Monthly Economic Monitor

Economics and Strategy

September 2023

Summary

By Matthieu Arseneau, Jocelyn Paquet and Daren King

- When China abandoned its "zero COVID" policy at the end of last year, most forecasters expected its economy to follow the post-pandemic path charted by its Western counterparts, characterized by a boom in household spending and a rapid rebound in the property sector. For a while, these projections looked set to become reality. Indeed, Chinese growth surged in the early months of 2023, as demand built up during the lockdowns was finally exercised. The honeymoon did not last long, however, and optimism soon gave way to doubts about the sustainability of the recovery. These doubts proved well-founded when second-quarter GDP data were published, revealing a significant deceleration. Meanwhile, the eurozone recorded respectable growth in the second quarter (+0.3% in non-annualized terms) but this was due to exceptional events, the effect of which is likely to be cancelled out in Q3 if the August PMI index published by HCOB is anything to go by. China and the eurozone account for 35% of the world's economy. And while weakness in these two regions may initially be masked by solid growth in the United States, it will nonetheless weigh on global growth for the rest of the year. The latter should come in at 3.0% in 2023 before slipping to 2.2% next year.

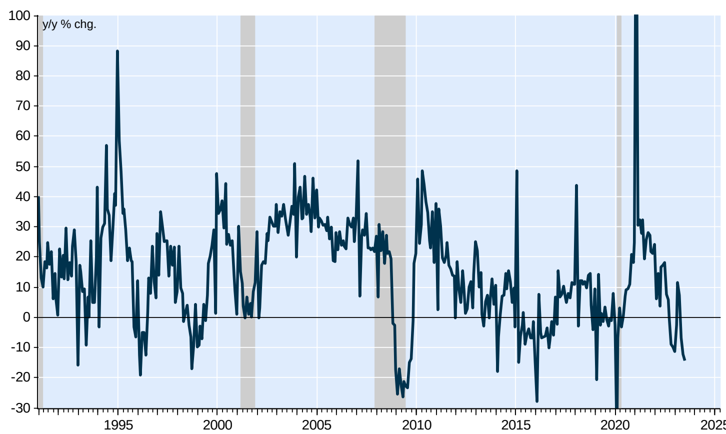
- Most economists, including ourselves, would surely agree that the U.S. economy is holding up better than expected after the aggressive monetary tightening set in motion by the Federal Reserve last year. It's true that, apart from a wave of bank failures in the spring, the 525 basis points increase in benchmark rates doesn't seem to have done too much harm to growth. Excess savings is one of the causes of this resilience, as is the significant increase in the federal government's deficit. And although it seems ill-advised at a time when inflation is still well above the central bank's target, the U.S. government's lax fiscal policy should nevertheless continue to support the economy in the third quarter. Ditto for a number of other temporary factors, such as Taylor Swift and Beyonce's concert tours. And while it's true that some of the money spent on entertainment during the quarter may not be spent elsewhere (substitution effect), household consumption, which accounts for two-thirds of the U.S. economy, will nonetheless be positively influenced. Unfortunately, in a context where the rise in household spending was not accompanied by a corollary increase in disposable income, but was rather the result of a significant drop in the savings rate, we fear that the burst of vigour will be very short-lived. After growing at a pace well above potential in Q3, we see the U.S. economy slowing down sharply in Q4, before slipping into recession in the early months of 2024. According to this scenario, real GDP should grow by 2.4% in 2023 before stalling in 2024 (+0.0%).

- The Bank of Canada raised its policy rate twice this summer, losing patience with the lack of progress on the inflation front and what it saw as overly strong domestic demand. We felt that these decisions were perilous, as the economy was already showing signs of underlying weakness and had yet to feel the full impact of the rate hikes implemented since the start of the tightening cycle. Second-quarter data confirm our view. Under normal circumstances, a quarter of stagnation in GDP would not necessarily be a cause for concern, but the current demographic explosion changes the picture. Real GDP per capita fell at an annualized rate of 3.3%. Over the last four quarters, it has fallen by 2.0%, which historically has only occurred during recessions. Whenever GDP per capita was below the previous year's level, the central bank was already in easing mode, which contrasts with the BoC's current hawkish stance. What's more, the labour market is easing rapidly, as evidenced by the rising unemployment rate and SMEs' perception of the labour shortage. And there is every reason to believe that companies' appetite for hiring will be very weak in the months ahead. The sharp fall in profits since the start of the year is simply incompatible with rising employee compensation, which could lead to difficult decisions for companies. With monetary policy the tightest in real terms since 2009, and the most restrictive among G7 countries, we continue to anticipate economic lethargy over the next twelve months. We expect growth of 1.0% in 2023 and 0% in 2024.

World: China's economy in troubled waters

When China abandoned its "zero COVID" policy at the end of last year, most forecasters expected its economy to follow the post-pandemic path charted by its Western counterparts, characterized by a boom in household spending and a rapid rebound in the property sector. For a while, these projections looked set to become reality. Indeed, Chinese growth surged in the early months of 2023, as demand built up during the lockdowns was finally exercised. The honeymoon did not last long, however, and optimism soon gave way to doubts about the sustainability of the recovery. These doubts proved well-founded when second-quarter GDP data were published, revealing a significant deceleration. Growth indeed fell from 2.2% on a non-annualized basis in Q1 to just 0.8% in the three months to June, well below the pre-pandemic average for this indicator. This weakness was due in part to a significant drop in exports, itself caused by a fall in global demand for the type of products manufactured in China.

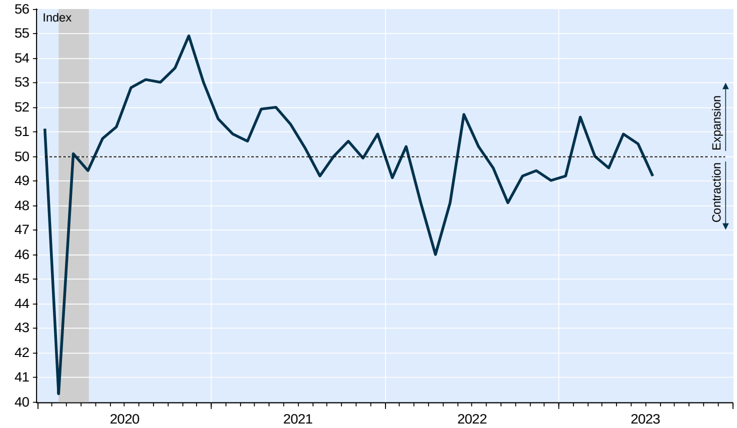
China: Fading global demand hurting exports
Exports



NBF Economics and Strategy (data via Bloomberg)

It should be remembered that consumers in advanced economies had redirected their spending towards goods during the pandemic. This phenomenon, which benefited Chinese exporters, was partly responsible for the strong performance of the world's second-largest economy in 2021 and 2022. However, a gradual return of the pendulum has begun following the lifting of health measures in Western countries, which has encouraged consumers to turn once again to services, which tend to be produced locally. Faced with falling demand against a backdrop of normalized consumer habits, China's manufacturing sector entered a period of stagnation which, according to data compiled by Caixin, continues today.

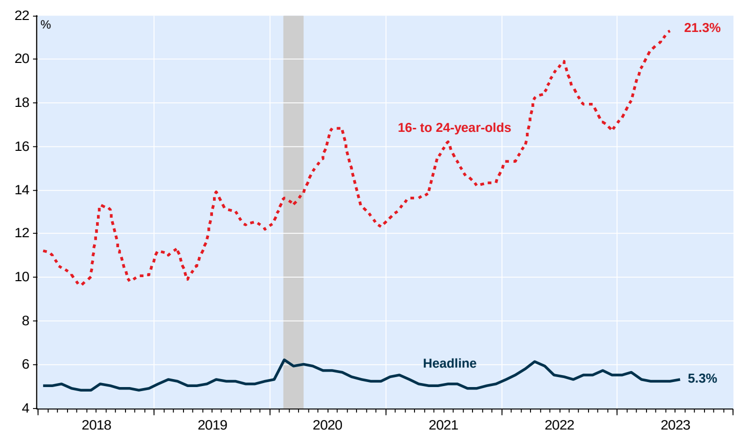
China: Manufacturing sector fell back into contraction in July
Caixin Manufacturing PMI. Last observation: July 2023



NBF Economics and Strategy (data via Refinitiv)

And as the manufacturing sector represents a significant part of the Chinese economy, this bout of weakness has resulted in a marked reduction in employment opportunities, especially among young people. Unemployment among Chinese aged 16-24 even reached an all-time high in June, at 21.3%. A further increase would probably have been reported in July if China's National Bureau of Statistics hadn't simply decided to stop publishing these data, a decision which casts doubt on the authorities' willingness to reveal the true extent of the current economic difficulties.

