

CANADA'S ECONOMIC OUTLOOK: AN UNCERTAIN GLOBAL TIME

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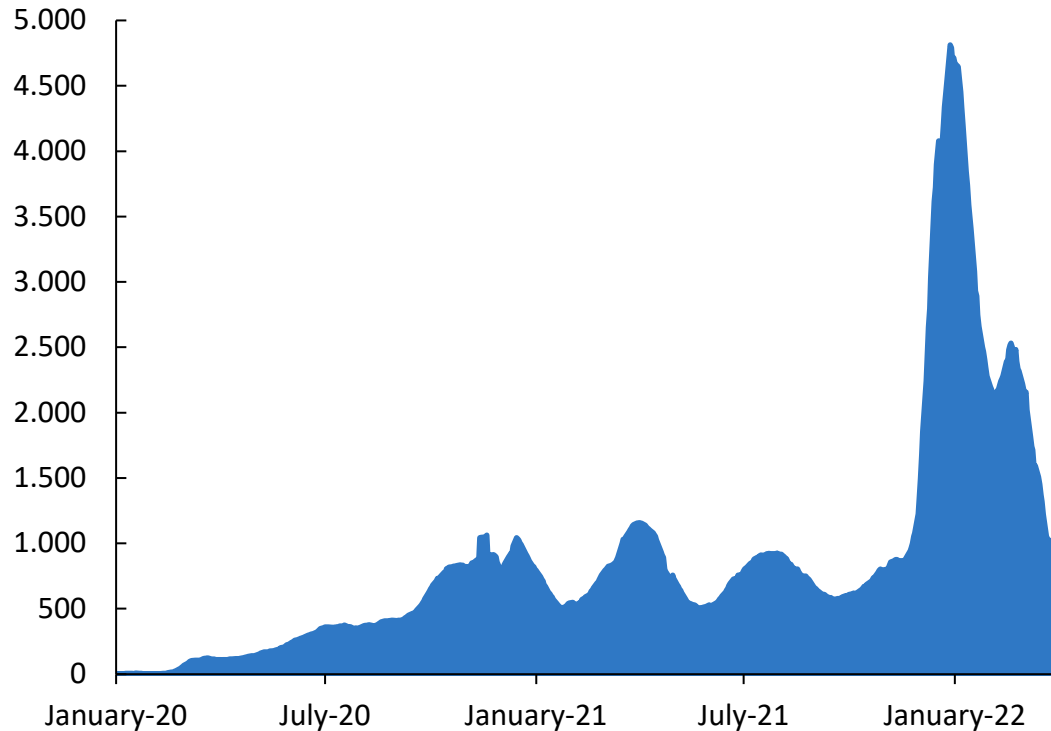


RESTRICTIONS EASE AS OMICRON CASES FALL

Global Omicron cases have been declining after peaking in January. This has led to governments around the world easing restrictions that had been in place since the pandemic began. Several governments are rolling out plans to “live with COVID-19.”

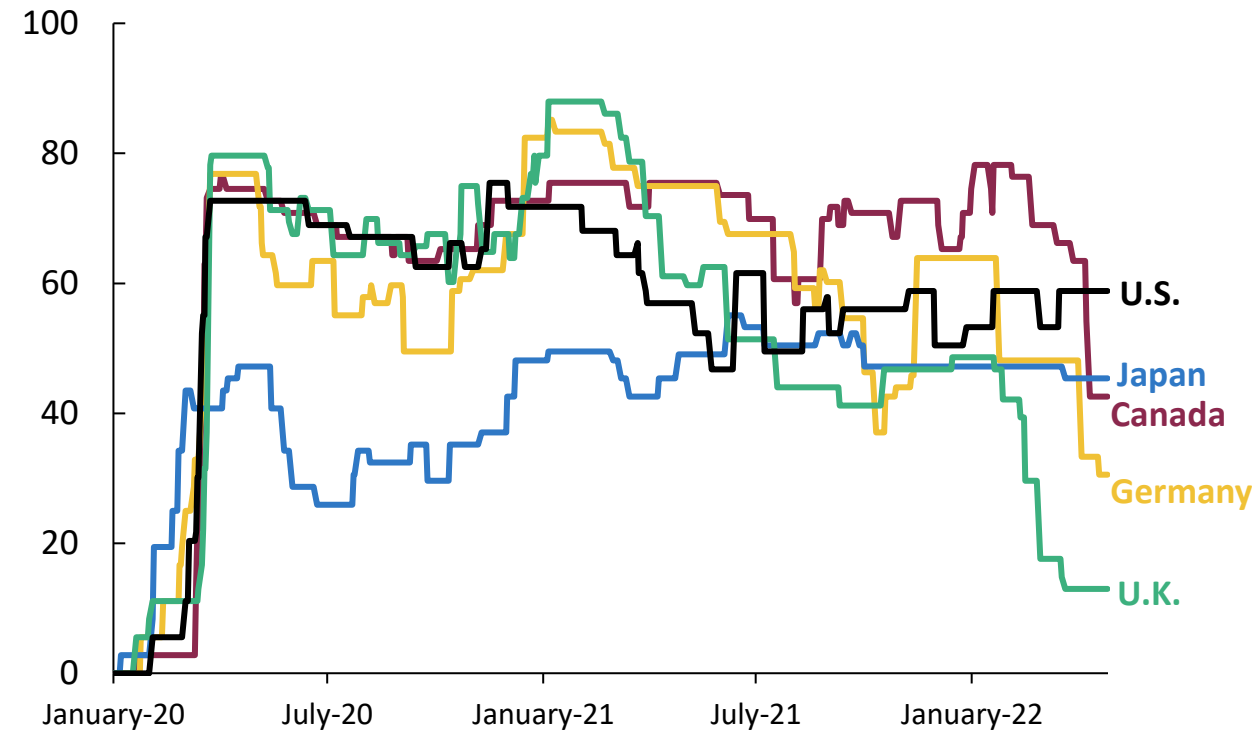
Global confirmed new COVID-19 cases

Daily change, thousands, five-day average



Stringency of government restrictions for G7 countries

Index value, maximum=100



CANADIAN ECONOMIC RECOVERY TRACKER

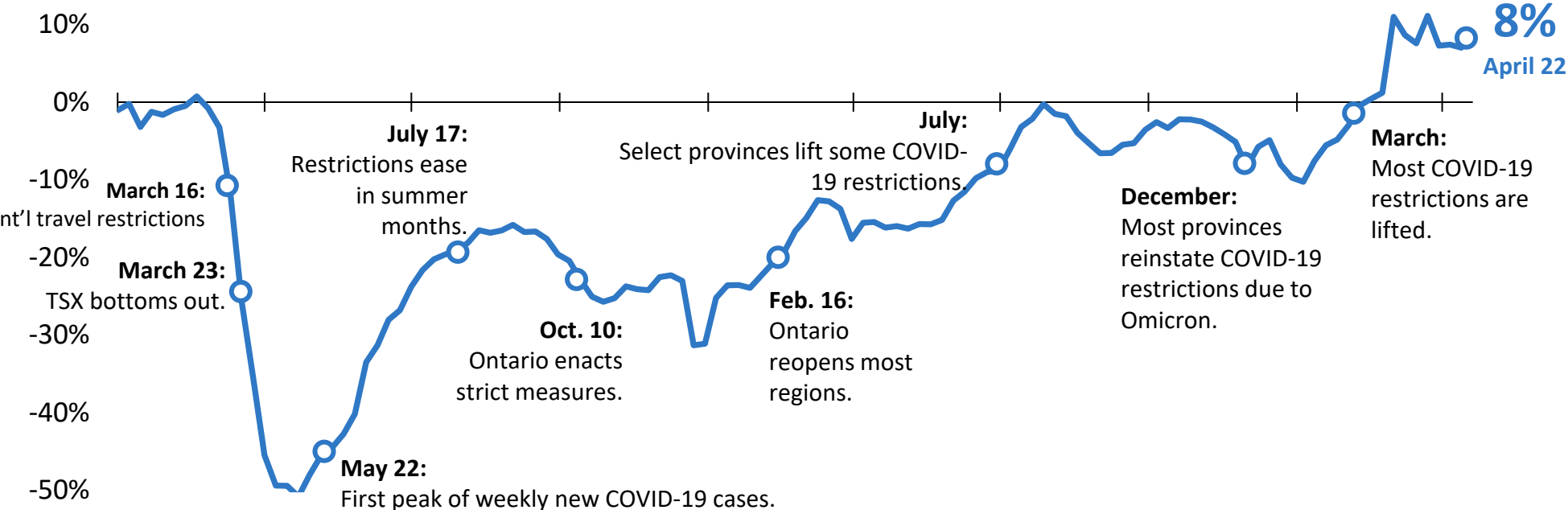
TRENDING UPWARDS

EDC Economics' *Canadian Economic Recovery Tracker* highlights key trends in Canada's economic performance during the recovery. Now sitting at 8% above the pre-pandemic threshold, the Canadian economy has been resilient and is picking up momentum following the lifting of public-health measures.

