

## Waiting for a Trade Deal

- The global outlook is evolving much as we had anticipated in our last [Quarterly Outlook](#). Most importantly, trade-related uncertainty has abated somewhat, as the prospects for a trade deal between China and the US seem brighter. We anticipate some improvement in sentiment if a deal actually materializes, but we continue to think that uncertainty will remain elevated by historical standards as the US trade deficit continues to widen, and the US dollar remains overly strong.
- We continue to believe interest rate cuts are likely in Canada, as trade risks will loom large over the outlook, and growth is expected to remain below potential for the next two quarters. Though the job and housing markets remain quite strong, measures of business and consumer confidence have been weakening in the most recent readings. Higher-frequency indicators also confirm that the economy is operating below its growth potential at the moment, though business investment was surprisingly strong in the third quarter. All things considered, the economy remains generally healthy and we expect growth of 1.7% this year and next. We do not think a major slowdown is imminent, though that assessment could change if developments on the China-US trade front disappoint.
- Growth in the US is slowing, as the impact of global trade tensions has been weighing on business activity, and consumers take a pause in the final quarter of the year. We expect US growth to slow from the 2.3% expected in 2019 to 1.6% in 2020, owing to the combined impact of past trade uncertainty and the drop in fiscal support as the stimulus from the 2017 Tax Cuts and Jobs Act ends. With weaker-than-potential growth expected in 2020, we believe another cut in the Federal Funds target rate will be required early next year, despite indications from the Fed that it was done easing for the moment.
- The largest changes in our forecasts apply to Chile, where the social tensions that began in October are weighing on economic activity. The Government has responded to the demands of the protestors in a number of ways, including by committing to revise the constitution. It is also launching a large fiscal program (equivalent to about 2% of GDP) which, in addition to helping address the concerns of the population, will also offset some of the impact of the demonstrations on activity. The net impact of these developments and policy actions should result in growth of about 1% in 2019 and 1.4% in 2020.

## CONTACTS

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International	2000–18	2018	2019f	2020f	2021f	2000–18	2018	2019f	2020f	2021f
	<b>Real GDP</b> (annual % change)					<b>Consumer Prices</b> (y/y % change, year-end)				
World (based on purchasing power parity)	3.9	3.8	2.9	3.1	3.4					
Canada	2.1	2.0	1.7	1.7	1.9	1.9	2.0	1.9	1.7	2.3
United States	2.1	2.9	2.3	1.6	1.9	2.2	2.2	1.8	2.3	2.4
Mexico	2.2	2.1	0.2	1.0	2.0	4.5	4.8	3.1	3.7	3.6
United Kingdom	1.9	1.4	1.1	1.2	1.6	2.1	2.1	1.8	2.0	2.1
Eurozone	1.4	1.9	1.0	1.1	1.3	1.7	1.5	1.2	1.3	1.5
Germany	1.4	1.5	0.5	0.8	1.2	1.5	1.6	1.3	1.4	1.6
France	1.4	1.7	1.3	1.3	1.4	1.4	1.6	1.3	1.4	1.5
China	9.1	6.6	6.1	6.0	5.8	2.3	1.8	4.3	2.1	2.5
India	7.1	7.4	5.2	6.2	7.3	6.5	2.1	4.8	4.5	5.0
Japan	0.9	0.8	0.7	0.6	1.2	0.1	0.3	1.0	0.6	0.8
South Korea	3.9	2.7	1.8	2.1	2.5	2.5	1.3	0.7	1.6	2.1
Australia	2.9	2.8	1.8	2.1	2.5	2.7	1.8	1.6	1.9	2.1
Thailand	4.1	4.1	2.4	2.1	2.7	1.7	0.4	0.6	1.3	1.6
Brazil	2.4	1.3	1.0	1.8	2.1	6.4	3.8	3.9	4.6	4.1
Colombia	3.8	2.6	3.2	3.6	3.6	5.0	3.2	3.8	3.1	3.1
Peru	4.9	4.0	2.3	3.0	3.5	2.7	2.2	2.0	2.0	2.3
Chile	3.9	4.0	1.0	1.4	3.0	3.2	2.6	3.1	2.6	3.0
<b>Commodities</b>	(annual average)									
WTI Oil (USD/bbl)	62	65	57	55	62					
Brent Oil (USD/bbl)	65	72	64	59	65					
WCS - WTI Discount* (USD/bbl)	-17	-26	-13	-19	-24					
Nymex Natural Gas (USD/mmbtu)	4.74	3.07	2.61	2.64	2.75					
Copper (USD/lb)	2.41	2.96	2.70	2.75	3.00					
Zinc (USD/lb)	0.87	1.33	1.15	1.08	1.05					
Nickel (USD/lb)	7.06	5.95	6.50	7.50	8.00					
Aluminium (USD/lb)	0.87	0.96	0.90	0.90	0.90					
Iron Ore (USD/tonne)	101	70	90	72	65					
Metallurgical Coal (USD/tonne)	135	206	184	150	150					
Gold, London PM Fix (USD/oz)	910	1,268	1,400	1,550	1,475					
Silver, London PM Fix (USD/oz)	14.85	15.71	16.50	18.75	17.75					

