

Outlook Improving Despite the Delta Variant

- The Delta variant of COVID-19 is unlikely to prompt a return to widespread mobility restrictions.
- Economic data continue to come in on the stronger side of expectations globally, and we are revising our forecasts up accordingly.
- While some emerging market central banks have begun raising interest rates, policymakers in advanced economies are some distance from doing so. The Bank of Canada should be the first to move, but only in July 2022.

The Delta variant makes clear that we are not yet done with COVID. Financial markets have been spooked by the potential economic and financial impacts of the surge in cases being observed globally, sparking risk-off moves affecting currency, credit, and foreign exchange markets since our forecasts were last updated. However, we consider the Delta variant to be much less troubling from an economic perspective than the previous waves and we are, in fact, raising our forecast for global growth this month. We now expect the global economy to advance by 6.3% this year rather than the 6.2% we last predicted, followed by growth of 4.5% next year, unchanged from our previous forecast.

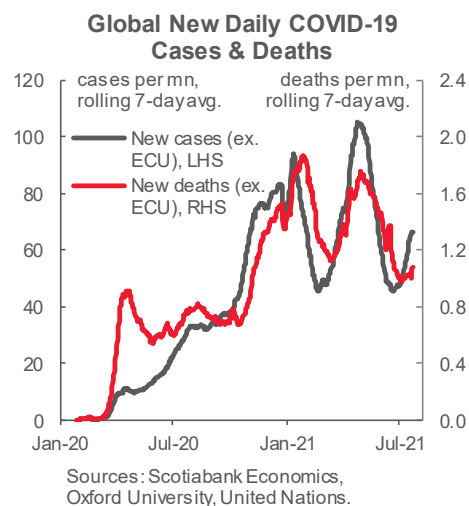
The experience resulting from the Delta variant thus far makes clear the benefits of aggressive vaccination campaigns. Even though the virus appears to be ripping through unvaccinated populations in various countries, the medical consequences for vaccinated individuals infected with the virus are greatly attenuated, such that hospitalization rates are climbing only very gradually among those individuals. Moreover, relative to the last two waves, global deaths remain low and stable in many countries. As a result of these outcomes, we consider the odds of a return to aggressive lockdown measures to be quite remote. In the United States, for instance, infections are rising most rapidly in states that have generally been hesitant to restrict movement and economic activity. In other countries, like Canada, very high rates of vaccination are likely to inoculate against a return to widespread mobility restrictions. And, in many other countries where vaccination rates lag those of Canada and other highly vaccinated nations, economic data remain robust and leave those countries in better shape to deal with mobility restrictions than earlier in the pandemic.

Our forecasts this month thus, by and large, represent tweaks to our earlier views, largely reflecting the incorporation of incoming economic data which have generally, but not uniformly, been on the stronger side of expectations. In Canada, for example, we kept our forecast at 6.1% in 2021 but raised it a touch to 4.1% in 2022. This captures slightly less robust growth at the tail-end of Q3 and early in Q4 as we incorporate a very small impact of the Delta variant in the fall, but that is offset by stronger growth before and after that. Even developments in credit markets are broadly supportive: the decline in longer-term interest rates observed in many countries represents a loosening in financing conditions which are likely to add somewhat to growth despite the fact that some view the drivers of these moves as capturing fears about the outlook. Outside the US, the risk-off appreciation of the US dollar is pushing currencies below their fundamental values, adding to the growth impulse coming from lower interest rates.

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Chart 1



In the Pacific Alliance Countries, the impacts of the virus and political/social developments are largely offset by the strength of the domestic economy which has benefitted from re-openings, much stronger-than-anticipated commodity prices, and the associated robust global recovery. In some countries, like Chile and Mexico, the rebound and the inflationary consequences of higher commodity prices and exchange rate movements have led central banks to tighten policy well ahead of other countries.

Our view on rates in the US and Canada remains largely unchanged. We continue to expect that the Federal Reserve will raise its policy rate in the first half of 2023 and are heartened to see that the Fed shifted its dot plots in that direction since our last forecast was published. In Canada, we still forecast that Governor Macklem will raise interest rates in July 2022, and his recent decision to taper asset purchases provides greater confidence on that front. In both countries, as is the case in many other nations, the key challenge for policymakers beyond the immediate impacts of COVID remains the lack of certainty regarding the future path of inflation. Though inflation remains well above target in Canada and the US—reflecting a combination of base effects and a large number of supply chain challenges—it still appears to be more likely that the current surge in inflation reflects temporary rather than more persistent factors. The recent declines in the price of key commodities is a significant data point in that assessment, but there is no question that uncertainty around the inflation outlook is historically high.