The Canadian Economic Recovery Tracker

Deviation from pre-COVID-19 baseline

Jan-20 Apr-20 Jul-20 Oct-20 Jan-21 Apr-21 Jul-21 Oct-21 Jan-22 Apr-22



Source: EDC Economics

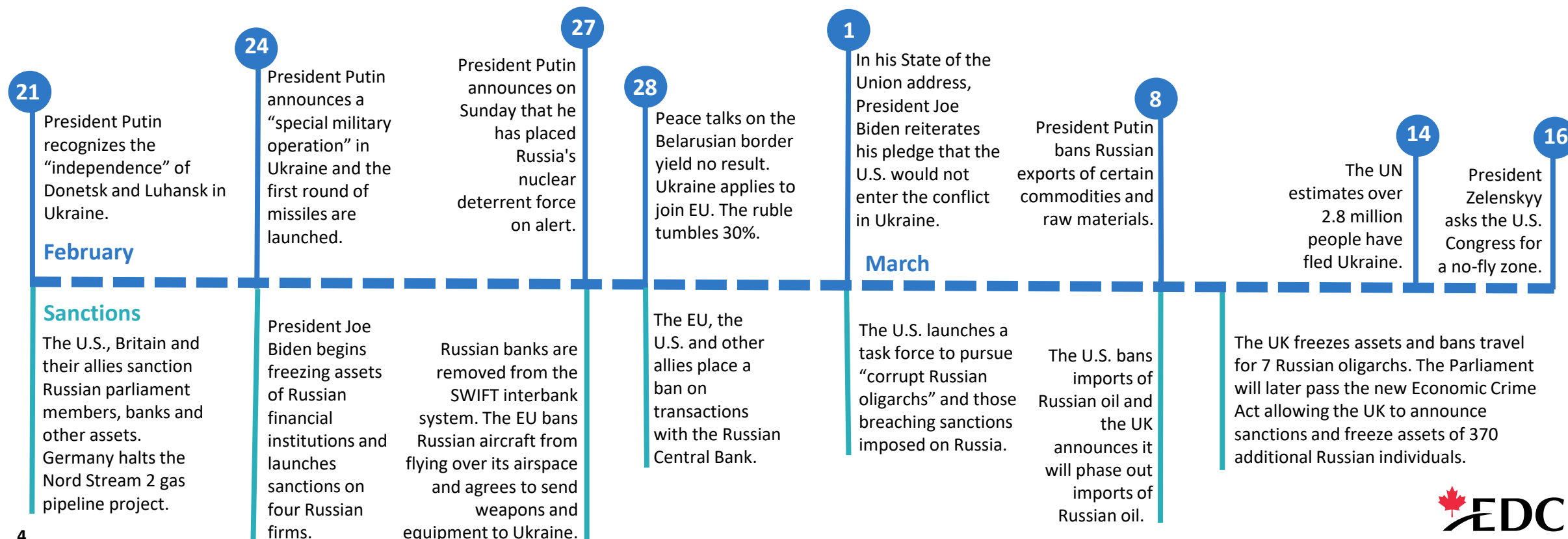


RUSSIA'S INVASION OF UKRAINE HAS LED TO NUMEROUS SANCTIONS WITH POTENTIAL LONG-TERM IMPLICATIONS

Russia's invasion of Ukraine has sparked one of the biggest active conflicts in Europe in recent times. Events are evolving quickly, with Russian forces continuing their siege and the West imposing a steadily escalating series of sanctions.

Russia-Ukraine conflict and sanctions timeline

Notable events as of March 16th 2022

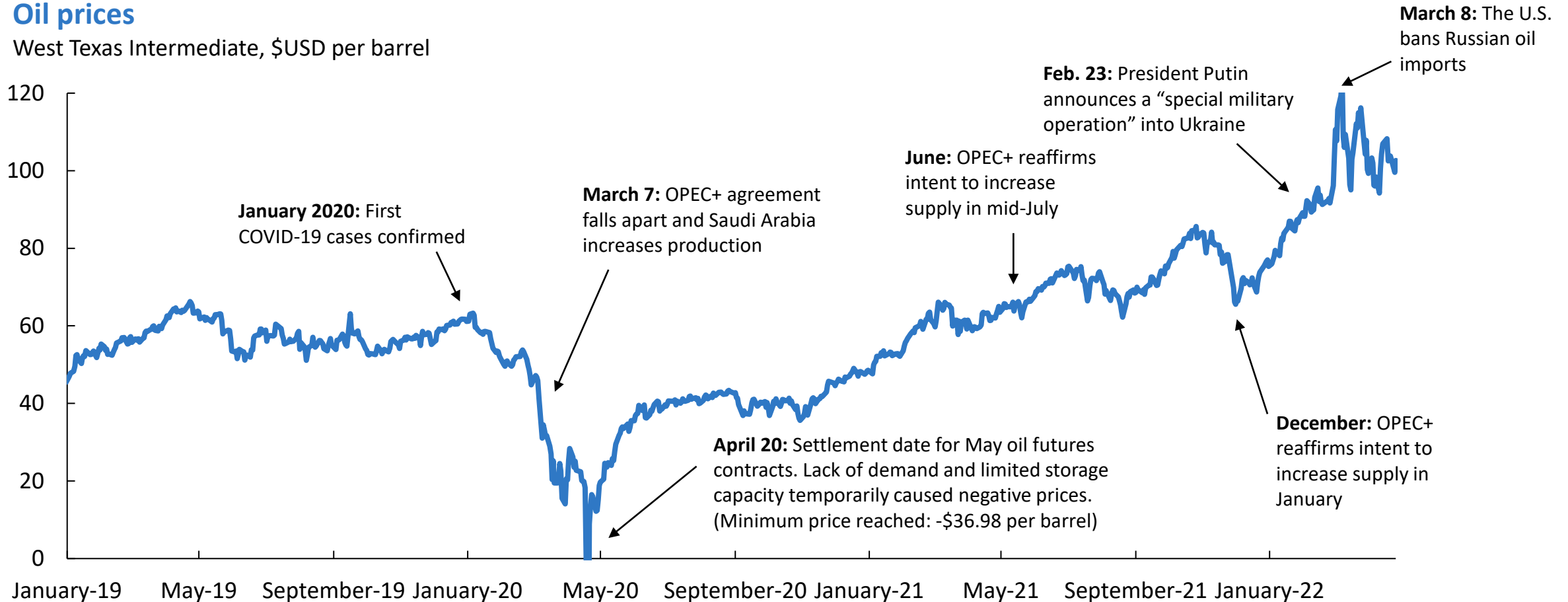


OIL PRICES JUMP TO HIGHS NOT SEEN SINCE 2008

In addition to the price pressures caused by supply constraints, the oil market now must contend with the impact of Russia-Ukraine conflict. With Russia being one the top oil suppliers, the global oil market will likely continue to be highly volatile.

Oil prices

West Texas Intermediate, \$USD per barrel

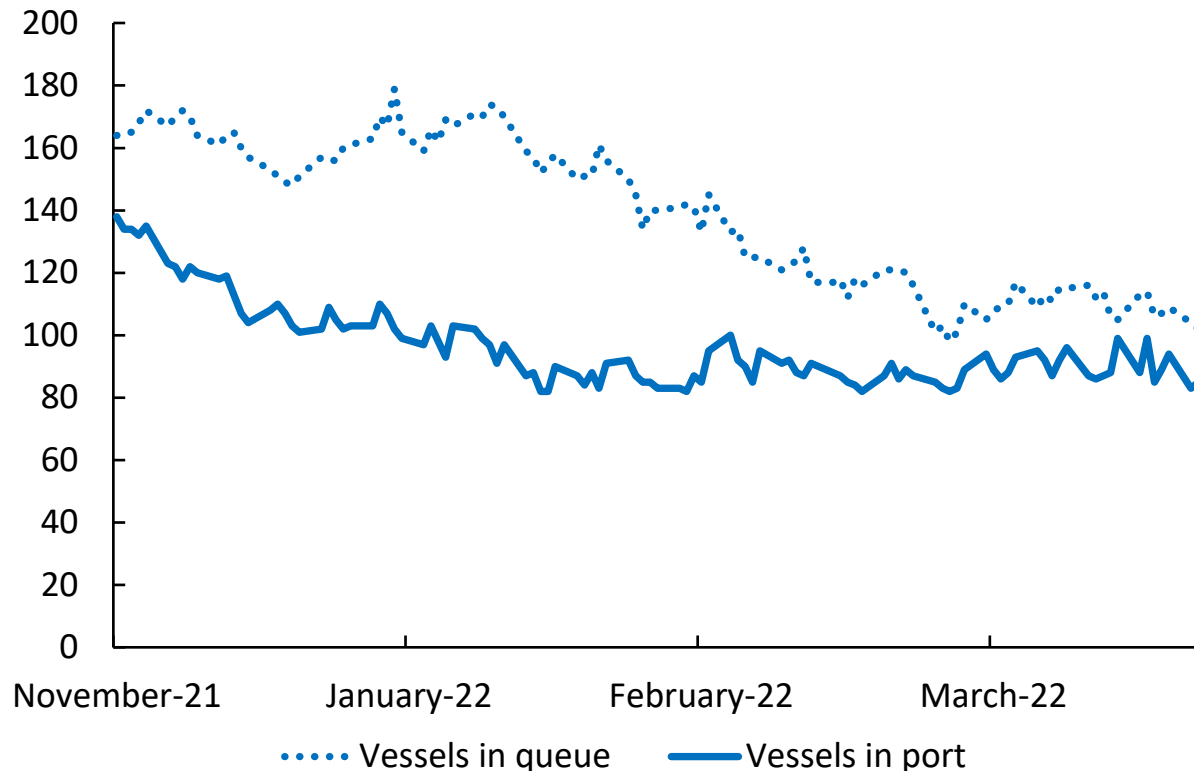


SHIPPING COSTS SOAR ACROSS KEY OIL ROUTES

As consumer demand rises, the global shipping industry has been trying to keep pace. Supply chain issues have become more complicated on account of the Russia-Ukraine conflict. As a result, prices across major oil routes have seen dramatic spikes since late February.