\* 2008-18 average.  
Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, IMF, Bloomberg.

December 5, 2019

North America	2000–18	2018	2019f	2020f	2021f	2000–18	2018	2019f	2020f	2021f
	<b>Canada</b>					<b>United States</b>				
	(annual % change, unless noted)					(annual % change, unless noted)				
Real GDP	2.1	2.0	1.7	1.7	1.9	2.1	2.9	2.3	1.6	1.9
Consumer spending	2.9	2.1	1.6	1.6	1.9	2.4	3.0	2.6	2.2	2.0
Residential investment	3.3	-1.5	-0.5	3.9	1.9	-0.3	-1.5	-1.9	1.1	1.9
Business investment*	2.2	1.8	0.4	4.4	3.2	3.2	6.4	2.2	1.1	2.5
Government	2.2	3.4	1.8	1.5	1.6	1.1	1.7	2.3	1.7	1.6
Exports	1.5	3.1	2.0	1.9	2.5	3.7	3.0	0.0	1.2	2.2
Imports	3.0	2.6	0.7	2.2	2.7	3.8	4.4	1.7	2.7	2.9
Nominal GDP	4.3	3.9	3.3	3.4	4.1	4.1	5.4	4.1	3.3	3.9
GDP deflator	2.1	1.8	1.5	1.7	2.2	2.0	2.4	1.8	1.7	2.0
Consumer price index (CPI)	1.9	2.3	1.9	1.9	2.0	2.2	2.4	1.8	2.2	2.4
Core inflation rate**	1.9	1.9	2.0	2.0	2.0	1.7	1.9	1.6	1.9	2.0
Pre-tax corporate profits	4.5	2.5	-0.2	0.9	2.0	4.9	3.4	-0.3	2.6	1.8
Employment	1.4	1.3	2.1	1.1	1.0	0.8	1.7	1.5	0.8	0.9
Unemployment rate (%)	7.0	5.8	5.6	5.8	5.8	6.0	3.9	3.7	3.9	3.9
Current account balance (CAD, USD bn)	-20.3	-55.5	-43.5	-43.5	-40.6	-500	-491	-519	-559	-613
Merchandise trade balance (CAD, USD bn)	20.5	-22.1	-17.9	-23.0	-24.1	-691	-887	-883	-946	-1018
Federal budget balance (FY, CAD, USD bn)	-4.4	-19.0	-14.0	-19.8	-14.1	-552	-779	-960	-1,008	-1,034
percent of GDP	-0.3	-0.9	-0.6	-0.8	-0.6	-3.7	-3.8	-4.5	-4.6	-4.5
Housing starts (000s, mn)	201	213	210	206	202	1.26	1.25	1.25	1.26	1.26
Motor vehicle sales (000s, mn)	1,694	1,983	1,940	1,915	1,915	15.7	17.2	17.0	16.9	17.0
Industrial production	1.0	3.1	-0.7	1.0	1.8	0.9	4.0	0.7	0.8	1.9
	<b>Mexico</b>									
	(annual % change)									
Real GDP	2.2	2.1	0.2	1.0	2.0					
Consumer price index (year-end)	4.5	4.8	3.1	3.7	3.6					
Current account balance (USD bn)	-14.6	-22.2	-9.5	-26.5	-27.8					
Merchandise trade balance (USD bn)	-7.7	-13.6	-2.6	-21.5	-10.2					

