Global Economic Outlook

Are we there yet?

Insights on the world's key economies, GDP growth, commodity prices, interest rates and exchange rates.

EDC Economics
April 2024

Canada

CONTENTS

EDC

Executive summary

Global Economic Outlook: Are we there yet?

Stuart Bergman
Vice-President and Chief Economist

As summer approaches, Canadians can be forgiven for having that familiar road trip refrain in mind: Are we there yet? Over the last few years, we've asked variations of that same question. The COVID-19 pandemic: Can we emerge from lockdown yet? Inflation: Has my grocery bill stopped soaring yet? Growth: Have we hit that recession yet? Monetary policy: Have we started raising (and then cutting) rates yet? The landing: Has the global economy moved past pandemic-induced distortions yet? It's felt like one long four-year road trip.

Export Development Canada's spring 2024 *Global Economic Outlook* forecasts a smooth—if uninspiring—ride through this year, with the global economy expected to grow by just 2.9%. Next year, we expect growth will shift into higher gear, at 3.3%, as lower interest rates and the normalization of activity help leave the post-pandemic economy behind.

Growth in Canada will decelerate in 2024, to just 0.9%, before rising to 1.8% in 2025. The near-term drag is the result of a highly indebted Canadian consumer, whose sizable debt-servicing requirements have led to a focus on savings over spending.

Business investment is also being constrained by elevated interest rates and tighter financing conditions. However, the prospect of interest rate cuts on the horizon has helped boost both consumer and business confidence. This should fuel a gradual increase in spending and investment going forward, giving the economy the momentum needed for a stronger 2025.

While inflation is falling back to target, price growth remains sticky in certain areas, and the interest rate descent will be gradual. Taken together, all these forces will cause the Canadian dollar to climb slightly, from an average of US$0.74 in 2024 to US$0.78 cents in 2025.

In contrast to Canada, American consumers have worked hard to repair their balance sheets over the last 15 years. A resilient labour market has supported steady growth in wages and employment, generating a spending splurge that's helped power U.S. outperformance relative to other developed market economies. We anticipate U.S. growth of 2.3% in 2024.

As the U.S. labour market cools, however, still-elevated prices and interest rates should slow things down. Weaker consumer spending will see broader economic momentum fade heading into 2025, causing growth to ease back to 1.8%. We expect the U.S. Federal Reserve to begin easing interest rates midway through 2024. However, as with the Bank of Canada, the Fed will take a cautious approach to its interest rate U-turn, keeping close watch of volatile inflation gauges.

Europe can expect a bumpier ride, with the Euro Area forecast to grow by just 0.7% in 2024 and 1.7% in 2025. Across the region, governments are looking to stabilize spending, and European Central Bank tightening has led to demand destruction. At the same time, industrial production continues to struggle with energy security concerns, and stalling Chinese demand is weighing on the region's export base.

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Weakness in China is expected to continue this year, and linger into the near-term, with growth forecast at 4.7% in 2024 and 4.4% in 2025. Despite fiscal stimulus and modest monetary policy easing, the effects of the country's property sector slowdown and weak consumer and business confidence will persist. That said, additional rounds of government support should prevent deflationary forces from taking hold.

This modest global demand outlook muddies the path for commodity prices. Reduced Chinese activity will hit metals and minerals pricing, especially for those that experienced production increases in anticipation of a surge in electrification demand. Gold will see stronger pricing this year, as the wave of global elections increases policy uncertainty, before pulling back in 2025. West Texas Intermediate oil prices are expected to average US$77 per barrel in 2024, and fall to an average of US$70 in 2025, as supplies continue to outpace demand growth.

The bottom line?

Our forecast for 2024 calls for lacklustre growth, as consumer spending reaches its limits and businesses retrench. Fiscal policy will be governed primarily by the need to manage widening budget deficits, and only turn supportive for priority areas, or if growth really sputters. Meanwhile, global trade is being hindered by softening demand, ongoing trade disruptions and policy uncertainty. As we look to 2025, a pickup in activity is expected to pull growth back to pre-pandemic levels, bringing with it opportunities for those who've prepared for the journey.

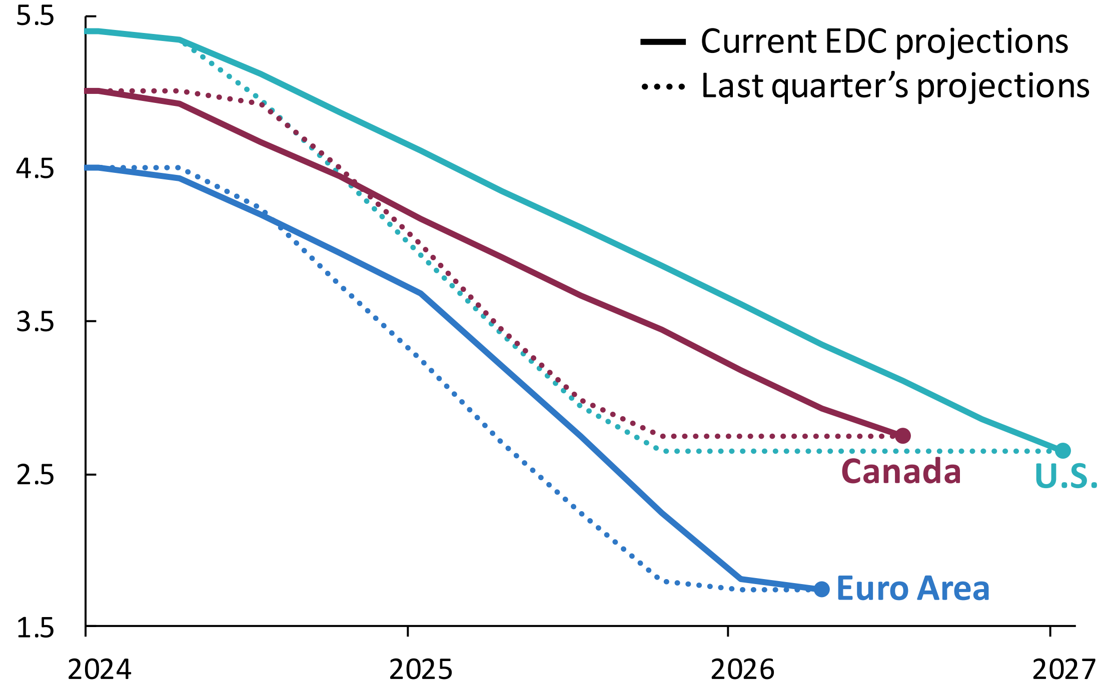
MACROECONOMIC CONTEXT

Interest rates to remain elevated for even longer

Interest payments accelerated from their pandemic lows and nations are now looking at the prospect of rate cuts and easing debt burdens. This relief, however, is expected to be gradual as strong U.S. consumption buoyed global demand and inflationary stickiness in 2023. The effects of upcoming cuts will take time to build as EDC Economics now forecasts the rate-cutting cycles to be pushed back—reaching their terminal rates in 2027 for the U.S. and 2026 for the Euro Area and Canada.

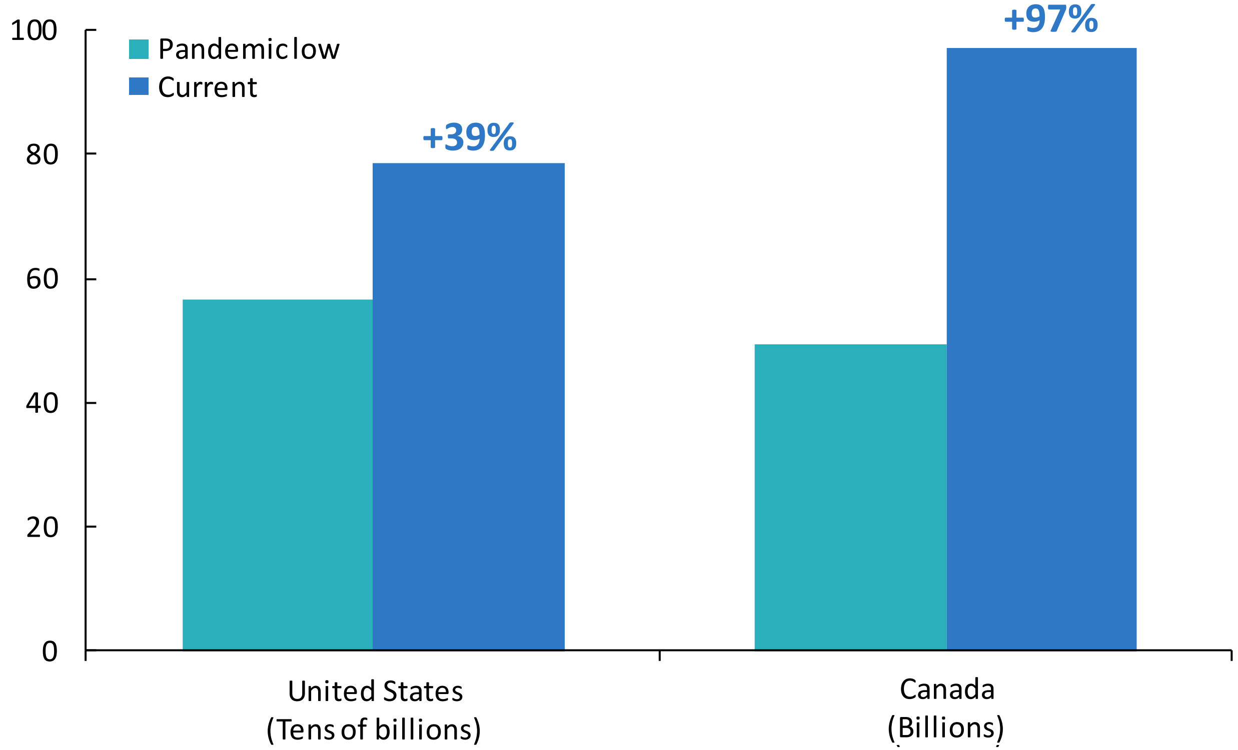
Policy interest rate projections

Quarterly averages of monthly policy rates



Mortgage interest paid

Mortgage interest paid in CA$



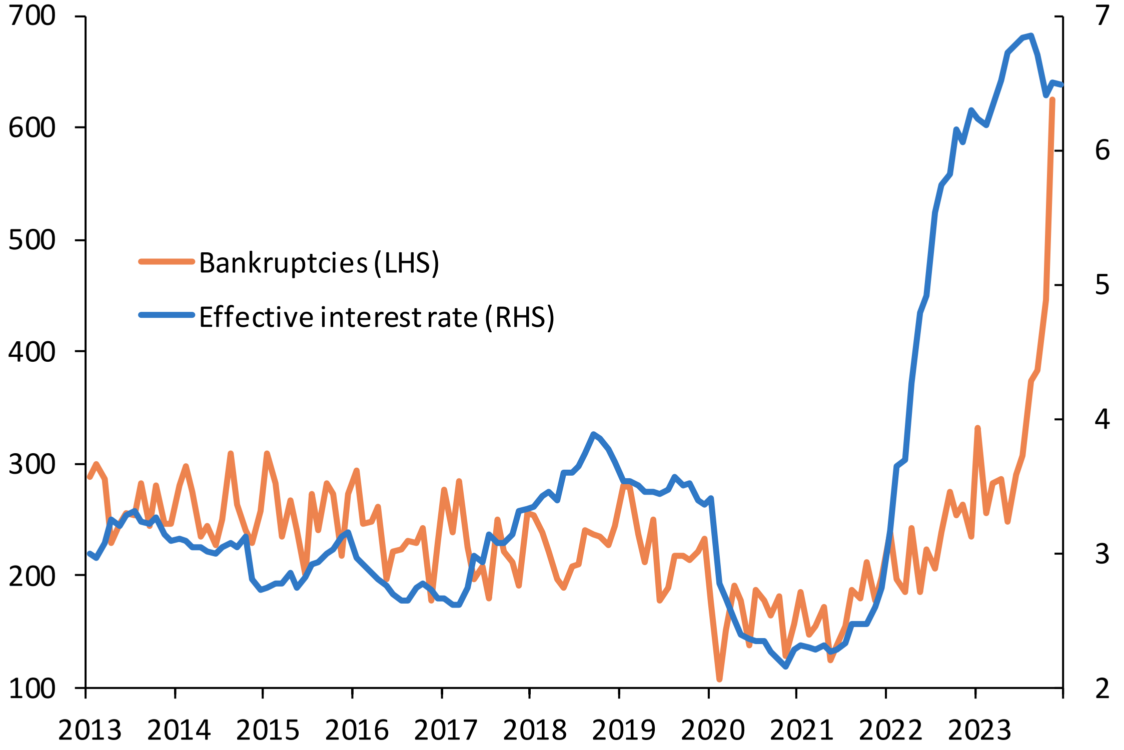
Sources: Haver Analytics, EDC Economics

Businesses weighed down by financial conditions

Effective interest rates for Canadian businesses are 2-3 times higher than at any time in the last decade. This has pushed debt burdens and corporate finances to their limits, as business insolvencies rose in nations globally. Less favourable conditions and stricter lending scrutiny (due to default risks) have led to a substantial contraction in the credit impulse—a measure of new credit provided in a market. This synchronized credit contraction will continue to drag on global economic activity until rates ease.