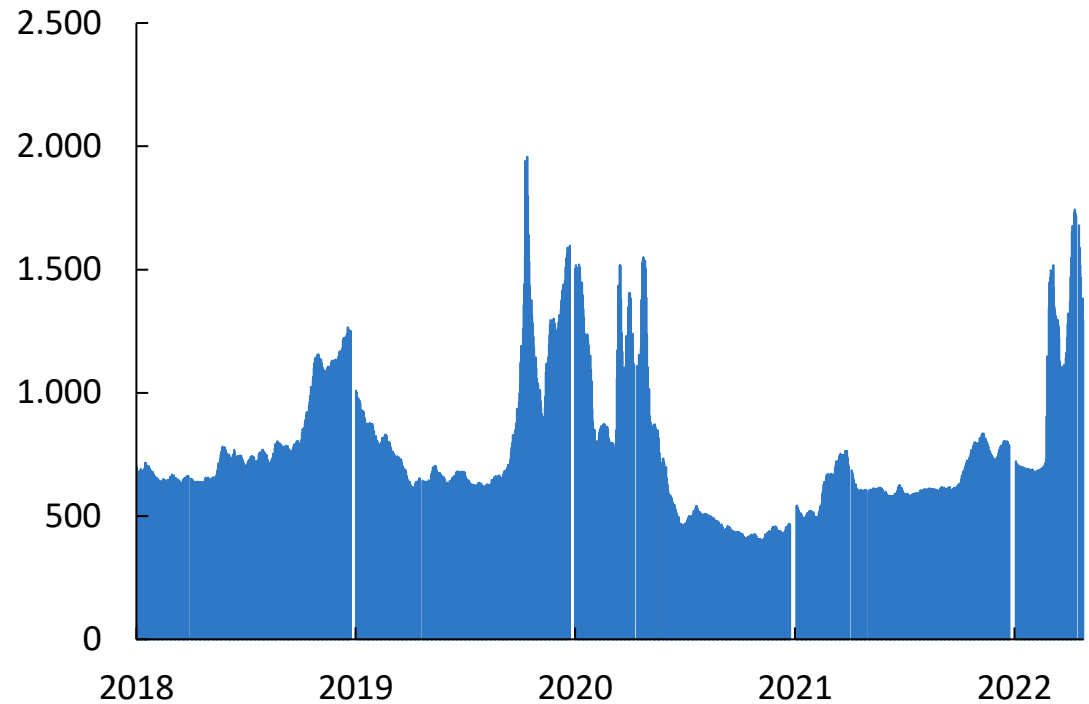
Los Angeles/Long Beach vessel traffic*

Number of vessels in port and queue, daily



Baltic Exchange Dirty Tanker Index: 10 routes

Oct. 1, 2001=1077



*Note: This chart data only reflects vessels that are docked within 25 miles of the port. Recent projections by Los Angeles and Long Beach ports forecast a spike in vessel traffic following the end of Lunar year holidays in China, which could add further pressure to supply chains.

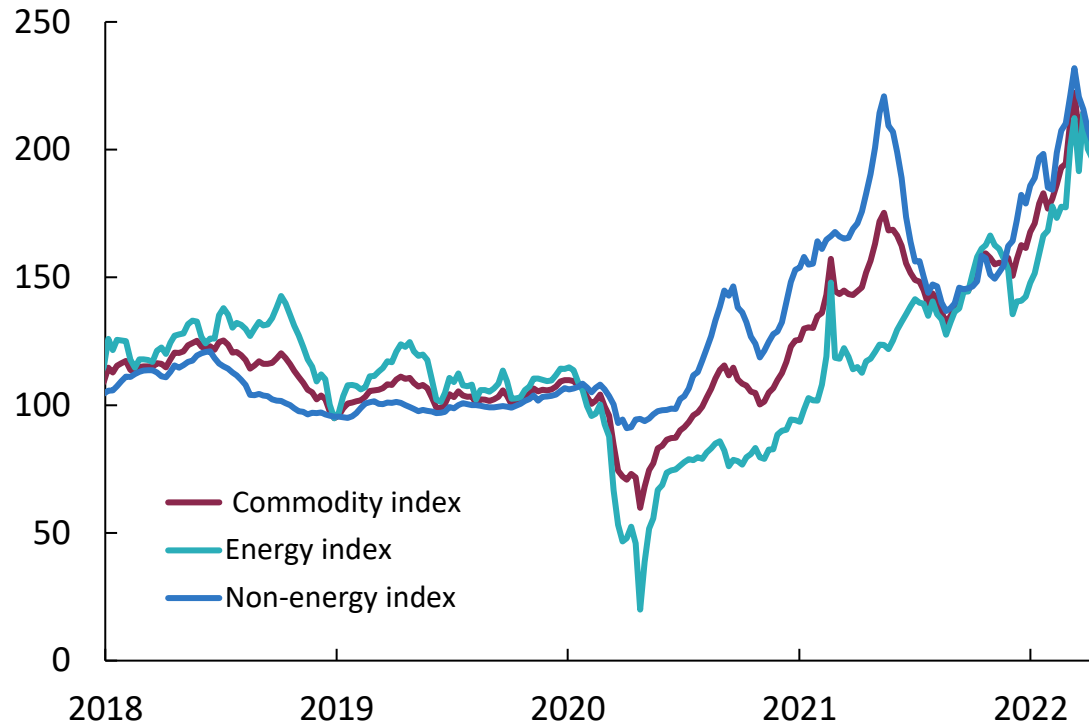
Sources: Haver Analytics, EDC Economics

KEY COMMODITY PRICES INCREASE DRAMATICALLY

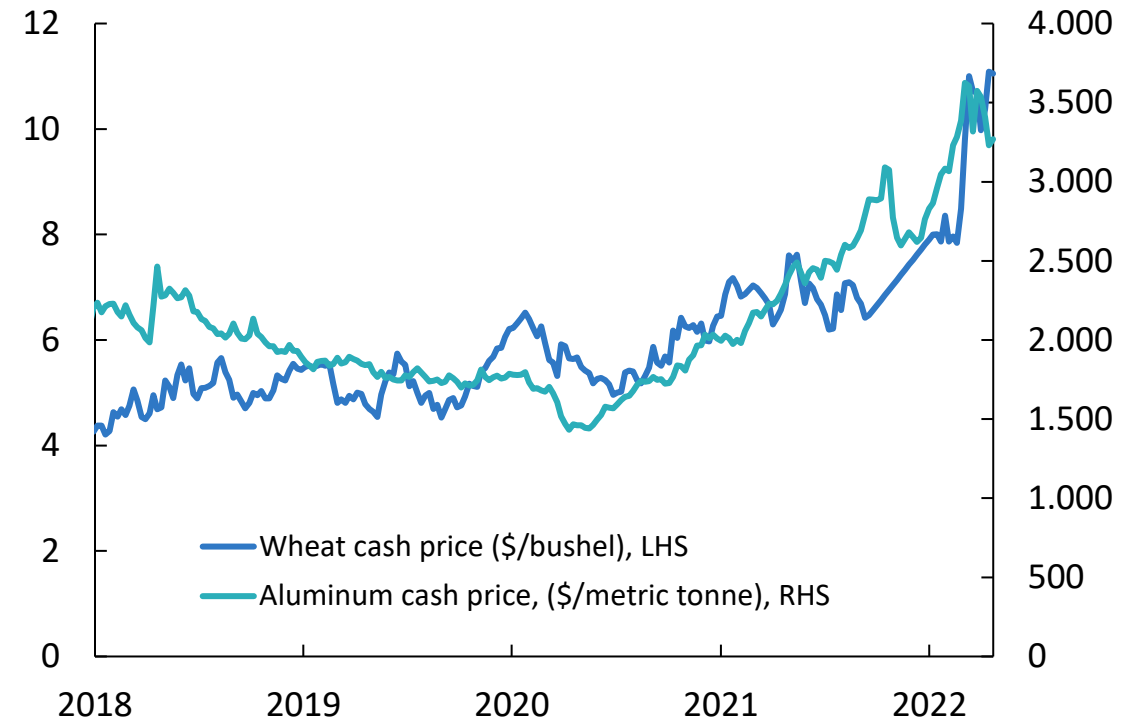
Sanctions imposed on Russia will have implications for commodities other than oil. Russia and Ukraine account for 25% of global wheat exports and Russia is the fourth-largest exporter of aluminum. The conflict will exacerbate the supply shortages that were already pushing prices upwards.