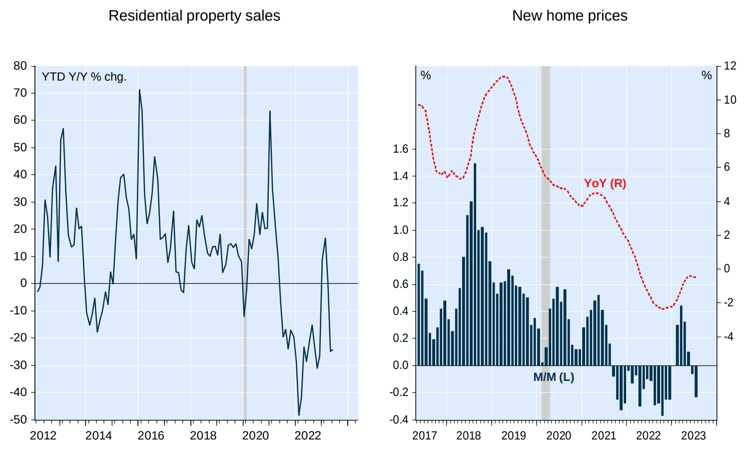
China: Jobs becoming harder to find for young Chinese
Surveyed jobless rate



NBF Economics and Strategy (data via Bloomberg)

For all we know, these difficulties extend far beyond the confines of the manufacturing sector to include residential property, which is currently experiencing a second wave of weakness. After a brief rebound following the reopening of the economy, home sales have in fact begun to fall again, leading to a decline in prices.

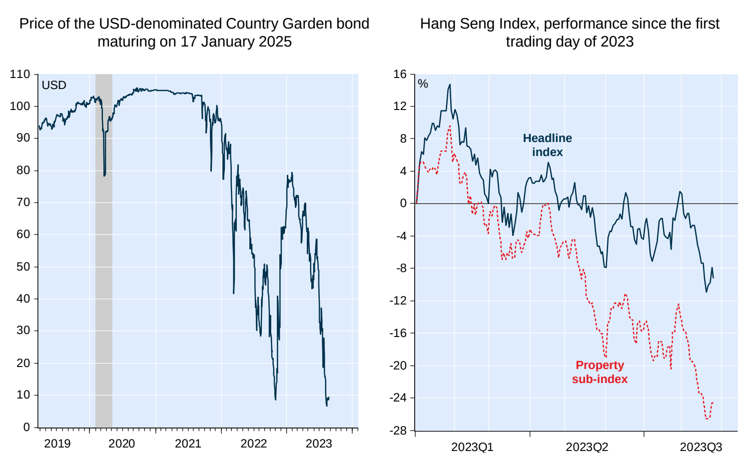
China: Renewed weakness in residential sector



NBF Economics and Strategy (data via Bloomberg)

The decline in the number of transactions has also brought back to the forefront the liquidity problems facing the many developers who rely on cash inflows from pre-sales of unbuilt homes to finance their day-to-day operations. Country Garden, one of the largest of these, was even unable to make an interest payment on its debt after its contracted sales fell by over 50% year-on-year. The delay sent shockwaves through the capital markets, with bonds and equities exposed to real estate taking a beating.

China: Real estate developers in trouble

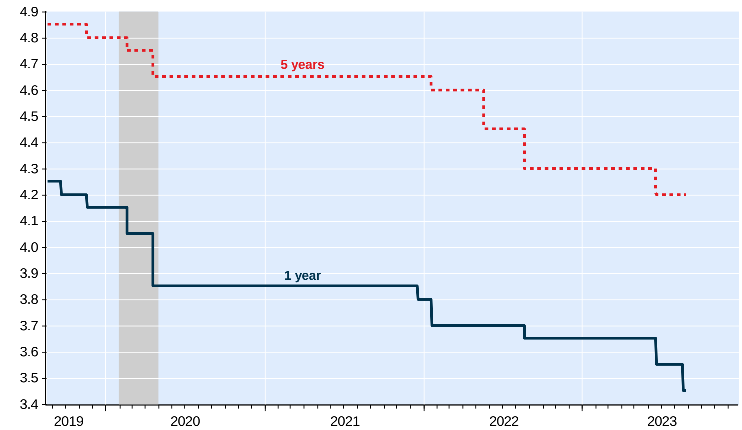


NBF Economics and Strategy (data via Bloomberg)

The real estate sector's difficulties are not entirely a surprise; the Evergrande bankruptcy had already highlighted these problems last year. What remains uncertain, however, is the extent of the collateral damage in other sectors of the economy. With real estate at the heart of China's economic life, it's hard to believe that the effects of the crisis will remain contained. Consumption could certainly be affected in the event of a significant drop in household wealth, some 60% of which depend on real estate. Many economists have also expressed fears about the finances of several local governments, which for years have relied on land sales to developers to balance their budgets.

But perhaps the most immediate concern is that of a contagion to China's shadow banking system. The heart of the problem seems to lie with poorly regulated investment funds, which promise investors much higher returns than those offered by traditional banking products, but whose risk structure remains nebulous. There is no reliable data about the exposure of these funds to the real estate sector, but insiders seem to agree that it is quite high, which may explain why Zhongrong, one of the industry's biggest players, was unable to pay the dividend promised to its investors last month. If this default is indicative of the health of a sector whose assets amount to nearly $3,000 billion, the Chinese economy could be in for a rough ride. Especially since, compared with previous episodes of weakness, the authorities' response remains rather muted. The 1-year benchmark rate has certainly been lowered, but not the 5-year rate on which most mortgages are based.

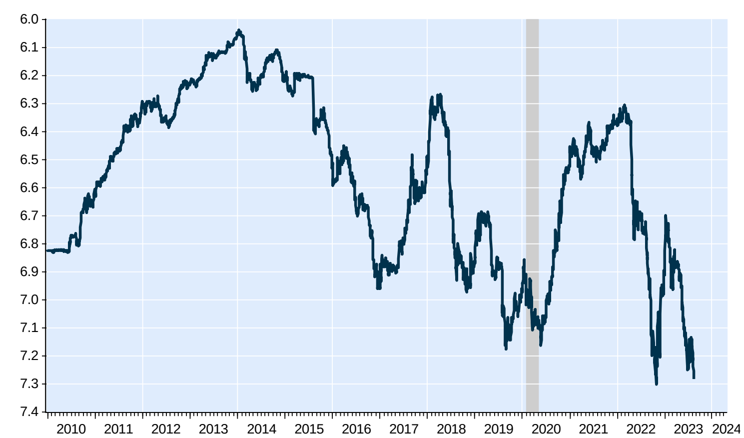
China: The authorities' response remains underwhelming
Loan Prime Rate



NBF Economics and Strategy (data via Bloomberg)

This reluctance to cut benchmark rates highlights the dilemma Beijing is currently facing: how to reconcile the desire to boost the economy with the necessity to support the renminbi. For while a weak currency might help boost exports, it would also give headaches to the many Chinese companies with U.S. dollar-denominated borrowings.

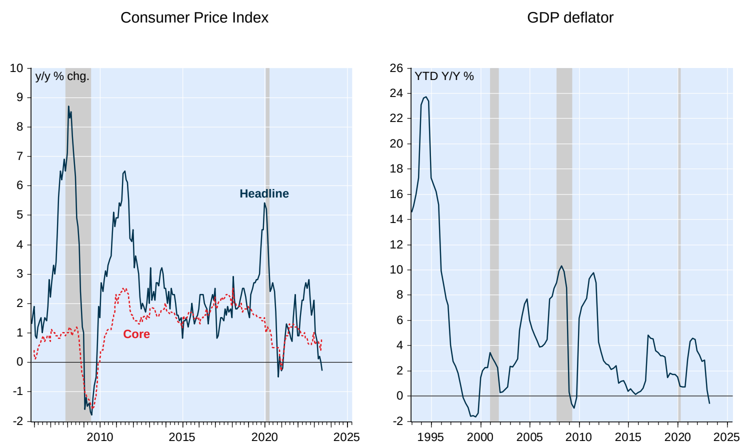
China: Weaker currency no help for highly-indebted promoters
USDCNY (invert scale)



NBF Economics and Strategy (data via Bloomberg)

The authorities' reluctance to implement a stimulus plan commensurate with current difficulties risks keeping the Chinese economy in a situation of oversupply, and thus exerting downward pressure on prices. Not only did the CPI report reveal stagnant prices on an annual basis in July, but the GDP deflator turned negative for the first time in almost 15 years in the second quarter, raising fears of a slide towards deflation. Needless to say, this scenario must be avoided at all costs, as it would increase the debt burden of companies and local governments, and encourage households to postpone spending.

