February 7, 2020
rbc.com/economics

Novel concerns

Contents

Financial markets shrugged off geopolitical risks at the start of 2020 but the calm was short-lived as concerns about the economic impact of a novel coronavirus outbreak in China's Hubei province took hold. A rapid increase in the number of cases and its eventual spread to other countries led the World Health Organization to declare a public health emergency on January 30th. Efforts to contain the outbreak have had some success (the vast majority of cases remain in mainland China) but have also been economically disruptive. Parts of China are more or less under lockdown, businesses are closed, and travel to, from and within the country has been restricted. Extended shutdowns at Chinese factories are weighing on industrial output and impacting other countries' supply chains. Early estimates suggest China's Q1/20 GDP growth could be reduced by a percentage point (i.e. from 6% to 5% y/y) or more. Demand concerns—China's share of world GDP has more than doubled since the SARS outbreak in 2003—have pushed global commodity prices lower, with oil being hit particularly hard due to the virus' outsized impact on travel. Brent and WTI are down 20% from their early-January peaks and OPEC+ is reportedly mulling over production cuts to support prices.

Equity markets in Shanghai and Hong Kong were down by 10% or more but have come off those lows amid monetary policy support (Chinese authorities injecting liquidity and lowering borrowing rates) and a slower rate of increase in the number of new cases. North American equities were also under pressure but have fully recovered. Government bond yields are well below where they started the year, though we don't see the temporary economic disruption from coronavirus exerting lasting influence on G10 monetary policy (in the BoC's case, though, it could provide an additional push for a central bank already contemplating a rate cut). As the impact of the outbreak fades, we expect yields will move higher.

Central bank near-term bias

	↘	With the Canadian economy no longer running at full capacity, Governor Poloz said the door is open to a rate cut. We expect a move in April, which will be Poloz's last meeting at the helm.
	↔	A little-changed policy statement suggests the Fed is comfortable with its current stance. We think it will remain on the sidelines throughout 2020 after cutting rates three times last year.
	↔	Despite dovish musings from a number of MPC members, the BoE once again voted 7-2 to leave its policy rate unchanged. Improving business and consumer sentiment should keep the central bank sidelined.
	↔	The ECB made no changes to its policy or forward guidance in January and we expect that will remain the case for the foreseeable future. Markets are likely to focus on the ECB's Strategic Review in the near-term.
	↔	The RBA sounded a bit more optimistic in February and emphasized it will be patient in evaluating the impact of last year's rate cuts. We're penciling in a rate cut in June but there's risk of an even later move.

Josh Nye | Senior Economist | 416-974-3979 | josh.nye@rbc.com

Highlights

▲ The US economy grew at an above-trend 2.3% pace last year despite a slowing industrial sector.

▲ A federal budget deficit of nearly $1 trillion is highly unusual at this stage of the business cycle, but financial markets are unperturbed.

▲ An increase in US exports to China would do more to reshape trade flows than rein in the overall US trade deficit.

▲ The Fed's January policy statement was little changed from December.

US economy continues to handle industrial slowdown

US GDP growth held steady at a 2.1% annualized pace in Q4/19, marking a fourth straight quarter of 2%-plus growth. That was despite a third consecutive decline in business investment (the longest soft patch since the recession) and a further drop in manufacturing output—effects of last year's escalating US-China trade war and (not unrelatedly) the slowest global growth in a decade. The economy continued to be supported by consumers with inflation-adjusted spending rising 2.6% in the year as a whole, a sixth straight gain of 2.5% or more. And a pickup in housing activity continued with residential investment posting its strongest quarterly increase in two years. Government spending also increased at its fastest pace in a decade in 2019. For the federal government, though, that meant a deficit of nearly $1 trillion, or close to 5% of GDP—far from the fiscal prudence you'd expect in the late stages of the business cycle with unemployment at a 50-year low.