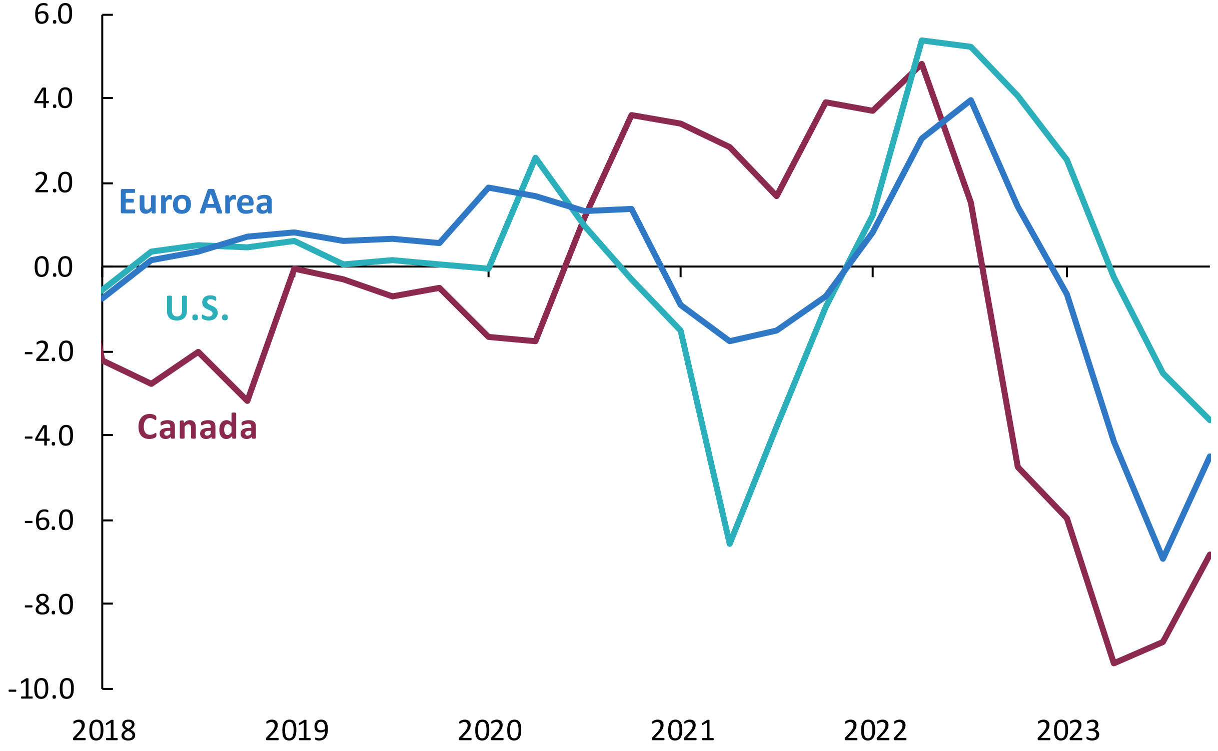
Canadian effective business interest rate and bankruptcies

Number of bankruptcies; Percent



Credit Impulse

Four-quarter change in the ratio of new credit over GDP



Sources: Bank of Canada, Haver Analytics

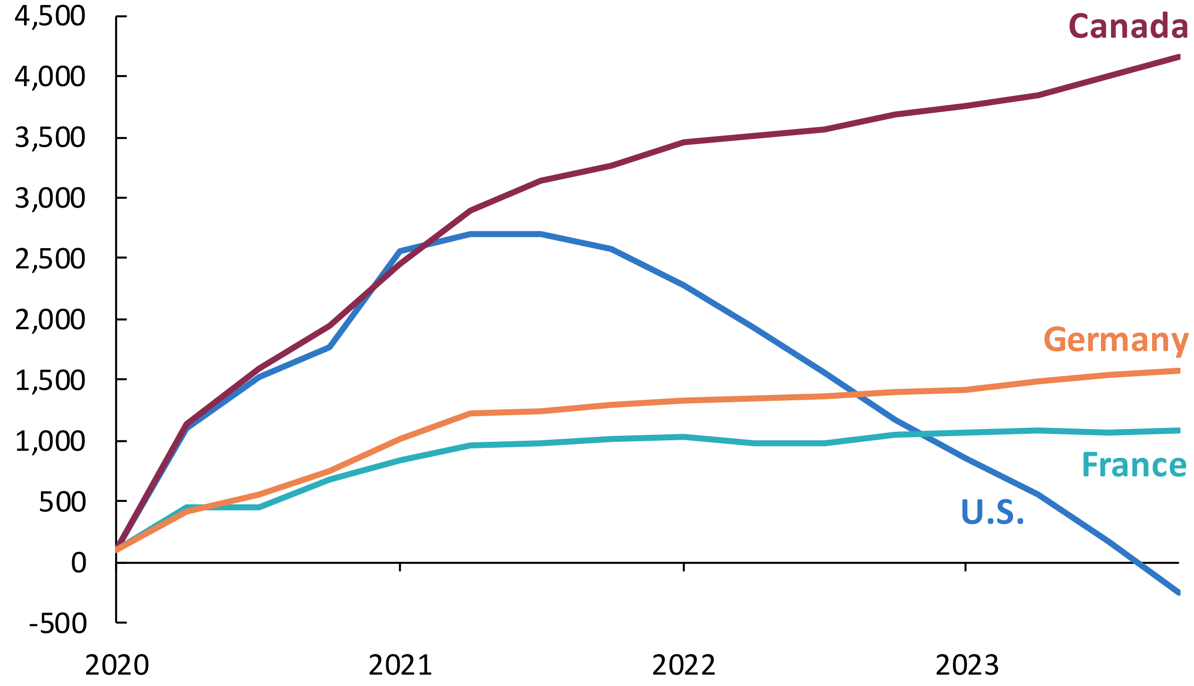
Note: Credit impulse is defined as a four-quarter change in the ratio of a four-quarter sum of total credit to the private sector over the four-quarter sum of gross domestic product (GDP).

Resilience of the U.S. consumer transcends G7 peers

Consumer spending has been significantly suppressed across G7 nations, with the U.S. being the only outlier. Higher consumption has helped the U.S. economy outperform expectations in 2023, as consumers burn through excess savings accrued over the pandemic. While the U.S. continues to draw down their bank accounts, nations such as Canada, Germany, and France have been amassing their savings. One reason for this is likely the relatively low U.S. household debt-to-income levels, which are nearly half the Canadian levels.

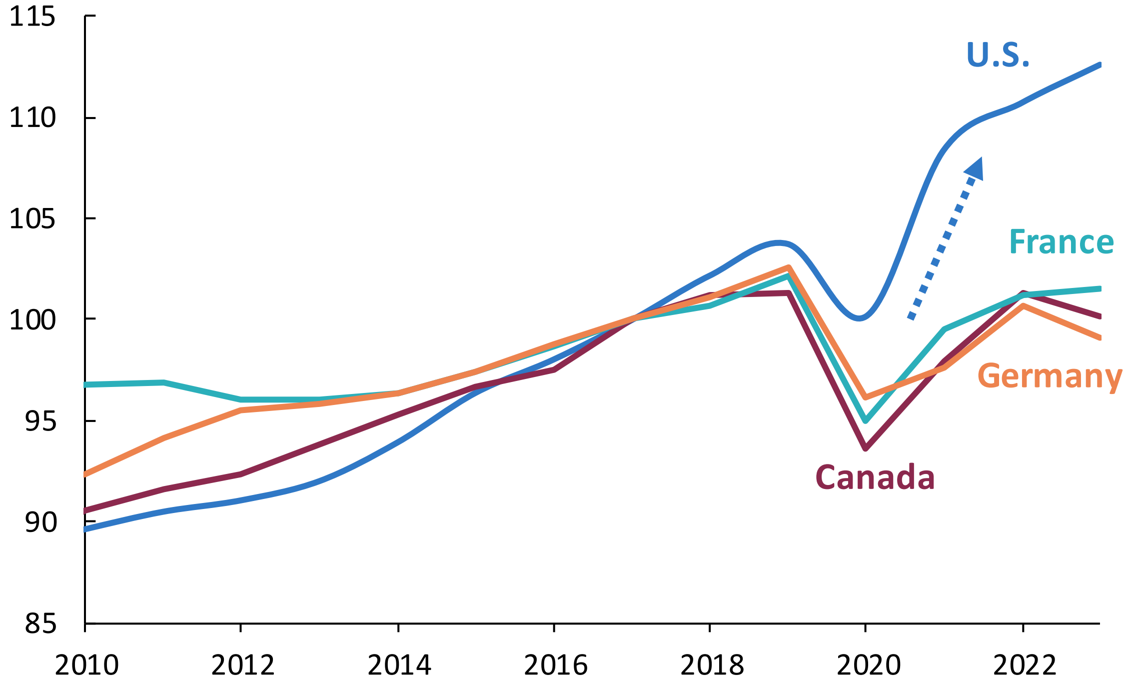
Cumulative excess savings

Indexed (2020 Q1=100)



Real consumption expenditures per capita

Indexed (2017=100), SA



Sources: Haver Analytics, EDC Economics

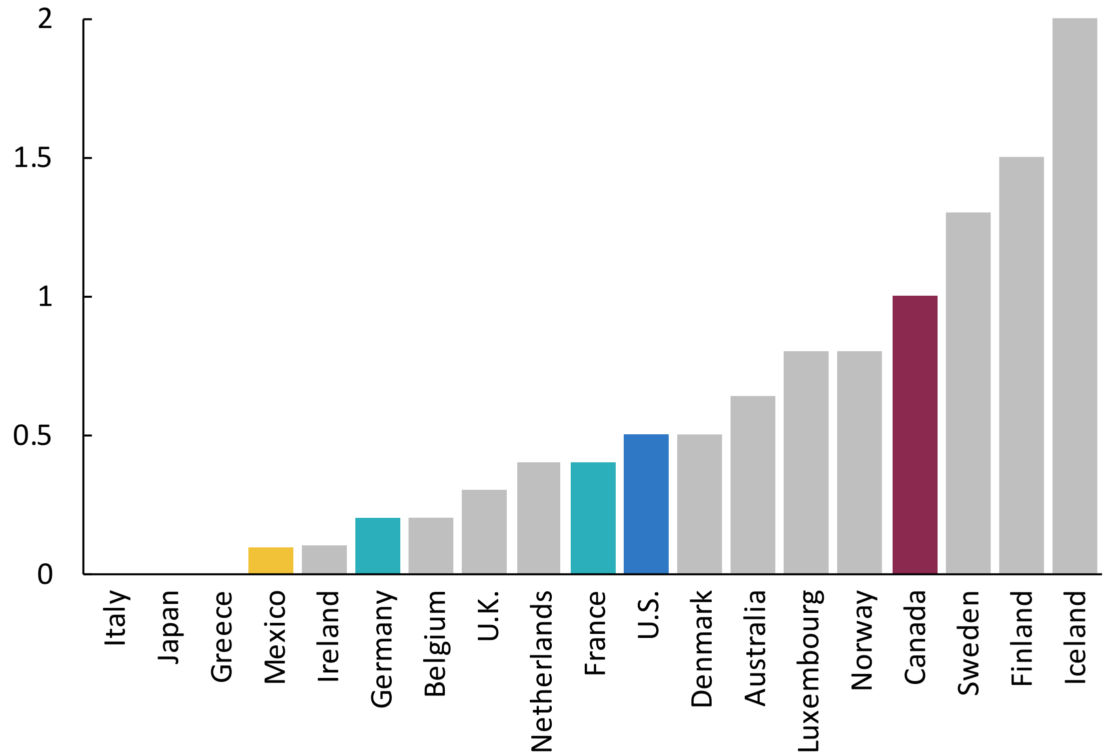
Note: SA = Seasonally adjusted, consumption expenditures figures are chained to 2017 in local currency

Short- and long-run labour outlooks

Labour markets are showing sustainable loosening from post-pandemic extremes. This is beneficial as it will aid in suppressing inflationary shocks and stickiness. In the long-run, Canadian private non-residential investment per worker is slipping far below their peers—regressing to 2005 levels. With Mexico and the U.S. experiencing significant investment growth amid near-shoring trends, Canadian workers may lose regional competitiveness if their technology and equipment gap continues to widen.

