Focus

Feature Article

20/20 Election Still Blurry

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The Waiting is the Hardest Part

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Mark Twain once famously quipped that *"predictions are difficult, especially about the future"*. Well, apparently they're also difficult about things that happened three days ago. Because **here we stand, three days after the U.S. election and almost nothing has been officially settled**. While Joe Biden currently leads by extremely narrow margins in a few crucial states, we will all likely need to continue to breathe deeply and await a number of recounts before the results are finalized. Not meaning to pile onto the Mount Everest of political chatter this week, but **the other outcome that remains in doubt is the Senate**. While the initial post-election take was that the Republicans had managed to narrowly hold their majority, even that is now in question with the possibility of two, count 'em two, run-offs in Georgia early in 2021. If, perchance, both of those flip to the Democrats (in a state where the Presidential vote was nearly 50-50), the Senate could then sit at 50-50. How so very 2020.

Markets were not biding their time after the vote, with an **amazing snapback in equities** after a rough ride just one short week ago. (Question: Wasn't an uncertain outcome that could be contested the "worst possible outcome for markets"? Imagine where we would be if the results had been clear cut!) As of noon Friday, the S&P 500 was on pace for a 7% surge this week, more than reversing the hefty 5.6% drop last week. However, investors turned a tad more cautious at the end of the week, as the notion that the Senate may still be in play weighed. The initial post-election view was *"gridlock is good; there will be no major changes in taxes and regulation"*. Yet, the still-slim possibility of a 50-50 Senate tie (albeit faint) has not fully shut the door to the Blue Ripple scenario.

What does this all imply for the economy? We dig into much greater detail in this week's Feature (page 8), but for the short-term, the key issue is the fate of any stimulus support. Senate and House leaders sent some constructive messages in the wake of the election, and the lame duck session has often proven to be an ideal time to get things done. However, with the outcome of the Senate still hanging in the balance, the **calculus gets complicated** to say the least. While there is still a reasonable chance a deal could get done this year, it's probably safer to assume that nothing will arrive until the New Year, with the size pretty much entirely riding on what unfolds in Georgia. We would assume something more modest at around $1 trln.

Meanwhile, the **economic data mills** stayed busy this week, churning forward even as the world awaited the election results. The **early run of U.S. data** for October was generally on the **positive** side of the ledger, with employment and the ISM for manufacturing both topping expectations. A highlight was the whopping 2.2 million rise in the household survey, which sliced the official jobless rate by a full percentage point to 6.9%. Keeping with the theme of goods over services, the factory PMI surged to 59.3, a level that has historically been consistent with roughly 4% GDP growth. Some slightly less upbeat signals were sent by auto sales, which dipped last month to a 16.2 million pace (still down a bit from last year's 17 million), and the services PMI which dipped to 56.6. The combined message from the October data is that the U.S. economy continued to grind ahead a bit better than expected, even amid the distraction of the election and the renewed run-up in virus cases. As a result of the reasonable results, **we have revised up our call on Q4 GDP growth by a point to**

4.0%, albeit we also shaved the Q1 view amid the election uncertainty and yet more uncertainty on any stimulus bill.

Canada's October data generally set a **similar** tone, with the economy holding up well in the face of renewed restrictions in a few major provinces. Employment posted a sturdy, albeit unspectacular, gain of 83,600 last month, led by the private sector and full-time positions. Similar to the U.S., auto sales dipped slightly in the month, but at down 2.1% y/y, they are essentially back to 'normal' levels. Meantime, city after city reported another booming month for existing home sales in October, with Toronto's 25% y/y gain and 14% y/y average price rise quite typical across the country. On balance, we would be more inclined to revise our forecast higher rather than lower based on how the economy fared last month amid new rollbacks. However, there's that little matter of the uncertainty to the south… and the probability of a more subdued and/or delayed stimulus package from Washington.

At the profound risk of causing election over-load, a state that many of us are likely a few light years beyond at this point, here are some random, neutral, observations on this week's historic vote:

- **Pollsters:** I am personally very grateful for them—they make economic forecasters look great by comparison. "Did we say Biden would win Florida by 3 points? Oh no, we meant *lose* it by 3!" Seriously, the final poll averages had Biden winning the national vote by about 8 percentage points, whereas it will be closer to 3 points. That miss is a big reason why the Democrats lost ground in the House, and why the race is so razor close.
- Who knew **Nevada** and its 6 electoral college votes would prove to be a linchpin in the overall race? How many had *that* in their office pools?
- Whatever your political leanings, the fact is that **people are engaged**. The turnout was the highest since 1900. The total vote tally for each Presidential candidate topped any prior candidate ever. The world is watching. Few will ever take another election for granted.

Final thought: **Grover Cleveland**. Look him up… just saying.

U.S. Job Growth Slows as Recovery Headwinds Rise

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Regardless of what party holds the balance of power in the House of Representatives and Senate when the new congressional session starts on January 3 (and after Georgia's one or potentially two Senate runoffs on January 5), and regardless of who occupies the White House on January 20, both the current and prospective editions of Congress and the Administration have some **urgent fiscal work to do**. The robustness, if not continuation, of the economic recovery, hangs in the balance.

Labour market momentum, both a key barometer and propagator of the recovery, is already **ebbing**. In October, payroll employment expanded by 638,000, now having recovered 54% of the 22.2 million jobs lost during the recession. In the first three months of the economic recovery (May-July), 9.3 million jobs were regained, followed by 2.8 million in the next three months. Even at October's pace, it will take another 16 months before payrolls break even. And, it also doesn't help that near 10% of total job losses are now deemed to be permanent. Some of the ebbing was expected owing to base effects but it also reflects, as Chair Powell put it in his post-FOMC presser, "*ongoing weakness in sectors that typically require people to gather closely*".