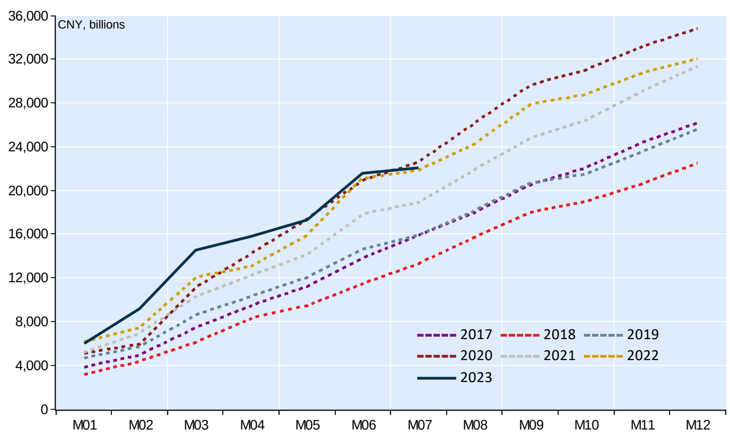
China: An economy flirting with deflation



NBF Economics and Strategy (data via Bloomberg)

In fact, falling inflation is already helping to reduce the impact of some of the measures implemented by the government to stimulate growth, since it translates into higher real interest rates and a corollary slowdown in loan growth.

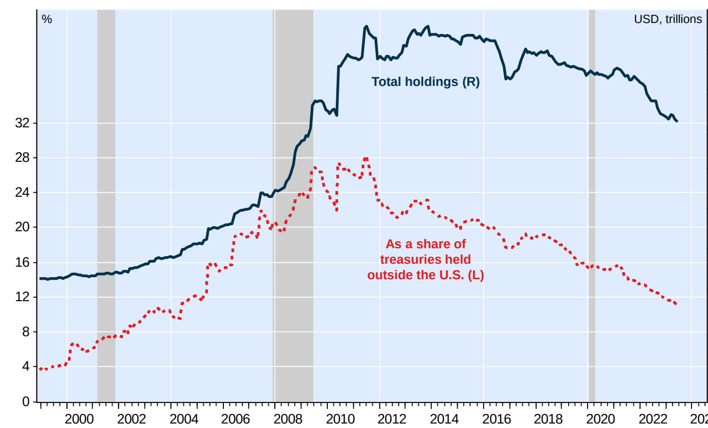
China: Elevated real rates weighing on lending
Aggregate financing, total since the start of the year



NBF Economics and Strategy (data via Bloomberg)

All these factors explain why we expect Chinese GDP growth in 2023 to fall short of the government's announced target of +5%. We also expect China's woes to spill over into other parts of the world via a number of channels. In the United States, the difficulties of the world's second-largest economy could exert upward pressure on interest rates, as Beijing's efforts to support the renminbi are likely to accentuate the offloading of U.S. Treasuries begun several years ago.

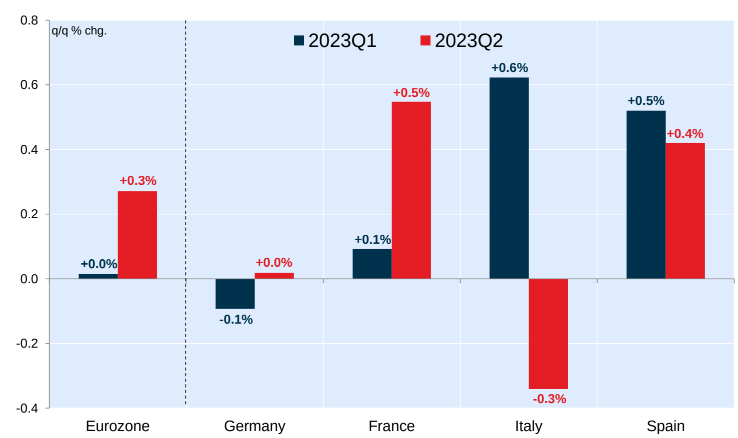
China: Weak economy likely to accentuates ditching of Treasuries
China holdings of U.S. Treasury



NBF Economics and Strategy (data via Refinitiv)

In Europe, the backlash is likely to be felt mainly through a drop in exports, adding to the growing list of headwinds for the eurozone economy. Although the eurozone recorded respectable growth in the second quarter (+0.3% in non-annualized terms), this was due to exceptional events, the effect of which is likely to be cancelled out in the third quarter. These included 3.3% growth in Ireland, where data tend to be extremely volatile due to changes affecting the intellectual property of major U.S. pharmaceutical and technology companies headquartered in the country. Overall growth was also underpinned by a solid result in France (+0.5%), which was however largely attributable to an 11.2% jump in transport equipment exports, the country having delivered a cruise ship during the quarter. Outside these two countries, growth remained flat over the quarter, with a sharp contraction in Italy (-0.3%) more or less offset by a 0.4% expansion in Spain. Germany, meanwhile, recorded zero growth, meaning that its GDP remains below its Q1 2021 level.

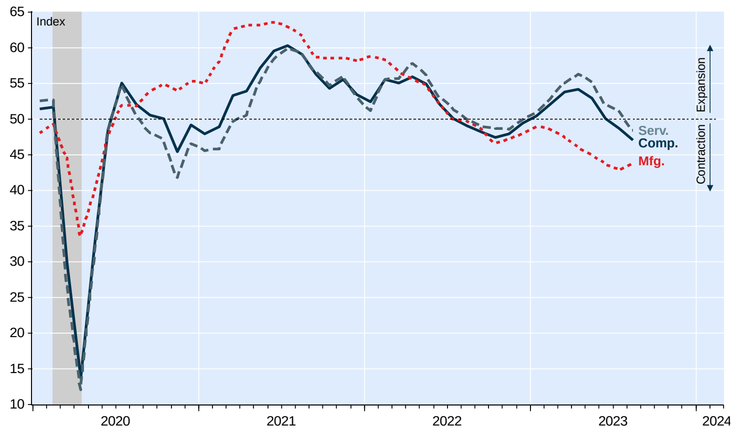
Eurozone: GDP report painted overly optimistic picture of situation
Change in real GDP



NBF Economics and Strategy (data via Refinitiv)

The outlook remains very bleak for the Eurozone, where the effects of monetary tightening on economic activity will continue to intensify over the coming months. The private sector already seems to be shrinking if the August PMI index published by HCOB is anything to go by. In addition to another sharp deterioration in business conditions in the manufacturing sector, the latter also reported the sharpest contraction in the services sector for 30 months. These data confirm our view that the eurozone will enter recession by the end of the year.

Eurozone: Private sector falls into contraction, worst is yet to come
HCOB Flash PMI. Last observation: August 2023



NBF Economics and Strategy (data via Refinitiv)

China and the eurozone account for 35% of the world's economy. And while weakness in these two regions may initially be masked by solid growth in the United States (see next section), it will nonetheless weigh on global growth for the rest of the year. The latter should come in at 3.0% in 2023, before slipping to 2.2% next year.

World Economic Outlook

	2022	2023	2024
Advanced Economies	**2.7**	**1.6**	**0.2**
United States	2.1	2.4	0.0
Eurozone	3.4	0.4	-0.3
Japan	1.1	1.7	0.4
UK	4.3	0.3	-0.4
Canada	3.4	1.0	0.0
Australia	3.7	1.6	0.7
Korea	2.6	1.2	1.4
Emerging Economies	**4.0**	**4.0**	**3.6**
China	3.0	4.8	4.5
India	7.2	6.5	6.0
Mexico	3.1	2.9	0.8
Brazil	2.9	2.4	1.0
Russia	-2.1	1.2	0.5
World	**3.5**	**3.0**	**2.2**

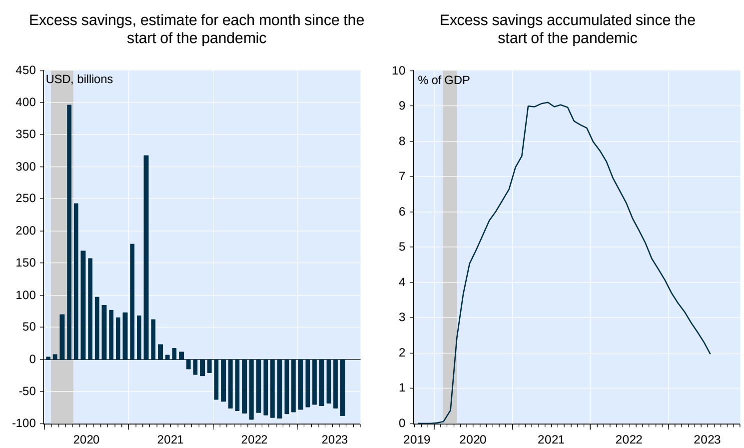
NBF Economics and Strategy (data via NBF and Conensus Economics)

U.S.: Solid Q3 numbers masking underlying weaknesses

Most economists, including ourselves, would surely agree that the U.S. economy is holding up better than expected after the aggressive monetary tightening set in motion by the Federal Reserve last year. It's true that, apart from a wave of bank failures in the spring, the 525 basis points increase in benchmark rates doesn't seem to have done too much harm to growth, with the latter having remained at or close to potential for most of the past 12 months. While pessimists will be quick to point out that monetary policy acts with a long lag and that, consequently, the full effects of the recent tightening have yet to be felt, we feel the economy's performance has been quite impressive even allowing for this transmission delay.