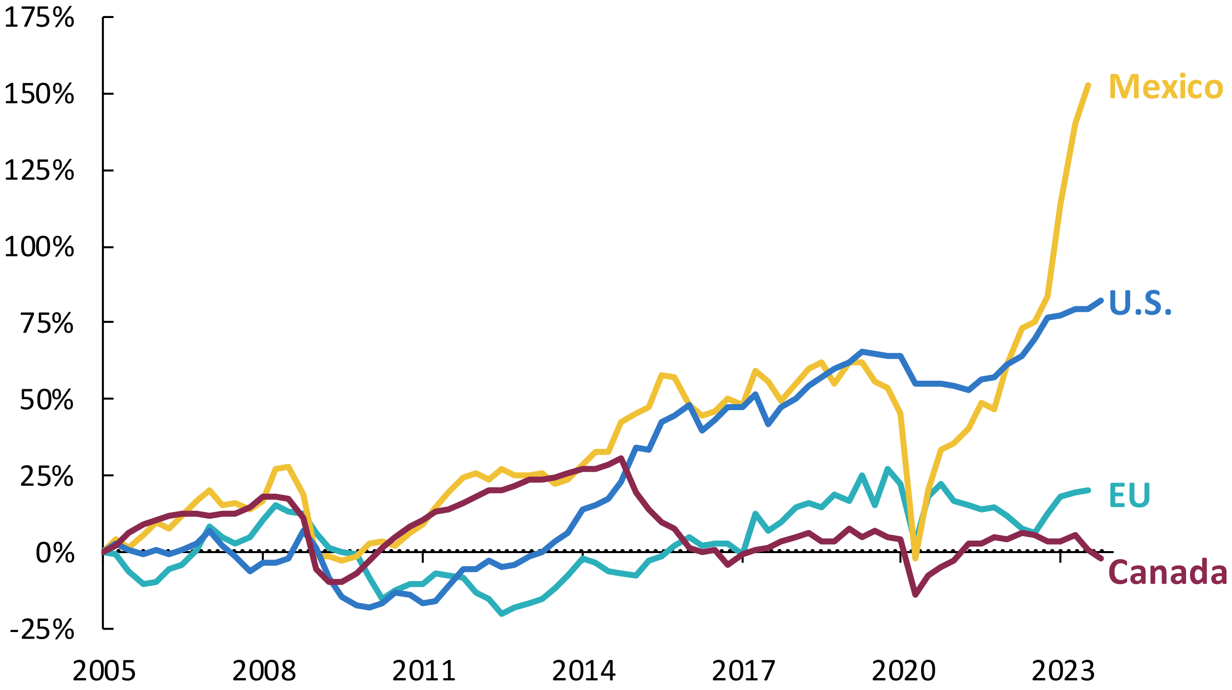
Unemployment rate change from post-pandemic lows

Percentage point change



Private non-residential investment per population

Quarterly, percent change in chained Canadian dollars from 2005 level



Sources: Haver Analytics, Statistics Canada, EDC Economics

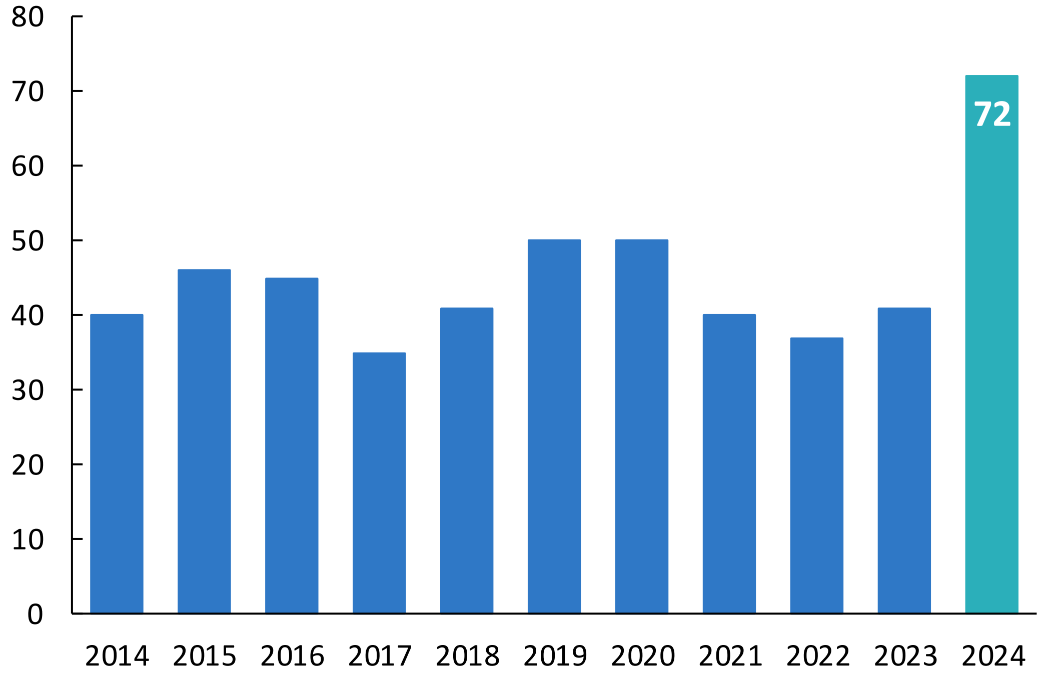
Note: Per population is using the entire population for Mexico (due to data availability) and using adult population for Canada (above 15 years), EU (above 15 years), and U.S. (above 16 years)

A year of electoral and policy uncertainty

With elections scheduled for 72 jurisdictions around the world, representing 4.2 billion people, massive policy divergence and reversals could manifest as administrations transition and priorities change. As elections unfold in major economies, like the U.S., India, Indonesia, Mexico, and the European Union parliament, policy uncertainty is growing in environmental, industrial, and trade matters—where a surge of restrictive policy interventions have been put in place in recent years.

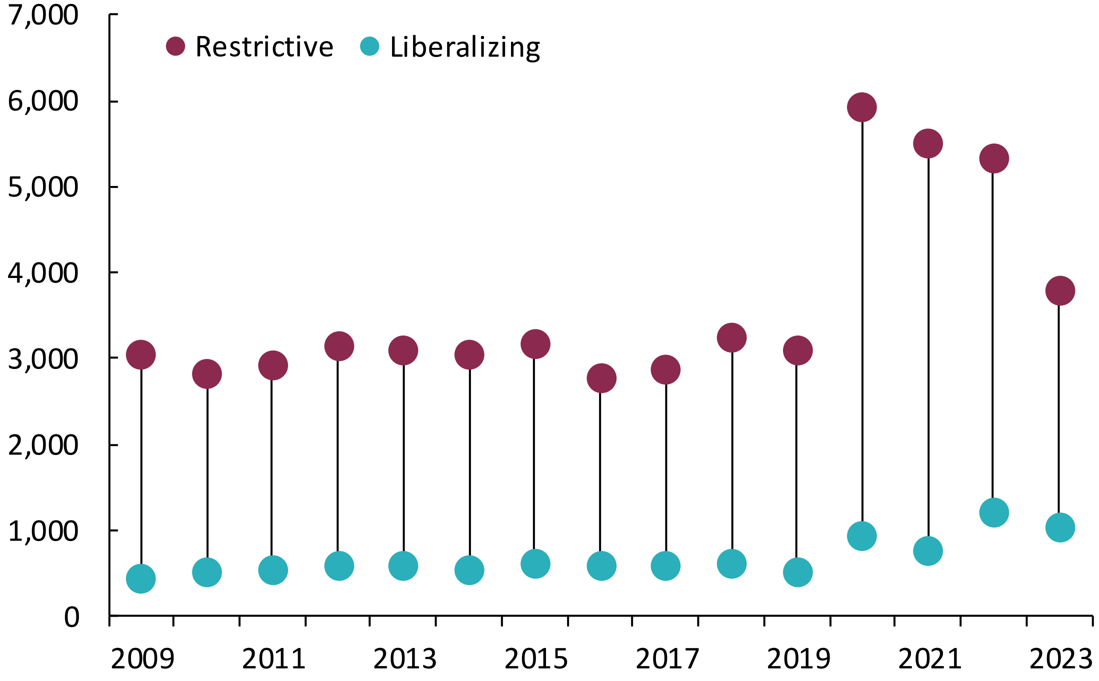
2024 is a significant year for elections worldwide

Number of countries holding elections*



Worldwide rise in restrictive interventions on trade

Number of new policy interventions that impact global trade



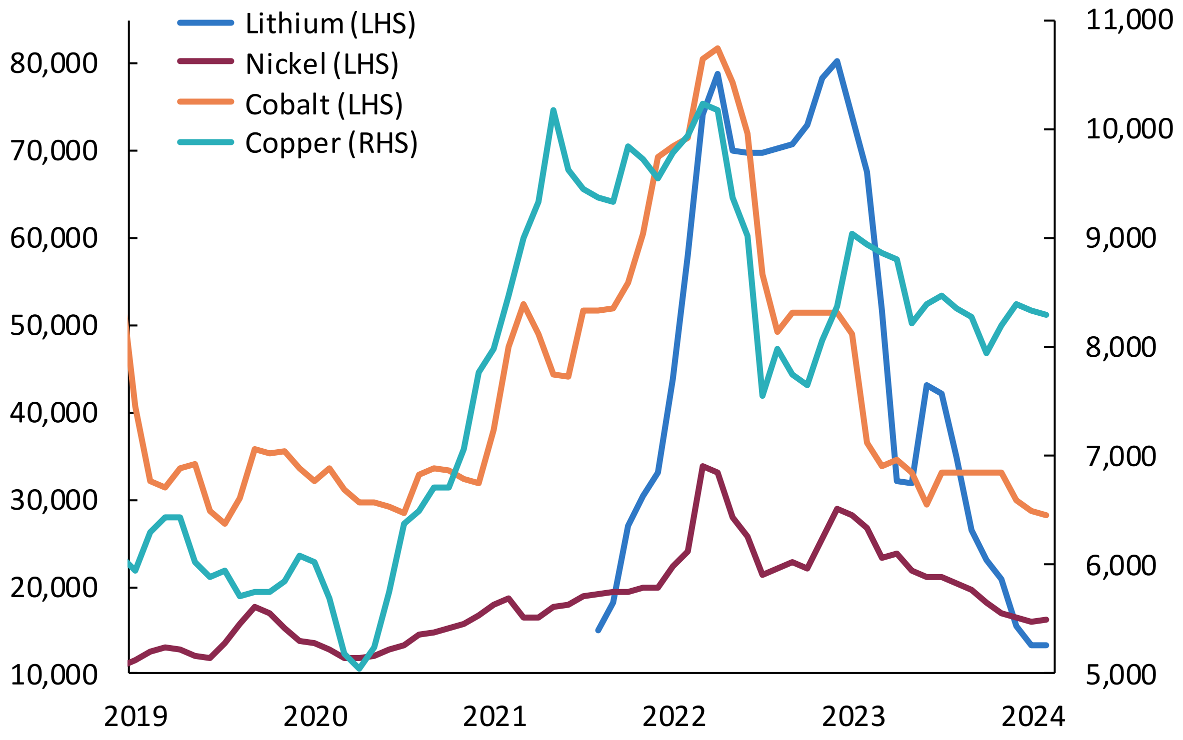
Note: *Elections encompass all institution types within countries (presidential, legislative, parliamentary, referendum, etc.)
Sources: International Foundation for Electoral Systems, Global Trade Alert, EDC Economics

Commodity markets easing

The prices of metals and minerals continue to slide due to subdued global demand. A large factor keeping prices from falling further is notable demand for green technologies as the world purchases more electric vehicles (EVs) and installs further renewable energy grid capacity. In agricultural trade, food prices have stabilized at levels below their 2022 heights, which is positive news for global food security and decarbonization progress.