Meanwhile, the **second nationwide wave of COVID-19** is surging, with the number of new daily cases topping 100,000 recently. And, unlike the first wave, when states' case rates surged at different times, this wave is occurring across jurisdictions at the same time. This will likely lead more states to pause or reverse their reopening plans, compounding the detrimental influence on business and consumer confidence. While we don't anticipate a return to widespread lockdowns (like in some European countries), these should apply a major damper on the demand for labour and broader economic momentum.

Some federal support measures from the first wave have already ended and others are poised to expire in less than eight weeks. And, with state and local governments mired in their "*biggest cash crisis since the Great Depression*" (according to the Wall Street Journal), **labour market and broader economic prospects are dimming quickly**, but they could be salvaged if Congress acts quickly. The current Senate returns from recess on November 9 with the House following on November 16. On Wednesday, even Senate Majority Leader McConnell (not a fan of President's Trump pre-election efforts to secure a deal) said of another fiscal stimulus bill: "*I think we need to do it and I think we need to do it before the end of the year. I think* ***now that the election's over the need is there*** *and we need to sit down and work this out*." Before the election, the Democrats and Administration were working on a package in the high-$1 trln, low-$2 trln range, but the political dynamics have changed markedly since then. Meanwhile, more than a 'skinny' bill (range of $500 bln) is probably required at this point given the following factors.

The federally-funded programs that expanded and extended state UI benefits expire at the end of the year. As of October 17, there were 9.3 million individuals in the **Pandemic Unemployment Assistance** (PUA) program, designed for those not normally eligible for state benefits. Although this is down from the August high of 14.9 million, the incremental improvements have flattened in recent weeks. There were 4.0 million in the **Pandemic Emergency Unemployment Compensation** (PEUC) program, designed for those whose UI benefits run out. This is the high-water mark and it is rising, reflecting stubborn joblessness. Although consumer spending was able to weather the earlier expiry of federal top-ups on state UI payments, there's much less of the latter lying around to absorb the expiry of the PUA and PEUC programs.

The **Paycheck Projection Program** (PPP), designed to provide potentially forgivable loans to smaller businesses to help them retain their employees, closed as scheduled in August. It had disbursed some $520 bln before closing, but it also had about $130 bln left over. The program's extension got mired in pre-election fiscal negotiations. With many businesses still suffering significantly reduced sales and PPP loan proceeds already applied to past wage bills and other costs, the economy is facing a potential second wave of job layoffs and business closures amid the second wave of the pandemic.

Finally, state and local governments slashed 130,000 jobs in October, on top of the 187,000 in September, in efforts to balance their budgets. However, critical to the recovery will be keeping schools open safely during the second wave. This is a major cost that will add to increased healthcare expenses at a time when these jurisdictions' financial resources have already been depleted by combatting the first wave. Given the political backdrop, and short of a blue wave election outcome (a low but still non-zero probability), **financial support for state and local governments was never going to come close to the earlier bipartisan appeals** for $500 bln by the National Governors Association and $250 billion by The United States Conference of Mayors. But, the pre-election opening salvo by the GOP was for zero, so there would appear to be a lot of room for compromise here. On balance, extending the PUA and PEUC programs, reopening and topping up the PPP, and increasing financial support to state and local governments are required to keep the economic recovery vibrant, if not alive.

Equities: From Blue to Green

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The U.S. election results remain uncertain, but the equity market has seemingly moved on, rallying in the days since the vote. At the highest level, stocks have likely responded positively for a few reasons:

- **Blue wave fades (for now):** While there's certainly still some counting to do and the potential for runoffs in Georgia, the market was bracing for a Democrat sweep ahead of Election Day. And, that would have opened the door to a potential wave of tax hikes. For much of the equity market at least, holding off tax hikes appears to outweigh a smaller stimulus package that now seems likely (if and when we actually get it) under a divided government.
- **Interest rates back off:** Equity valuations were a bit rich heading into the election, and pricing out the blue wave has implied less stimulus and borrowing than otherwise would be the case. As such, longer-term Treasury yields initially fell more than 20 bps before backing up somewhat late in the week. This has probably eased some concern that rates would push meaningfully higher, and force equity valuations to adjust.

Meantime, the results have had an impact at the **sector level** as well, as evidenced by the winners and losers this week:

- **Health care** was the big early winner, jumping more than 8% as a divided government reduces the chance that the Affordable Care Act will get built out. Drug stocks led the pack.
- **Big technology** also took back its post at the front of the pack. On balance, Biden in the White House with a Republican Senate appears to be the most favourable outcome for this group that has led the market. That outcome would likely negate any tax increases, while possibly also casting a less hawkish tone on areas like immigration (Silicon Valley needs talent), competition and censorship.
- **Canadian energy and pipelines**, as counterintuitive as it might seem, eked out a small early win. A Trump defeat is not positive for the group in itself, but a divided government prices out a worse-case scenario. While KXL might be at risk with Biden in the White House, a more sweeping move off of fossil fuels would be delayed.
- **Small regional banks**, however, were relative losers on the week. Arguably, this is the sector that would have benefited most from a blue wave, assuming that would produce a larger stimulus/support package and lift longer-term interest rates. This is the area of the equity market that has relatively high exposure to the

struggling Main Street economy; hence, the stark underperformance versus sectors like technology since the pandemic began.

All told, it's ultimately the underlying macro environment and secular forces that dictate the path for stocks more than any election result, and the market appears to be moving on. That said, we're clearly in for a drawn-out period of challenges and recounts which could keep the above-mentioned moves in question for a while.

Shhh.... Can You Hear That in Europe?

