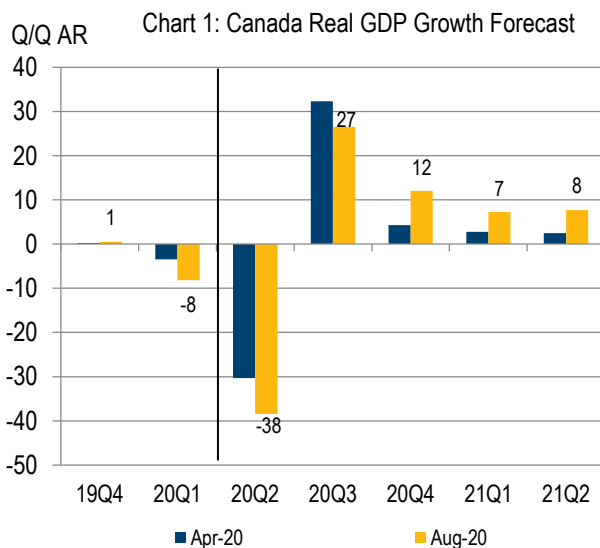




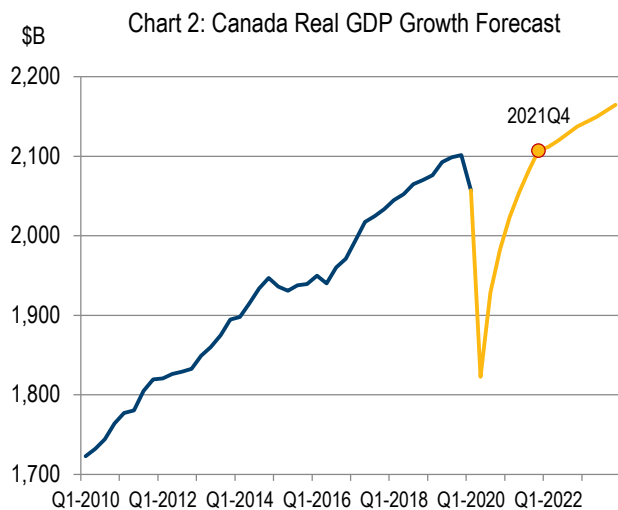
Laurentian Bank Securities ECONOMIC RESEARCH AND STRATEGY

Economic and Financial Forecasts – Mapping the Recovery

- The Canadian economic outlook has deteriorated relative to our forecasts published in April. The negative impact of shutdowns in economic activity during the first half of the year was larger-than-expected (chart 1). In line with our expectations, the recovery started in May. However, the dual challenge of reopening large swaths of the economy and keeping a low viral transmission rate should lead to a slower-than-expected recovery;
- We forecast the level of Canadian real GDP to return to its pre-COVID19 level in late 2021 (chart 2). We assume that the loss of labour income resulting from the deterioration in labour market conditions will continue to be more than compensated by federal assistance programs supporting household consumption. Nonetheless, activity in key sectors such as business investment and international trade in services, including air transportation, commercial services and tourism, does not return to pre-COVID levels over the 2020-22 forecast horizon;
- Localized shutdowns and the maintaining of physical distancing measures are part of our base case scenario. Also, based on the fact that a selected number of potential vaccines are undergoing Phase 3 clinical trials, the development of an effective vaccine before the end of 2020 is expected. While it would likely take several additional months to scale up manufacturing and immunize a significant share of the population, the gradual vaccination process would foster consumer, business and financial market confidence;
- In light of recent developments and our assumptions, we forecast a 6.8% real GDP contraction in 2020 and a 6.2% rebound in 2021 (see table below for our complete forecast);