Several hypotheses have been put forward to explain this phenomenon in recent months, and the one that excess savings enabled households to continue spending despite rising interest rates seems particularly convincing to us. An examination of the data confirms that around three-quarters of the $2,000 billion accumulated during the first months of the pandemic was used to support consumption between September 2021 and June 2023.

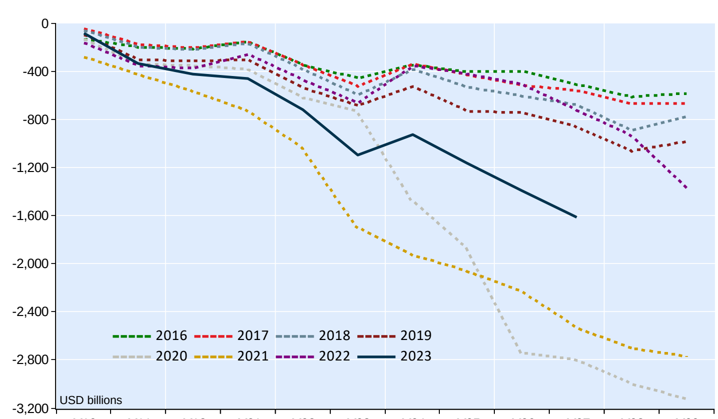
U.S. : Excess savings have dampened the effect of policy tightening



NBF Economics and Strategy (data via Bloomberg)

But excess savings are not the only reason for the economy's resilience. On the contrary, it was also supported by a significant increase in the federal deficit. By the tenth month of fiscal 2023, it had already reached $1,600 billion, more than double the deficit recorded at the same time last year.

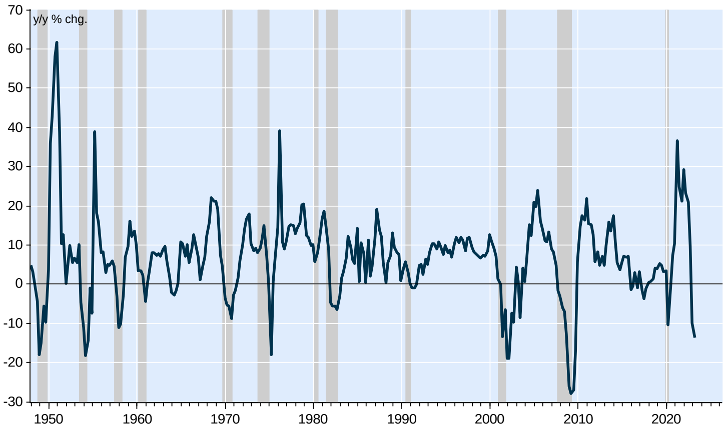
U.S.: Widening of fiscal deficit also contributed in boosting growth
Cumulative federal budget deficit each fiscal year



NBF Economics and Strategy (data via Bloomberg)

According to the Congressional Budget Office, this widening deficit was due as much to a significant drop in tax revenues...

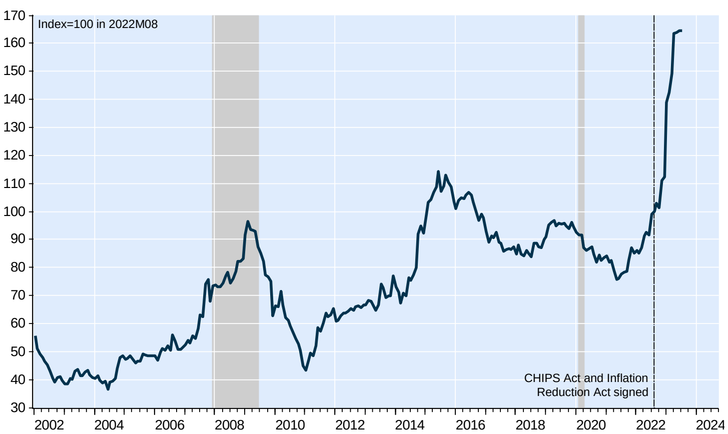
U.S.: After a boom, tax receipts are now dropping precipitously
Federal government current tax receipts



NBF Economics and Strategy (data via Fed St. Louis)

... as to an increase in public spending, the latter due in large part to the passage by the U.S. Congress of several bills (Infrastructure Investment and Jobs Act, Inflation Reduction Act and CHIPS Act) offering subsidies for the energy transition and for the construction of semiconductor plants, and resulting, among other things, in an explosion in construction spending in the manufacturing sector.

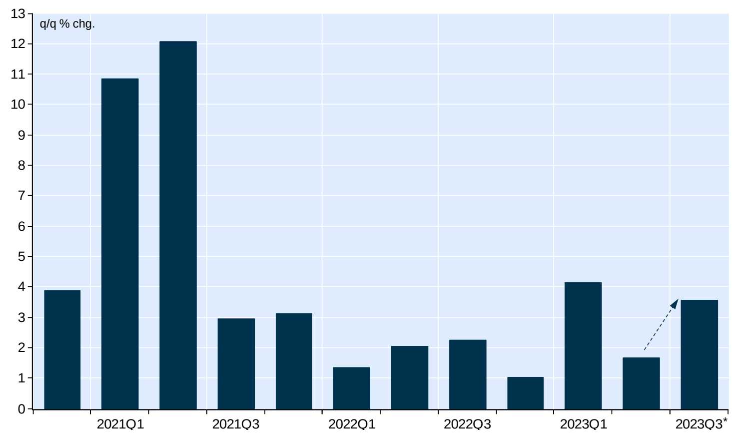
U.S.: The manufacturing construction boom is real
Real* manufacturing construction spending



*Deflated using Producer Price Index for intermediate demand materials and components for construction
NBF Economics and Strategy (data via Fred St. Louis)

And although it seems ill-advised at a time when inflation is still well above the central bank's target, the U.S. government's lax fiscal policy should nevertheless continue to support the economy in the third quarter. Ditto for a number of other temporary factors, such as Taylor Swift and Beyonce's concert tours. At first glance, the concerts given by the two pop stars might not seem likely to influence GDP data, but a closer look at the figures tends to contradict this assumption. According to a study published by Bloomberg, concert-goers spend an average of $2,000 on tickets, hotels, restaurants, transport and clothing. Given that around 50,000 people will attend each of the 48 performances in the third quarter, spending on these shows could amount to $5 billion. Add to this the $3 billion in spending generated by Hollywood blockbusters Barbie and Oppenheimer, and the impact of these cultural phenomena on third-quarter GDP becomes clear. And while it's true that some of the money spent on entertainment during the quarter may not be spent elsewhere (substitution effect), household consumption, which accounts for two-thirds of the U.S. economy, will nonetheless be positively influenced. With two months of data still to come in Q3, the latter is already on track for a very solid expansion.

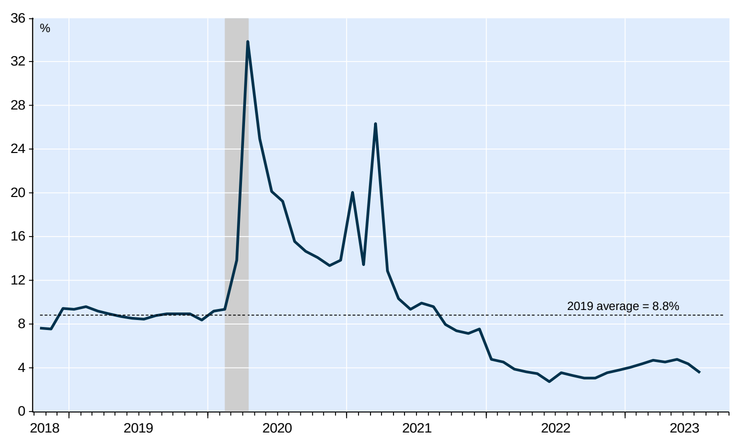
U.S.: Consumption boosted in Q3 by a series of cultural phenomena
Real household spending



*With two months of data still to come
NBF Economics and Strategy (data via Refinitiv)

Unfortunately, in a context where the rise in household spending was not accompanied by a corollary increase in disposable income, but was rather the result of a significant drop in the savings rate, we fear that the burst of vigour will be very short-lived.