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Listen carefully. No? Yeah, me neither. **Economic activity abruptly ground to a halt in more parts of Europe this week**. **Ireland** was the first to return to a national lockdown a couple of weeks ago; since then, it has been joined by **France**, **Germany** and the **U.K.** and, as of November 6, **Greece**. **Italy** is under pressure as well, though PM Conte is sticking to a nationwide curfew for now. Ditto for Spain. All of these countries' economies crumbled at an historic pace in the second quarter due to nationwide shutdowns. Though GDP is expected to turn negative again in Q4, the pace will not be nearly as steep. There have been lessons learned from this experience, and businesses and consumers have had some time to adjust to the new normal. Nonetheless, the closure of retailers and restaurants and bars, with the exception of takeout, will hurt the still-vulnerable services sector. In October, the Markit services PMIs fell to their lowest levels in nearly half a year for Germany, France, Italy and the Euro Area. And this is the month before these countries actually shut activity down. Growth forecasts are being marked down again, most recently by the European Commission. Central banks are running low on ammunition but they're still stepping up to the plate. The ECB all but promised more stimulus in December, after the staff macroeconomic projections are updated and policymakers reassess the outlook. Meanwhile, the BoE did not want to wait. With the added pressure of a hard Brexit possibility, the Bank raised its target for government bond purchases by £150 bln and will keep the program under review, re-evaluating it later if needed.

If there is **one positive** from all of this, it is that governments and central banks have been able to work together, using fiscal and monetary policies, to support businesses and households that make up their economies.

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Indications of stronger growth and a move toward price stability are **good news** *for the economy.*

	Good News	Bad News
Canada ▪ Job gains slowing ▪ C$ strengthens	**Employment** +83,600 (Oct.) **Jobless Rate** -0.1 ppts to 8.9% (Oct.) **Average Hourly Wages** +5.5% y/y (Oct.) **Ivey PMI** +0.2 pts to 54.5 (Oct.)	**Merchandise Trade Deficit** widened to $3.3 bln (Sep.) **Auto Sales** -2.1% y/y (Oct.) **Markit Manufacturing PMI** -0.5 pts to 55.5 (Oct.) **Province of Ontario** projects a $38.5 billion deficit (FY20/21)
United States ▪ Race for White House continues ▪ FOMC on hold	**Nonfarm Payrolls** +638,000 (Oct.) **Jobless Rate** -1.0 ppts to 6.9% (Oct.) **Average Hourly Earnings** +0.1% (Oct.) **ISM Manufacturing PMI** +3.9 pts to an over-2-year high of 59.3 (Oct.) **Factory Orders** +1.1% (Sep.) **Goods & Services Trade Deficit** narrowed to $63.9 bln (Sep.) **Nonfarm Productivity** +4.9% a.r. (Q3 P) **Jobless Claims** -7k to 751K (Oct. 31 week) **Wholesale Inventories** revised up to +0.4% (Sep.)	**ISM Services PMI** -1.2 pts to 56.6 (Oct.) **Construction Spending** +0.3% (Sep.)—well below expected, and August revised down **Auto Sales** slipped to 16.21 mln a.r. (Oct.)
Japan ▪ Yen strengthens below 104/dollar		**Household Spending** -10.2% y/y (Sep.)
Europe ▪ EU could impose tariffs on $4 bln U.S. imports next week ▪ BoE lifts Asset Purchase Facility by £150 bln to £895 bln; Chancellor Sunak extends wage support through March ▪ Lockdown begins in U.K. and Greece ▪ U.K./EU talks continue	**Germany—Industrial Production** +1.6% (Sep.) **France—Trade Deficit** narrowed to €5.7 bln (Sep.)	**Euro Area—Retail Sales** -2.0% (Sep.) **Germany—Factory Orders** +0.5% (Sep.)—below expected **Italy—Retail Sales** -0.8% (Sep.) **U.K.—Construction PMI** -3.7 pts to 53.1 (Oct.)
Other ▪ President Xi considers 5% growth target ▪ RBA cuts rates 0.15 ppts to 0.1%; ups bond buying	**China—Non-manufacturing PMI** +0.3 pts to 56.2; **Caixin Manufacturing PMI** +0.6 pts to 53.6; **Services PMI** +2.0 pts to 56.8 (Oct.) **Australia—Building Approvals** +15.4% (Sep.) **Australia—Trade Surplus** widened to A$5.6 bln (Sep.)	**China—Manufacturing PMI** -0.1 pts to 51.4 (Oct.) **Australia—Retail Sales** -1.1% (Sep.)

20/20 Election Still Blurry

Douglas Porter, CFA, Michael Gregory, CFA and Sal Guatieri

While the results still hang in the balance and could swing in a different direction, it currently looks like Joe Biden will become the 46th President of the United States, the Republicans will hold onto the Senate, and the Democrats will keep control of the House with a slimmer majority. However, ballots are still being counted in several states and no major media outlet has yet to make an official call on the outcome.

Here are the election results as of late-Friday morning, according to the Wall Street Journal:

- **Electoral votes** (270 needed to win): Biden 264, Trump 214, and the rest undecided in four states: Pennsylvania (20), Georgia (16), North Carolina (15), and Nevada (6). With Biden recently taking the lead in Pennsylvania and Georgia, market-based odds heavily lean toward his victory.
- In the **Senate race**, the seats are currently split at 48 apiece. The Democrats must gain 2 more seats to take control if Biden wins the White House (as the vice president is the tie-breaker), and 3 more if he loses. Both seats in Georgia might need to be decided in runoff elections on January 5th, with the two other undecided seats in North Carolina and Alaska. Republicans are expected to prevail, but no one can be sure in this wild election.

Chart 1
Investors Happy With Results

S&P 500 (1941-43 = 10 : as of November 6, 2020, 11:40 am)

Sources: BMO Economics, Haver Analytics

What is clear is that recounts will occur in several states with razor-thin margins, and legal challenges (already launched by the White House) are sure to mount, meaning that the **final results may not become official for several weeks**.

U.S. Implications

Based on current results, and assuming Joe Biden is inaugurated on January 20 and the Republicans hold onto the Senate, there **may be no need to change our U.S. economic call of 4.0% growth in 2021**. The continued split in legislative control would likely result in a smaller stimulus deal (closer to $1 trillion) that extends pandemic relief programs for the unemployed, hard-hit businesses, and states struggling to balance the books. The emergency UI benefit programs that were set to expire at year-end will likely be extended, and the Paycheck Protection Program that provides forgivable loans to small and mid-sized companies retaining staff could be reopened, though possibly not until after Inauguration Day. With the country reporting a record number of daily COVID infections, the need for additional support is mounting, although new restrictions have been minimal so far (and largely contained to Illinois). Under a split Congress, Biden may be tempted to push for curbing subsidies to fossil fuel companies and rescinding the Keystone XL pipeline permit, but the Senate will likely push back. He might have more success with longer-term initiatives, such as investing heavily in green technology and electric vehicles to achieve net-zero emissions by 2050. His selection of cabinet members, particularly for Treasury

Secretary, could be a flashpoint for investors. Even under a split Congress, executive orders can drive some shift in policies, as we saw with trade the last four years.