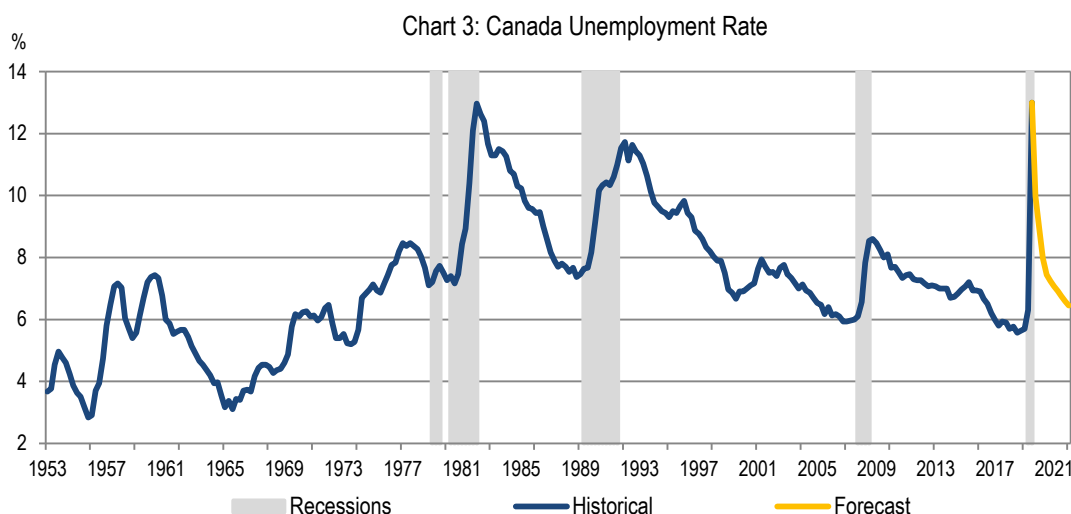
Source: LBS Economic Research and Strategy.



- In May and June, the Canadian economy recouped 41% of job losses incurred during the March-April period as several temporary unemployed returned to work. The unemployment rate fell modestly from 13.7% in May to 12.3% in June. The jobless rate remains higher than the 2009 recession peak (8.7%), is similar to its 1992 recession peak (12.1%) and slightly lower than the 1982 recession peak (13.1%, chart 3);



- We continue to expect close to two thirds of furloughed employees to be called back before year-end. However, from this point onward, new job losses will be more permanent than temporary. As the reopening progresses and Canadians start looking for work again, the unemployment rate is likely to remain above its pre-recessionary level of 5.6% over the 2020-22 forecast horizon;
- Total Canadian CPI inflation briefly dipped into negative territory last Spring before rebounding in June (0.7% y/y), making deflation very unlikely. Slower credit activity, a very large output gap and fragile consumers are factors favoring disinflationary forces. Accordingly, we see CPI inflation slowly moving up without reaching the 2% BoC target over the forecast horizon;
- The Bank of Canada will lean for a considerable time against these disinflationary forces. Governor Macklem recently committed to keep the policy rate at 0.25% until inflation hit the 2% target. Based on our expectations, the Bank of Canada will not be able to increase its policy rate before 2023 at the earliest. We also expect the pace of asset purchases to remain robust throughout 2020. Combined with the consistent global search for yield from investors, we forecast the Canadian yield curve to stay relatively flat;
- Equity markets made significant gains since March due to the partial reopening of the economy, bold macro policy support and progress made on the virus front. As the pandemic is evolving, we expect continued volatility in equities. However, support from central banks and governments likely put a floor on equity valuations and will prevent another sell-off. Combined to the fact that investors and analysts *eventually* expect corporate revenues to return to pre-pandemic level, we see equities making positive but moderate gains;
- At current levels, relative to its fundamental level derived from commodity prices, the Canadian dollar seems appropriately priced relative to the U.S. dollar.



Sources: Statistics Canada, Projet Link (Université Laval) and LBS Econ. Res. and Strategy.