EDC commodity price indices

Index 2017 = 100



Aluminum and wheat prices

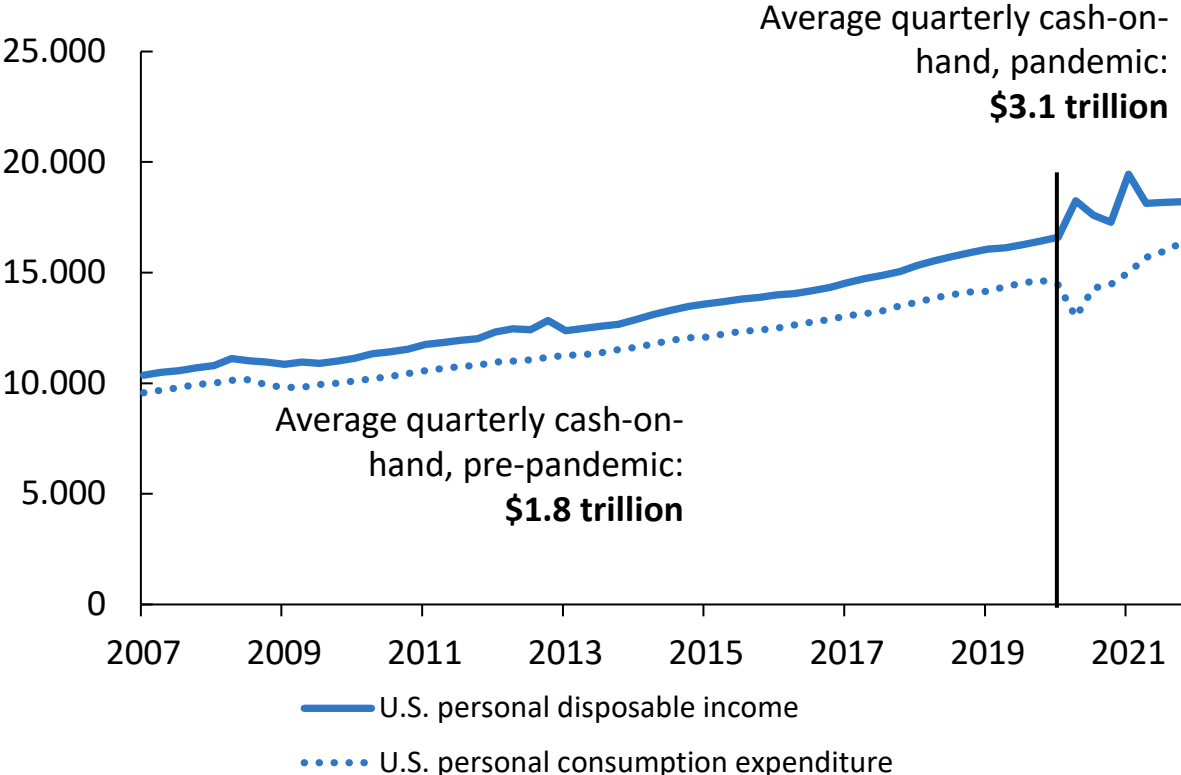


IN ADVANCED ECONOMIES, CONSUMERS HOLDING ON TO EXCESS SAVINGS

High levels of savings acquired during the pandemic, if channelled towards fulfilling pent-up demand could support increased spending. Inflation and supply chain issues are key concerns that could erode consumer purchasing power.

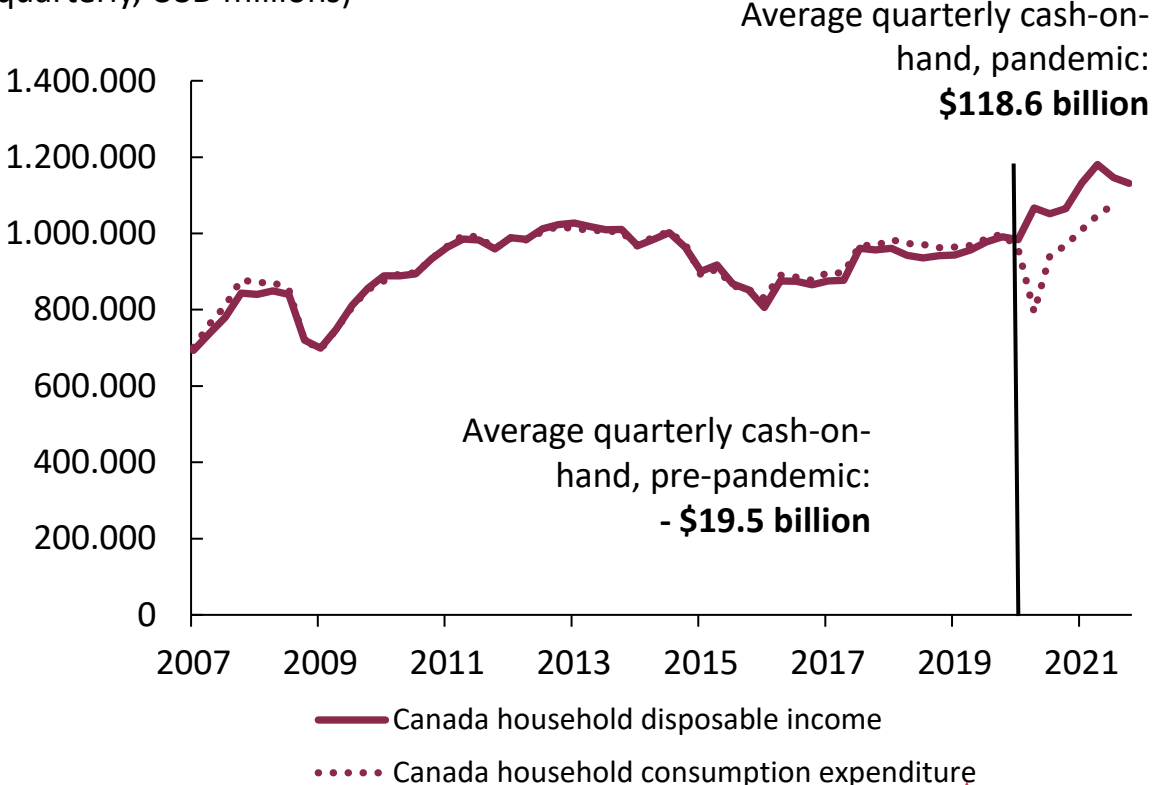
U.S. households' cash-on-hand

Personal disposable income and consumption expenditure (quarterly, USD trillions)



Canada households' cash-on-hand

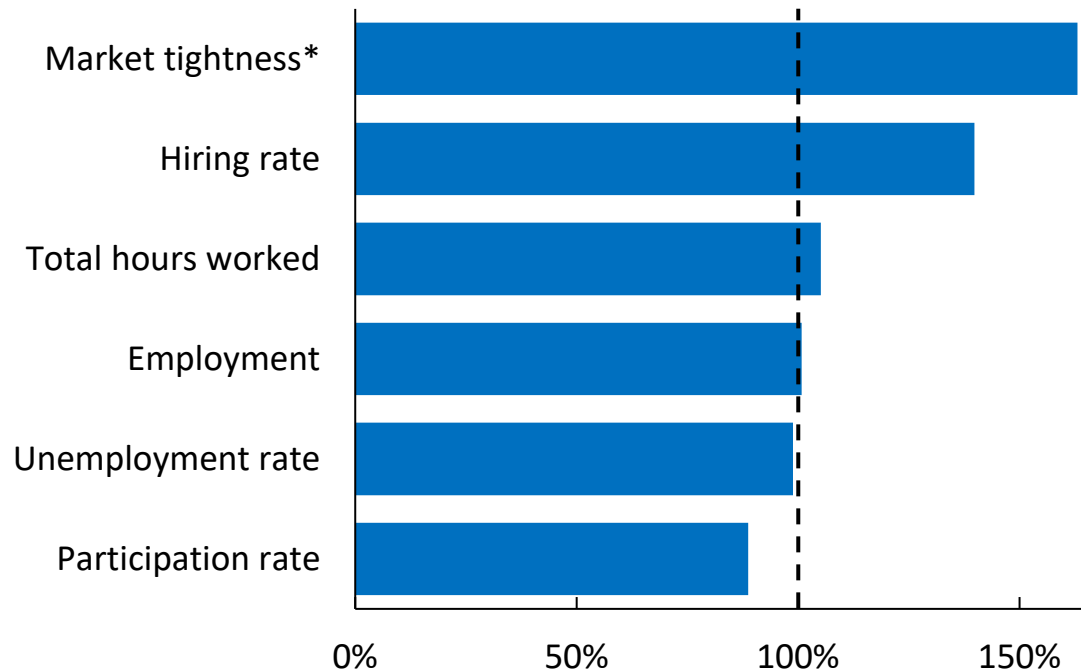
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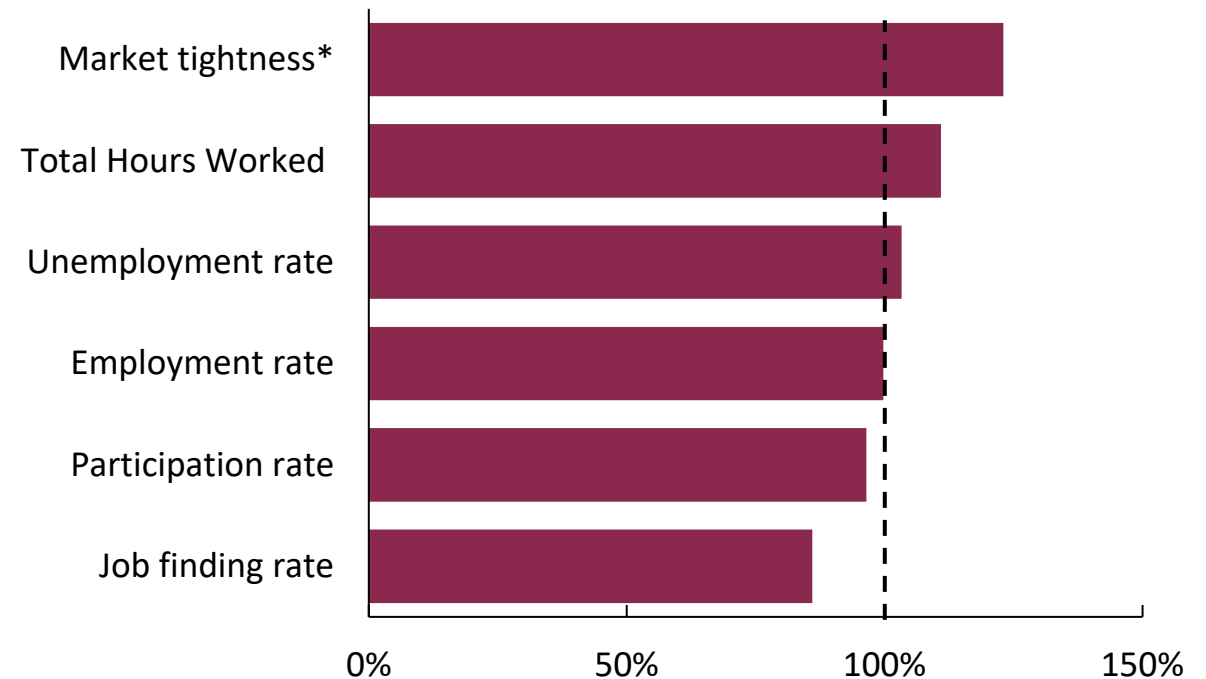
LABOUR MARKET REMAINS TIGHT

