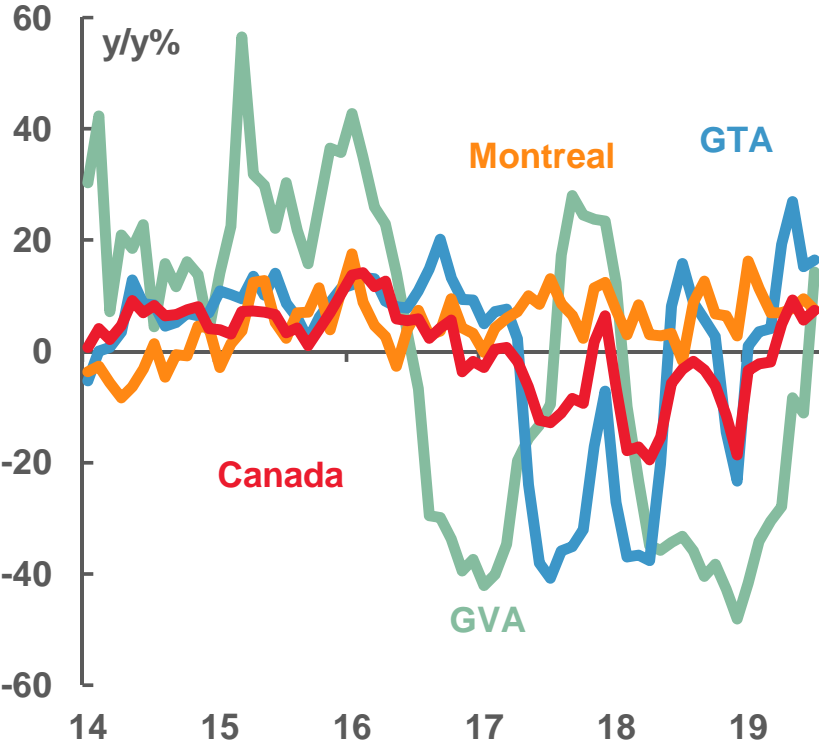
Sources: Scotiabank Economics, Statistics Canada.

...as wages rise sharply



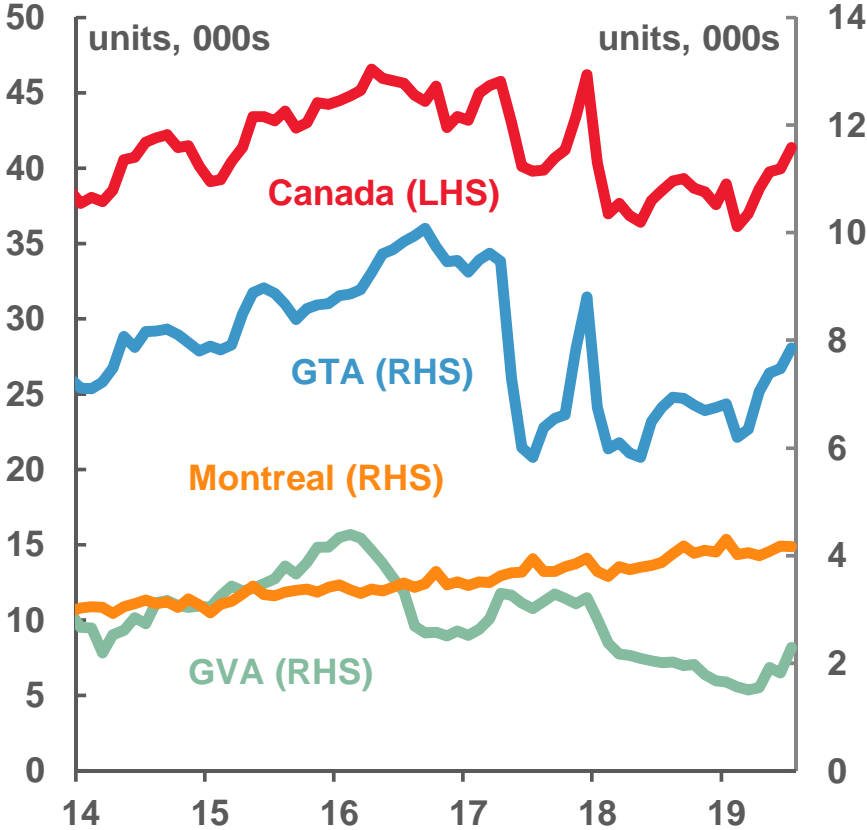
# Low interest rates, pop. growth and solid wages support housing