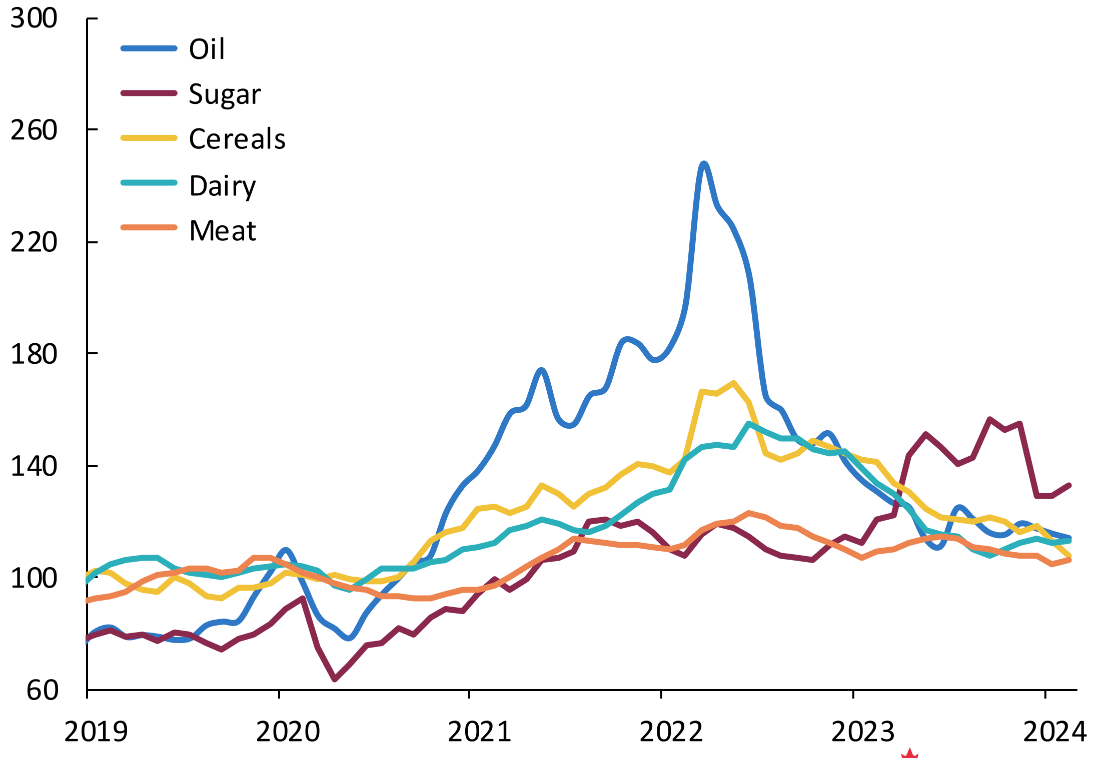
Price of critical minerals continue to sink

US$ per metric tonne



Fall in food price has helped to pull down inflation

Food price indices, real (2014-2016 average = 100)



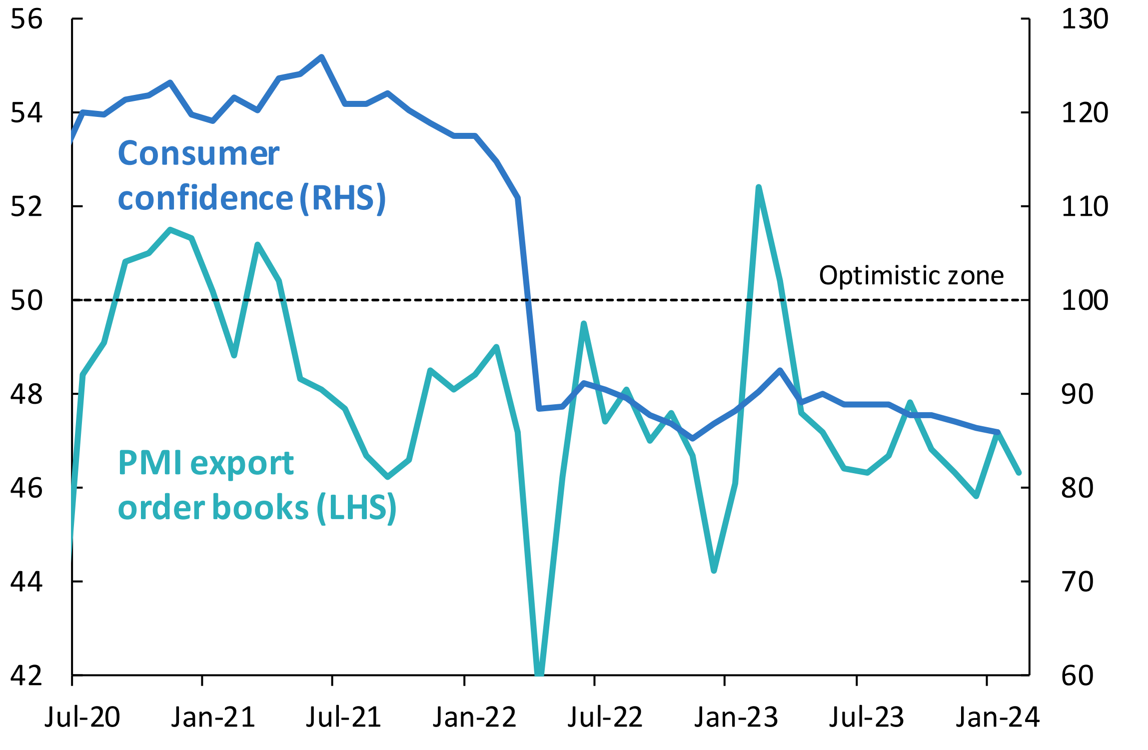
Source: Wall Street Journal, The World Bank, International Monetary Fund, FAO, Haver Analytics

Growth momentum will remain weak in China

Depressed consumer sentiment is reflective of the economic woes that China faces. The faltering property sector and a downturn in exports amid low global demand will keep growth muted. China's diversification of export-bound markets is going to partially insulate the economic recovery from further geopolitical uncertainty.

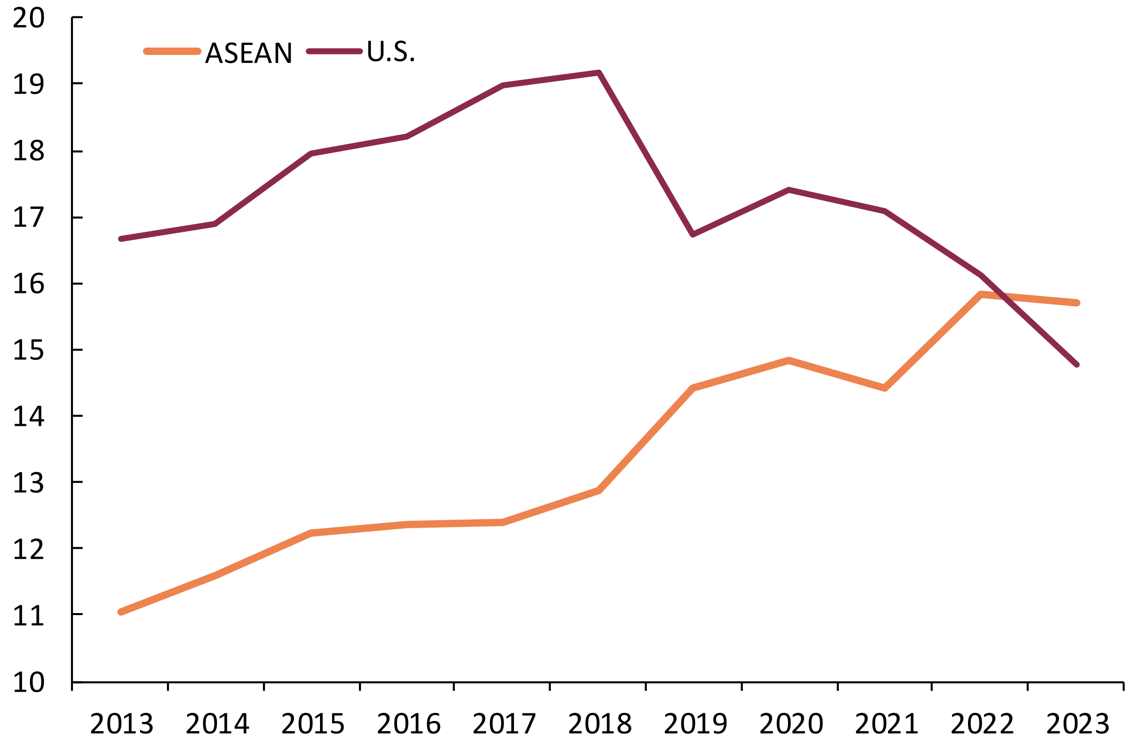
Consumer confidence low in China

Indices, seasonally adjusted



China diversifying exports to emerging markets

Share of total Chinese export, percent



Source: China National Bureau of Statistics, General Administration of Customs, Haver Analytics, EDC Economics

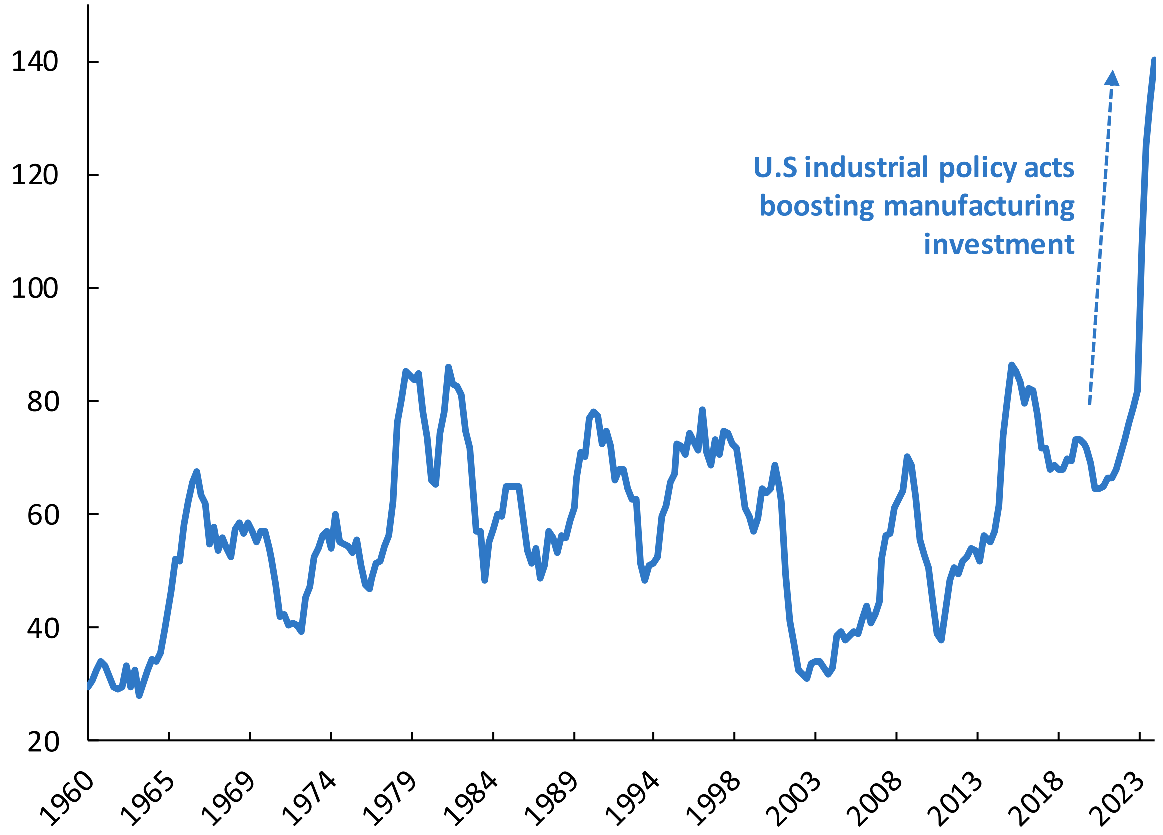
Note: PMI=Purchasing Manager Index. ASEAN=Association of Southeast Asian Nations: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

COUNTRY OUTLOOKS

United States

Real private investment in manufacturing building

Billions of chained 2017 US$



The U.S economy defied expectations in 2023 as high interest rates meant to cure high inflation didn't lead to mass job losses or a recession.