Conversely, **if Congress remains gridlocked on a stimulus deal**, we would need to cut our outlook. For instance, allowing the emergency UI benefit programs (currently supporting over 13 million unemployed) to expire at year-end would seriously dent the recovery, though likely not derail it due to the massive amount of excess savings (over $1 trillion) accumulated by households since February in response to earlier support programs.

In the event the Democrats sweep Congress and Biden is President, we would need to upgrade our forecast to account for potentially $2-to-$3 trillion of new stimulus (10%-to-15% of GDP) and a “Blue Wave” of spending on infrastructure, education (including free tuition for families making less than $125,000), affordable housing, health care (allowing workers with employer coverage to buy into a public health-care plan and using tax credits to reduce insurance premiums), child care (including free preschool), and environmental initiatives. In fact, passage of the House’s original HEROES Act and its $3.4 trillion price tag would not be out of the question, though some lawmakers will question the need for a plan that’s even larger than the first four bills when the economy has regained much of its loss. The boatload of spending would be partly blunted by Biden’s plans to raise the corporate tax rate by 7 ppts (and double the minimum tax rate on overseas income of U.S. multinationals), hike personal income taxes for top earners (above $400,000, by restoring the 39.6% marginal rate from the current 37% and introducing a 12.4% Social Security tax), and double the federal minimum wage to $15 (which could discourage hiring in already hard-hit industries, such as food services and travel). Some modest **easing in trade tensions** with U.S.’s allies would support business sentiment, though Biden does not plan to reverse the current tariffs on China. He is open to the U.S. joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). **Increased immigration** levels (via citizenship for 11 million undocumented migrants and accepting more refugees) would support both household formations and the ability of companies to match skilled workers with vacant positions.

Of course, the election results aren't final yet and the outcome could swing in a different direction. **Should Trump retain the White House**, we could see four more years of generally business-friendly policies, including lighter regulations and a stable tax climate. This would be tempered by ongoing trade tensions; in particular, a Phase 2 deal with China seems unlikely in the current hostile climate, and Phase 1 (in which China pledged to buy more U.S. goods) could even get derailed.

Market Implications

Treasuries have rallied on the lower odds of a large stimulus bill that would pump both the economy and budget deficit, and amid safe-haven demand stemming from increased political uncertainty. We still expect long-term rates to drift modestly higher if a moderate fiscal deal is reached and the economic recovery stays intact, though Treasuries could retain a bid until control of the Senate is known in early January.

Equities have also jumped on the prospect of calmer trade relations, as well as the lower chance of a major policy shift on taxes or regulations. In particular, technology, financial, pharmaceutical and energy shares have jumped on expectations that a

Republican-led Senate will nix any sweeping regulatory reforms, including anti-trust legislation on tech giants and price controls on drug companies. Alternative-energy firms and businesses benefiting from increased infrastructure spending are likely to benefit under a Biden presidency. BMO's Chief Investment Strategist Brian Belski remains bullish on the long-term trend for equities, though markets could be volatile if the election results are contested.

After initially firming on increased uncertainty, the **U.S. dollar** has weakened on a flight toward risk assets and lower odds of a large fiscal deal. We expect the dollar to generally trend down next year as the economy recovers and the currency loses its safe-haven lustre.

Fed Implications

President Trump has publicly and frequently criticized **Fed Chair Powell** in an unprecedented fashion. Powell's term as Chair ends on February 5, 2022. If Trump wins, it appears (on the surface) that the President will not re-nominate him. Powell is also a Republican, the main reason proffered by Trump as to why he did not re-nominate (Democrat) Janet Yellen back in 2018, so a Biden victory might put his re-nomination in jeopardy as well. Note that Powell was nominated to the Fed's Board of Governors in 2012, during the Obama Administration, as a compromise candidate to appease the Republican-controlled Senate (his tenure on the Board lasts until 2028).

However, likely lifting Powell's re-nomination odds in either scenario, the FOMC's recent modifications to its monetary policy framework have now, arguably, positioned future policy in its most politician-friendly stance ever. The Fed's congressionally-mandated goal of full employment is now being defined so that there will not be any pre-emptive tightening of policy as the jobless rate falls towards and below the natural rate (FOMC median projection of 4.1%), unless inflation is an obvious problem. Meanwhile, toleration of the latter has been lifted with the goal of price stability now being defined as inflation that averages 2% over time. The FOMC is already targeting inflation that is "*moderately above 2% for some time*."

Other considerations:

- The make-up of the Senate also matters for the nomination of monetary policy players, and could become an issue if the chamber and White House are politically opposite (Trump facing a Democratic-controlled Senate or Biden facing a Republican-controlled one).
- Our base case is that Powell is re-nominated (if he wants the job), and this only becomes an issue if a new name is put forth.
- The full Senate votes on Trump's nominations of Judy Shelton and Christopher Waller to the Board of Governors is still pending. Waller's nomination had bipartisan support in committee (18-7), while Shelton's did not (13-12) with other Republicans also having doubts about her. It's unclear whether the lame duck session will take up this matter.
- In a Biden victory, the Senate would confirm the new Treasury Secretary. With Fed Governor Brainard touted as a potential candidate, this would also open a third vacancy on the Board.

- A new Treasury Secretary might also take a more lenient attitude towards the Fed's various lending facilities for which the Treasury is providing capital to cover possible losses. A total of $494 billion has been committed but only $205 billion has been deployed so far. The $205 billion can support up to $2.05 trillion of credit creation but only $123 billion has been advanced so far, in part reflecting the current stringency of the programs' lending criteria.