U.S. : Consumption has been supported by a lower savings rate…
Savings as a percentage of disposable income (savings rate)

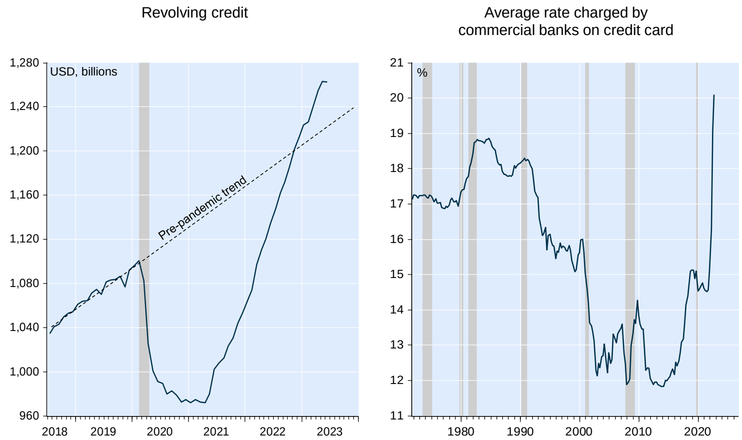


NBF Economics and Strategy (data via Fred St. Louis)

Indeed, it seems that, in order to finance their largesse, consumers have once again had to draw heavily on the pool of excess savings accumulated during the pandemic (see first graph in this section). Data recently released by the Federal

Reserve suggest that their spending has also been supported by increased credit card use.

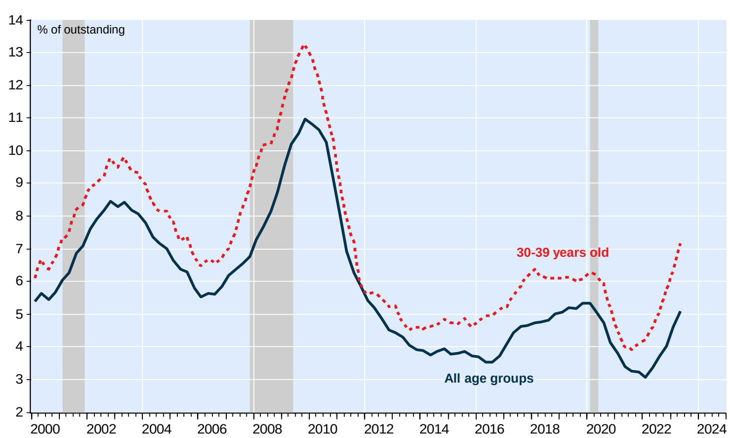
… and greater reliance on credit cards



NBF Economics and Strategy (data via Bloomberg)

Consumers are unlikely to be able to maintain this behavior for much longer, given the rapid drying up of excess savings reserves and the increasing difficulty some are having in repaying credit card debt. Unpaid balances have indeed become more difficult to manage in a higher interest rate environment, which explains why default rates have returned to pre-pandemic levels. For 30-39 year-olds, the group most likely to attend Taylor Swift and Beyonce concerts, these rates are now at their highest level since 2011.

U.S.: Consumers finding it harder to service credit card debt
Percentage of credit card loans transitioning into serious delinquency (90+ days)

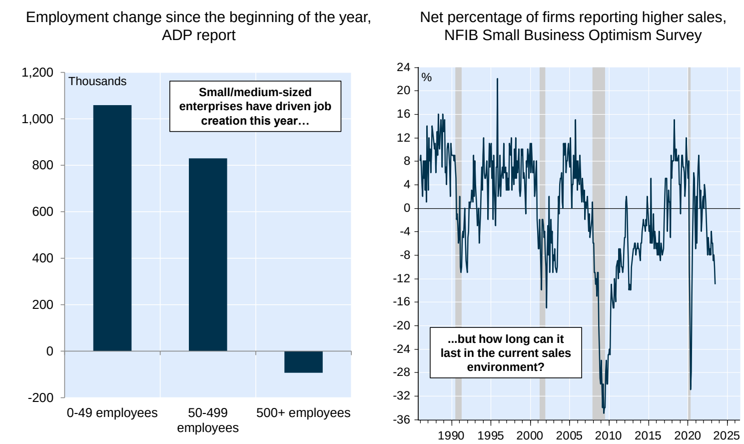


NBF Economics and Strategy (data via Bloomberg)

We thus expect consumers to experiment a bit of a hangover in Q4. Not only will they have to cope with ballooning credit card balances, but 40 million of them will also have to start repaying student debt again in October. Interestingly, the age group most likely to be struggling with credit card debt right now (30-39 year olds) is also the one with the biggest student loan balances outstanding.

While the strength of the job market could help soften the blow, we unfortunately expect hiring to slow in the months ahead, particularly among small businesses. These have been responsible for the vast majority of hiring in the past few months, but the recent deterioration in their outlook is likely to change all that. In July's NFIB survey, the percentage of small businesses reporting a fall in sales was 13% higher than those reporting an increase. This gap, the widest ever recorded outside a recession, points to a significant drop in demand for labour in the months ahead.

U.S.: Can the wave of small business hiring continue?



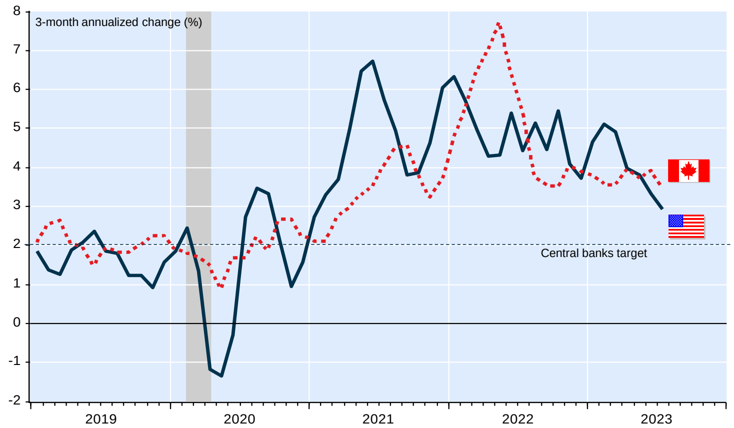
NBF Economics and Strategy (data via Bloomberg and Refinitiv)

After growing at a pace well above potential in Q3, we see the U.S. economy slowing down sharply in Q4, before slipping into recession in the early months of 2024. According to this scenario, real GDP should grow by 2.4% in 2023 before stalling in 2024 (+0.0%).

Canada: Cracks appear

The Bank of Canada will present its assessment of the economic situation in early September, when it will unveil its decision on the appropriateness of its monetary policy. In July, the Bank raised its policy rate for the second consecutive meeting, to its highest level since 2001. While not telegraphing the need for further rate hikes, the bank asserted that it "remains resolute in its commitment to restoring price stability " and would assess the evolution of demand and inflation risks going forward. In other words, it is in "data-dependent mode", which has been mixed since its last decision. On the inflation front, data has been disappointing. It was an open secret among economists that progress on annual inflation would stagnate over the summer as energy's negative year-on-year contribution faded. Nevertheless, July's data raised a few eyebrows, particularly the re-acceleration in food and energy prices. According to our current forecast, annual inflation could reach 3.5% in the third quarter, higher than the 3.3% expected by the Bank of Canada in its July forecast. The Bank of Canada's core inflation measures, meanwhile, are showing little improvement. Indeed, three-month annualized core inflation has continued to oscillate in the 3.5% to 4.0% range, persisting at these levels since the second half of 2022. It is this situation that the central bank deplored in its latest communication.