The U.S economy expanded by 2.5% last year, slightly exceeding the average performance of the decade before the COVID-19 pandemic, and it's projected to advance by 2.3% this year. The economy remains resilient and stands out among advanced economies, thanks to a dynamic labour market and strong industrial policy that has helped revive American ingenuity and productivity.

- The labour market remains strong with nearly nine million vacancies, low unemployment rate, and wage gains that are above inflation, which are helping support consumer spending.
- Consumers will be tested this year as pandemic savings dry up and student loan repayments take between $436 to $900 out of household's tight monthly budgets.
- On a positive note: Inflation is cooling, and consumers are likely to get interest rate relief from the Fed policy rate cuts in the second half of this year.

Cooling inflation and easing borrowing costs will help support consumer spending and in turn boost business investment over the next year.

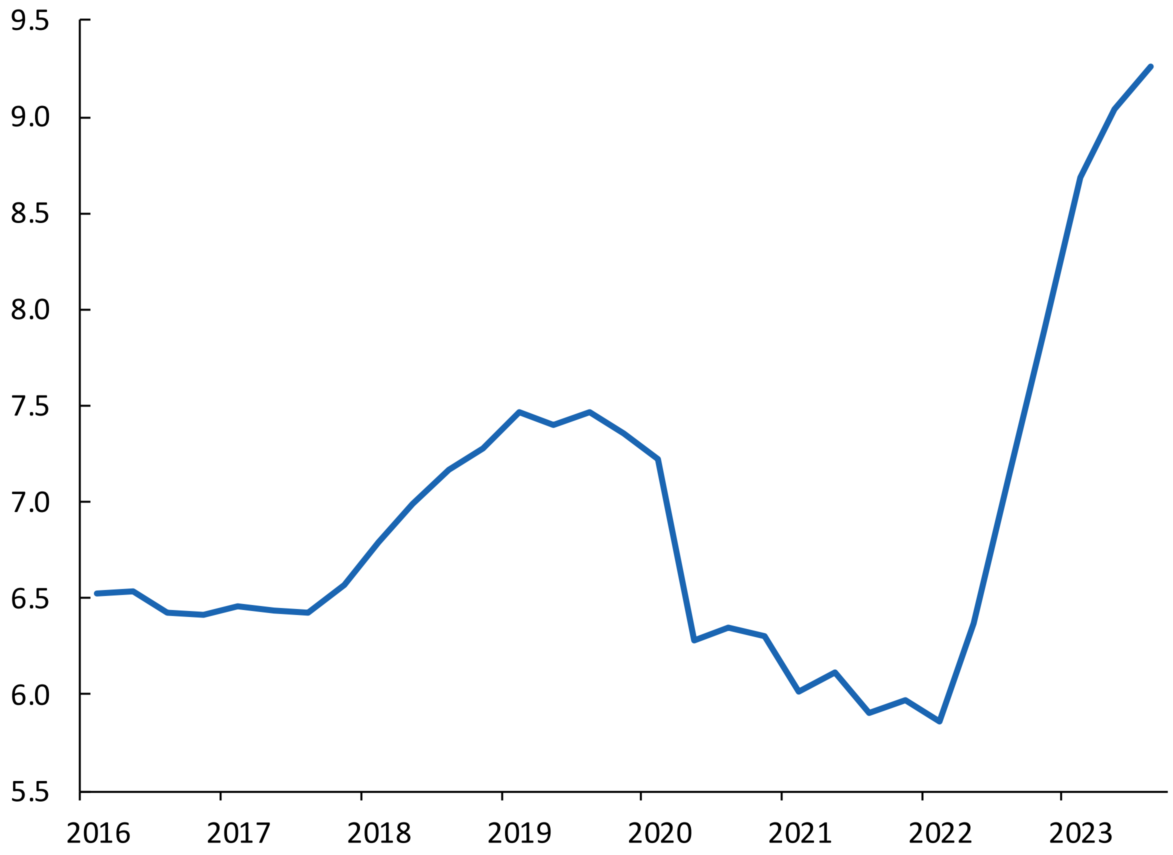
Three recent federal acts (*Inflation Reduction Act*, *CHIPS & Science Act*, *Bipartisan Infrastructure Law)* have ushered in the most ambitious industrial policy to date and has revived America's productivity growth with the potential to alter the long-term growth trajectory for the U.S. economy.

Source: Haver, EDC Economics

Canada

Proportion of household disposable income devoted to interest payment

Percent



After eking out the slow post-pandemic growth of just 1.1 % last year, Canada will see another below average growth performance in 2024 as the cumulative impact of the interest rate hikes weigh down on over-indebted households.

Cooling labour markets, elevated borrowing costs, and a more cautious consumer will make for dismal spending in 2024. Soaring population has boosted the labour pool and it's dragging down on wage growth. Overall inflation is decelerating, but some key components, particularly rent, continues to take a bite out of household budget.

Businesses will take another breather this year on short-term spending intentions as demand declines, but long-term capital plans are likely to remain intact meaning broad layoffs are unlikely. As borrowing costs begin to ease in the second half of this year, and demand conditions improve, business investment is likely to pick up in 2025.

While the domestic side of the economy is expected to remain soft, Canada's economy will be supported by exports to the resilient U.S. economy. While auto exports may struggle due to retooling, exports of energy, agrifood, and other key products are likely to do well.

The outlook for next year is brighter, with inflation cooling and interest rates easing, consumers are likely to be less cautious and can tap into their sizable savings to boost real GDP growth by 2.5%.

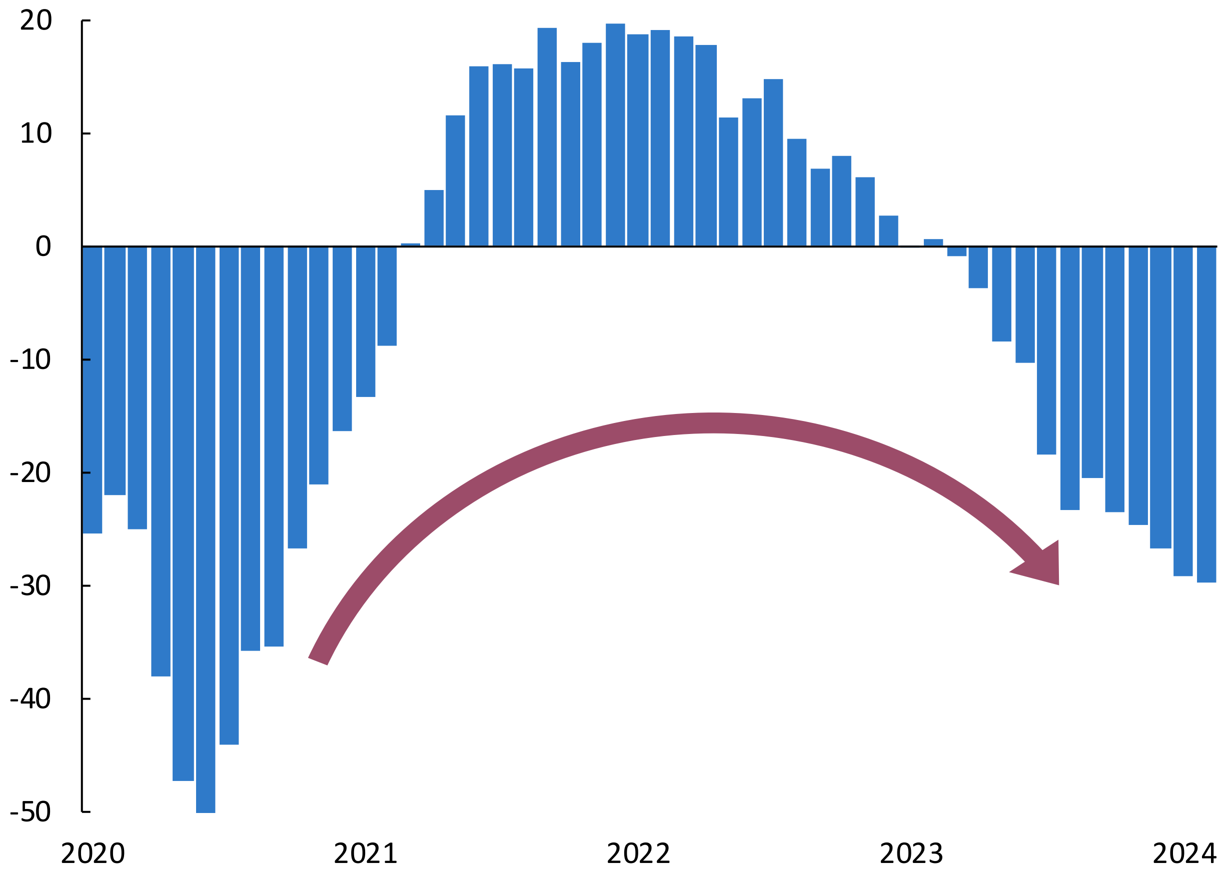
While a recession isn't in the cards, given that Canadian households have enough firepower in their rainy-day funds, inflation and geopolitical risk could reignite to knock the economy off balance.

 Source: Haver, EDC Economics

Germany

Export-reliant German struggling with no recovery in sight

Volume of export order books, percent balance, not seasonally adjusted



The German economy enters 2024 on the back of a weak preceding year—with the country's economy contracting by 0.1% in 2023. The 2024 outlook is expected to be another shaky year as the economy continues to grapple with key sectors suffering from structural challenges. The economy is expected to flatline in 2024 before recovery materializes in 2025 with a growth of 1.3%.

Industrial production in Germany declined by 1.3% in 2023 from 2022 as demand destruction measures took a heavy tool on energy-intensive producers. An expected recovery from Chinese reopening has failed to materialize given a broader Chinese slowdown, as well as German automakers losing share to Chinese EV-makers within China.

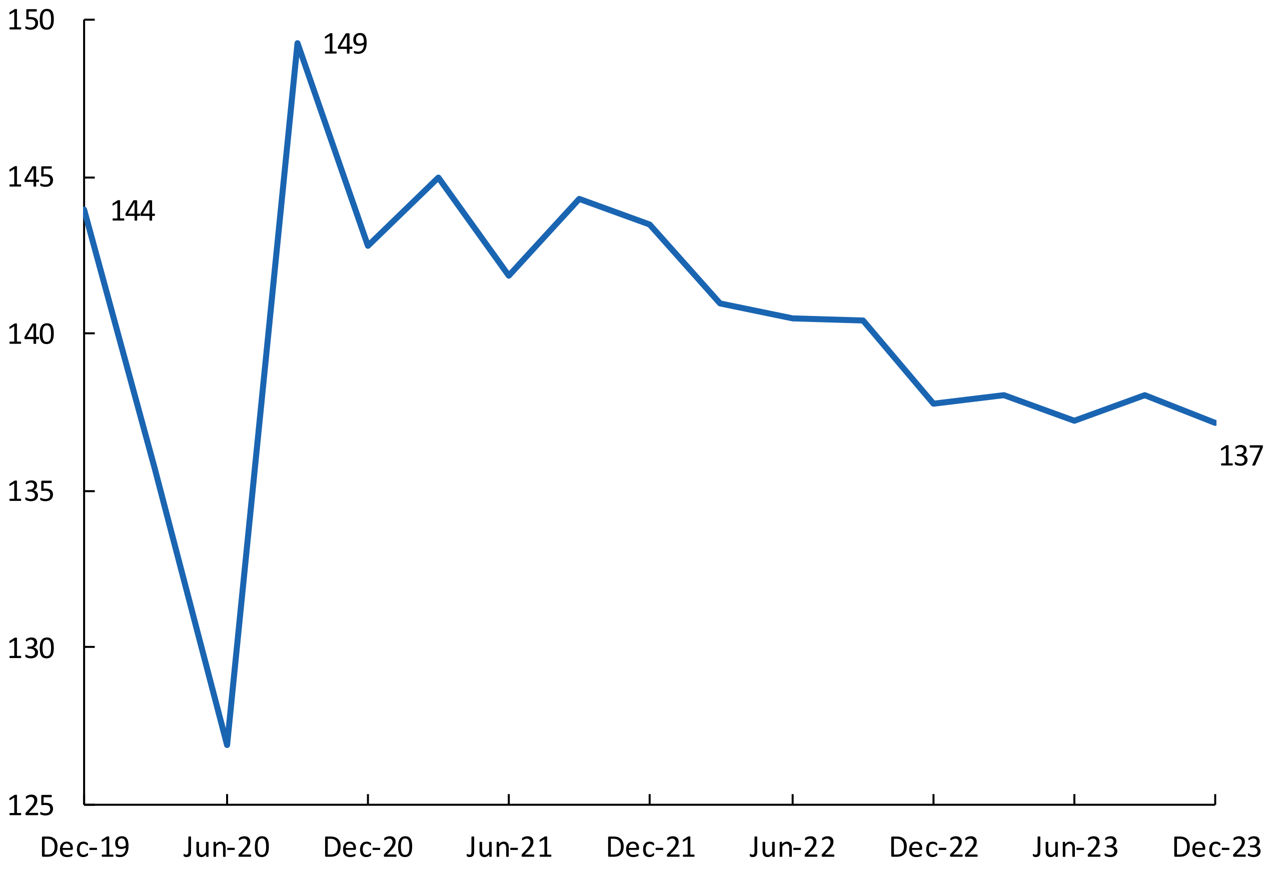
Economic sentiment continues to be bearish as businesses must grapple with global rate hikes, weak tailwinds from China, and erosion of Germany as a business location for energy-intensive production. German export order books have continued to decline—a sign that the export dominant growth model will pose strong headwinds for the economy in 2024.