US-China Phase 1 deal sets ambitious targets

The US and China signed their much-anticipated Phase 1 trade deal in mid-January and finally revealed the terms of the agreement. The US is halving the tariff rate on some $120 billion of Chinese imports (by our math, scaling back just 10% of the last two years' tariff hikes) and cancelling further tariff hikes. In exchange, China has agreed to undertake a number of reforms—including addressing intellectual property theft, ending forced technology transfer, and opening its financial sector—and to purchase an additional $200 billion of US goods and services over two years. The latter represents a sizeable and perhaps unrealistic increase considering US exports to China were around $163 billion in the past year. To the extent that China follows through on its commitment, the result is more likely to be a reshaping of global trade flows than a sustained reduction in the US trade deficit. (With limited spare capacity in the US economy, any attempt to increase shipments to China will have to come more from existing rather than new production.) If China looks to be falling short of its purchase target, that could hamper any attempt at a Phase 2 agreement. That said, a more extensive deal already looked to be off the table until after this year's presidential election. It appears the US-China trade war has been put on hold for the next year or so, although it's hard to make definitive statements about US trade policy under the current administration.

Boring FOMC meeting a sign of things to come?

Last year began with a dovish 180° from the Fed that culminated in three "insurance" rate cuts in the second half of 2019. If January's meeting is any indication, 2020 will be a much less interesting year for the central bank. The Fed held its key policy rate steady, explaining its decision in a statement that was nearly a carbon copy of December's. The only notable change was to emphasize that the current policy stance is geared toward inflation "returning to" rather than "near" the Fed's symmetric 2% objective. In his press conference, Chair Powell said the tweak was meant to clarify that policymakers will not be satisfied with inflation continuing to run below the Fed's objective, and that 2% is not a ceiling. That aligns with his past comments that it would take a persistent increase in inflation for the Fed to move rates higher—policymakers won't simply revert to tightening mode when core PCE inflation (currently at 1.6%) hits 2%.

So the Fed seems far from a tightening bias—if anything, Powell's comments were viewed as slightly dovish. While he said there were grounds for "cautious optimism" about the global growth outlook, he noted a rebound is not assured. When asked about the impact of the coronavirus outbreak, Powell said there's likely to be some disruption to economic activity in China and potentially its neighbours and trading partners, but that it's too early to speculate about the scale of the impact. None of those comments indicate the Fed is contemplating further "insurance" cuts, and we think markets are overly pessimistic in pricing in one to two rate cuts over the next year. Our forecast assumes the Fed will hold rates steady throughout 2020—a much more 'boring' year than 2019.

Further markdowns to Canada's near-term growth outlook

Canadian GDP rose 0.1% in November, notching just the second increase in the past five months. The goods-producing sector did little to retrace earlier declines and output remained below year-ago levels—as was the case throughout 2019. The more stable services sector recorded a modest increase, showing a bit less resilience than earlier in the year. Transitory factors were once again at play, reducing activity in a number of industries. A rail strike and pipeline outage hit the transportation sector, and the former also impacted a number of manufacturing industries. Mining output was also hit by temporary closures, though those reportedly reflected weak demand.

Not all temporary factors have been negative—motor vehicle production and oil extraction both increased in November following earlier shutdowns, and cold weather in some parts of the country boosted utilities consumption. On the whole, though, we think transitory factors subtracted about 1/2 percentage point from annualized growth in the final quarter of 2019, slightly more than in the previous quarter. With underlying growth also appearing to have slowed, our Q4/19 forecast has been lowered to 0.3%. We don't expect a significant pickup early this year, with a still sub-trend 1.4% GDP gain seen in Q1/20. A permanent hit to auto production following the closure of the GM Oshawa plant will subtract a couple of tenths from growth in the quarter. The coronavirus outbreak will also represent an economic headwind in early-2020.

Coronavirus unlikely to be another SARS for Canada

In evaluating the economic impact of the coronavirus outbreak, the 2003 SARS epidemic seems to be the most useful benchmark. The Bank of Canada estimated the SARS outbreak reduced Q2/03 GDP growth by an annualized 0.6%—most of that reflecting a decline in travel and tourism. Toronto was the only city or region outside of Asia that was subject to a World Health Organization travel advisory, and Canada's drop in international arrivals in 2003 was worse than China's and Hong Kong's (both of which were also subject to travel advisories). Thus far, China has accounted for the vast majority of coronavirus cases—Canada has only seen a handful of cases and none have been fatal. That suggests a travel advisory against Canada is unlikely, and the tourism sector won't face the disproportionate hit it did during the SARS outbreak.

That said, China is an important source of visitors to Canada (accounting for about 7% of non-resident air travel) and travel restrictions and flight cancellations will reduce tourism exports. On the goods side, China accounts for less than 5% of Canada's merchandise exports, so the indirect impact of lower commodity prices (oil in particular) might be greater than any direct loss of demand. While the situation remains fluid, our early estimate is that the coronavirus outbreak will reduce Canada's annualized GDP growth by 0.2-0.3 percentage points in Q1/20.