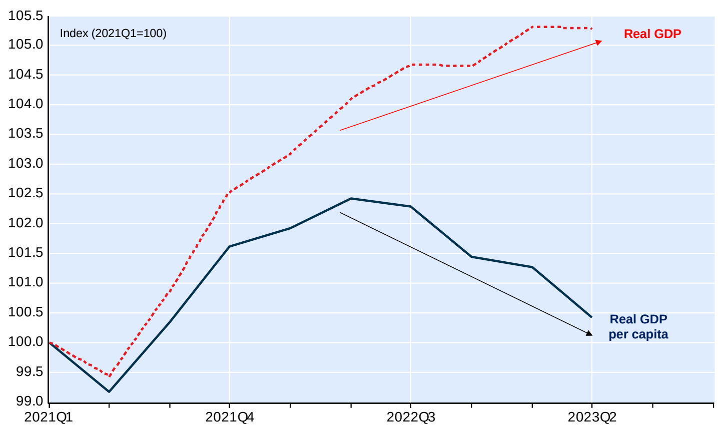
Canada: Will the lack of progress lead the BoC draw its sword again?
Core CPI in Canada (average of CPI-Trim and CPI-Median) and PCE deflator ex-food & energy in the U.S.



NBF Economics and Strategy (data via Refinitiv & Statistics Canada)

Even so, further tightening by the central bank would be very risky. We have mentioned several times in recent months that inflation is a lagging indicator, and that it would be perilous for the central bank to continue raising rates simply because inflation has not returned to its target. The Bank of Canada itself estimates that it takes 6 to 8 quarters (link) for the full impact of an interest rate hike to be felt. The state of the economy is reflected in core inflation measures within 3 to 5 quarters, according to the central bank's analysis (link, page 7). Rather than being alarmed that the fight against inflation is stalling, the central bank should take note that the transmission of monetary policy is having an effect, as the Canadian economy is showing signs of running out of steam. Second-quarter GDP data showed the economy stagnating in the second quarter, well below the 1.5% forecasted by the central bank. Adding to the disappointment, first-quarter GDP was revised downwards, meaning that the economy is much less overheated than the Bank of Canada thought in July. Under normal circumstances, a quarter of stagnation would not necessarily be cause for concern, but the current demographic explosion is changing the picture. Real GDP per capita fell at an annualized rate of 3.3%, extending for a fourth consecutive quarter a downward trend that began when the central bank began tightening its monetary policy.

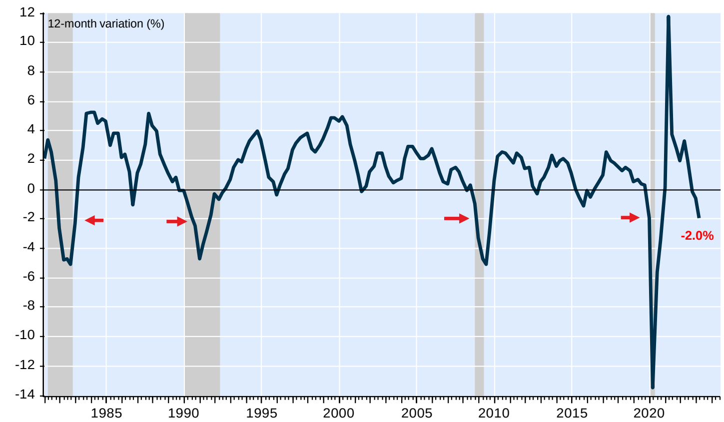
Canada: Is the economy more fragile than at first sight?
Real GDP and real GDP per capita



NBF Economics and Strategy (data via Statistics Canada)

Over the last four quarters, GDP per capita has fallen by 2.0%, which historically has only occurred during a recession. Whenever GDP per capita was below the previous year's level, the central bank was already in easing mode, which contrasts with the BoC's current intransigence.

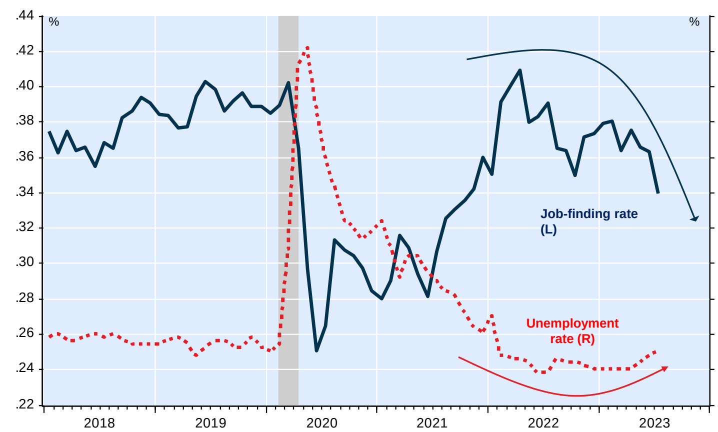
Canada: GDP per capita is down 2.0% over a year, is it a big deal?
One-year change in real GDP per capita



NBF Economics and Strategy (data via Statistics Canada)

The significant rise in the unemployment rate over the last three months is further evidence that the economy has been growing well below potential in recent times. The proportion of the unemployed finding work is at its lowest level in almost two years.

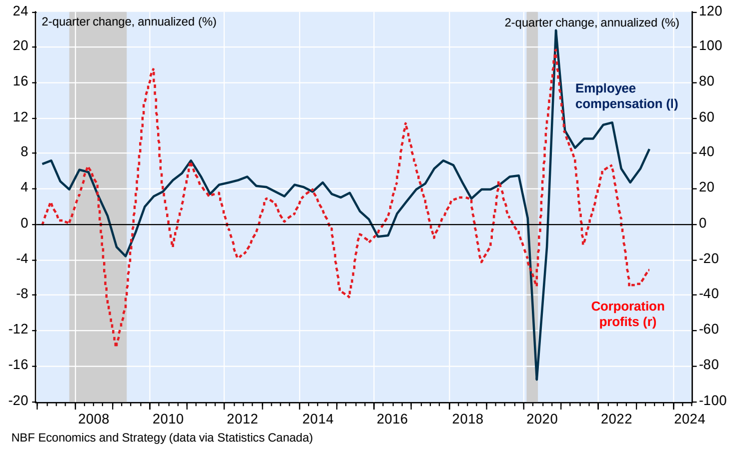
Canada: Tougher for unemployed to find a job
Share of unemployed who flow back into employment (3-month moving average) and unemployment rate



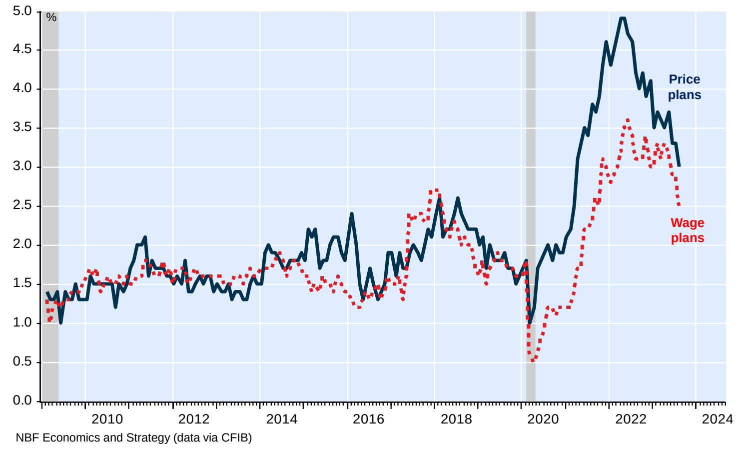
NBF Economics and Strategy (data via Statistics Canada)

And there is every reason to believe that companies' appetite for hiring will be very weak in the months ahead. The trend in profits (-26% annualized since the start of the year) is incompatible with the rise in employee compensation (+8%), which could lead to difficult decisions for companies.