Sources: Haver Analytics, EDC Economics

France

Total household expenditure has declined below pre-pandemic levels

Total household expenditure, billions of 2014 euros



The French economy enters 2024 on the back of a relatively resilient 2023 for the region—with the country's economy managing to accomplish a growth of 0.9% in 2023. However, most of the growth in 2023 occurred in the first two quarters and the momentum into 2024 is weak. The economy is expected to slow in 2024 with a growth of 0.7% followed by a stronger recovery in 2025 with a growth of 1.6%.

Household consumption in France declined in the final two quarters of 2023 by 0.5% and 0.1%, respectively. This weakness from the French consumer comes as impacts of tighter rates begin to permeate through the economy, and the government support programs that prevented a rise in household energy bills continue to be phased out.

A slowing economy is also affecting government revenues. Keen to stick to deficit targets to preserve credit ratings—the French government expects to reduce spending into 2024 to keep the fiscal deficit below 4.9% of GDP. The imperative to have a credible plan is important as the French treasury focuses on convincing the ratings agencies about elevated public debt and budget deficit.

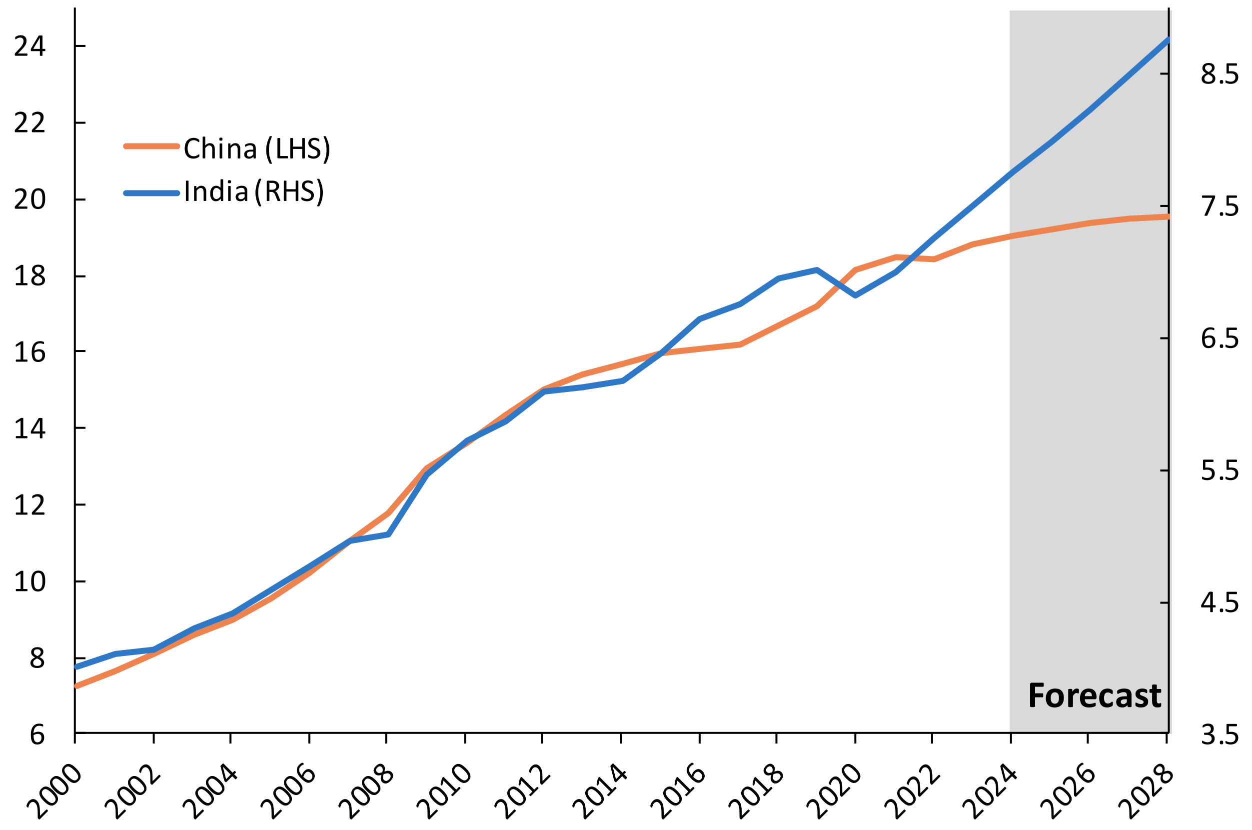
Sources: Haver Analytics, Agence France Trésor, EDC Economics

Note: 2023 expenditure value is forecast in the September government budget release

India

Indian growth taking off

Percent share of annual GDP based on PPP



As high growth in India continues, the economy is expected to remain the fastest-growing among G20 economies. EDC Economics revised the growth forecasts upwards for 2023 to 8% and 2024 to 6.2%.

Stronger than expected growth in the fourth-quarter of 2023 has led to an upward revision of the forecasts. Sustained momentum in investment and robust consumption drove growth in the latter part of 2023. High frequency indicators such as vehicle sales and card payments suggest a slight moderation in consumption in early 2024. Inflation is expected to remain in the downward trajectory. Investment will remain upbeat with high business confidence, supported by continued public infrastructure spending. Exports will pose as a headwind to growth as weakness in global demand persists amid sluggish global growth.

Volatility in commodity prices, particularly oil, is a key downside risk to inflation and growth as India is a net oil importer.

Faster than expected global recovery can further boost growth through a better-than-expected export performance.

Source: Reserve Bank of India, ministry of Commerce and Industry India, Haver Analytics

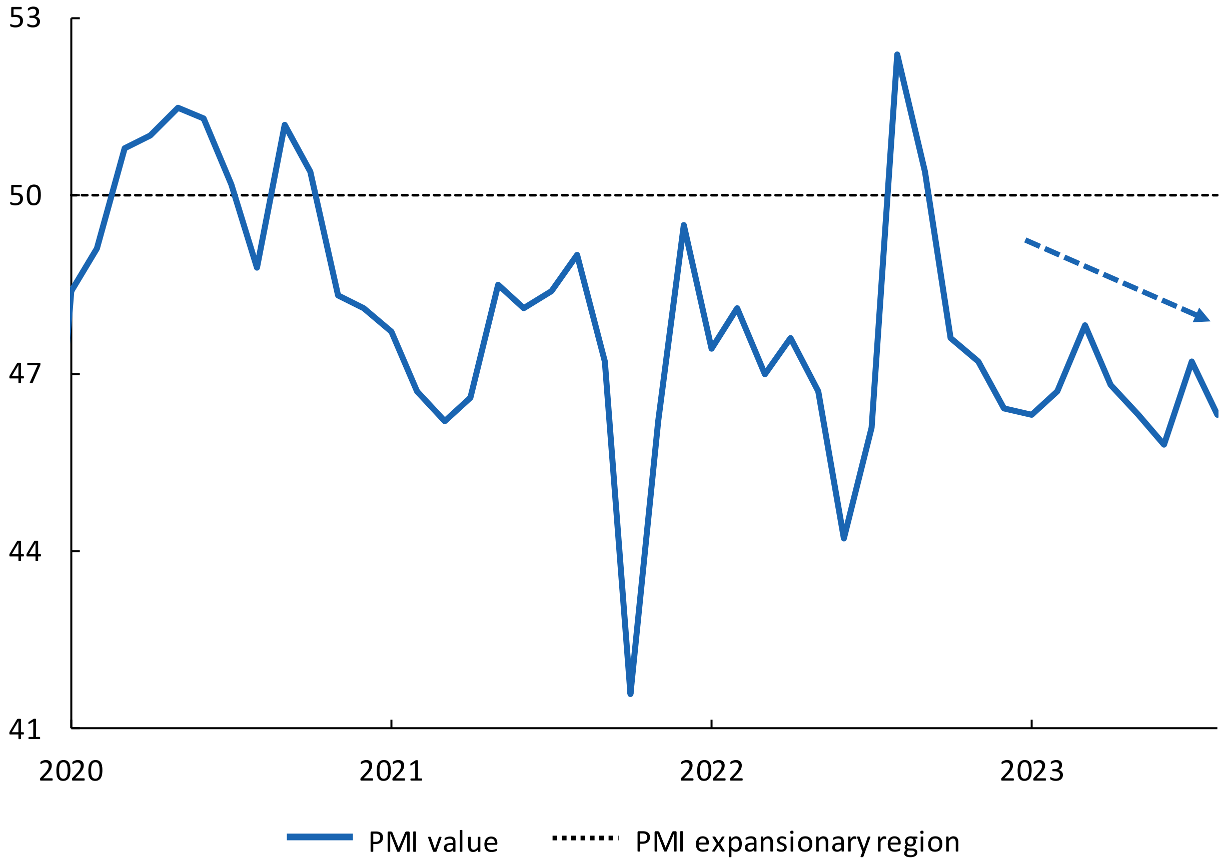
Note: The forecast is from the IMF World Economic Outlook, PPP = Purchasing power parity, India's GDP is fiscal year based (e.g. 2023 = FY 2024 = Q2 2023 – Q1 2024)

EDC

China

Weaker export outlook an ongoing trend

PMI: Manufacturing new export orders; seasonally adjusted



China recently announced a 5% GDP growth target for 2024—which in the face of ongoing weak consumer confidence—is an ambitious target to meet. Our outlook is 4.7% growth for 2024, and 4.4% for 2025 based on the multi-year drag from the property sector crisis on the economy, weak consumer sentiment, and a challenging export outlook.

While we expect the auto sector will remain a bright spot in the overall export picture, exports will remain soft owing to weak global demand. The *Purchasing Managers Index* (PMI) for new export orders for January is 47.2 (with +50 being expansionary), which has been in contraction for the past 10 consecutive months.

Overall, the property market will remain problematic into medium-term outlook as the sector shrinks. The government will be focused on lower, but more stable, higher quality economic growth for the future.

The main areas of focus for the government right now are the technology industry, advanced manufacturing, automotives, ships, and a balancing act between national security versus GDP growth.

Upside risks to our forecast include faster and deeper than expected government stimulus measures to support stronger consumption and economic growth. Up to US$138.9 billion in ultra-long-term, special central government bonds are expected to be available for infrastructure for the next few years.