The U.S. labour market is nearly fully recovered from the impact of the pandemic. In Canada, the lockdowns reinstated early in the year reversed some of the progress made. Labour market tightness poses a significant challenge in both countries with more job openings than there are unemployed persons.

U.S. labour market conditions



Canada labour market conditions



Note: The recovery of each indicator is depicted as progress bars, where the current value of a measure is compared with its crisis trough and a benchmark value (2019 monthly average). The market tightness indicator and job finding rate are lagged in the Canada chart.

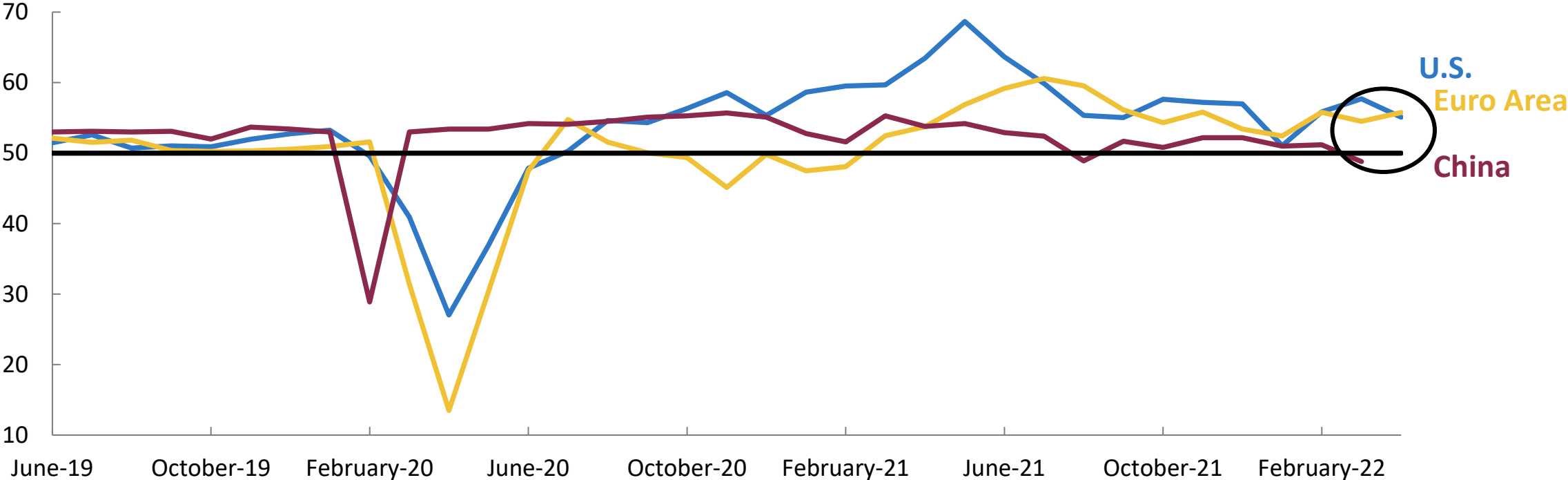
*Market tightness is computed as the ratio of job openings to total unemployed.

PURCHASING MANAGERS' INDICES TICKING UP

The rise in COVID-19 cases and reinstated public health measures caused a noticeable dip in the *Purchasing Managers' Index* for the Euro area and the U.S. in January. As restrictions ease, the PMIs for the Euro area and the U.S. remain in the expansion territory.

Purchasing managers' indices

50+ = expansion

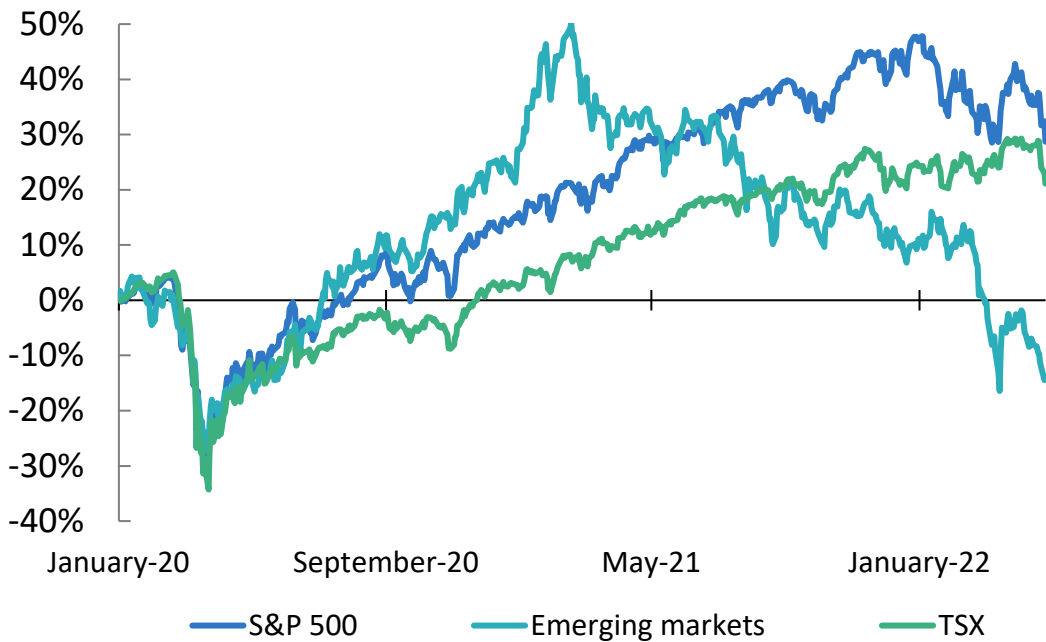


U.S. GOVERNMENT BOND YIELDS DROP, INDICATING FLIGHT TO QUALITY

Equity markets continue to be quite volatile. Following the Omicron variant worries, the Russia-Ukraine conflict has sent shocks waves through financial markets. U.S. government bond yields have started falling, while emerging markets bond spreads are rapidly rising, indicating investors are seeking quality assets.