International	2010–19	2019	2020	2021f	2022f	2010–19	2019	2020	2021f	2022f
World (based on purchasing power parity)	3.7	2.8	-3.3	6.3	4.5					
Canada	2.2	1.9	-5.3	6.1	4.1	1.7	2.1	0.8	3.7	2.6
United States	2.3	2.2	-3.5	6.8	4.3	1.7	2.0	1.2	4.3	2.3
Mexico	2.7	-0.2	-8.3	5.3	2.1	4.0	2.8	3.2	5.7	3.6
United Kingdom	1.8	1.4	-9.8	6.1	5.1	2.1	1.3	0.6	1.7	2.2
Eurozone	1.4	1.4	-6.6	4.4	4.0	1.3	1.3	-0.3	1.8	1.4
Germany	2.0	0.6	-5.1	3.6	4.0	1.3	1.5	-0.3	2.4	1.6
France	1.4	1.8	-8.0	5.8	3.9	1.2	1.5	0.0	1.5	1.4
China	7.7	6.0	2.3	8.7	5.9	2.7	4.5	0.2	2.2	2.6
India	7.0	4.7	-7.1	9.3	7.0	6.8	7.4	4.6	5.3	4.8
Japan	1.2	0.0	-4.7	2.7	1.7	0.6	0.8	-1.2	1.0	1.0
South Korea	3.3	2.0	-0.7	4.0	3.0	1.7	0.7	0.5	2.4	2.1
Australia	2.6	1.9	-2.4	4.6	2.1	2.1	1.8	0.9	2.4	2.1
Thailand	3.6	2.3	-6.1	2.5	5.0	1.5	0.9	-0.3	0.9	1.7
Brazil	1.5	1.4	-4.1	5.4	2.3	5.9	4.3	4.5	6.4	3.6
Colombia	3.7	3.3	-6.8	7.2	4.2	3.9	3.8	1.6	3.9	3.0
Peru	4.5	2.1	-11.1	9.9	2.6	2.9	1.9	2.0	3.5	3.2
Chile	3.3	1.0	-5.8	7.5	3.5	3.2	3.0	3.0	3.5	3.0
Argentina	1.4	-2.1	-9.9	7.3	1.9	26.1	53.8	36.1	51.8	36.5
Commodities										
				(annual average)						
WTI Oil (USD/bbl)	74	57	39	66	69					
Brent Oil (USD/bbl)	82	64	43	69	72					
WCS - WTI Discount (USD/bbl)	-18	-14	-12	-13	-15					
Nymex Natural Gas (USD/mmbtu)	3.39	2.53	2.02	3.21	3.10					
Copper (USD/lb)	3.10	2.73	2.80	4.15	4.25					
Zinc (USD/lb)	1.02	1.16	1.03	1.30	1.25					
Nickel (USD/lb)	7.00	6.31	6.25	8.00	7.50					
Iron Ore (USD/tonne)	101	93	109	173	125					
Metallurgical Coal (USD/tonne)	179	185	127	140	140					
Gold, (USD/oz)	1,342	1,393	1,771	1,828	1,850					
Silver, (USD/oz)	21.64	16.21	20.48	28.23	32.00					

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

North America	2010-19	2019	2020	2021f	2022f	2010-19	2019	2020	2021f	2022f
	Canada					United States				
	(annual % change, unless noted)					(annual % change, unless noted)				
Real GDP	2.2	1.9	-5.3	6.1	4.1	2.3	2.2	-3.5	6.8	4.3
Consumer spending	2.5	1.7	-5.9	4.1	4.9	2.4	2.4	-3.9	7.9	3.8
Residential investment	2.5	-0.2	4.1	24.3	-1.5	4.4	-1.7	6.1	14.9	3.3
Business investment*	2.6	0.5	-11.9	2.6	5.0	5.0	2.9	-4.0	8.4	4.5
Government	1.2	1.7	0.4	5.2	1.6	0.0	2.3	1.1	2.9	5.4
Exports	3.4	1.3	-10.0	5.2	9.0	3.8	-0.1	-12.9	6.5	6.7
Imports	3.7	0.4	-11.2	6.5	8.3	4.5	1.1	-9.3	14.8	5.6
Inventories, contribution to annual GDP growth	0.1	0.2	-1.7	0.5	0.4	0.2	0.0	-0.7	0.5	0.2
Nominal GDP	4.0	3.6	-4.6	11.5	6.8	4.0	4.0	-2.3	10.3	8.0
GDP deflator	1.7	1.7	0.7	5.1	2.5	1.7	1.8	1.2	3.3	3.6
Consumer price index (CPI)	1.7	1.9	0.7	3.1	2.8	1.8	1.8	1.3	4.1	3.0
Core inflation rate**	2.7	1.9	1.7	2.2	2.5	1.6	1.7	1.4	2.9	2.5
Pre-tax corporate profits	6.3	0.6	-4.0	36.2	5.2	5.2	0.3	-5.8	13.1	5.1
Employment	1.3	2.2	-5.1	4.3	3.4	1.5	1.3	-5.7	2.3	3.1
Unemployment rate (%)	6.9	5.7	9.6	7.6	5.8	6.2	3.7	8.1	5.7	4.0
Current account balance (CAD, USD bn)	-57.0	-47.4	-40.1	8.8	10.1	-409	-472	-616	-800	-827
Merchandise trade balance (CAD, USD bn)	-13.1	-15.4	-37.5	13.2	21.4	-763	-862	-922	-1108	-1170
Federal budget balance (FY, CAD, USD bn) ***	-20.9	-39.4	-354.2	-154.7	-59.7	-830	-984	-3,129	-3,003	-1,200
percent of GDP	-1.2	-1.8	-16.1	-6.3	-2.3	-4.8	-4.6	-14.9	-13.0	-4.8
Housing starts (000s, mn)	201	209	219	275	229	0.99	1.29	1.40	1.58	1.51
Motor vehicle sales (000s, mn)	1,816	1,914	1,570	1,750	1,950	15.7	16.9	14.4	16.4	17.4
Industrial production	2.4	-0.2	-8.3	5.9	4.1	1.7	-0.8	-7.2	6.4	4.2
	Mexico									
	(annual % change)									
Real GDP	2.7	-0.2	-8.3	5.3	2.1					
Consumer price index (year-end)	4.0	2.8	3.2	5.7	3.6					
Current account balance (USD bn)	-19.7	-3.8	26.0	-20.7	-23.9					
Merchandise trade balance (USD bn)	-5.6	5.4	34.0	-9.8	-19.8					

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. *** In order to align with US reporting, as of the August 2020 issue of Scotiabank's Forecast Tables, Canadian Federal and Provincial Budget Balances for FY2020/21 are noted in calendar year 2020, FY2021/22 in calendar year 2021.

Quarterly Forecasts	2019				2020				2021				2022			
Canada	Q4	Q1	Q2	Q3	Q4	Q1	Q2e	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f			
Real GDP (q/q ann. % change)	0.4	-7.9	-38.0	41.7	9.3	5.6	2.0	7.8	5.3	4.0	3.3	2.3	2.7			
Real GDP (y/y % change)	1.7	-0.4	-12.6	-5.1	-3.1	0.3	13.7	6.2	5.2	4.7	5.1	3.7	3.1			
Consumer prices (y/y % change)	2.1	1.8	0.0	0.3	0.8	1.4	3.5	3.7	3.7	3.2	2.9	2.6	2.6			
CPI-common (y/y % change)*	1.9	1.7	1.4	1.4	1.4	1.4	1.9	2.1	2.1	2.2	2.2	2.3	2.3			
Average of new core CPIs (y/y % change)	1.9	1.8	1.7	1.7	1.8	1.8	2.3	2.4	2.4	2.5	2.5	2.5	2.5			
CPIXFET (y/y % change)	1.9	1.8	1.0	0.6	1.1	1.0	2.2	2.6	2.6	2.6	2.6	2.6	2.6			
Unemployment Rate (%)	5.7	6.4	13.1	10.1	8.8	8.4	8.0	7.3	6.7	6.2	5.9	5.6	5.5			
United States	Q4	Q1	Q2	Q3	Q4	Q1	Q2e	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f			
Real GDP (q/q ann. % change)	2.4	-5.0	-31.4	33.4	4.3	6.4	7.7	10.3	6.5	3.3	1.6	1.5	1.4			
Real GDP (y/y % change)	2.3	0.3	-9.0	-2.8	-2.4	0.4	12.4	7.1	7.7	6.9	5.4	3.2	2.0			
Consumer prices (y/y % change)	2.0	2.1	0.4	1.3	1.2	1.9	4.8	5.2	4.3	3.9	3.3	2.6	2.3			
Total PCE deflator (y/y % change)	1.5	1.7	0.6	1.2	1.2	1.8	3.9	4.2	3.7	3.5	3.0	2.5	2.3			
Core PCE deflator (y/y % change)	1.6	1.8	1.0	1.4	1.4	1.6	3.3	3.5	3.0	2.7	2.5	2.4	2.4			
Unemployment Rate (%)	3.6	3.8	13.1	8.8	6.8	6.2	5.9	5.5	5.0	4.5	4.1	3.8	3.6			

* Refers to BoC's common component of CPI inflation, average of 3 core measures published by the BoC, CPI ex. food, energy and indirect taxes. Sources: Scotiabank Economics, Statistics Canada, BEA, BLS, Bloomberg.

	2019		2020			2021				2022			
Central Bank Rates	Q4	Q1	Q2	Q3	Q4	Q1	Q2	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	0.25	0.25	0.50	0.75
US Federal Reserve (upper bound)	1.75	0.25	0.25	0.25	0.25	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	4.25	4.25	4.00	4.25	4.75	5.25	5.50	5.75	6.00	6.00
Central Bank of Brazil	4.50	3.75	2.25	2.00	2.00	2.75	4.25	6.00	6.75	7.25	7.25	7.25	7.25
Bank of the Republic of Colombia	4.25	3.75	2.75	1.75	1.75	1.75	1.75	2.00	2.50	3.00	3.50	4.00	4.00
Central Reserve Bank of Peru	2.25	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	0.75	1.00	1.00
Central Bank of Chile	1.75	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.50	1.75
Central Bank of Argentina	55.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	42.00	46.00	46.00	44.00	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	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	-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	0.10	0.10	0.10	0.10
Asia/Oceania													
Reserve Bank of Australia	0.75	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-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	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Reserve Bank of India	5.15	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25	4.50	4.75	5.00
Bank of Korea	1.25	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25
Bank of Thailand	1.25	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
Currencies and Interest Rates													
Americas	(end of period)												
Canadian dollar (USDCAD)	1.30	1.41	1.36	1.33	1.27	1.26	1.24	1.22	1.22	1.24	1.24	1.25	1.25
Canadian dollar (CADUSD)	0.77	0.71	0.74	0.75	0.79	0.80	0.81	0.82	0.82	0.81	0.81	0.80	0.80
Mexican peso (USDMXN)	18.93	23.67	22.99	22.11	19.91	20.43	19.94	20.21	20.54	20.76	21.03	21.27	21.45
Brazilian real (USDBRL)	4.02	5.21	5.47	5.61	5.19	5.63	4.97	5.04	4.88	4.85	4.81	4.85	4.92
Colombian peso (USDCOP)	3,287	4,065	3,758	3,828	3,428	3,663	3,755	3,630	3,525	3,468	3,455	3,443	3,450
Peruvian sol (USDPEN)	3.31	3.43	3.54	3.60	3.62	3.74	3.87	3.77	3.65	3.65	3.63	3.62	3.60
Chilean peso (USDCLP)	753	854	821	784	711	719	734	720	720	720	720	710	700
Argentine Peso (USDARS)	59.87	64.40	70.46	76.18	84.15	91.99	95.72	99.70	108.50	112.00	121.00	132.00	141.00
Europe													
Euro (EURUSD)	1.12	1.10	1.12	1.17	1.22	1.17	1.19	1.18	1.18	1.17	1.17	1.15	1.15
UK pound (GBPUSD)	1.33	1.24	1.24	1.29	1.37	1.38	1.38	1.38	1.38	1.40	1.40	1.42	1.42
Asia/Oceania													
Japanese yen (USDJPY)	109	108	108	105	103	111	111	109	107	108	108	110	110
Australian dollar (AUDUSD)	0.70	0.61	0.69	0.72	0.77	0.76	0.75	0.78	0.78	0.76	0.76	0.75	0.75
Chinese yuan (USDCNY)	6.96	7.08	7.01	6.79	6.53	6.55	6.46	6.40	6.40	6.30	6.30	6.20	6.20
Indian rupee (USDINR)	71.4	75.5	75.5	73.8	73.1	73.1	74.3	74.0	74.0	72.0	72.0	70.0	70.0
South Korean won (USDKRW)	1,156	1,219	1,203	1,170	1,086	1,132	1,126	1,140	1,140	1,120	1,120	1,100	1,100
Thai baht (USDTHB)	30.0	32.8	30.9	31.7	30.0	31.3	32.1	33.0	33.0	31.5	31.5	30.0	30.0
Canada (Yields, %)													
3-month T-bill	1.66	0.21	0.20	0.12	0.07	0.09	0.14	0.15	0.15	0.20	0.35	0.60	0.90
2-year Canada	1.69	0.42	0.29	0.25	0.20	0.22	0.45	0.55	0.75	0.90	1.20	1.40	1.65
5-year Canada	1.68	0.58	0.36	0.35	0.39	0.99	0.98	1.10	1.35	1.55	1.60	1.70	1.80
10-year Canada	1.70	0.69	0.53	0.56	0.68	1.56	1.39	1.60	1.70	1.85	1.90	1.95	2.00
30-year Canada	1.76	1.30	0.99	1.11	1.21	1.98	1.84	1.95	2.05	2.10	2.15	2.15	2.15
United States (Yields, %)													
3-month T-bill	1.51	0.05	0.14	0.09	0.08	0.01	0.04	0.05	0.05	0.05	0.05	0.10	0.15
2-year Treasury	1.57	0.25	0.15	0.13	0.12	0.16	0.25	0.40	0.55	0.70	0.90	1.15	1.30
5-year Treasury	1.69	0.38	0.29	0.28	0.36	0.94	0.89	1.00	1.30	1.35	1.45	1.60	1.75
10-year Treasury	1.92	0.67	0.66	0.68	0.91	1.74	1.47	1.60	2.00	2.15	2.20	2.25	2.30
30-year Treasury	2.39	1.32	1.41	1.46	1.64	2.41	2.09	2.05	2.25	2.45	2.55	2.60	2.60