Slow growth prompts dovish shift from BoC

Governor Poloz started the year with a relatively balanced economic update, but another round of disappointing data seems to have chipped away at the BoC's patience. January's policy statement was more downbeat, noting signs of weaker exports, business investment, hiring, and consumer confidence and spending. Solid growth in the housing sector was one of the few positives, though it was noteworthy that the bank didn't tag on its usual warning about financial stability concerns (which would have lent a more hawkish tone). In fact, consumer caution and an increase in household savings was seen as helping to reduce financial vulnerabilities.

The BoC trimmed its growth forecast to just 0.3% in Q4/19 and 1.3% in Q1/20 (close to our own projections). Given that slowdown, it no longer sees the economy as operating closes to full capacity. Governor Poloz's comment that the door is open to a rate cut suggests limited tolerance for growth to disappoint further. We continue to expect a move in April, sooner than markets are currently pricing. While that lends some near-term downside risk to the Canadian dollar, we think an eventual increase in oil prices as coronavirus fears fade will support the loonie. We also expect government bond yields will rebound from recent lows but have marked down our Q1/20 yield forecast slightly.

Highlights

▲ Transitory factors once again weighed on Canadian GDP in November…

▲ …but underlying growth has also lost momentum, and we expect a relatively modest rebound in H1/20.

▲ The coronavirus outbreak could shave 0.2-0.3 ppts off Canada's annualized growth in Q1/20, about half the impact of 2003's SARS outbreak.

▲ After several months of lacklustre economic growth, Governor Poloz said the door is open to a rate cut.

Highlights

▲ UK survey data have improved following a decisive election that reduced near-term Brexit uncertainty.

▲ The BoE has a near-term easing bias, but a medium-term tightening bias.

▲ Declines in Italy and France in Q4/19 held euro area GDP growth to its slowest pace since the euro crisis.

▲ We have trimmed our 2020 Australian GDP growth forecast to 2.1% from 2.4% due to the impact of the country's devastating bushfires.

UK business sentiment popped higher post-election

Three-and-a-half years after a surprising 'leave' vote, the UK finally exited the EU at the end of January. Not much changed overnight, though, as a transition agreement effectively maintains the UK's access to the Single Market until the end of 2020. That gives the UK and EU a very abbreviated timeframe for trade talks—much less than the seven years it took to negotiate the Canada-style deal favoured by PM Johnson. There remains a risk that the UK will ultimately exit the Single Market without a comprehensive trade agreement—what amounts to a no-deal Brexit. That risk is likely to come into focus as the year progresses, but for now it appears UK business sentiment has been buoyed by an alleviation of near-term trade uncertainty. January's composite PMI jumped to its highest level since September 2018 as the manufacturing index rose to the 50 mark (after eight months in 'contractionary' territory) and the services industry broke out of last year's funk. Consumer confidence also rose to its highest level in more than a year. These data suggest a return to growth in early-2020 after the economy stalled in the final quarter of 2019.

Indications that domestic uncertainty is receding and global growth is stabilizing were enough to keep the Bank of England from cutting is policy rate in January. Dovish comments from a number of MPC members leading up to the meeting suggested it might be a close call, but in the end it was another 7-2 vote for no change. The BoE has a near-term easing bias, noting a pickup in growth is not ensured and monetary policy might need to reinforce the recovery, but continues to note that modest tightening might be warranted down the road. Markets are still leaning toward a rate cut this year, but we expect incoming governor Andrew Bailey will disappoint those looking for a move and keep policy on hold throughout 2020.

Euro area growth stabilizing, but nothing more

Euro area GDP growth unexpectedly slowed to just 0.1% in Q4/19, the slowest pace since the euro crisis. A 0.3% decline in Italian GDP was also the worst in nearly seven years and left the country's economic output flat relative to two years earlier. Between a gradually declining working age population and sluggish productivity growth, the speed limit for the Italian economy is little better than zero. France also recorded a decline in Q4/19 GDP, though rather than Italy's structural issues, we think weakness was more reflective of temporary labour disruptions (a drop in inventories also suggests more weakness in production than demand). Spain remained a consistent source of growth for the currency bloc, while Germany likely saw a modest increase in overall GDP despite the industrial sector contracting further.