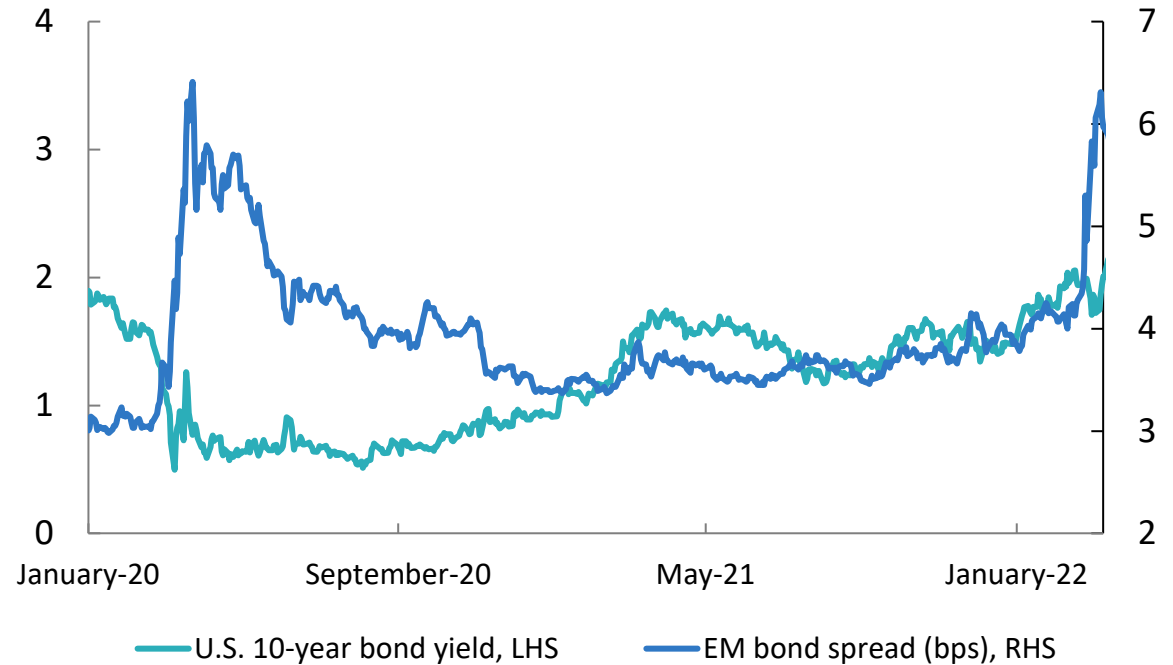
Equity markets

% change since Jan. 1, 2020



Debt markets

%

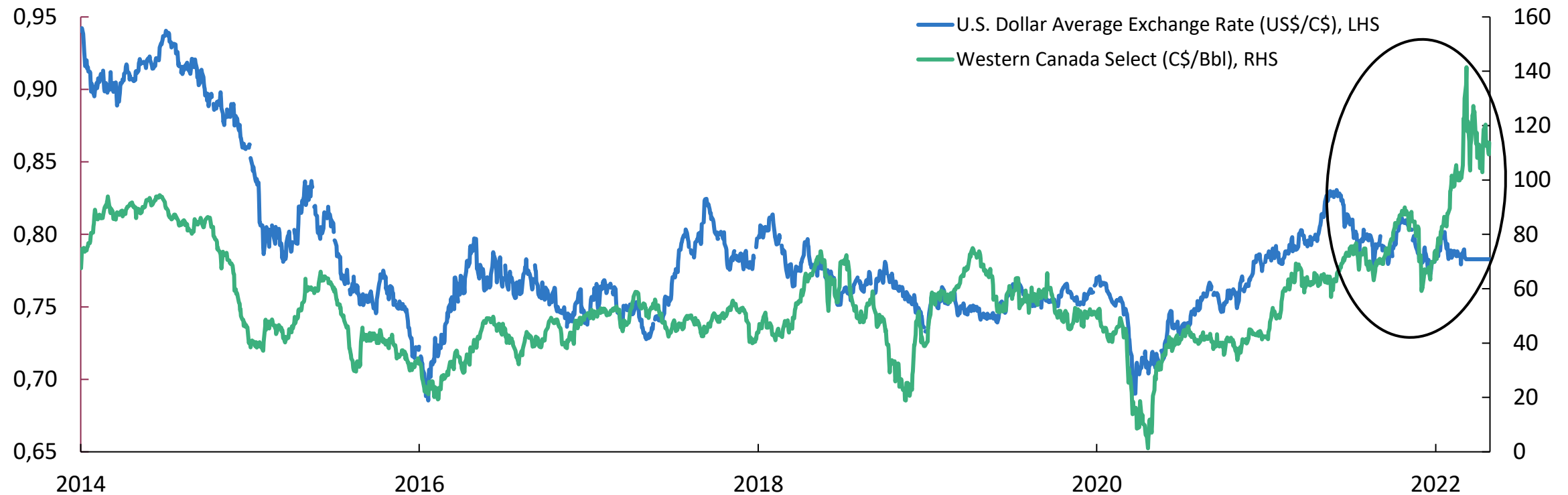


Sources: Haver Analytics, EDC Economics; *EDC Global Financial Markets*.

CANADIAN DOLLAR DECOUPLING FROM RISING OIL PRICES

The Canadian dollar has depreciated since mid-2021. While the Bank of Canada was initially more hawkish in its policy stance, the Fed began messaging a tighter monetary posture. While the Russia-Ukraine crisis has pushed Canadian oil prices above \$100, the flight by investors to U.S. dollars amid the crisis put further downward pressure on the loonie relative to the U.S. dollar.

Daily exchange rate and crude oil price

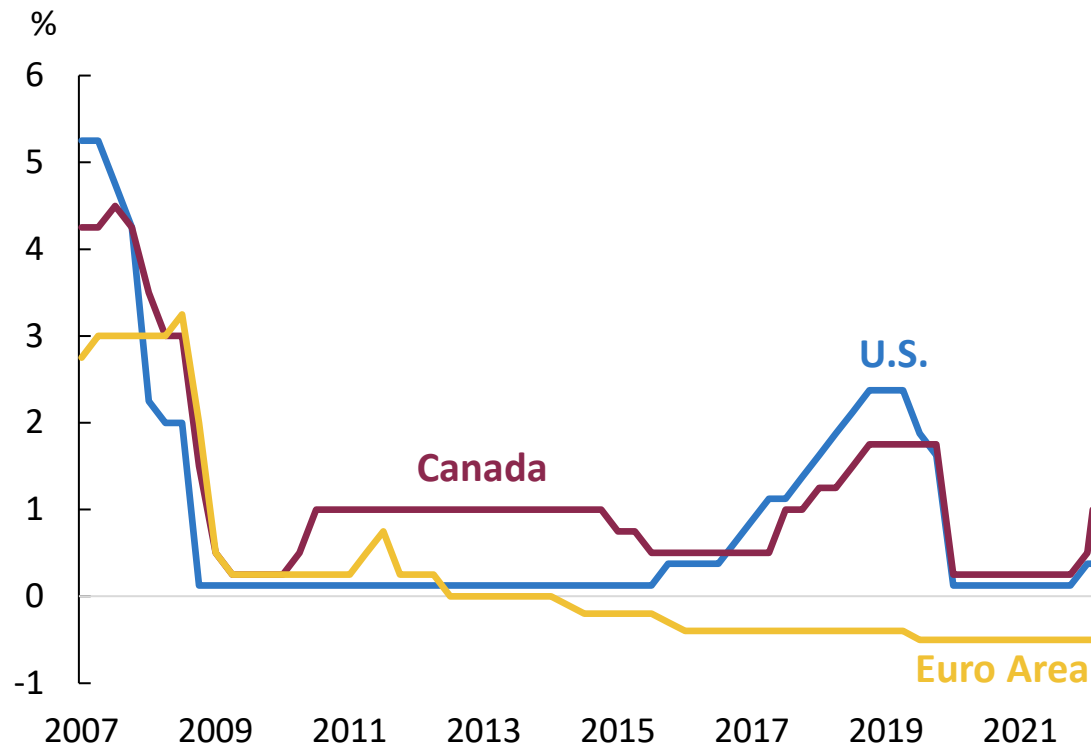


Sources: Haver Analytics, EDC Economics

CENTRAL BANKS SIGNAL END OF ACCOMMODATIVE MONETARY POLICY IN CANADA, U.S.

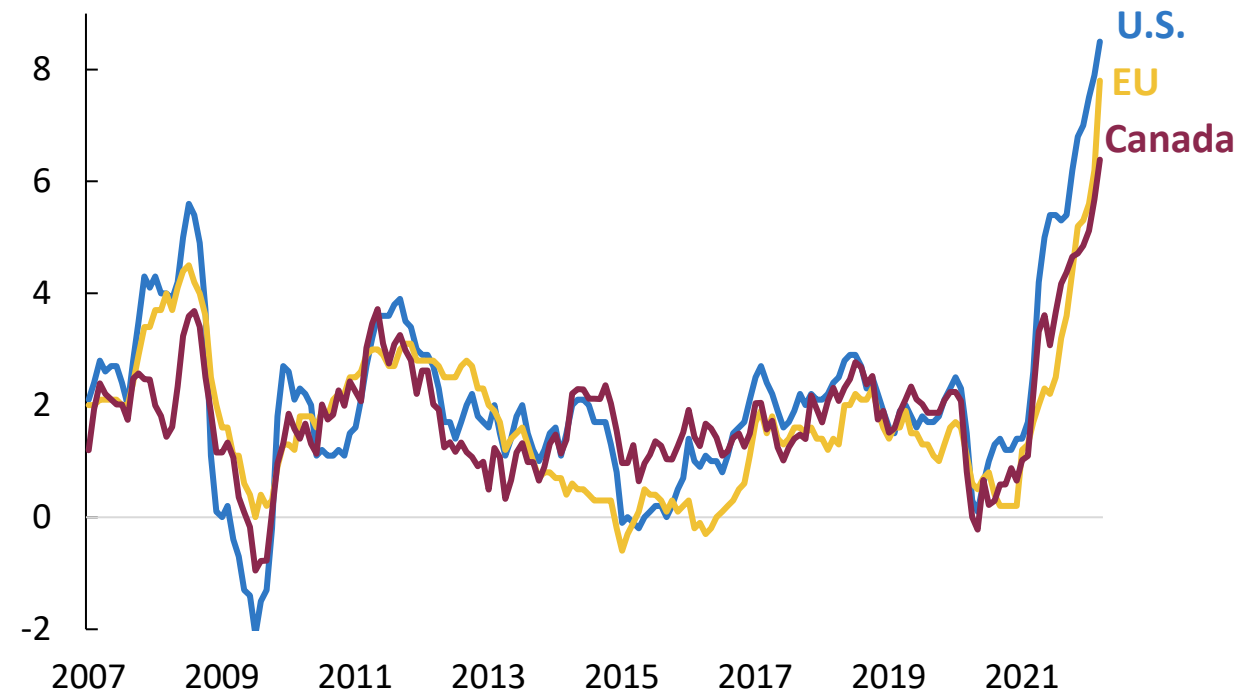
Central banks are monitoring rising inflation and have committed to addressing with their various tools, including raising rates and quantitative tightening. The Bank of Canada raised its policy interest rate by 75 basis points in Q1. The U.S. Federal Reserve followed suit on March 16 by raising their policy rate by 25 basis points.