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Canadian Economic Outlook														
	quarterly change (annual rate)										annual average			
	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	2019	2020	2021	2022
Real GDP	1.1	0.6	-8.2	-38.4	26.5	12.0	7.3	7.7	5.4	4.9	1.7	-6.8	6.2	3.0
Consumer Spending	2.2	1.8	-9.0	-45.3	31.0	17.2	10.0	10.0	4.1	3.8	1.6	-8.2	7.6	3.2
Private investment	3.0	-5.0	-2.1	-64.2	-7.9	8.6	13.9	15.0	15.0	15.0	-0.4	-18.6	2.0	7.3
Business Investment	3.0	-5.0	-2.1	-64.2	-7.9	8.6	13.9	15.0	15.0	15.0	-0.4	-18.6	2.0	7.3
Non-residential structures	7.7	0.7	4.1	-65.0	5.0	8.0	12.0	15.0	15.0	15.0	0.7	-14.6	3.1	6.6
Machinery and equipment	-3.7	-13.2	-13.1	-65.0	-25.0	10.0	18.0	15.0	15.0	15.0	-0.1	-25.8	0.2	6.6
Residential Investment	13.8	1.2	-0.4	-30.0	60.0	10.0	9.0	8.0	7.0	7.0	-0.6	2.1	10.7	3.9
Government Spending	2.7	1.0	-2.5	-10.0	12.5	6.5	6.6	7.4	5.8	5.5	1.8	-0.2	6.2	2.7
Exports	-0.4	-4.5	-11.3	-58.7	55.8	8.2	6.3	1.2	4.3	4.3	1.3	-12.7	3.8	3.0
Imports	0.2	-3.2	-10.7	-66.1	75.9	7.6	10.0	5.0	4.6	5.4	0.6	-14.8	5.6	3.8
Total CPI Inflation *	1.9	2.1	1.8	0.0	0.3	0.8	1.3	1.5	1.7	1.7	1.9	0.7	1.6	1.8
Unemployment rate (%)*	5.6	5.7	6.3	13.0	10.0	8.9	8.0	7.4	7.2	7.1	5.7	9.6	7.4	6.7
Employment	1.1	0.5	-5.8	-38.4	26.2	10.0	5.0	3.0	1.5	1.3	2.1	-6.4	3.7	1.4
Housing Starts (in 000s, annualized)*	223	201	209	191	180	180	180	180	185	195	209	190	185	200
Nominal GDP	1.09	4.15	-6.5	-44.5	32.9	14.3	8.9	9.3	8.0	7.0	3.6	-6.6	7.7	5.0

*Average for the period.

Updated: August 2020

Financial Forecasts											
	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q4
Canada											
Overnight Rate Target	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-Month Treasury Bills	1.65	1.65	0.22	0.20	0.20	0.25	0.25	0.25	0.25	0.25	0.25
2-Year Bond	1.58	1.70	0.42	0.28	0.35	0.40	0.45	0.50	0.60	0.75	1.00
5-Year Bond	1.39	1.68	0.58	0.37	0.45	0.60	0.65	0.75	0.90	1.00	1.10
10-Year Bond	1.36	1.70	0.69	0.53	0.60	0.80	0.90	1.00	1.05	1.20	1.40
30-Year Bond	1.53	1.76	1.30	0.99	1.10	1.20	1.25	1.30	1.30	1.35	1.60
United States											
Federal Funds Rate Target*	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canadian Dollar (US\$/C\$)	0.76	0.77	0.70	0.73	0.74	0.75	0.75	0.75	0.76	0.76	0.76
S&P 500 Index	2,977	3,231	2,585	3,100	3,350	3,500	3,600	3,625	3,650	3,675	3,775
TSX Index	16,659	17,063	13,379	15,515	16,500	17,000	17,700	17,800	17,850	18,000	18,700
Oil WTI (US\$/barrel)	54	61	20	39	40	40	42	45	48	50	50

Quarter-end data

Updated: August 2020 * Upper bound of the target range for the Fed funds rate.

Real GDP Growth (%)					
	2017	2018	2019	2020	2021
Canada	3.2	2.0	1.7	-6.8	6.2
N&L	0.4	-3.5	4.0	-8.0	5.5
PEI	4.4	2.6	4.5	-7.5	6.0
NS	1.6	1.5	2.1	-7.5	6.0
NB	2.2	0.8	1.0	-6.8	5.8
Quebec	2.8	2.5	2.7	-6.7	6.0
Ontario	2.9	2.2	1.9	-7.2	6.5
Manitoba	3.1	1.3	1.0	-6.0	5.5
Sask	1.7	1.3	-0.8	-7.0	5.8
Alberta	4.8	1.6	-0.6	-7.8	5.5
BC	3.7	2.6	2.8	-6.6	6.0