Recent survey data showed further evidence that euro area growth will settle at a modest rate in 2020—better than Q4/19's pace, but still at or below the economy's longer-run trend. The bloc's manufacturing PMI, while still signaling contraction in the sector, rose to a nine-month high in January. The services reading remained close to last year's average, with an encouraging improvement seen in Germany. Stabilization in survey data has the ECB sounding a bit less dovish, though with core inflation falling back from its highs the end of last year, it's hard to see the central bank even hinting at a tightening bias anytime soon. Markets, in fact, are pricing the opposite (decent odds of a modest rate cut) but we think the ECB will remain on the sidelines this year.

Positive data might be cause for RBA patience in February

The RBA held rates steady at its first meeting of 2020 and struck a relatively optimistic tone. We'd already pushed back our forecast for the next rate cut to June, but it looks like risk remains tilted toward a later move. While maintaining an easing bias, the statement noted that rates have "already been reduced to a very low level" and that monetary policy impacts the economy with "long and variable lags." That suggests the RBA will be patient in evaluating the effects of last year's 75 basis points of rate cuts, which are already contributing to a pickup in housing markets. Recent tax refunds and infrastructure spending, it noted, are also providing policy support. The central bank lowered its near-term growth forecasts, acknowledging that the bushfires and coronavirus outbreak will temporarily weigh on growth. Our expectation is that the bushfires will weigh on H1/20 GDP growth enough to trim our full-year growth forecast to 2.1% from 2.4% previously. We continue to think disappointing growth (temporary factors or not) will ultimately see the RBA lowering rates further, though as noted above, the next move might come later than our June forecast.

Interest rate outlook

%, end of period

	Actuals				Forecast							
	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Canada												
Overnight	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.75
Three-month	1.67	1.66	1.65	1.66	1.65	1.40	1.40	1.40	1.40	1.40	1.40	1.65
Two-year	1.55	1.47	1.58	1.70	1.50	1.40	1.50	1.55	1.60	1.65	1.70	1.80
Five-year	1.52	1.39	1.40	1.69	1.50	1.50	1.60	1.70	1.70	1.75	1.80	1.90
10-year	1.62	1.47	1.36	1.70	1.55	1.70	1.75	1.80	1.85	1.90	1.95	2.00
30-year	1.89	1.69	1.53	1.76	1.70	1.90	1.90	1.95	2.00	2.05	2.05	2.10
United States												
Fed funds**	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00
Three-month	2.40	2.12	1.88	1.55	1.65	1.65	1.65	1.65	1.65	1.65	1.90	1.90
Two-year	2.27	1.75	1.63	1.58	1.70	1.75	1.75	1.75	1.80	1.85	1.90	1.95
Five-year	2.23	1.76	1.55	1.69	1.80	1.90	1.90	1.90	1.90	1.95	1.95	2.00
10-year	2.41	2.00	1.68	1.92	2.00	2.10	2.10	2.10	2.15	2.15	2.20	2.25
30-year	2.81	2.52	2.12	2.39	2.45	2.50	2.50	2.50	2.55	2.55	2.60	2.65
United Kingdom												
Bank rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00
Two-year	0.63	0.62	0.37	0.54	0.60	0.60	0.60	0.60	0.70	1.00	1.00	1.00
10-year	0.99	0.84	0.49	0.83	0.90	1.00	1.10	1.10	1.25	1.50	1.50	1.50
Euro area												
Deposit Rate	-0.40	-0.40	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Two-year	-0.60	-0.73	-0.74	-0.59	-0.80	-0.80	-0.75	-0.75	-0.75	-0.75	-0.70	-0.70
10-year	-0.07	-0.33	-0.58	-0.19	-0.10	-0.05	0.00	0.00	0.05	0.10	0.15	0.15
Australia												
Cash target rate	1.50	1.25	1.00	0.75	0.75	0.50	0.50	0.50	0.25	0.25	0.25	0.25
Two-year	1.47	0.98	0.76	0.92	0.50	0.40	0.35	0.30	0.30	0.30	0.30	0.30
10-year	1.78	1.32	1.01	1.37	1.25	1.30	1.20	1.15	1.15	1.05	0.95	1.00
New Zealand												
Cash target rate	1.75	1.50	1.00	1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Two-year swap	1.62	1.35	0.92	1.25	0.75	0.75	0.75	0.70	0.65	0.60	0.60	0.60
10-year swap	2.15	1.78	1.20	1.78	1.35	1.45	1.45	1.40	1.45	1.40	1.35	1.30
Yield curve*												
Canada	7	0	-22	0	5	30	25	25	25	25	25	20
United States	14	25	5	34	30	35	35	35	35	30	30	30
United Kingdom	36	22	12	29	30	40	50	50	55	50	50	50
Eurozone	53	40	16	40	70	75	75	75	80	85	85	85
Australia	31	34	25	45	75	90	85	85	85	75	65	70
New Zealand	53	43	28	53	60	70	70	70	80	80	75	70