### Home Sales



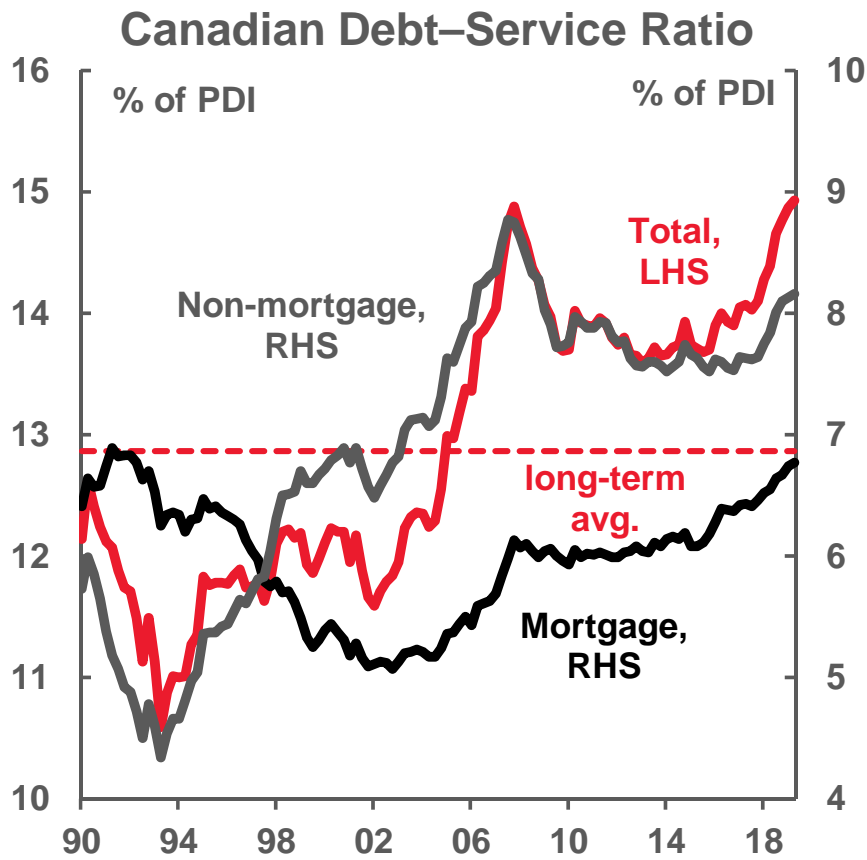
Sources: Scotiabank Economics, CREA, Association professionnelle des courtiers immobiliers du Quebec.