Implications for Canada

While the results still hang in the balance, we can draw some preliminary conclusions on implications for Canada from the U.S. election, especially given the absence of a Blue Wave. This list is not meant to be exhaustive, but instead highlights some of the bigger potential impacts on Canada, roughly ranked in order of importance and certainty.

Trade: On bilateral trade, the key is whether there will be less uncertainty on the trade file, with the USMCA in place, and a split Congress. Biden's Buy American policy would weigh on many sectors, while Trump has menaced specific industries with tariffs (e.g, steel and aluminum).

On the multilateral front, a much more constructive international backdrop would be expected under Biden, after the Trump Administration almost paralyzed the WTO. Biden has also discussed the possibility of the U.S. joining the Trans-Pacific Partnership (something the U.S. initially spearheaded).

With China, again, the tone and tactics may change but we suspect that the fractious U.S./China trade relations will persist. However, the temperature will probably be dialled down a few notches from the drama of the past two years, should Biden emerge victorious. On tactics, Biden would be more likely to enlist the support of other major economies in a unified effort to challenge some of China's trade and industrial policies.

Energy: The energy file is probably the area that revealed the starkest differences between Biden and Trump and has large implications for Canada. Clearly on the downside for Alberta, is Biden's blunt suggestion that he will pull the permit for Keystone XL. Biden's many other proposals on the energy front are unlikely to survive a split Congress.

Stimulus & Growth: As outlined earlier, the election outcome points to a smaller stimulus deal, likely regardless of who wins the Presidency. Overall, this should modestly support near-term U.S. growth, with positive implications for Canadian exports and related domestic activity. In a separate area, U.S. policies on **immigration** could shift substantially in the event of a Biden victory to much more openness. It is debatable to what extent this directly affects the Canadian outlook, but if Biden undoes some of Trump's policies, it could be more challenging for Canada to hit its new, higher immigration targets and/or retain talent that would otherwise be moving south. Note that the strongest years for non-permanent resident inflows to Canada were 2017 and 2018, with at least two forces at work—a more open Canadian immigration policy at the same time that U.S. was closing its doors. A Biden win could shift the balance back at least somewhat, even if takes a while given the pandemic realities.

Taxes: With the Senate result still in doubt, but leaning to a Republican hold, this is one area that may now see very little change. Biden was quite clear in his call to lift the corporate tax rate 7 ppts to 28% from 21%, but the Senate would likely block this. On the surface, this doesn't have many direct implications for Canada. However, with government finances fundamentally weakened by the massive costs of dealing with the pandemic, there will be a focus on new revenues in the years ahead. And, it's safe to say that the absence of tax hikes in our closest competitor will leave Ottawa with little room to manoeuvre. Moreover, we would point out that the Finance Minister's recent strong defence of ongoing fiscal support should apply every bit as much to keeping taxes in check as it does to keeping the spending taps open.

Exchange rate: We believed that the underlying trend in the U.S. dollar was likely to be lower, regardless of the election outcome. We maintain that view, with the muddied result, combined with the likelihood of only a small fiscal boost, not a dollar-friendly outcome longer term. The combination of a firmer global recovery over the next year, some of the less business-friendly aspects of the Biden proposals now unlikely, and a moderate rebound in oil, we look for the Canadian dollar to firm slightly in 2021. We continue to look for the currency to finish next year near $1.30 (or just under 77 cents (US)).

Joe Biden's Platform

Individual Taxes
- Reverse Trump's tax cuts for super-rich. Restore the 39.6% top marginal tax rate on high-income earners (from current 37%)
- Eliminate special tax breaks
- Repeal $10,000 cap on state/local tax deductions

Government/Infrastructure Spending
- Expand spending on roads and bridges

Health Care
- Build on the Affordable Care Act so everyone has access to affordable health care
- Retain private insurance plans but add a public insurance option (similar to Medicare) that would allow workers with employer coverage to buy into a public health-care plan. This would expand coverage to more low-income families
- Increase tax credits to reduce insurance premiums

Corporate Taxes
- Partly reverse Trump's corporate tax cuts (lifting the rate to 28% from 21%)
- Close tax loopholes
- Double minimum tax rate on overseas income of U.S. multinationals

Banking Regulation
- (no material proposals)

Environment/Energy
- Green New Deal—invest in energy infrastructure to move to 100% clean energy economy and net-zero emissions by 2050 (as per Paris Accord which he says the U.S. will join on Day 1 of his presidency)
- Spend $1.7 trillion over 10 years on green technology
- Promote electric vehicles via spending on battery recharging stations and storage technology
- Invest in rail travel and electric power grid
- Has been critical of Canada's oilsands crude
- Will rescind the Keystone XL pipeline permit

Trade
- Not a fan of tariffs, believes in free trade but also that the U.S. needs a tough trade policy with China
- Enforce climate and labour rules in trade deals
- Seek U.S. participation in the CPTPP

Education
- Two years free tuition for community college or high-quality training programs. Four years tuition free for families making less than $125,000 a year.
- Increase financial support to lower income students
- Modernize schools

Child Care
- $775 billion plan to increase funding for child (and elderly) care; free preschool for children

Labour
- Encourage creation of union jobs
- $15 federal minimum wage

Immigration
- Modernize immigration system with focus on keeping families together and granting citizenship to 11 mln undocumented migrants
- Accept more refugees
- Effective border screening via technology
- End border wall funding
- Protect DACA and their families
- Rescind travel bans on some countries

Housing
- Invest $640 bln over 10 years in affordable housing: rental assistance, tax credits, construction of low-cost units
- Emergency funding to reduce homelessness

Foreign Policy
- Reduce troops in Middle East
- Build up U.S. naval presence in the Asia-Pacific region
- Supports NATO

Donald Trump's Platform

Individual Taxes
- Cut tax rates further for middle class

Corporate Taxes
- Allow 100% expensing deductions for essential industries such as pharmaceuticals and robotics that bring back manufacturing to the U.S.