Source: Statistics Canada, LBS Econ. Research and Strategy

Nominal GDP Growth (%)					
	2017	2018	2019	2020	2021
Canada	5.7	3.9	3.6	-6.6	7.7
N&L	3.7	1.7	6.0	-15.0	7.5
PEI	5.3	4.2	6.1	-6.7	7.5
NS	3.2	3.3	3.7	-6.5	7.5
NB	4.4	3.2	2.7	-5.8	7.2
Quebec	5.0	4.8	4.4	-5.3	7.2
Ontario	4.6	3.7	4.2	-5.6	7.7
Manitoba	5.7	2.2	2.9	-4.7	6.9
Sask	5.1	1.4	2.5	-11.0	7.8
Alberta	9.2	3.8	0.5	-12.8	8.1
BC	7.1	4.5	4.5	-5.4	7.6

Source: Statistics Canada, LBS Econ. Research and Strategy

Unemployment Rate (%)					
	2017	2018	2019	2020	2021
Canada	6.3	5.8	5.7	9.6	7.4
N&L	14.8	13.8	12.0	14.5	13.0
PEI	9.9	9.4	8.9	11.5	10.0
NS	8.4	7.6	7.1	10.0	8.0
NB	8.1	8.0	8.1	9.0	8.3
Quebec	6.0	5.4	5.1	9.3	7.2
Ontario	6.0	5.6	5.6	9.1	7.0
Manitoba	5.4	6.0	5.3	8.4	6.7
Sask	6.3	6.1	5.4	9.5	8.2
Alberta	7.8	6.7	6.9	12.0	9.5
BC	5.1	4.7	4.7	9.0	6.7

Source: Statistics Canada, LBS Econ. Research and Strategy

Employment (annual change in %)					
	2017	2018	2019	2020	2021
Canada	1.9	1.3	2.1	-6.4	3.7
N&L	-3.6	0.4	0.7	-6.8	2.7
PEI	3.0	3.0	2.7	-6.8	2.7
NS	0.7	1.5	2.2	-6.9	3.2
NB	0.4	0.3	0.7	-5.0	2.2
Quebec	2.2	0.9	1.7	-6.7	3.9
Ontario	1.8	1.6	2.9	-6.0	3.9
Manitoba	1.7	0.6	0.9	-5.6	3.2
Sask	-0.1	0.5	1.6	-6.2	2.8
Alberta	1.0	1.9	0.5	-8.3	4.0
BC	3.7	1.1	2.6	-6.4	3.8

Source: Statistics Canada, LBS Econ. Research and Strategy

CPI Inflation (%)					
	2017	2018	2019	2020	2021
Canada	1.6	2.3	1.9	0.7	1.6
N&L	2.4	1.7	1.0	0.1	1.0
PEI	1.8	2.3	1.2	-0.2	1.3
NS	1.1	2.2	1.6	0.2	1.3
NB	2.3	2.2	1.7	0.2	1.2
Quebec	1.1	1.7	2.1	0.7	1.6
Ontario	1.7	2.4	1.9	0.6	1.7
Manitoba	1.6	2.5	2.3	0.6	1.6
Sask	1.7	2.3	1.7	0.7	1.7
Alberta	1.5	2.5	1.7	1.2	1.7
BC	2.1	2.7	2.3	0.8	1.8

Source: Statistics Canada, LBS Econ. Research and Strategy

Housing Starts (000s of units)					
	2017	2018	2019	2020	2021
Canada	220	213	209	190	185
N&L	1.4	1.1	0.9	0.6	0.8
PEI	0.9	1.1	1.5	1.0	1.4
NS	4.0	4.8	4.7	3.6	4.3
NB	2.3	2.3	2.9	2.5	2.4
Quebec	46.5	46.9	48.0	46.0	43.0
Ontario	79.1	78.7	69.0	73.0	67.0
Manitoba	7.5	7.4	6.9	6.2	5.9
Sask	4.9	3.6	2.4	2.1	2.2
Alberta	29.5	26.1	27.3	19.0	22.0
BC	43.7	40.9	44.9	36.0	36.0

Source: CMHC, LBS Econ. Research and Strategy

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