### Home Sales

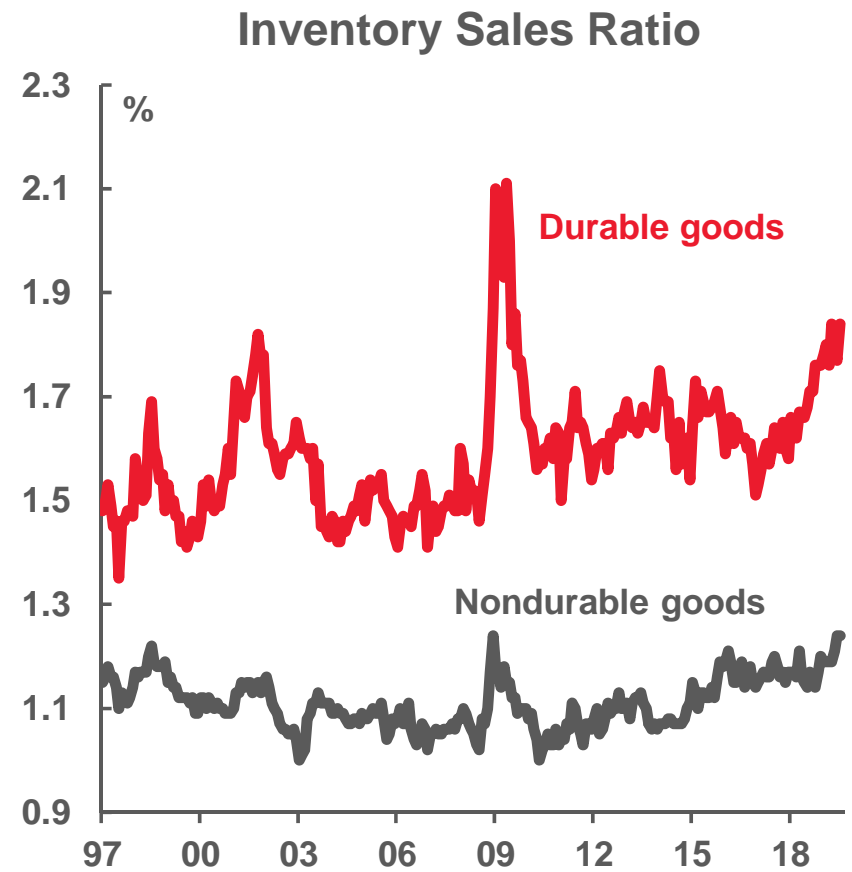


Sources: Scotiabank Economics, CREA.

...Though household balance sheets more stretched than in the US



Sources: Scotiabank Economics, Statistics Canada.



Sources: Scotiabank Economics, Statistics Canada.

# Summary

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- Trade risks loom large, high degree of uncertainty but risk of recession in the US and Canada is overblown
- Central banks will nevertheless cut rates further (or begin, in Canada)
- In Canada, strong differentiators in relation to US and other advanced economies:
  - Population growth fastest in 20 years
  - Robust job market leading to best wage gains in 10 years
  - Interest rates are falling, freeing disposable income
  - Consumer confidence remains high

# Scotiabank Economics' Canada-US Yield Curve Forecast

	2018		2019			2020			
	(end of quarter, %)								
<b>Canada</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3f</b>	<b>Q4f</b>	<b>Q1f</b>	<b>Q2f</b>	<b>Q3f</b>	<b>Q4f</b>
BoC Overnight Target Rate	1.75	1.75	1.75	1.75	1.50	1.25	1.25	1.25	1.25
Prime Rate	3.95	3.95	3.95	3.95	3.70	3.45	3.45	3.45	3.45
3-month T-bill	1.65	1.67	1.65	1.60	1.40	1.25	1.25	1.25	1.25
2-year Canada	1.86	1.55	1.47	1.30	1.20	1.20	1.25	1.25	1.25
5-year Canada	1.89	1.52	1.39	1.20	1.25	1.25	1.30	1.35	1.40
10-year Canada	1.97	1.62	1.46	1.20	1.25	1.35	1.40	1.45	1.50
30-year Canada	2.18	1.89	1.68	1.40	1.45	1.55	1.60	1.65	1.70
<b>United States</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3f</b>	<b>Q4f</b>	<b>Q1f</b>	<b>Q2f</b>	<b>Q3f</b>	<b>Q4f</b>
Fed Funds Target Rate	2.50	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75
Prime Rate	5.50	5.50	5.50	5.00	4.75	4.75	4.75	4.75	4.75
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	1.70	1.70	1.80	1.80	1.80	1.80
5-year Treasury	2.51	2.23	1.77	1.75	1.80	1.90	1.90	1.90	1.90
10-year Treasury	2.68	2.41	2.00	1.95	2.20	2.35	2.40	2.45	2.45
30-year Treasury	3.01	2.82	2.53	2.65	2.70	2.85	2.85	2.90	2.90

Sources: Scotiabank Economics, Bloomberg.