Government/Infrastructure Spending
- White House's budget provides at least $200 bln for infrastructure
- Increased spending on defense
- Find $2 trillion in savings on mandatory programs over decade

Social Security
- Cuts to social security programs (Medicaid and food stamps)
- Tighten eligibility for disability benefits

Corporate Regulation
- Continue to pare regulations

Health Care
- Further erode parts of Affordable Care Act

Environment/Energy
- Support fossil fuel production including coal

Trade
- Pursue fair trade deals (Phase 2 with China, the EU, India)

Child Care
- Funds for employers that invest in child care

Labour
- Funds for paid parental leave for working families
- Expand access to apprenticeship programs

Immigration
- Finish the border wall
- Reduce illegal-immigration work incentives

Foreign Policy
- Leans toward reducing U.S. involvement in foreign affairs

Economic Forecast Summary for November 6, 2020

	2020				2021				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	2021
CANADA											
Real GDP (q/q % chng : a.r.)	-8.2	-38.7	47.0	2.3	4.2	6.5	6.0	5.0	1.7	-5.6	5.5
Consumer Price Index (y/y % chng)	1.8	0.0	0.3	0.3	0.6	1.9	1.6	1.7	1.9	0.7	1.4
Unemployment Rate (percent)	6.3	13.0	10.0	8.7 ↑	7.9 ↓	7.7 ↑	7.4	7.1 ↑	5.7	9.5	7.5
Housing Starts (000s : a.r.)	209	191	239	210	210	206	202	202	209	212	205
Current Account Balance ($blns : a.r.)	-52.9	-34.5	-40.8 ↓	-39.8 ↓	-41.5 ↓	-41.8 ↓	-41.7 ↓	-42.9 ↓	-47.0	-42.0 ↓	-42.0 ↓
Interest Rates	(average for the quarter : %)										
Overnight Rate	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.50	0.25
3-month Treasury Bill	1.29	0.22	0.16	0.10	0.10	0.10	0.10	0.10	1.65	0.45	0.10
10-year Bond	1.20	0.59	0.55	0.65 ↑	0.70 ↑	0.75 ↑	0.80 ↑	0.85 ↑	1.59	0.75	0.80 ↑
Canada-U.S. Interest Rate Spreads	(average for the quarter : bps)										
90-day	16	8	5	0	0	0	0	0	-45	7	0
10-year	-18	-10	-10	-18 ↑	-17 ↑	-16 ↑	-15 ↑	-14 ↑	-56	-14 ↑	-15 ↑
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-5.0	-31.4	33.1	4.0 ↑	2.8 ↓	4.0	3.7	3.3	2.2	-3.5 ↑	4.0
Consumer Price Index (y/y % chng)	2.1	0.4	1.3	1.2	1.3	2.7	2.0	2.0	1.8	1.2	2.0
Unemployment Rate (percent)	3.8	13.0	8.8	6.8 ↓	6.4 ↓	6.1 ↓	5.8 ↓	5.5 ↓	3.7	8.1 ↓	6.0 ↓
Housing Starts (mlns : a.r.)	1.48	1.08	1.43	1.41	1.34	1.34	1.34	1.35	1.30	1.35	1.34
Current Account Balance ($blns : a.r.)	-446	-682	-833	-858	-875	-883	-895	-905	-480	-705	-890
Interest Rates	(average for the quarter : %)										
Fed Funds Target Rate	1.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	2.13	0.38	0.13
3-month Treasury Bill	1.13	0.14	0.11	0.10	0.10	0.10	0.10	0.10	2.10	0.35	0.10
10-year Note	1.38	0.69	0.65	0.80 ↓	0.90	0.90	0.95	1.00	2.14	0.90	0.95
EXCHANGE RATES	(average for the quarter)										
US¢/C$	74.4	72.2	75.1	75.7	75.9	76.2	76.5	76.8	75.4	74.4	76.4
C$/US$	1.34	1.39	1.33	1.32	1.32	1.31	1.31	1.30	1.33	1.35	1.31
¥/US$	109	108	106	105	105	106	106	107	109	107	106
US$/Euro	1.10	1.10	1.17	1.16 ↓	1.16	1.18	1.20	1.21	1.12	1.13	1.19
US$/£	1.28	1.24	1.29	1.29 ↓	1.30	1.31	1.32	1.33	1.28	1.28	1.31

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

Canada

There are no key events for this coming week.

United States

Sal Guatieri,
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Consumer Prices

Thursday, 8:30 am

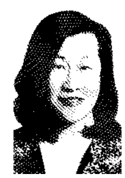
Oct. (e)	**+0.2%**	**+1.4% y/y**
Consensus	*+0.1%*	*+1.4% y/y*
Sep.	+0.2%	+1.4% y/y

CPI ex. Food & Energy

Oct. (e)	**+0.2%**	**+1.8% y/y**
Consensus	*+0.2%*	*+1.8% y/y*
Sep.	+0.2%	+1.7% y/y

The **CPI** is expected to rise 0.2% in October, holding the yearly rate at 1.4%, while core prices should climb a similar amount to nudge the annual rate slightly to 1.8%. Keeping prices down will be early seasonal discounting (some big names advertised deals in mid-October to prevent a rush of Black Friday shoppers) and a likely retreat in used vehicle prices (after leaping 10% y/y as people looked for alternatives to public transportation). Airfares and hotel rates will be held down by the record number of daily COVID infections. A partial offset will emerge from supply bottlenecks and extra virus-protection costs. Overall, inflation is likely to stay low until the jobless rate falls much farther and pandemic uncertainty abates.