* Two-year/10-year spread in basis points, **Top of 25 basis point range

Source: Reuters, RBC Economics Research

Central bank policy rate

%, end of period

		Current	Last				Current	Last	
United States	Fed funds	1.50-1.75	1.75-2.00	October 31, 2019	Eurozone	Deposit rate	-0.50	-0.40	September 18, 2019
Canada	Overnight rate	1.75	1.50	October 24, 2018	Australia	Cash rate	0.75	1.00	October 1, 2019
United Kingdom	Bank rate	0.75	0.50	August 1, 2018	New Zealand	Cash rate	1.00	1.50	August 6, 2019

Source: Bloomberg, Reuters, RBC Economics Research

Economic outlook

Growth outlook

% change, quarter-over-quarter in real GDP

	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	2018	2019F	2020F	2021F
Canada*	0.8	3.5	1.3	0.3	1.4	1.6	1.9	1.9	1.7	1.7	1.7	1.6	2.0	1.6	1.4	1.8
United States*	3.1	2.0	2.1	2.1	1.7	1.8	1.8	1.8	1.7	1.6	1.5	1.5	2.9	2.3	1.9	1.7
United Kingdom	0.6	-0.2	0.4	0.0	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.3	1.3	1.0	1.5
Euro area	0.4	0.2	0.3	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.9	1.2	0.9	1.2
Australia	0.5	0.6	0.4	0.6	0.4	0.5	0.7	0.8	0.8	0.8	0.9	0.9	2.7	1.8	2.1	3.1

*annualized

Inflation outlook

% change, year-over-year

	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	2018	2019	2020F	2021F
Canada*	1.6	2.1	1.9	2.1	2.0	1.5	1.4	1.6	1.8	1.9	2.0	2.1	2.3	1.9	1.6	2.0
United States*	1.6	1.8	1.8	2.0	2.2	2.0	2.0	1.9	2.0	2.1	2.1	2.2	2.4	1.8	2.0	2.1
United Kingdom	1.8	2.0	1.9	1.4	1.7	1.3	1.3	1.6	1.7	1.8	1.9	1.9	2.5	1.8	1.5	1.9
Euro area	1.4	1.4	1.0	1.0	1.4	1.1	0.9	1.0	1.1	1.3	1.4	1.4	1.8	1.2	1.1	1.3
Australia	1.3	1.6	1.7	1.8	2.3	2.2	2.3	2.1	2.1	2.1	2.1	2.2	1.9	1.6	2.3	2.1

Source: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics, Office for National Statistics, Statistical Office of the European Communities, Australian Bureau of Statistics, Statistics New Zealand, RBC Economics Research

Inflation tracking

Inflation Watch

	Measure	Current period	Period ago	Year ago	Three-month trend	Six-month trend
Canada	CPI ex food & energy[1]	Dec	0.2	1.8	1.3	2.0
United States	Core PCE[1,2]	Dec	0.2	1.6	1.3	1.8
United Kingdom	All-items CPI	Dec	0.0	1.3	0.6	2.1
Euro area	All-items CPI[1]	Jan	0.1	1.4	1.4	1.1
Australia	Trimmed mean CPI[1]	Q4	0.4	1.6	N/A	N/A
New Zealand	All-items CPI	Q4	0.5	1.9	N/A	N/A

1 Seasonally adjusted measurement.
2 Personal consumption expenditures less food and energy price indices.

Source: Statistics Canada, Bureau of Labor Statistics, Office for National Statistics, Statistical Office of the European Communities, Australian Bureau of Statistics, Statistics New Zealand, RBC Economics Research