# Scotiabank Economics' Global Growth Forecast

<b>Global Real GDP</b>	<b>2000–17</b>	<b>2017</b>	<b>2018</b>	<b>2019f</b>	<b>2020f</b>
	(annual % change)				
<b>World (PPP)</b>	3.9	3.8	3.7	3.1	3.2
Canada	2.1	3.0	1.9	1.4	2.0
United States	2.0	2.2	2.9	2.5	1.6
Mexico	2.2	2.1	2.0	0.9	1.1
United Kingdom	1.9	1.8	1.4	1.1	1.2
Eurozone	1.4	2.4	1.9	1.1	1.3
Germany	1.4	2.2	1.4	0.7	1.2
France	1.4	2.3	1.7	1.3	1.3
China	9.3	6.8	6.6	6.2	6.0
India	7.1	6.9	7.4	6.5	7.0
Japan	0.9	1.9	0.8	0.8	0.6
South Korea	4.9	3.2	2.7	2.0	2.7
Australia	2.9	2.4	2.8	2.3	2.6
Thailand	4.1	4.0	4.1	3.2	3.4
Brazil	2.5	1.1	1.1	0.9	1.8
Colombia	3.9	1.4	2.6	3.2	3.6
Peru	5.0	2.5	3.9	3.1	3.7
Chile	3.9	1.5	4.0	3.2	3.2

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

# Scotiabank Economics' Provincial Growth Forecast

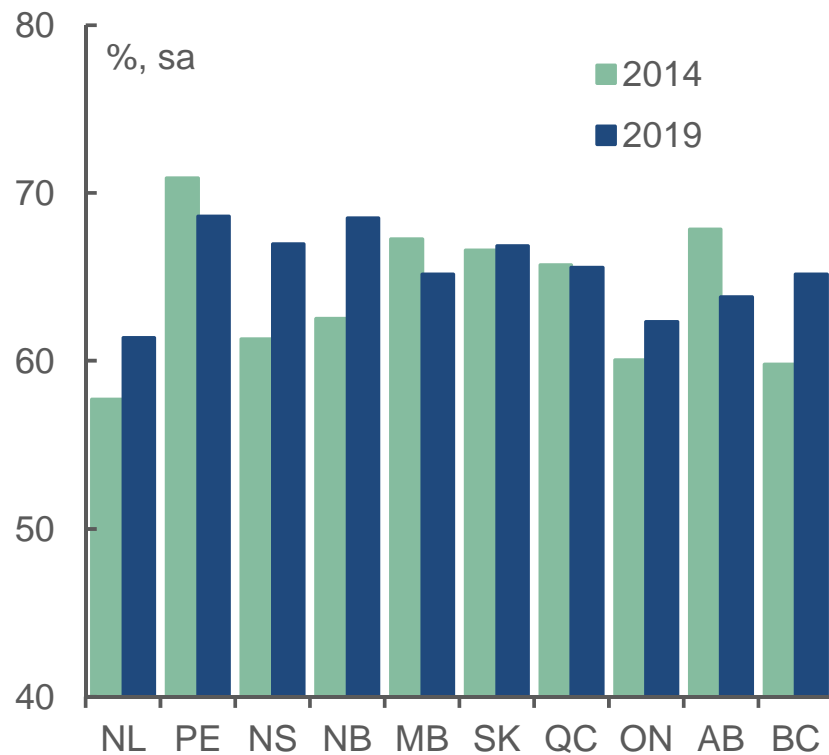
The Provinces		(annual % change except where noted)										
	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	
<b>Real GDP</b>												
2000–17	2.1	2.4	1.8	1.3	1.2	1.8	2.0	2.3	2.0	2.8	2.7	
2017	3.0	0.9	3.5	1.5	1.8	2.8	2.8	3.2	2.2	4.4	3.8	
2018e	1.9	-2.7	2.6	1.2	0.1	2.5	2.3	1.3	1.6	2.3	2.4	
2019f	1.6	2.0	2.1	1.3	0.6	2.2	1.6	1.4	1.3	0.5	2.2	
2020f	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>												
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	0.5	4.6	3.2	1.9	4.2	3.5	3.1	3.8	4.5	4.4	
2019f	3.2	3.5	4.1	3.0	2.2	3.6	3.0	3.4	3.4	2.0	4.5	
2020f	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>												
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	2.1	1.1	1.8	2.2	0.6	1.6	2.6	1.2	1.7	0.8	3.0	
2020f	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>												
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	12.1	8.9	6.8	8.1	5.2	5.6	5.4	5.4	6.8	4.6	
2020f	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>												
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	205	0.9	1.1	4.3	2.4	47	69	6.8	2.4	26	45	
2020f	199	1.3	0.8	4.0	2.0	42	73	6.0	3.1	30	37	
<b>Motor Vehicle Sales (units, 000s)</b>												
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	31	9	51	39	448	813	60	49	223	217	
2020f	1,915	30	9	50	37	440	800	56	48	217	228	
<b>Budget Balances, Fiscal Year Ending March 31 (CAD mn)</b>												
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	-6,711	374	