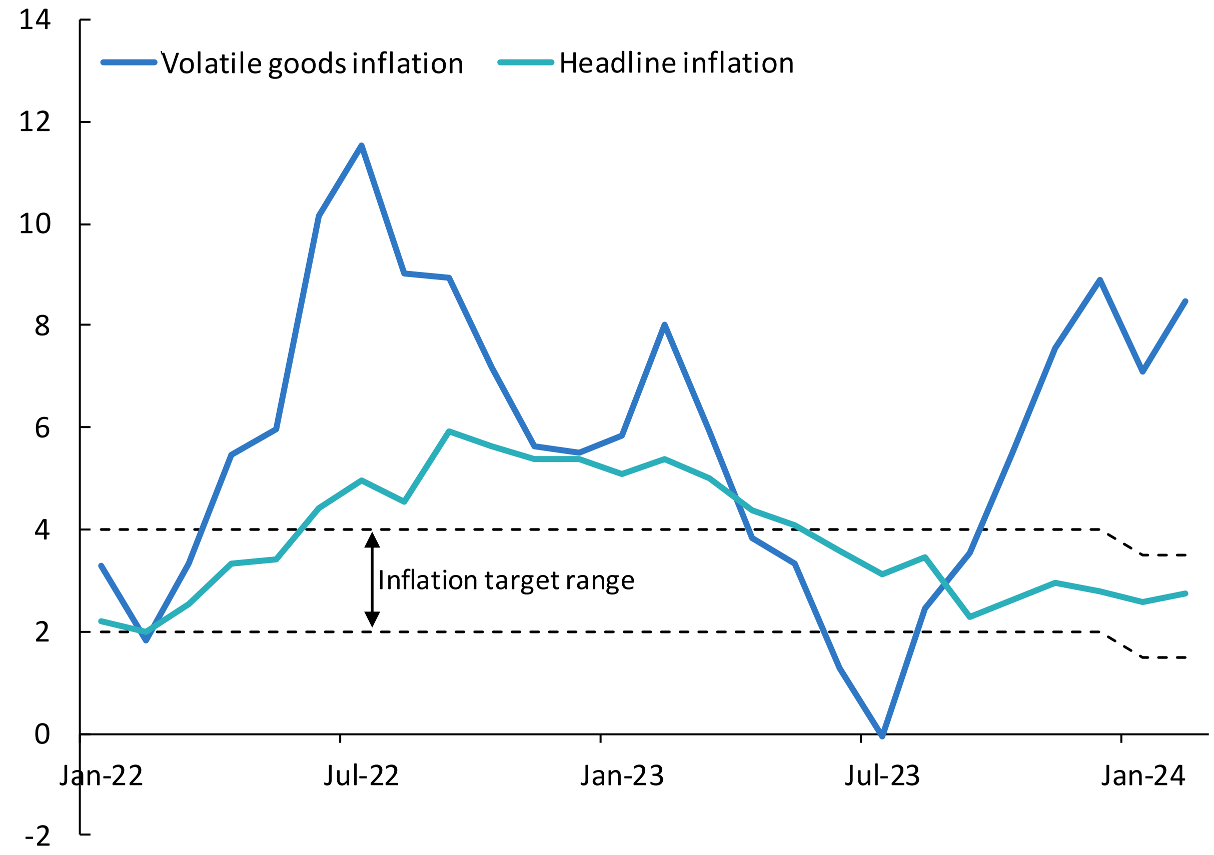
While not our baseline scenario, a key downside risk would be a rapid escalation in the real estate sector crisis, which spills over into the financial sector. Any escalation of geopolitical tensions with the U.S. is also a key downside risk.

Source: Haver
Note: PMI=Purchasing Manager's Index; PMI above 50 indicates expansionary outlook

Indonesia

Food inflation is a near term challenge

Percent



Growth in Indonesia is expected to moderate slightly in 2024 as declining commodity prices and continued global uncertainty weakens exports. While the trend of growth remains the same from the previous forecast, EDC Economics has slightly revised its 2024 and 2025 forecast upwards to 4.9% and 5.5% respectively.

GDP growth slowed down to 5% in 2023 from 5.3% in 2022. Although export provided a boost to growth in Q4 2023, it slowed down considerably to 1.3% for the whole of 2023 which contributed the moderation of growth. The sluggishness in exports is expected to continue as the global economy slowly recovers and commodity price continue to lose steam. While headline inflation has been on a downward trend, containing volatile goods inflation, which consists of primarily food items, is going to be an early concern for the economy. This, in addition to the probability of the US rate cut moving to Q2 2024 means that tight credit conditions are expected to continue at least for the first half of 2024.

Downside risks emanate from higher for longer interest rate in the U.S., with the Indonesia Central Bank looking to emulate the direction of the Fed. This could further stifle growth through curbing consumption and investment.

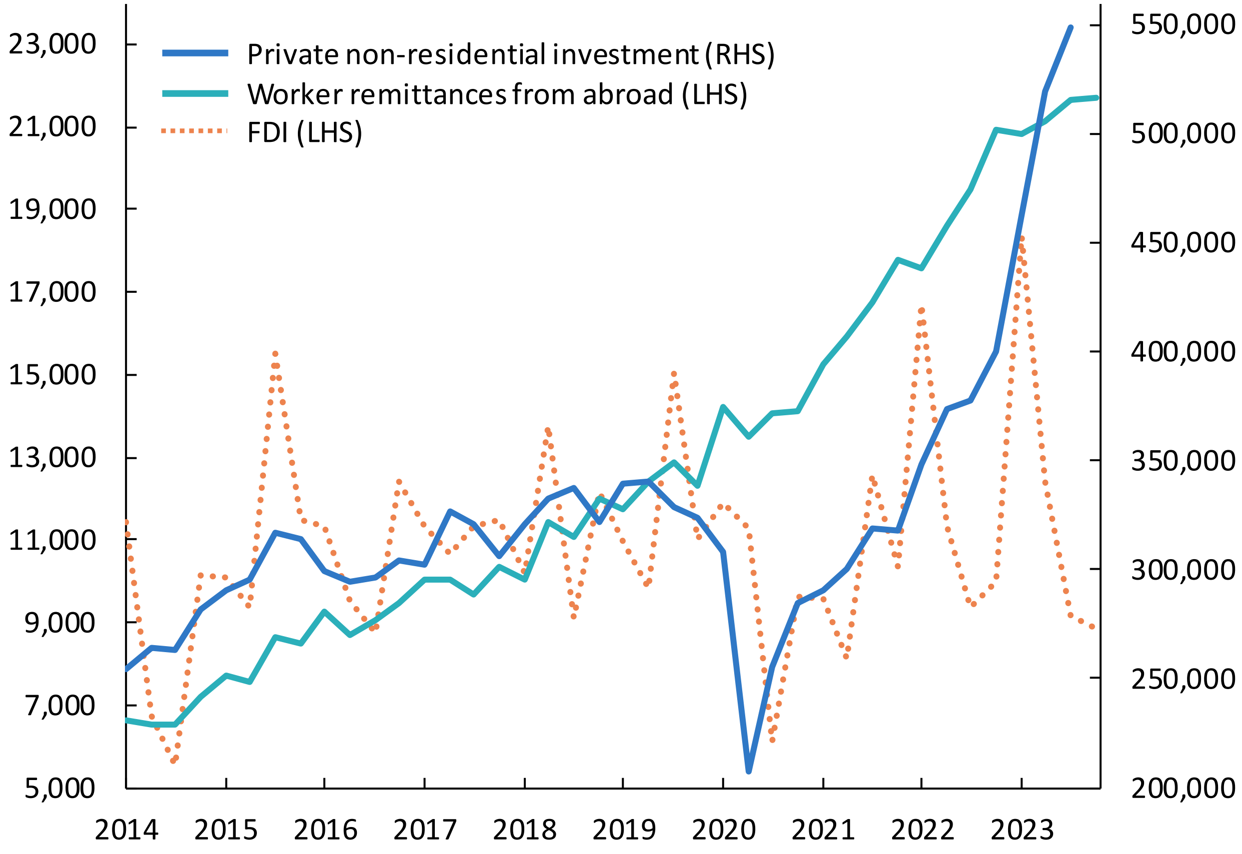
Upside risk is related to faster than expected global recovery which can buoy exports more than anticipated and lift growth expectation.

Sources: Bank Sentral Republik Indonesia, Haver Analytics, EDC Economics

Mexico

Consumer income and investment strength

Millions of Canadian dollars



Coming off a record performance over the last three years, there is still enough gas in the tank for Mexico's economy to run at full tilt this year. Real GDP is likely to advance by 2.4% this year, thanks to strong domestic demand and exports.

Mexican consumers have several things going for them that will allow them to navigate the high inflation/interest rate combo—such as low unemployment, high remittances and strong wage gains. Real minimum wage went up 14.4% earlier this year, following similar gain last year. In addition to strong labour market indicators, worker remittance from overseas is up 3% in January this year compared to a year ago, and with the U.S economy remaining resilient, total inflows for this year will likely top the US$63 billion that came in last year.

With the U.S economy expected to do well this year, Mexico will benefit from it's largest trading partner by shipping more goods to its immediate northern neighbour. Helping to solidify Mexico's export capacity are profit reinvestment from existing firms to expand their operations there.

While local firms are boosting their operational capacity to benefit from supply-chain de-risking from China, international businesses are exploring opportunities to establish their operation in Mexico to be closer to the United States, the world's largest economy. And the Mexican government has rolled out red-carpet incentives to attract investment into 10 key export-oriented sectors.

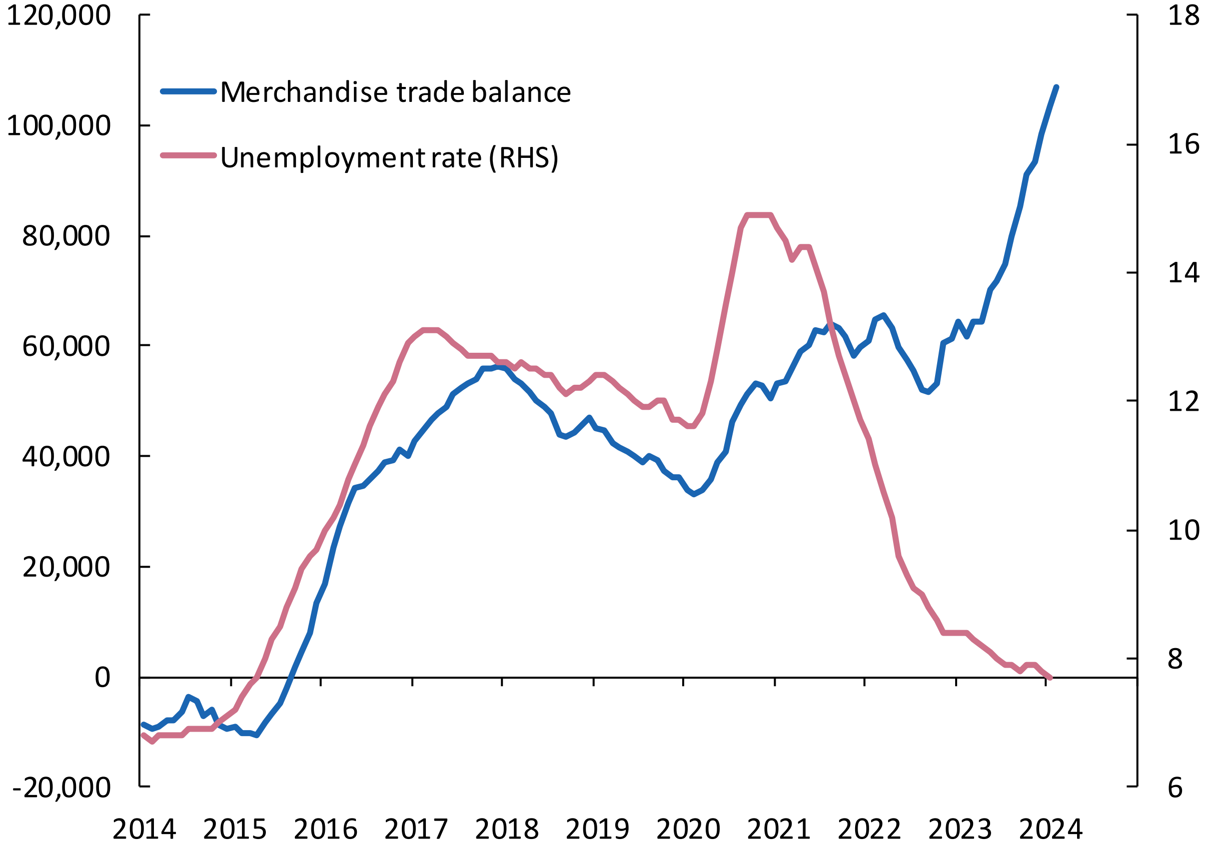
The potential benefit from nearshoring will be huge for Mexico's future productivity and prosperity, but risk for the economy remains high from Chinese businesses setting up operations in Mexico to circumvent U.S trade restriction against China.