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			
<b>Canada</b>	<b>Q3</b>	<b>Q4f</b>	<b>Q1f</b>	<b>Q2f</b>	<b>Q3f</b>	<b>Q4f</b>	<b>Q1f</b>	<b>Q2f</b>	<b>Q3f</b>	<b>Q4f</b>
Real GDP (q/q ann. % change)	1.3	1.4	1.6	1.8	1.6	1.6	1.9	2.1	2.2	2.0
Real GDP (y/y % change)	1.7	1.8	2.0	1.5	1.6	1.7	1.7	1.8	2.0	2.0
Consumer prices (y/y % change)	1.9	1.9	2.1	1.8	1.8	1.7	1.8	1.9	2.1	2.3
Avg. of new core CPIs (y/y % change)	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.0
<b>United States</b>										
Real GDP (q/q ann. % change)	2.1	1.0	1.6	1.5	1.7	1.8	1.9	1.9	2.1	2.1
Real GDP (y/y % change)	2.1	2.1	1.7	1.6	1.5	1.6	1.7	1.8	1.9	2.0
Consumer prices (y/y % change)	1.8	1.8	2.0	2.2	2.2	2.3	2.3	2.3	2.4	2.4
Total PCE deflator (y/y % change)	1.4	1.3	1.5	1.7	1.8	1.8	1.9	2.1	2.2	2.3
Core PCE deflator (y/y % change)	1.7	1.7	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.1

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

	2019	2020				2021			
Central Bank Rates	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Americas</b>									
									(%, end of period)
Bank of Canada	1.75	1.50	1.25	1.25	1.25	1.25	1.25	1.25	1.25
US Federal Reserve (upper bound)	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Bank of Mexico	7.25	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Central Bank of Brazil	5.00	5.00	5.25	6.00	6.50	6.75	6.75	6.75	6.75
Bank of the Republic of Colombia	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Central Reserve Bank of Peru	2.25	2.00	2.00	2.00	2.00	2.25	2.25	2.50	2.50
Central Bank of Chile	1.75	1.25	1.00	1.00	1.00	1.25	1.50	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	-0.50	-0.50	-0.50	-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	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Bank of Japan	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15
People's Bank of China*	4.10	4.05	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Reserve Bank of India	5.15	4.90	4.90	4.90	4.90	4.90	5.00	5.25	5.50
Bank of Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50
Bank of Thailand	1.25	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.25
<b>Currencies and Interest Rates</b>									
									(%, end of period)
<b>Americas</b>									
Canadian dollar (USDCAD)	1.30	1.28	1.27	1.26	1.25	1.25	1.25	1.25	1.25
Canadian dollar (CADUSD)	0.77	0.78	0.79	0.79	0.80	0.80	0.80	0.80	0.80
Mexican peso (USDMXN)	20.71	21.08	20.93	21.04	21.23	21.47	21.28	21.34	21.65
Brazilian real (USDBRL)	4.18	4.08	4.11	4.07	4.18	4.21	4.24	4.27	4.30
Colombian peso (USDCOP)	3,310	3,295	3,237	3,258	3,250	3,233	3,215	3,198	3,180
Peruvian sol (USDPEN)	3.35	3.40	3.38	3.43	3.42	3.40	3.38	3.34	3.35
Chilean peso (USDCLP)	780	780	770	760	750	730	720	710	700
<b>Europe</b>									
Euro (EURUSD)	1.11	1.12	1.14	1.15	1.16	1.17	1.18	1.19	1.20
UK pound (GBPUSD)	1.31	1.33	1.34	1.36	1.36	1.38	1.39	1.41	1.42
<b>Asia/Oceania</b>									
Japanese yen (USDJPY)	108	107	107	105	105	103	103	102	102
Australian dollar (AUDUSD)	0.68	0.69	0.70	0.71	0.72	0.72	0.73	0.73	0.74
Chinese yuan (USDCNY)	6.90	6.80	6.80	6.70	6.70	6.60	6.60	6.50	6.50
Indian rupee (USDINR)	71.0	70.5	70.5	70.0	70.0	69.5	69.5	69.0	69.0
South Korean won (USDKRW)	1,180	1,160	1,160	1,140	1,140	1,120	1,120	1,100	1,100
Thai baht (USDTHB)	30.2	30.1	30.1	30.0	30.0	29.9	29.9	29.8	29.8
<b>Canada (Yields, %)</b>									
3-month T-bill	1.65	1.50	1.25	1.25	1.25	1.25	1.25	1.25	1.30
2-year Canada	1.60	1.40	1.30	1.30	1.30	1.35	1.40	1.45	1.50
5-year Canada	1.55	1.45	1.35	1.35	1.40	1.45	1.50	1.55	1.60
10-year Canada	1.50	1.45	1.45	1.50	1.50	1.55	1.60	1.70	1.75
30-year Canada	1.55	1.50	1.55	1.65	1.75	1.80	1.85	1.95	2.00
<b>United States (Yields, %)</b>									
3-month T-bill	1.55	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
2-year Treasury	1.55	1.45	1.50	1.50	1.55	1.60	1.65	1.65	1.65
5-year Treasury	1.55	1.50	1.55	1.60	1.65	1.70	1.75	1.80	1.80
10-year Treasury	1.70	1.65	1.70	1.75	1.80	1.85	1.90	1.95	2.00
30-year Treasury	2.15	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45