Policy interest rates



Inflation

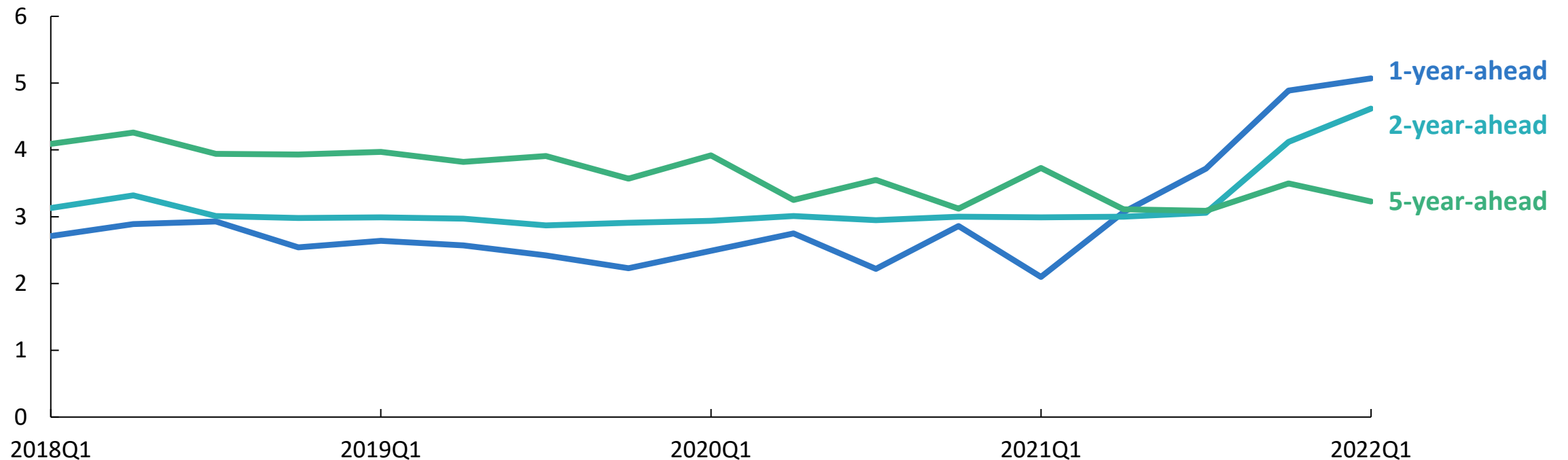
Consumer Price Index (CPI), year-over-year %



GLOBAL TURMOIL HAS UNANCHORED CANADIANS INFLATION EXPECTATIONS

After years of expecting the Bank of Canada to hit its mark, the aftermath of the pandemic and the impacts from the Ukraine-Russia conflict, Canadians are expecting inflation to surge in the next two year before being tamed.

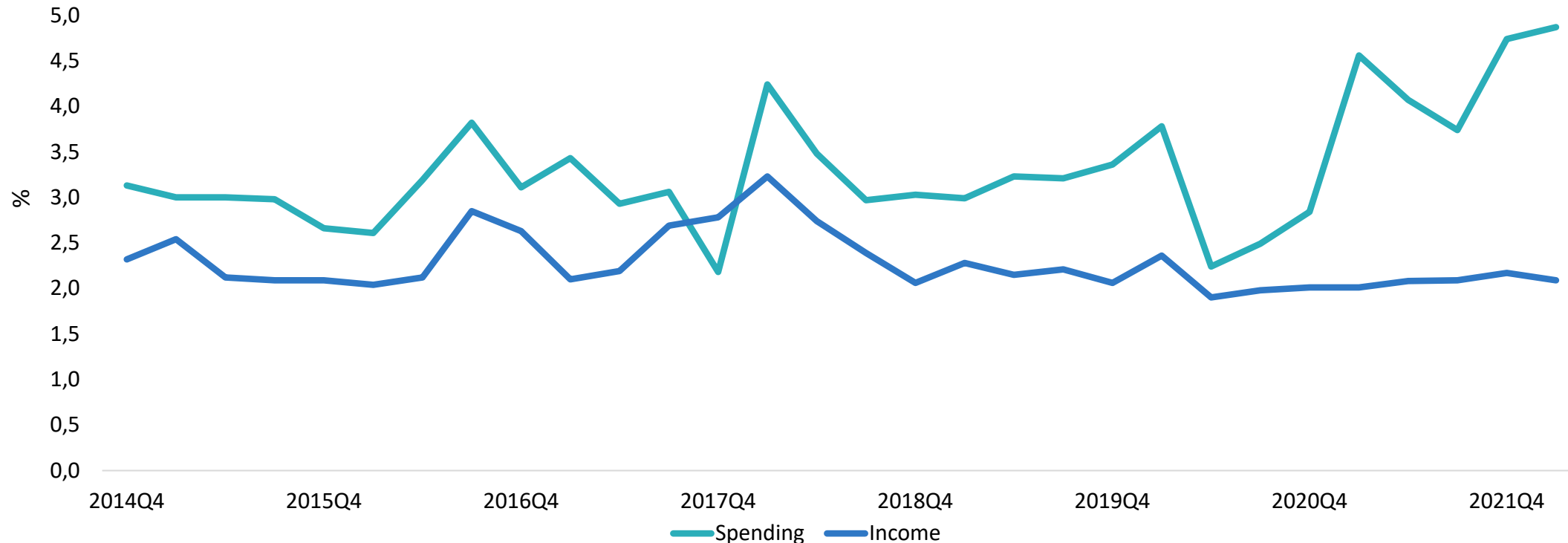
Canadian Survey of Consumer Expectations
Inflation expectations for each time horizon



DESPITE CLOUDS ON THE HORIZON, CANADIANS ARE EXPECTING TO SPEND

Many Canadians are coming out of the pandemic, planning to spend, even though they're not expecting a big boost to their incomes. Inflation plays a role, but so does the stronger bank accounts and missed opportunities over the last two years.

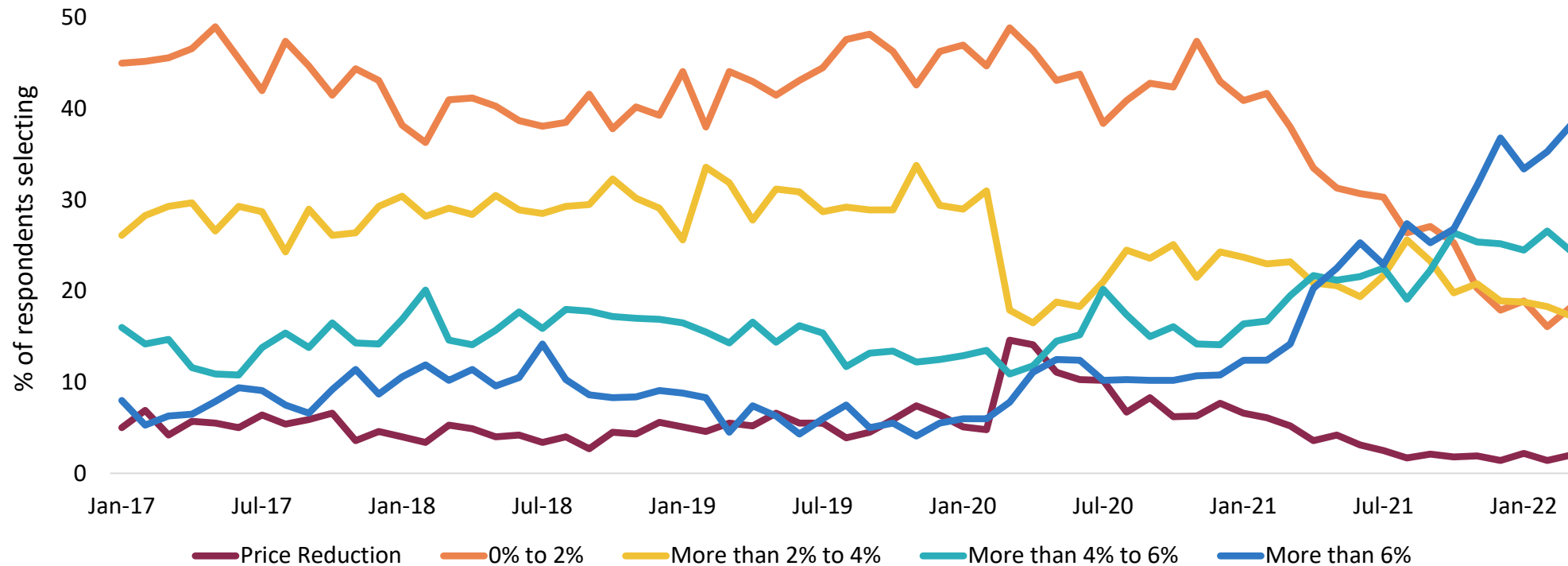
Canadian Survey of Consumer Expectations
Growth over the next 12 months



BUSINESSES ARE EXPECTING A YEAR OF AGGRESSIVE PRICE HIKES

Facing a difficult global environment of commodity price increases, supply chain disruptions and a similarly challenging domestic environment with increasing interest rates and an extremely tight labour market, businesses are counting on much higher prices.