Currency outlook

Level, end of period

	Actuals				Forecast							
	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Canadian dollar	1.33	1.31	1.32	1.30	1.32	1.31	1.32	1.33	1.34	1.35	1.36	1.36
Euro	1.12	1.14	1.09	1.12	1.10	1.08	1.08	1.10	1.11	1.11	1.12	1.12
U.K. pound sterling	1.30	1.27	1.23	1.33	1.28	1.24	1.21	1.25	1.26	1.26	1.27	1.27
Japanese yen	110.9	107.9	108.1	108.6	110	111	112	111	111	112	112	112
Australian dollar	0.71	0.70	0.68	0.70	0.67	0.66	0.65	0.65	0.65	0.65	0.65	0.65

Canadian dollar cross-rates

	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
EUR/CAD	1.50	1.49	1.44	1.46	1.45	1.41	1.43	1.46	1.49	1.50	1.52	1.52
GBP/CAD	1.74	1.66	1.63	1.72	1.69	1.63	1.60	1.66	1.69	1.70	1.73	1.73
CAD/JPY	83.0	82.4	81.6	83.6	83.3	84.7	84.8	83.5	82.8	83.0	82.4	82.4
AUD/CAD	0.95	0.92	0.89	0.91	0.88	0.86	0.86	0.86	0.87	0.88	0.88	0.88

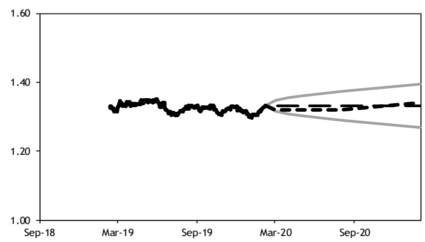
Rates are expressed in currency units per US dollar and currency units per Canadian dollar, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US dollars per currency unit and Canadian dollars per currency unit.

Source: Bloomberg, RBC Economics Research

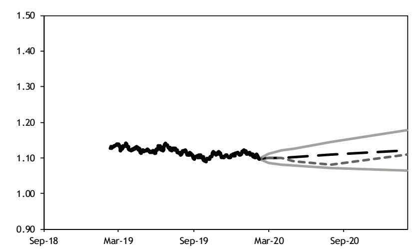
RBC Economics outlook compared to the market

The following charts track historical exchange rates plus the forward rate (dashed line) compared to the RBC Economics forecast (dotted line) out one year. The cone for the forecast period frames the forward rate with confidence bounds using implied option volatilities as of the date of publication.

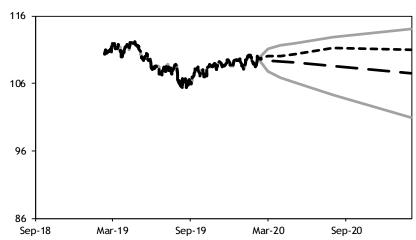
Canadian dollar



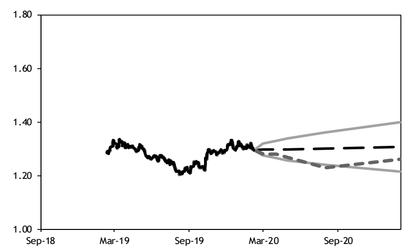
Euro



Japanese yen



U.K. pound

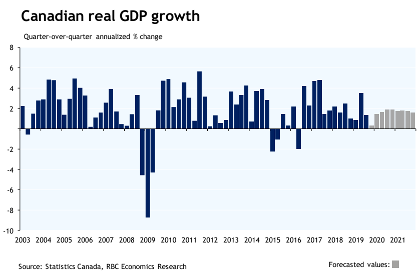


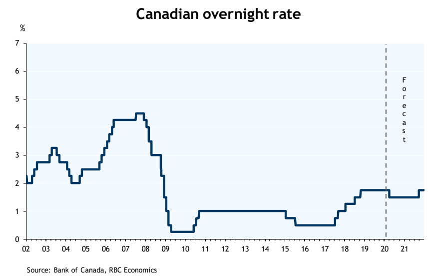
Central bank watch

Bank of Canada

A recent growth slowdown—which can only be partly blamed on temporary factors—has the Canadian economy operating below full capacity, according to the BoC.

Governor Poloz said the door is open to a rate cut if growth continues to disappoint. We expect a lacklustre rebound in H1/20, which should see the BoC ease in April.