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



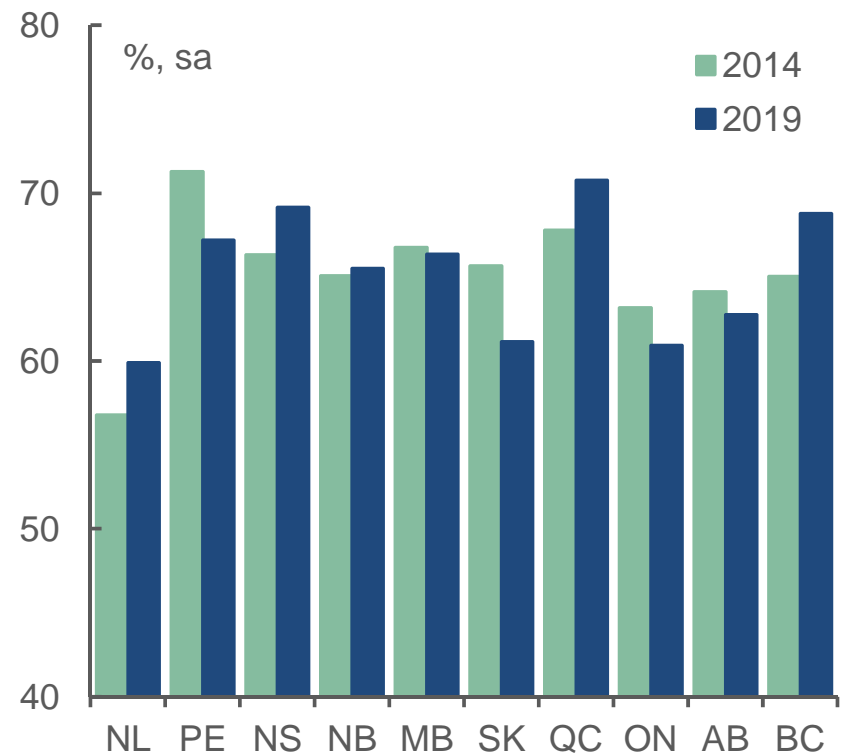
# Addendum: Participation rates

## Male Participation Rates vs 5 Years Ago



Sources: Scotiabank Economics, Statistics Canada.

## Female Participation Rates vs 5 Years Ago



Sources: Scotiabank Economics, Statistics Canada.

# Contact And Legal Notices

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