Canada: A divergence that is unlikely to last
Compensation of employees and corporate profits



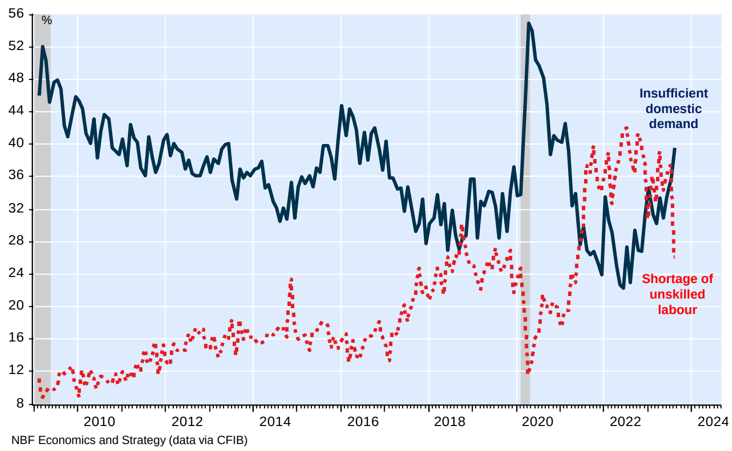
Canada: Wage-push inflation expected to moderate
Average price and wage planned increases over the next year



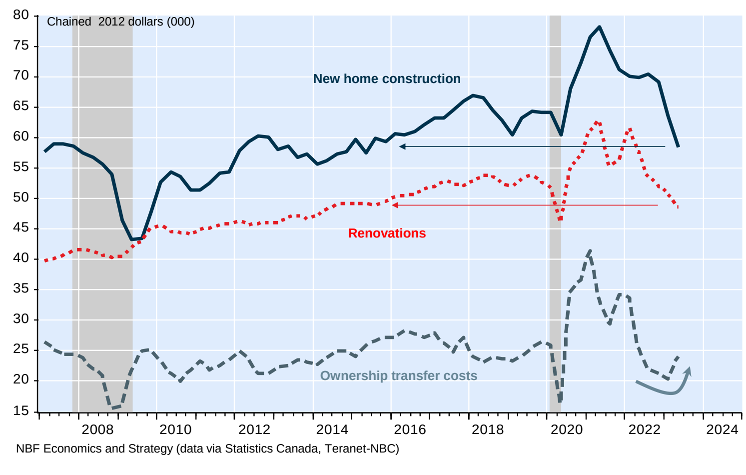
According to CFIB's latest survey, labour shortages are easing, and concerns about weak domestic demand are rising sharply in August, suggesting no strengthening of the economy in the third quarter. This is consistent with Statistics Canada's preliminary GDP estimate for July, which points to a stagnant economy following a decline in June. This weakness is all the more worrying as it comes during the month when many households received their grocery rebate cheques from the federal government.

In the last two interest rate decisions, the Bank of Canada was uncomfortable with the resilience of interest-rate-sensitive consumer spending and real estate, tipping the balance in favor of further tightening. Indeed, against a backdrop of strong population growth, the residential real estate sector saw a rebound in home sales despite high interest rates in the second quarter. However, we note that activity in new construction and renovations is posting the lowest level since 2015 and 2014 (excluding the pandemic).

Canada: Domestic demand cools, shortage of labour moderates
Factors that limit businesses' ability to grow, share of respondents



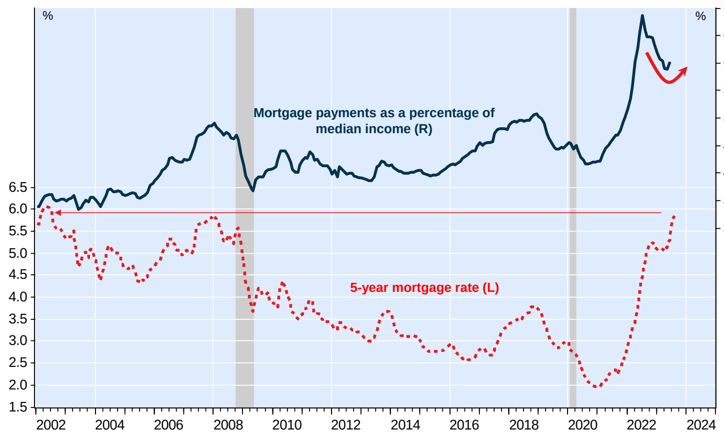
Canada: The residential sector continues to slide
Residential investment components



There are early signs that the economic downturn will help curb inflation in the months ahead. Whereas the average price increase anticipated by SMEs for the following year was close to 5% at the beginning of 2022, the expected increase is now just 3.0%, in a context where the average wage increase that is expected to be granted fell to 2.5%. This should reassure the Bank of Canada, which remained concerned about corporate pricing practices in its last communication.

As for the rebound in home resales and prices, we believe it was probably temporary. Not only did the policy rate hikes push up short-term interest rates, but the rise in global interest rates also propelled rates for longer maturities. As a result, the 5-year mortgage rate is now at its highest level since 2002, pointing to a deterioration in housing affordability in the third quarter after three quarters of improvement.

Canada: Improvement in affordability may come to an end in Q3
Housing affordability index and 5-year mortgage interest rate



NBF Economics and Strategy (data via Statistics Canada, Teranet-NBC)

In conclusion, the Bank of Canada raised its key rate twice this summer, losing patience with the lack of progress on the inflation front and what it saw as overly strong domestic demand. We felt that these decisions were perilous, as the economy was already showing signs of underlying weakness and had yet to feel the full impact of the rate hikes implemented since the start of the tightening cycle. Second-quarter GDP data confirmed our view. With monetary policy the tightest in real terms since 2009, and the most restrictive among G7 countries, we continue to anticipate economic lethargy over the next 12 months. We expect growth of 1.0% in 2023 and 0% in 2024.

United States
Economic Forecast

*(Annual % change)**	*2020*	*2021*	*2022*	*2023*	*2024*	*Q4/Q4 2022*	*Q4/Q4 2023*	*Q4/Q4 2024*
Gross domestic product (2012 $)	(2.8)	5.9	2.1	2.4	0.0	0.9	2.3	(0.9)
Consumption	(3.0)	8.3	2.7	2.5	(0.3)	1.7	2.7	(1.4)
Residential construction	7.2	10.7	(10.6)	(10.9)	1.1	(18.8)	0.4	0.2
Business investment	(4.9)	6.4	3.9	3.0	0.1	4.5	2.3	(1.0)
Government expenditures	2.6	0.6	(0.6)	3.3	2.1	0.9	3.1	2.0
Exports	(13.2)	6.1	7.1	2.1	(1.4)	4.6	0.2	(1.8)
Imports	(9.0)	14.1	8.1	(2.1)	(0.4)	1.5	0.0	(0.8)
Change in inventories (bil. $)	(54.6)	(19.4)	125.0	26.7	1.3	136.5	25.0	10.0
Domestic demand	(1.9)	6.7	1.7	2.1	0.2	0.9	2.6	(0.7)
Real disposable income	6.2	1.9	(6.2)	3.6	0.8	-1.9	3.3	0.9
Payroll employment	(5.8)	2.9	4.3	2.2	(1.1)	3.4	1.5	-1.9
Unemployment rate	8.1	5.4	3.7	3.7	4.8	3.6	3.9	5.1
Inflation	1.3	4.7	8.0	4.0	2.3	7.1	2.7	2.2
Before-tax profits	(5.9)	22.6	6.6	(6.4)	(2.2)	2.6	-9.5	8.8
Federal balance (unified budget, bil. $)	(1,015.0)	(1,000.0)	(1,000.0)	(999.0)	(998.0)	...	...	...
Current account (bil. $)	(597.1)	(939.8)	(971.6)	(884.5)	(903.1)	...	...	...

** or as noted*

Financial Forecast**

	Current 9/01/23	*Q3 2023*	*Q4 2023*	*Q1 2024*	*Q2 2024*	*2022*	*2023*	*2024*
Fed Fund Target Rate	5.50	5.50	5.50	5.50	5.50	4.50	5.50	4.75
3 month Treasury bills	5.30	5.45	5.35	5.30	5.15	4.30	5.35	4.50
Treasury yield curve								
2-Year	4.87	4.95	4.65	4.45	4.20	4.41	4.65	3.75
5-Year	4.29	4.35	4.15	4.00	3.85	3.99	4.15	3.65
10-Year	4.18	4.20	4.05	3.95	3.85	3.88	4.05	3.70
30-Year	4.29	4.30	4.20	4.10	4.00	3.97	4.20	3.80
Exchange rates								
U.S.$/Euro	1.08	1.07	1.06	1.05	1.08	1.07	1.06	1.10
YEN/U.S.$	146	145	143	146	140	132	143	135

*** end of period*

Quarterly pattern

	Q3 2022 actual	*Q4 2022 actual*	*Q1 2023 actual*	*Q2 2023 actual*	*Q3 2023 forecast*	*Q4 2023 forecast*	*Q1 2024 forecast*	*Q2 2024 forecast*
Real GDP growth (q/q % chg. saar)	3.2	2.6	2.0	2.1	4.9	0.1	(1.0)	(1.8)
CPI (y/y % chg.)	8.3	7.1	5.8	4.1	3.3	2.7	2.4	2.5
CPI ex. food and energy (y/y % chg.)	6.3	6.0	5.6	5.2	4.4	3.9	3.3	2.7
Unemployment rate (%)	3.6	3.6	3.5	3.6	3.7	3.9	4.3	4.8