United Kingdom



Jennifer Lee,
Senior Economist
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Real GDP

Thursday

Q3 P (e)	**+15.8%**	**-9.4% y/y**
Q2	-19.8%	-21.5% y/y

The **U.K.** will release its Q3 **GDP** results and, like everywhere else, a record surge is expected after an historic Q2 plunge. Enjoy the headline increase because, like everywhere else, it won't last. The fourth quarter is now expected to contract as the country will be locked down during November, but the pace won't be as steep as in Q2. Factories, construction sites, farms and schools will remain open. And, unlike earlier this year, one can sit in the park with someone else not in the same household. Overall, we look for a double-digit dive for all of 2020, before recovering somewhat in 2021. Of course, the path of the virus and the trade talks will have a big say.

Financial Markets Update for November 6, 2020

		Nov 6 [1]	Oct 30	Week Ago	4 Weeks Ago	Dec 31, 2019
				(basis point change)		
Canadian	Call Money	0.25	0.25	0	0	-150
Money Market	Prime Rate	2.45	2.45	0	0	-150
U.S. Money	Fed Funds (effective)	0.25	0.25	0	0	-150
Market	Prime Rate	3.25	3.25	0	0	-150
3-Month Rates	Canada	0.10	0.09	1	1	-156
	United States	0.09	0.09	0	-1	-146
	Japan	-0.10	-0.09	0	5	1
	Eurozone	-0.51	-0.52	1	0	-13
	United Kingdom	0.04	0.04	0	-1	-75
	Australia	0.03	0.06	-3	-5	-88
2-Year Bonds	Canada	0.26	0.26	0	0	-144
	United States	0.15	0.16	0	0	-142
10-Year Bonds	Canada	0.66	0.66	0	3	-104
	United States	0.82	0.88	-5	5	-109
	Japan	0.01	0.04	-3	-2	3
	Germany	-0.62	-0.63	1	-9	-43
	United Kingdom	0.27	0.26	1	-1	-54
	Australia	0.75	0.83	-8	-10	-62
Risk Indicators	VIX	26.4	38.0	-11.6 pts	1.4 pts	12.6 pts
	TED Spread	12	13	-1	-1	-25
	Inv. Grade CDS Spread [2]	54	66	-12	0	9
	High Yield CDS Spread [2]	366	422	-56	0	86
				(percent change)		
Currencies	US¢/C$	76.74	75.07	2.2	0.7	-0.3
	C$/US$	1.303	1.332	—	—	—
	¥/US$	103.34	104.66	-1.3	-2.2	-4.9
	US$/€	1.1886	1.1647	2.1	0.5	6.0
	US$/£	1.317	1.295	1.7	1.0	-0.6
	US¢/A$	72.67	70.28	3.4	0.4	3.5
Commodities	CRB Futures Index	148.05	144.73	2.3	-2.4	-20.3
	Oil (generic contract)	37.45	35.79	4.6	-7.8	-38.7
	Natural Gas (generic contract)	2.89	3.35	-13.8	5.5	32.1
	Gold (spot price)	1,952.38	1,878.81	3.9	1.1	28.7
Equities	S&P/TSX Composite	16,303	15,581	4.6	-1.6	-4.5
	S&P 500	3,507	3,270	7.2	0.9	8.5
	Nasdaq	11,860	10,912	8.7	2.4	32.2
	Dow Jones Industrial	28,341	26,502	6.9	-0.9	-0.7
	Nikkei	24,325	22,977	5.9	3.0	2.8
	Frankfurt DAX	12,492	11,556	8.1	-4.3	-5.7
	London FT100	5,912	5,577	6.0	-1.7	-21.6
	France CAC40	4,961	4,594	8.0	0.3	-17.0
	S&P ASX 200	6,190	5,928	4.4	1.4	-7.4

[1] = as of 11:30 am *[2] = One day delay*

Japan

Monday November 9
BoJ Summary of Opinions from Oct. 28-29 meeting

Tuesday November 10
Current Account Surplus

Sep. '20 (e)	**¥2.0 trln**
Sep. '19	¥1.6 trln

Bank Lending Ex-Trusts

Oct.	
Sep.	+6.2% y/y

Wednesday November 11
Machine Tool Orders

Oct. P	
Sep.	-15.0% y/y

Thursday November 12
Core Machine Orders

Sep. (e)	**-1.1%**	**-12.0% y/y**
Aug.	+0.2%	-15.2% y/y

Tertiary Industry Index

Sep. (e)	**+1.4%**
Aug.	+0.8%

Euro Area

Monday November 9
GERMANY

Trade Surplus

Sep.	
Aug.	€14.8 bln

Tuesday November 10
GERMANY

ZEW Survey—Expectations

Nov. (e)	**41.9**
Oct.	56.1

FRANCE

Industrial Production

Sep. (e)	**+0.8%**	**-5.4% y/y**
Aug.	+1.3%	-6.2% y/y

Manufacturing Production

Sep.		
Aug.	+1.0%	-7.0% y/y

ITALY

Industrial Production

Sep. (e)	**-2.0%**	**-1.3% y/y**
Aug.	+7.7%	-0.3% y/y

Thursday November 12
EURO AREA

Industrial Production

Sep. (e)	**+0.8%**	**-5.8% y/y**
Aug.	+0.7%	-7.2% y/y

ECB Economic Bulletin

GERMANY

Consumer Price Index

Oct. F (e)	**unch**	**-0.5% y/y**
Sep.	-0.4%	-0.4% y/y

Friday November 13
EURO AREA

Real GDP

Q3 P (e)	**+12.7%**	**-4.3% y/y**
Q3 A	+12.7%	-4.3% y/y
Q2	-11.8%	-14.8% y/y

Trade Surplus

Sep. (e)	**€22.2 bln**
Aug.	€21.9 bln

FRANCE

Consumer Price Index

Oct. F (e)	**-0.1%**	**unch y/y**
Sep.	-0.6%	unch y/y

U.K.