Source: Haver Analytics, EDC Economics
Note: FDI = Foreign direct investment

Brazil

Resilient outlook supported by decade high demand fundamentals

Millions of US$, 12-month moving sum; Percent, 3-month moving average



Improved structural fundamentals, demand tailwinds, and relative political stability continue to support Brazil's resilient growth outlook. A solid close of last year has boosted the carryover momentum warranting an upgrade of 2024 growth to 1.8%. The outlook for 2025 and 2026 remains robust at 2.3% and 1.9% driven by improved financial conditions resulting from interest rate reductions in Brazil and globally.

Economic dynamics will achieve a better balance in 2024. In 2023 growth of 2.9% was concentrated in the first half of the year led by a "super" crop and strong mining and energy sector activity, but it stagnated in the second half as agriculture corrected and private demand was dampened by the high interest rate environment. While this year's harvest will decline due to the El Niño weather pattern, it will still be the second highest ever, which will sustain the broader supply chain and related services. A robust labor market performance, ongoing fiscal support to social transfers, and contained inflation will drive household consumption. Business investment will recover from last year's lull amid improved sentiment, credit markets, and commercial opportunities amidst the government's turbo-charged impetus toward industrial policy plans.

Downside risks remain dominated by concerns about fiscal sustainability and policy interventionism that could raise asset price volatility and political tension around the upcoming elections calendar. These risks could result in a higher inflation and interest rate environment. A stronger-than-expected external demand backdrop lifting investment dynamics, upgrades to assessments of potential output growth, and continued momentum toward implementing structural reforms, are key upsides to watch.

Sources: Brazilian Institute of Geography and Statistics, Ministry of Development, Industry, Trade and Services, Haver Analytics, EDC Economics

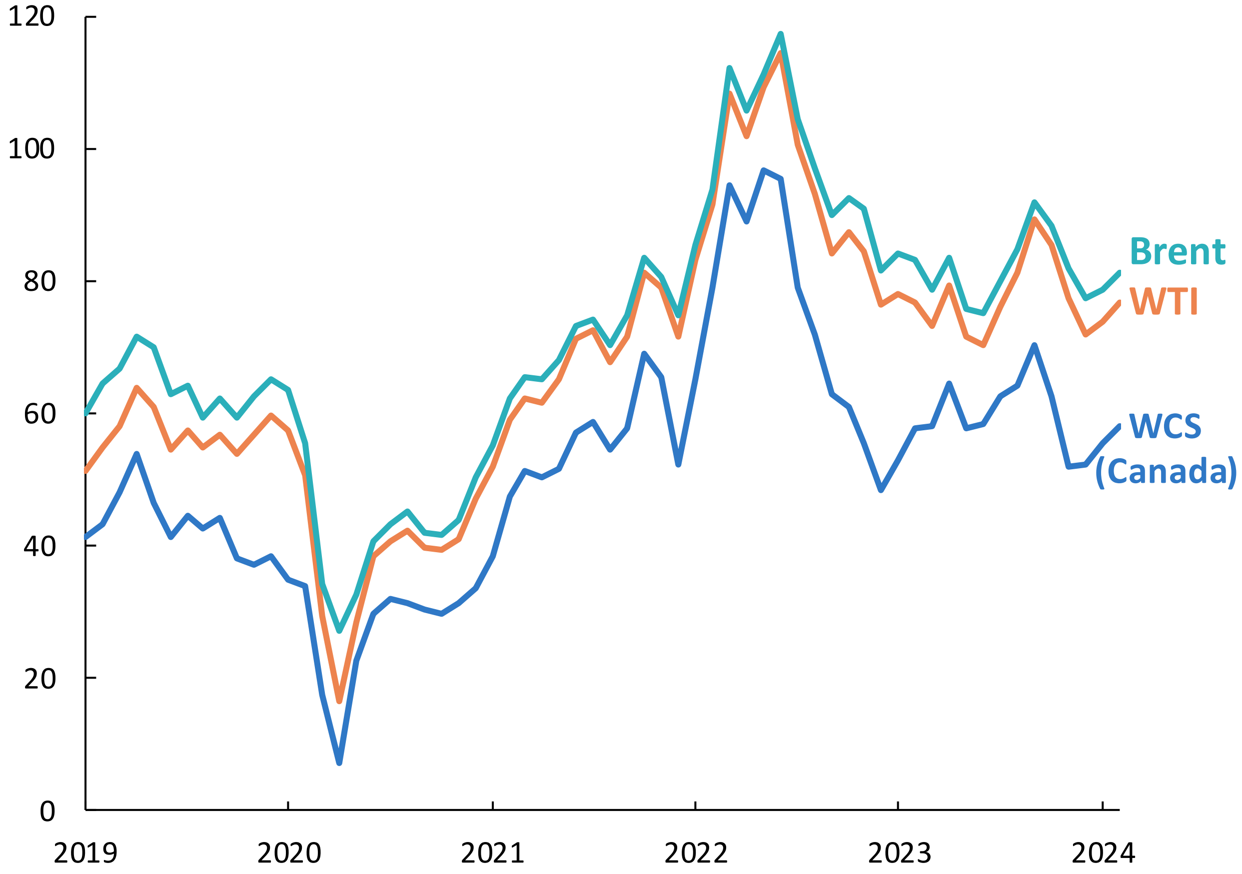
Note: Both data series are seasonally adjusted.

COMMODITY OUTLOOKS

Oil

Oil price is expected to remain elevated throughout 2024

US$ per barrel



West Texas Intermediate (WTI) is expected to remain elevated in the first half of 2024 given that the Organization of the Petroleum Exporting Countries and its allies OPEC+'s production are still in place and tensions in the Middle East remain, where one-third of the world's oil is produced.

Entering the second half of 2024, oil prices will face downward pressure from both a record production in the U.S., Canada, Brazil, and Guyana and the rebase of global oil demand growth after the post-pandemic recovery.

International benchmark crude prices have largely been trading in a narrow US$75 and US$85 interval since the start of the year as the sustained high interest rate environment has outweighed the tightness in global oil supply.

In the medium-term, global demand for oil is expected to continue to grow, fuelled by emerging countries' economic growth (e.g., China, India, and Brazil), but at a slower pace. As the world continues transitioning towards renewables and electric vehicles, global oil demand is expected to peak around 2030, adding downward pressure to oil prices.

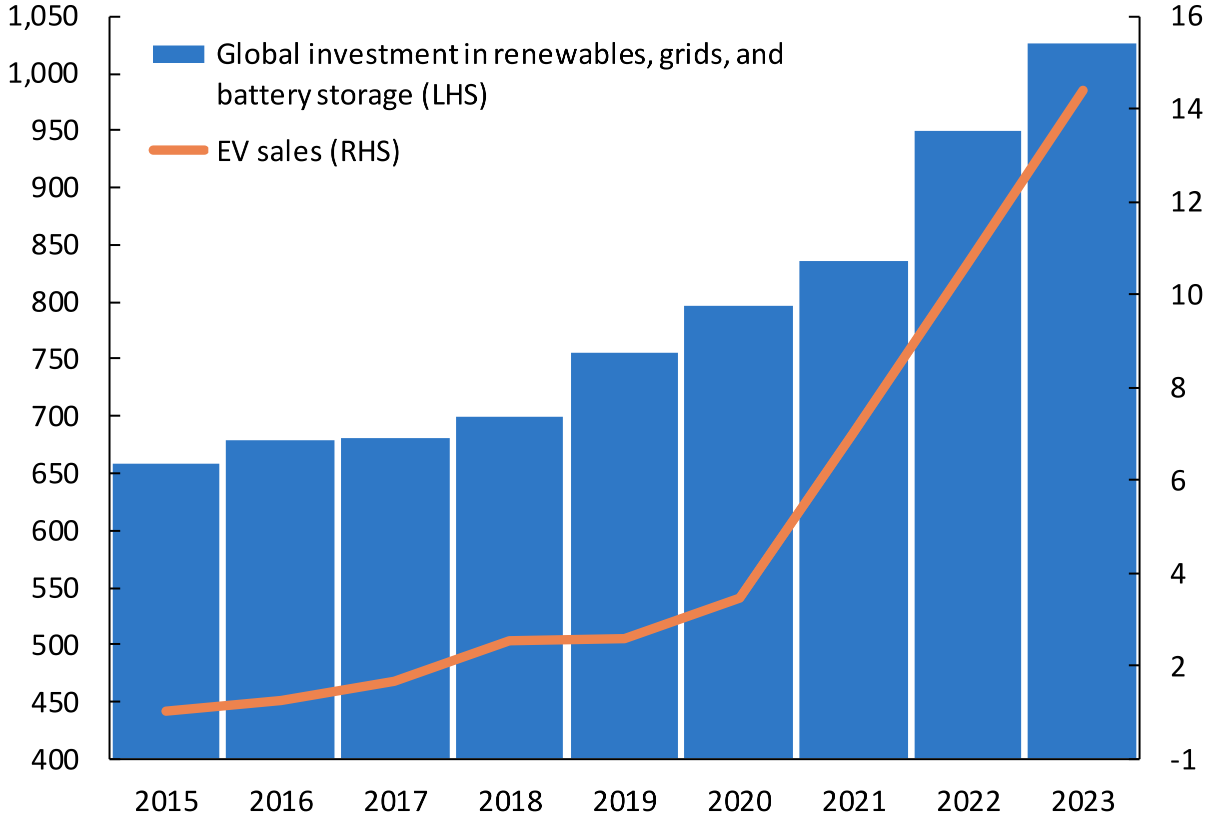
Sooner than expected rate cuts by major central banks and stronger-than-expected economic growth in China could provide upward pressure on oil prices, while OPEC+ retaking market share would likely slash oil prices.

Source: Haver Analytics

Copper

Transition to green energy is a key driver to copper demand

Billion US$; Million units



Source: International Energy Association, EDC Economics.

Despite some supply tightness in early 2024, copper prices are expected to remain subdued on the backdrop of a sluggish global demand, primarily stemming from the continued weakness in the Chinese property sector. Prices are expected to rise from 2025 and onwards as the reviving global economy stimulates demand and the usage of copper in green technology intensifies.

Although prices garnered some support in early 2024 due to a slowdown in supply from Chilean production, and disruptions in Panama, demand continues to be weak. Low confidence in the Chinese property sector as well as a bleak industrial outlook in Europe and the U.S. is expected to dampen demand in the near term. This will be partially offset by the robust growth in sales in electric vehicles and investment in clean energy. As such, EDC economics anticipates the price to drop marginally from US$8,476 per tonne in 2023 to US$8,461 per tonne in 2024. The price is expected to climb to US$8,811 in 2025 and rise onwards supported by the reviving global industrial demand, and deepening transition towards clean energy.

An unexpected slowdown in economic activity in China could provide downside pressure on price while any kind of supply disruption will give an upward boost.

EDC FORECASTS

Quarterly real GDP growth

Global Economic Outlook (Q/Q% change)	2024 Q1[E]	2024 Q2[F]	2024 Q3[F]	2024 Q4[F]	2024 Q5[F]	Four-quarter average*
Developed countries						
Canada	0.3	0.2	0.3	0.5	0.5	0.4
United States	0.4	0.3	0.4	0.4	0.4	0.4
Germany	-0.2	0.2	0.4	0.3	0.3	0.3
France	0.1	0.2	0.4	0.2	0.5	0.3
Developing countries						
China	1.4	1.2	1.3	1.3	1	1.2
India	0.5	2	1.5	1.9	1.6	1.8
Indonesia	1	1.3	1.5	1.5	1.5	1.4
Brazil	0.5	0.7	0.8	0.6	0.5	0.7
Mexico	0.6	0.7	0.5	0.5	0.6	0.6

Note: 'F' and 'E' denotes the forecast and estimation. India's forecast is fiscal year (2024 FY = Q2 2023 – Q1 2024, 2025 FY = