REGIONAL ECONOMIC OUTLOOK

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IN 2020 the U.S. and Canada are facing the most uncertain economic outlook since America's expansion started over a decade ago. In both countries, consumers will ultimately decide whether or not North America falls into an outright recession or continues with lower, non-recessionary growth.

In 2019, U.S. GDP growth was 2.3 percent in the U.S. Canadian GDP data through the third quarter of 2019 suggests that Canadian growth will be around 1.6 percent. However, given weak business investment, limited fiscal stimulus, and disrupted international trade, should consumers falter, there would be little to stop a recession-like slowdown. Specifically, the emergence of the coronavirus is just the type of shock that could cause both consumers and businesses to pull-back in 2020.

Averaging across forecasters, both U.S. and Canadian GDP growth in 2020 is expected to be just under 2 percent, assuming consumer spending does not slow significantly. If the U.S. forecast is accurate, this will be the lowest growth rate for the U.S. since 2013. Inflation rates in both countries are expected to hover near the 2 percent target maintained by both the Bank of Canada (BOC) and the Federal Reserve (the Fed). Again averaging across forecasters, national employment growth in 2020 is expected to be around 1 percent for both countries. This marks a significant slowdown for both countries given U.S. and Canadian employment growth in 2019 was 1.6 percent and 2.1 percent, respectively.

Uncertainty surrounding the U.S. economy's strength is reflected in the futures market for the federal funds rate. At the time of this writing (February 2020), future contracts on the federal funds rate are pricing in at least one, maybe two, 0.25 percent rate cuts by the end of 2020. This suggests financial markets, unlike the Fed, are less sure that the three rate cuts in 2019 will be sufficient stimulus for the economy going forward. In contrast, the BOC has held its overnight rate unchanged since October 2018, but has acknowledged consumer spending and housing activity must be closely monitored in 2020.

More regionally, the Pacific Northwest (Idaho, Oregon, Washington, and British Columbia) continued to be relatively strong performers in 2019. Employment growth in ID-OR-WA combined was 1.9 percent in 2019. Although better than the U.S., it was the slowest growth since 2012. Assuming the correlation between the U.S. and ID-OR-WA holds, then the combined growth of these states should be between 1 percent and 1.5 percent in 2020. Thanks to the service sector, BC's employment growth has been unexpectedly strong in 2019—growth was 2.6 percent. However, the 2020 consensus forecast is for BC's growth to drop to around 1 percent. Perhaps BC can manage another growth surprise in 2020.

In addition to the coronavirus, it's useful to consider other shocks that might weaken household and business spending in 2020. One could be a sharp correction in North American equity prices due to a worsening global trade war or a contentious 2020 U.S. presidential election. A contentious election could create enough policy uncertainty that households and businesses pull back on spending. Finally, a significant political crisis outside the U.S. could also cause a pullback in spending—for example, a direct intervention into Hong Kong by the Chinese military. Specific to Canada, a protracted conflict over BC's Coastal GasLink pipeline could also trim Canadian growth. In short, fallout from political and policy uncertainty is also a risk to growth in 2020.

Sources: Bank of Canada, Bank of Montreal; B.C. Stats, Bloomberg.com; Business Council of B.C.; CBC; Chicago Mercantile Exchange; CIBC; Oregon Employment Department; Scotiabank, Statistics Canada; RBC; T.D. Economics; The Economist; U.S. Bureau of Labor Statistics; and U.S. Federal Reserve; Washington Employment Security.