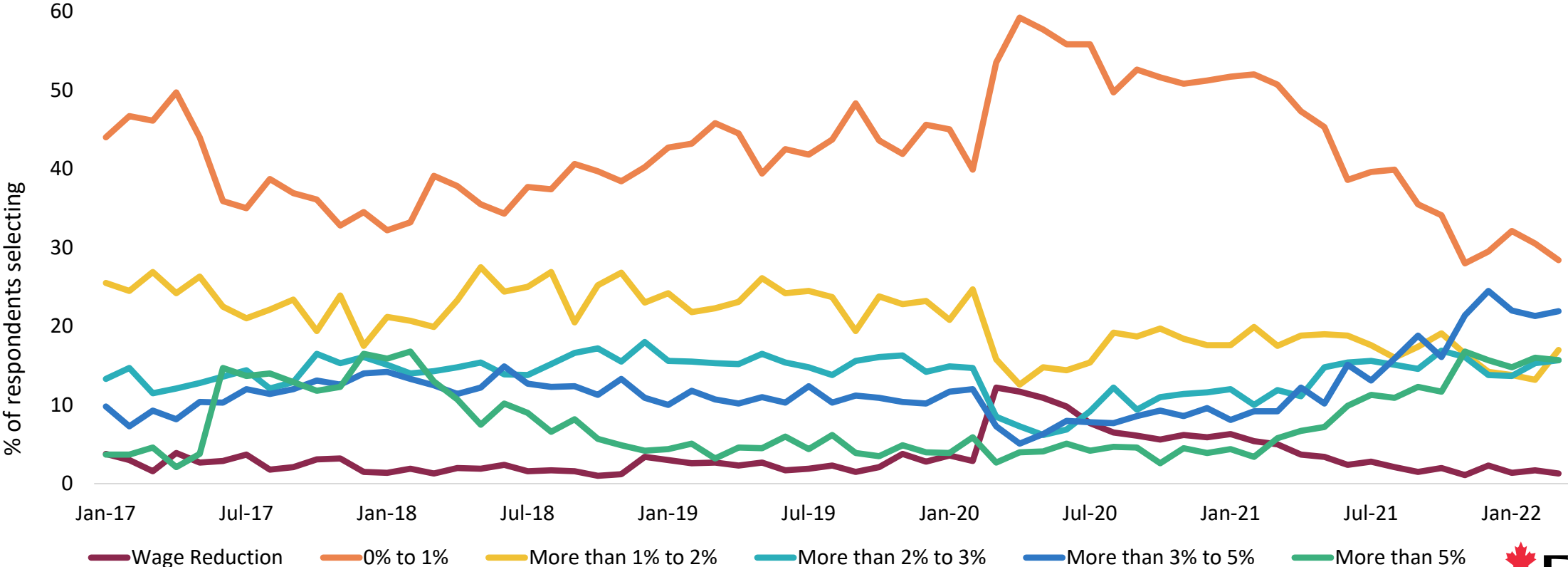
CFIB Monthly Business Barometer – In the next year, how much do you expect average prices to change?



WAGES ARE LAGGING PRICES, BUT ARE THE BIGGEST ISSUE FACING COMPANIES

In March nearly ¾ of survey respondents to the CFIB survey said that wage costs are causing difficulties for their business. The highest level ever reported and by far and away the biggest challenge. While the “great resignation” may have been slower to develop in Canada, the tight labour market is changing the operating environment.

CFIB Monthly Business Barometer – In the next year, how much do you expect average wages to change?



Sources: Haver Analytics, EDC Economics



GLOBAL ECONOMIC OUTLOOK



KEY FORECAST ASSUMPTIONS

Global fiscal policy

EDC Economics expects that fiscal policy will be a drag on economic growth going forward. The release of household savings amassed during the pandemic has been a significant driver of growth so far but may struggle to offset the decline of fiscal spending. Restoring public finances will likely continue to be a priority for countries with deteriorated public finances due to the pandemic. Increased government spending and lower tax revenues have dramatically increased debt and budget deficits. Emerging markets with limited fiscal flexibility may need to take austerity measures in order to reduce fiscal deficits at the expense of growth as the bulk of their populations remain unvaccinated. Developed countries will move away from pandemic relief and focus on public investment projects.

Monetary policy

Supply chain disruptions, elevated energy costs, labour shortages, record amounts of stimulus spending combined with strong demand have sent inflation rates soaring to multi-decade highs on an annualized basis. This has intensified pressures on central banks to accelerate the unwinding of quantitative easing and undergo monetary policy normalization. Increase rates are expected to rise at a faster pace and potentially in larger increments than previously expected.

Financial conditions

The overall risk in the financial system is higher than in previous quarters. Higher interest rates, geopolitical risks and slower economic growth could trigger a significant repricing of global asset prices. The base case forecast doesn't include any systemic financial crisis resulting from the COVID-19 pandemic.

However, there are certain existing vulnerabilities that'll condition the response of financial markets to the period of monetary tightening. These will include higher corporate and personal debt, and a significant pandemic-related increase in public debt.

Supply chain disruptions

Nearly two years into the pandemic, supply chain constraints remain a top-of-mind concern. Bottlenecks at ports, shortages of ships and containers, which combined with labour shortages, have made it difficult to source raw materials, certain key intermediate goods, most notably semiconductors, as well as finished products.

EDC Economics' base case outlook expects supply chain disruptions to improve in the second half of 2022, potentially extending beyond for sensitive markets and types of goods. Shipping prices have moderated over the past few months.

COVID-19

As the impact of the latest variant recedes, countries will begin lifting restrictions and testing requirements. EDC Economics' baseline outlook assumes that any new COVID-19 variants are unlikely to trigger prolonged public health measures.

Russia-Ukraine

Russia's invasion of Ukraine, which began Feb. 24, will have far-reaching consequences on the global economy. The baseline forecast envisions a short period of intense conflict contained to Ukraine. Western sanctions have been imposed on Russia, targeting its energy sector and removal from SWIFT.

KEY RISKS TO THE FORECAST

Given rapidly changing global events, there's a higher-than-usual degree of uncertainty around this forecast, which incorporates information available as of Feb. 25, 2022.

Key upside risks

- Unprecedented government support provided across advanced economies, alongside a reduced ability to spend on some services, has led to a large accumulation of household savings in many countries. Stronger drawdown of consumer savings and slow removal of macro-policy supports could result in a stronger-than-expected recovery, releasing significant pent-up demand into the economy.
- Stronger-than-expected consumer demand and business investment enables governments to reduce their spending programs more rapidly than in the base case. Increased consumer spending would more than offset the impacts of reduced fiscal stimulus.
- Inflation rises but is contained by the rise in business investment and digitization, which boosts productive capacity of the economy, preventing the economy from overheating. Additionally, monetary policy moves would be well-communicated, balanced and gradual to prevent systemic risks, like a broad financial crisis or significant asset price corrections.

Key downside risks

- Weakness starting in late 2022 due to faster-than-anticipated U.S. monetary policy tightening. A combination of too fast or too much tightening, and poor alignment of this tightening with market expectations, has a significant negative impact on financial markets, which impacts real economic activity.
- Monetary tightening comes from both higher interest rate and quantitative tightening that's faster and greater than in the base case.
- Higher debt is an increasingly significant issue for the corporate sector, emerging markets and households. The sudden tightening of financial conditions increases default risk. This contrasts with remarkably low bankruptcy rates throughout the pandemic.
- The Russia-Ukraine crisis has presented significantly higher commodities prices, stock market volatility and flight to quality. Emerging market risks have risen. Erosion of purchasing power and financial risks spilling over into real economic activity are a key risk to the forecast.

REAL GDP GROWTH

Global Economic Outlook (Annual % change)	2021	2022*	2023*
Developed countries	5.5	3.3	2.8
Canada	4.6	4.1	2.6
United States	5.7	4.0	3.1
Eurozone	5.2	2.9	2.5
Germany	2.9	2.1	2.0
France	7.0	3.1	1.5
Japan	1.7	2.4	1.7
Emerging countries	6.2	4.5	4.6
China	8.4	5.2	5.1
India	9.3	9.3	7.8
Brazil	5.0	0.3	1.8
Mexico	5.0	1.8	3.0
World	6.0	4.1	3.9

Note: * denotes the forecast period. India's forecast based on fiscal year (2023 FY = Q2 2022 – Q1 2023, 2024 FY = Q2 2023 – Q1 2024)

Source: EDC Global Economic Outlook, March 2022

CURRENCIES AND INTEREST RATES

Global Economic Outlook		2021	2022*	2023*
Currencies	Exchange Rate			
U.S. dollar	USD per CAD	0.80	0.78	0.80
Euro	USD per EUR	1.18	1.12	1.19
Euro	CAD per EUR	1.48	1.44	1.49
Interest Rates, annual average				
Bank of Canada, <i>Overnight Target Rate</i>		0.25	1.00	2.30
U.S. Federal Reserve, <i>Fed Funds Target Rate (Upper limit)</i>		0.13	0.90	2.16
European Central Bank, <i>Policy Interest Rate</i>		0.0	0.0	0.12

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, March 2022

COMMODITY PRICES

Global Economic Outlook	2021	2022*	2023*
Brent Crude Spot , USD / bbl	70.68	116.42	91.91
West Texas Intermediate , USD / bbl	67.98	113.31	88.86
Western Canada Select , USD / bbl	54.55	96.45	73.58
Natural Gas , USD / MMBtu	3.85	4.00	3.60
Gold , USD / troy ounce	1,800	1,804	1,610
Copper , USD / tonne	9,318	9,393	8,649

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, March 2022

**TAKE ON
THE WORLD**



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À CONQUÉRIR**

For more information, please
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