Sources: Scotiabank Economics, Bloomberg.

The Provinces	(annual % change except where noted)											
Real GDP*	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	
2010–19	2.2	1.0	2.3	1.1	0.7	1.9	2.3	2.1	2.2	2.6	2.8	
2019	1.9	4.0	5.1	2.4	1.2	2.7	2.1	0.6	-0.7	0.1	2.7	
2020e	-5.3	-5.3	-3.0	-3.2	-3.7	-5.3	-5.1	-4.8	-5.2	-8.2	-3.8	
2021f	6.1	3.8	5.0	5.2	5.4	6.9	5.8	5.7	5.5	6.2	6.4	
2022f	4.1	2.5	3.2	3.4	3.3	3.8	4.3	3.5	3.6	4.2	4.4	
Employment												
2010–19	1.3	0.6	1.5	0.3	0.0	1.2	1.4	0.9	0.8	1.2	2.0	
2019	2.2	1.1	3.3	2.3	0.8	2.0	2.8	1.0	1.9	0.7	3.0	
2020	-5.1	-5.7	-3.2	-4.7	-2.6	-4.8	-4.8	-3.7	-4.7	-6.6	-6.6	
2021f	4.3	3.4	3.3	4.7	4.1	4.3	3.7	3.7	3.3	4.4	5.3	
2022f	3.4	1.3	2.5	2.6	2.3	3.2	3.6	3.0	2.9	3.7	3.4	
Unemployment Rate (%)												
2010–19	6.9	13.3	10.6	8.7	9.4	7.1	7.0	5.6	5.3	6.2	6.1	
2019	5.7	12.3	8.7	7.4	8.1	5.1	5.6	5.3	5.6	7.0	4.7	
2020	9.6	14.1	10.4	9.8	10.0	8.9	9.6	8.0	8.4	11.4	8.9	
2021f	7.6	12.5	8.3	7.9	8.2	6.3	8.1	6.3	6.2	9.2	6.7	
2022f	5.8	12.1	7.4	6.9	7.3	4.9	6.0	4.9	4.9	7.0	4.9	
Motor Vehicle Sales (units, 000s)												
2010–19	1,816	33	7	51	41	432	715	55	53	237	194	
2019	1,914	34	8	53	41	454	789	53	46	227	214	
2020	1,570	28	7	44	34	376	612	46	40	186	180	
2021f	1,750	31	8	47	40	434	670	52	46	211	210	
2022f	1,950	33	9	53	44	479	751	57	50	238	235	
Budget Balances, (CAD mn)												
2019**	-39,400	-1,383	22	3	49	4	-8,672	5	-319	-12,152	-321	
2020	-354,200	-1,644	-120	-706	-13	-6,240	-38,468	-2,080	-1,865	-20,192	-8,144	
2021f	-154,700	-826	-112	-585	-245	-12,250	-33,100	-1,597	-2,611	-18,221	-9,698	
2022f	-59,700	-587	-46	-218	-296	-8,500	-27,700	-374	-1,685	-10,982	-5,484	

* Based on preliminary estimates of real GDP by industry for all provinces but Quebec and Ontario. ** NL budget balance in 2019 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 and Stabilization Reserve transfers.

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