Tuesday November 10
Jobless Claims

Oct.	
Sep.	+28,100

Employment (3m/3m)

Sep. (e)	**-160,000**
Aug.	-153,000

Avg. Wkly Earnings Ex. Bonus (3 mma)

Sep. (e)	**+1.5% y/y**
Aug.	+0.8% y/y

Jobless Rate (3 mma)

Sep. (e)	**4.8%**
Aug.	4.5%

Thursday November 12
Real GDP

Q3 P (e)	**+15.8%**	**-9.4% y/y**
Q2	-19.8%	-21.5% y/y

Monthly Real GDP		**3m/3m**
Sep. (e)	**+1.5%**	**n.a.**
Aug.	+2.1%	+8.0%

Index of Services		**3m/3m**
Sep. (e)	**+1.5%**	**+14.6%**
Aug.	+2.4%	+7.1%

Industrial Production

Sep. (e)	**+0.8%**	**-6.1% y/y**
Aug.	+0.3%	-6.4% y/y

Manufacturing Production

Sep. (e)	**+1.0%**	**-7.4% y/y**
Aug.	+0.7%	-8.4% y/y

Trade Deficit		**Non-EU**
Sep. (e)	**£9.5 bln**	**£2.4 bln**
Aug.	£9.0 bln	£2.3 bln

Other

Monday November 9
CHINA

Trade Surplus D

	in USD	in CNY
Oct. (e)	**$46.3 bln**	**320.4 bln**
Sep.	$37.0 bln	257.7 bln

Foreign Reserves D

Oct. (e)	**$3.1 trln**
Sep.	$3.1 trln

Tuesday November 10
	CPI	PPI
Oct. (e)	**+0.8% y/y**	**-1.9% y/y**
Sep.	+1.7% y/y	-2.1% y/y

Aggregate Yuan Financing D

Oct. (e)	**1.4 trln**
Sep.	3.5 trln

New Yuan Loans D

Oct. (e)	**0.7 trln**
Sep.	1.9 trln

M2 Money Supply D

Oct. (e)	**+10.9% y/y**
Sep.	+10.9% y/y

Foreign Direct Investment D

Oct.	
Sep.	+25.1% y/y

AUSTRALIA

NAB Business Confidence

Oct.	
Sep.	-4

Wednesday November 11
NEW ZEALAND

RBNZ Monetary Policy Meeting

Thursday November 12
MEXICO

Central Bank of Mexico Monetary Policy Meeting

D = date approximate

Upcoming Policy Meetings | Bank of England: Dec. 17, Feb. 4, Mar. 18 | European Central Bank: Dec. 10, Jan. 21, Mar. 11

North American Calendar — November 9–November 13

	Monday November 9	Tuesday November 10	Wednesday November 11	Thursday November 12	Friday November 13
Canada	Noon 5-year bond auction $4.0 bln BoC Buyback: 5-year sector	10:30 am 3-, 6- & 12-month bill auction $10.0 bln (new cash $0.2 bln) BoC Buyback: 2-year sector	**Remembrance Day (stock markets open, bond markets closed)**	**1:30 pm: BoC Senior Deputy Gov. Wilkins speaks to the Munk School of Global Affairs and Public Policy on "Exploring Life Post-COVID" (videoconference)** **Quebec Fiscal Update** Noon 10-year bond auction $5.0 bln 2-year bond auction announcement BoC Buyback: 10-year sector	**8:30 am Industrial Product Price Index** **Oct. P (e) unch** Sep. -0.1% **10:30 am BoC Senior Loan Officer Survey (Q3)** BoC Buyback: 30-year sector
United States	Fed Speakers: Cleveland's Mester (1:30 pm); Philadelphia's Harker (2:20) 10:00 am 13- & 26-week bill auctions $105 bln 11:30 am 119-day CMB $30 bln 11:30 am 42-day CMB $30 bln 1:00 pm 3-year note auction $54 bln	**6:00 am NFIB Small Business Economic Trends Survey** **Oct. (e) 104.5 [c]** Sep. 104.0 **10:00 am Job Openings & Labor Turnover Survey (Sep.)** Fed Speakers: Boston's Rosengren (10:00 am, 4:00 pm); Dallas' Kaplan (12:00 pm); Governor Quarles (2:00 pm); Governor Brainard (5:00 pm) 11:00 am 4- & 8-week bill auction announcements 1:00 pm 10-year note auction $41 bln	**Veterans Day (stock markets open, bond markets closed)** **7:00 am MBA Mortgage Apps** **Nov. 6** Oct. 30 +3.8%	**8:30 am Initial Claims** **Nov. 7 (e) 730k (-21k)** Oct. 31 751k (-7k) **8:30 am Continuing Claims** **Oct. 31** Oct. 24 7,285k (-538k) **8:30 am Consumer Prices** **Oct. (e) +0.2% +1.4% y/y** *Consensus +0.1% +1.4% y/y* Sep. +0.2% +1.4% y/y **8:30 am CPI ex. Food & Energy** **Oct. (e) +0.2% +1.8% y/y** *Consensus +0.2% +1.8% y/y* Sep. +0.2% +1.7% y/y **11 :45 am Fed Chair Powell joins a policy panel at the ECB Forum teleconference** **2:00 pm Budget Balance** **Oct. '20 (e) -$288.0 bln [c]** Oct. '19 -$134.5 bln Fed Speaker: Chicago's Evans (1:00 pm) 11:00 am 13- & 26-week bill, 20-year bond, 10[R]-year TIPS auction announcements 11:30 am 4- & 8-week bill auctions 1:00 pm 30-year bond auction $27 bln	**8:30 am PPI Final Demand** **Oct. (e) +0.1% +0.3% y/y** *Consensus +0.2% +0.4% y/y* Sep. +0.4% +0.4% y/y **8:30 am PPI Final Demand ex. F&E** **Oct. (e) +0.2% +1.2% y/y** *Consensus +0.3% +1.2% y/y* Sep. +0.4% +1.2% y/y **10:00 am University of Michigan Consumer Sentiment** **Nov. P (e) 82.0 [c]** Oct. 81.8 Fed Speaker: St. Louis' Bullard (8:30 am)

[c] = consensus [D] = date approximate [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Dec. 9, Jan. 20, Mar. 10 | FOMC: Dec. 15-16, Jan. 26-27, Mar. 16-17

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