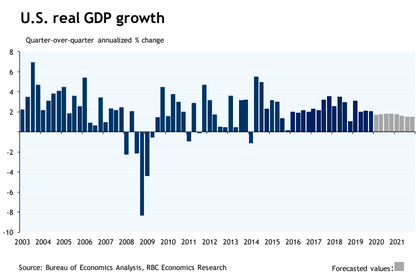


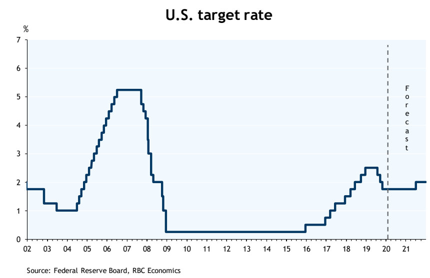


Federal Reserve

The US economy recorded four straight quarters of 2%-plus GDP growth in 2020. The Fed's rate cuts helped—particularly in housing—as did government spending.

Recent improvement in business sentiment and solid economic growth suggest the Fed doesn't need to provide any more stimulus. With inflation remaining low, rate hikes also look unlikely.

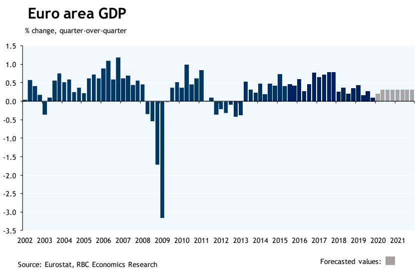


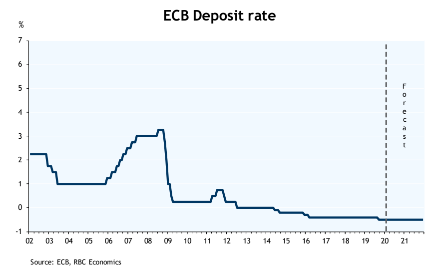


European Central Bank

Survey data have stabilized or improved modestly, but hard data have yet to show a pickup in economic activity. Euro area GDP growth slowed to just 0.1% in Q4/19.

As long as the economy's late-2019 slowdown doesn't become a trend—our forecast assumes it won't—we think the ECB will remain on the sidelines in 2020.

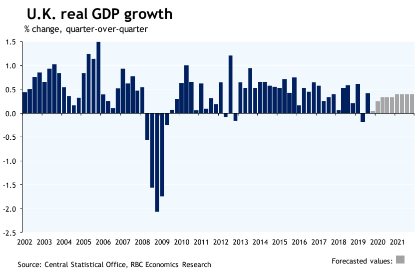


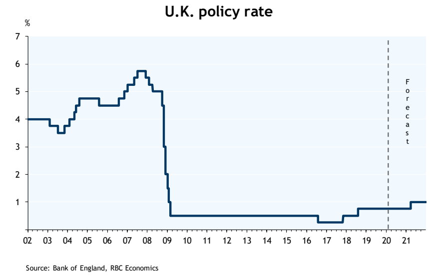


Bank of England

It looks like UK GDP was close to flat in Q4/19 but survey data have improved markedly since December's election, which provided some political certainty and reduced near-term Brexit concerns.

Noting the pickup in survey data, the BoE held interest rates steady in January. The vote was once again 7-2 despite some additional MPC members suggesting they might opt for a cut.

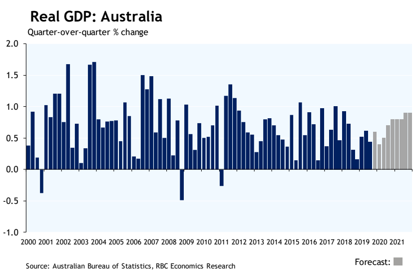


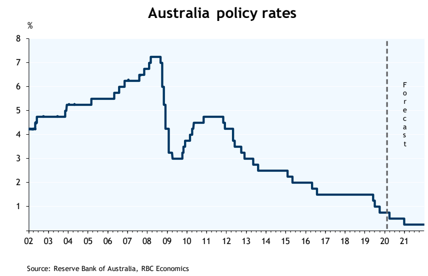


Reserve Bank of Australia

Australia's devastating bushfires will weigh on GDP growth over the first half of the year, and we've trimmed our 2020 forecast to 2.1% from 2.4%. The coronavirus outbreak adds some downside risk.