Sources: Scotiabank Economics, Bloomberg.

\* 1-year Benchmark Lending Rate will be replaced by the 1-year Loan Prime Rate from Q1 2020.

The Provinces		(annual % change except where noted)									
Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2000–18	2.1	2.4	1.8	1.3	1.2	1.8	2.0	2.3	2.0	2.8	2.7
2018e	2.0	-2.7	2.6	1.2	0.1	2.5	2.3	1.3	1.6	2.3	2.4
2019f	1.7	2.0	2.1	1.3	0.6	2.4	1.7	1.4	1.3	0.5	2.2
2020f	1.7	0.6	1.9	1.3	0.8	1.6	1.7	1.5	1.5	2.4	2.8
2021f	1.9	0.8	1.8	1.1	0.7	1.6	1.6	1.5	1.7	2.7	2.4
Nominal GDP											
2000–18	4.3	5.6	4.2	3.3	3.4	3.7	3.9	4.4	5.4	5.9	4.7
2018e	3.9	0.5	4.6	3.2	1.9	4.2	3.5	3.1	3.8	4.5	4.4
2019f	3.3	3.5	4.1	3.0	2.2	3.7	3.3	3.4	3.4	1.9	4.4
2020f	3.4	2.9	3.9	3.2	2.4	3.3	3.4	3.3	3.8	4.5	5.4
2021f	4.1	3.7	3.8	2.8	2.1	3.6	3.9	3.3	4.5	5.7	5.1
Employment											
2000–18	1.4	0.6	1.1	0.6	0.4	1.3	1.3	1.0	1.1	2.2	1.5
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	1.1	0.0	0.8	0.3	0.2	0.8	1.2	0.6	0.7	1.0	1.5
2021f	1.0	-0.1	0.6	0.1	0.2	0.8	1.0	0.6	0.6	1.2	1.3
Unemployment Rate (%)											
2000–18	7.0	14.3	11.1	8.8	9.5	7.9	7.0	5.1	5.0	5.3	6.5
2018	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
2019f	5.6	12.1	8.9	6.8	8.1	5.2	5.6	5.4	5.4	6.8	4.6
2020f	5.8	12.1	9.0	6.8	8.1	5.4	5.8	5.5	5.5	6.9	4.8
2021f	5.8	12.0	9.1	6.9	8.0	5.5	5.8	5.6	5.4	6.8	4.9
Housing Starts (units, 000s)											
2000–18	201	2.5	0.8	4.3	3.4	44	72	5.2	5.2	34	29
2018	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
2019f	210	0.9	1.1	4.6	2.8	49	71	6.8	2.5	27	44
2020f	206	1.3	1.1	4.2	2.4	46	76	6.0	3.3	30	37
2021f	202	1.1	1.0	4.2	2.4	44	78	6.0	3.7	31	32
Motor Vehicle Sales (units, 000s)											
2000–18	1,694	29	6	48	38	415	646	48	45	217	182
2018	1,983	28	8	51	38	449	853	67	47	226	217
2019f	1,940	31	9	51	39	448	810	60	49	223	215
2020f	1,915	26	7	50	38	435	805	58	50	227	219
2021f	1,915	26	7	47	36	435	805	58	51	231	219
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2018	-18,961	-911	1	230	67	2,622	-3,672	-695	-303	-8,023	301
2019e	-14,000	-522	14	120	5	2,500	-7,435	-470	-268	-6,711	1,535
2020f*	-19,800	-575	2	31	38	0	-10,252	-360	26	-7,912	179
* 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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Note: The provincial forecasts above come from our October *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 January 2020 *Provincial Outlook* report, and updated quarterly thereafter.

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