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2020	2021	2022	2023	2024	Q4/Q4 2022	Q4/Q4 2023	Q4/Q4 2024
Gross domestic product (2012 $)	(5.1)	5.0	3.4	1.0	(0.0)	2.1	0.3	0.8
Consumption	(6.3)	5.1	4.8	2.1	0.1	3.0	1.3	0.8
Residential construction	5.0	14.9	(11.2)	(13.5)	(0.6)	(14.0)	(8.8)	2.3
Business investment	(11.6)	4.3	8.0	2.3	(0.7)	3.4	1.5	0.8
Government expenditures	1.9	5.6	2.0	1.2	2.2	2.0	1.0	2.3
Exports	(8.9)	1.4	2.8	4.3	(1.5)	3.1	1.1	0.0
Imports	(9.3)	7.8	7.5	(0.9)	(0.2)	3.0	(0.1)	1.0
Change in inventories (millions $)	(23,493)	(4,148)	39,467	11,908	7,000	24,264	10,000	5,000
Domestic demand	(3.8)	5.8	2.7	0.6	0.6	1.2	0.5	1.3
Real disposable income	7.6	1.2	(0.4)	0.5	0.8	2.3	0.5	0.7
Employment	(5.6)	5.0	4.0	2.2	0.1	2.3	1.7	0.4
Unemployment rate	9.7	7.5	5.3	5.4	6.5	5.1	5.9	6.5
Inflation	0.7	3.4	6.8	3.8	2.4	6.7	3.0	2.0
Before-tax profits	(1.4)	35.8	8.4	(22.0)	(5.6)	(7.2)	(14.5)	(1.0)
Current account (bil. $)	(47.6)	(6.7)	(9.1)	(35.0)	(37.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 9/01/23	Q3 2023	Q4 2023	Q1 2024	Q2 2024	2022	2023	2024
Overnight rate	5.00	5.00	5.00	5.00	4.75	4.25	5.00	4.00
Prime rate	7.00	7.00	7.00	7.00	6.75	6.25	7.00	6.00
3 month T-Bills	5.10	5.05	4.95	4.85	4.45	4.30	4.95	3.90
Treasury yield curve								
2-Year	4.55	4.65	4.20	3.90	3.60	4.05	4.20	3.25
5-Year	3.85	3.95	3.65	3.45	3.35	3.40	3.65	3.20
10-Year	3.57	3.65	3.45	3.25	3.20	3.29	3.45	3.10
30-Year	3.42	3.45	3.30	3.15	3.10	3.26	3.30	3.10
CAD per USD	1.36	1.36	1.38	1.40	1.36	1.35	1.38	1.34
Oil price (WTI), U.S.$	86	76	69	67	65	80	69	68

*** end of period*

Quarterly pattern

	Q3 2022 actual	Q4 2022 actual	Q1 2023 actual	Q2 2023 actual	Q3 2023 forecast	Q4 2023 forecast	Q1 2024 forecast	Q2 2024 forecast
Real GDP growth (q/q % chg. saar)	2.3	(0.1)	2.6	(0.2)	(0.2)	(1.0)	(1.2)	0.9
CPI (y/y % chg.)	7.2	6.7	5.2	3.5	3.5	3.0	3.1	2.5
CPI ex. food and energy (y/y % chg.)	5.4	5.4	4.8	4.0	3.3	3.0	3.0	2.4
Unemployment rate (%)	5.1	5.1	5.0	5.2	5.6	5.9	6.3	6.5

National Bank Financial

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Provincial economic forecast

	Real GDP (% growth) 2020	2021	2022e	2023f	2024f	Nominal GDP (% growth) 2020	2021	2022e	2023f	2024f
Newfoundland & Labrador	-4.6	0.6	-1.7	0.6	-0.3	-10.0	17.7	8.6	-0.7	-2.9
Prince Edward Island	-1.6	7.9	2.9	1.7	0.4	1.4	14.3	9.7	2.9	2.0
Nova Scotia	-3.5	6.2	2.6	1.1	0.3	0.0	10.9	8.6	1.9	2.0
New Brunswick	-2.7	5.9	1.8	0.7	0.1	-1.6	13.8	7.8	2.0	0.0
Quebec	-5.0	6.0	2.6	0.5	0.0	-1.9	11.8	9.6	3.1	2.1
Ontario	-4.7	5.2	3.7	1.0	0.1	-2.9	10.3	9.2	3.3	2.4
Manitoba	-4.4	1.8	3.9	1.2	0.0	-1.3	8.4	11.1	2.7	3.2
Saskatchewan	-4.8	-0.9	5.7	1.7	-0.2	-7.6	13.1	17.7	0.6	-4.0
Alberta	-8.0	4.8	5.1	1.8	-0.2	-15.7	26.2	17.7	-2.6	-2.6
British Columbia	-3.0	6.1	3.6	0.9	-0.2	-0.7	14.2	9.5	0.9	1.3
Canada	-5.3	5.0	3.4	1.0	0.0	-4.6	13.6	10.9	1.8	1.0

	Employment (% growth) 2020	2021	2022e	2023f	2024f	Unemployment rate (%) 2020	2021	2022e	2023f	2024f
Newfoundland & Labrador	-6.4	3.6	4.3	1.8	-0.5	14.5	13.1	11.2	9.6	10.7
Prince Edward Island	-3.5	4.1	5.3	3.9	1.0	10.7	9.9	7.5	7.9	8.1
Nova Scotia	-4.6	5.6	3.6	2.3	0.4	9.9	8.6	6.6	6.9	7.4
New Brunswick	-3.0	3.2	2.7	3.1	-0.3	10.3	9.1	7.2	6.5	7.9
Quebec	-5.4	4.4	3.1	2.0	0.1	8.9	6.1	4.3	4.5	5.3
Ontario	-5.4	5.2	4.6	2.5	0.2	9.8	8.1	5.6	5.5	6.7
Manitoba	-4.3	3.7	3.2	1.9	-0.1	8.2	6.4	4.5	4.7	5.4
Saskatchewan	-5.0	2.6	3.5	0.8	0.1	8.3	6.5	4.7	4.6	5.9
Alberta	-7.0	5.5	5.2	3.3	0.3	11.4	8.5	5.8	6.1	7.3
British Columbia	-6.2	6.2	3.1	1.1	0.0	9.1	6.5	4.6	5.2	6.7
Canada	-5.6	5.0	4.0	2.2	0.1	9.7	7.5	5.3	5.4	6.5

	Housing starts (000) 2020	2021	2022e	2023f	2024f	Consumer Price Index (% growth) 2020	2021	2022e	2023f	2024f
Newfoundland & Labrador	0.8	1.2	1.7	1.1	1.0	0.2	3.7	6.4	3.1	2.5
Prince Edward Island	1.1	1.2	1.0	0.9	1.0	0.0	5.1	8.9	2.5	2.3
Nova Scotia	4.9	6.0	5.6	5.4	4.8	0.3	4.1	7.5	3.4	2.2
New Brunswick	3.6	3.9	4.7	3.7	3.3	0.2	3.8	7.3	3.6	2.4
Quebec	53.8	69.9	58.6	40.0	47.5	0.8	3.8	6.7	4.3	2.6
Ontario	81.2	100.5	96.2	94.0	85.0	0.6	3.5	6.8	3.6	2.4
Manitoba	7.3	8.0	8.1	8.2	7.5	0.5	3.2	7.9	3.9	2.4
Saskatchewan	3.1	4.2	4.2	4.2	3.9	0.6	2.6	6.6	4.2	2.5
Alberta	24.2	31.9	36.4	31.8	28.5	1.1	3.2	6.5	3.1	2.6
British Columbia	38.0	47.6	46.7	48.5	44.5	0.8	2.8	6.9	3.8	2.5
Canada	218.0	274.4	263.3	237.8	227.0	0.7	3.4	6.8	3.8	2.4

e: estimate f: forecast

Historical data from Statistics Canada and CMHC, National Bank of Canada's forecast.

Economics and Strategy

Montreal Office
514 879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@bnc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@bnc.ca

Kyle Dahms
Economist
kyle.dahms@bnc.ca

Daren King, CFA
Economist
daren.king@bnc.ca

Jocelyn Paquet
Economist
jocelyn.paquet@bnc.ca

Alexandra Ducharme
Economist
alexandra.ducharme@bnc.ca

Angelo Katsoras
Geopolitical analyst
angelo.katsoras@bnc.ca

Toronto Office
416 869-8598

Warren Lovely
Senior Strategist, Interest Rates and Public Sector
warren.lovely@bnc.ca

Taylor Schleich
Strategist, Interest Rates
taylor.schleich@bnc.ca

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