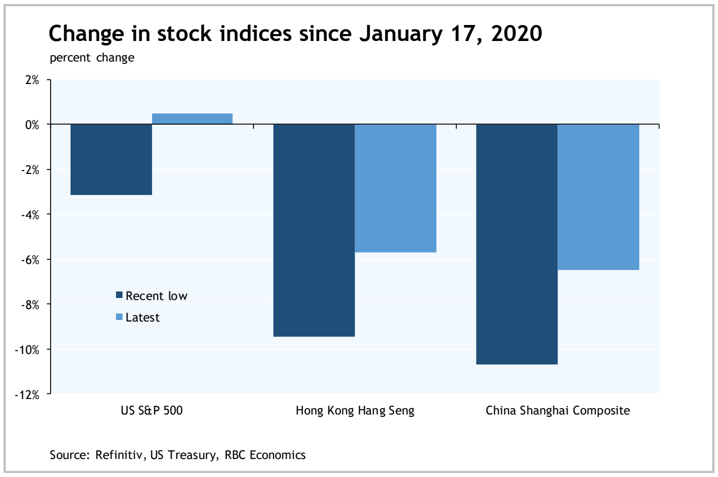
We continue to think growth will fall short of the RBA's forecast, prompting another rate cut. But espousing patience, the central bank could remain on the sidelines longer than our forecast assumes.



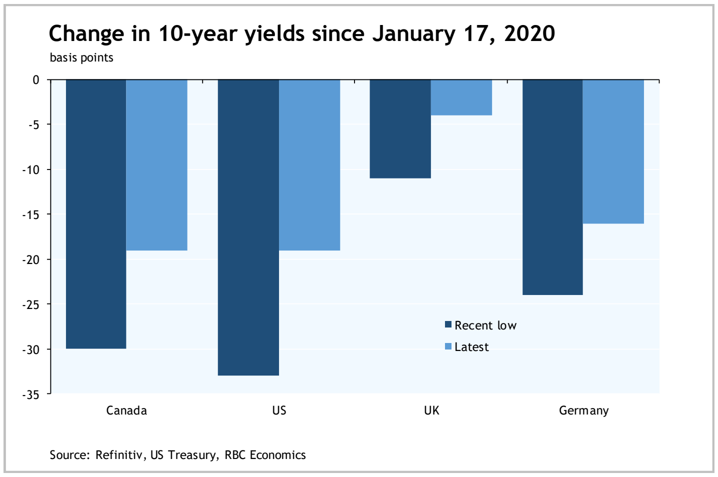


Coronavirus impact on financial markets

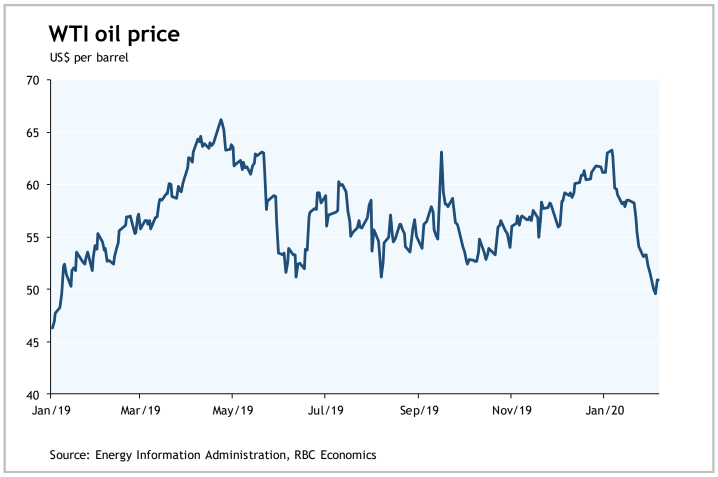
Equity markets in China and Hong Kong fell by roughly 10% in the days after the first coronavirus cases were confirmed outside of Wuhan, China. They've since recovered some of those losses but remain ~6% below mid-January levels. In the US, the S&P 500 recorded a more modest decline and has fully recovered.



Global growth concerns related to the coronavirus outbreak have had a more durable impact on government bond yields. While they've rebounded from earlier lows, 10-year yields in the US, Canada and Germany are still 15-20 basis points below mid-January levels.



Commodity prices have been weighed down by demand concerns, particularly oil given the travel restrictions that have been imposed. WTI entered bear market territory, falling 20% from its early-January peak and hitting its lowest level in a year. Prices for metals like copper, aluminum, and iron ore are also down.



China's share of world GDP has more than doubled since the 2003 SARS outbreak and the country is more highly-integrated into global supply chains. Even a temporary slowdown in the Chinese economy will have knock-on effects in other countries, particularly nearby Asian economies.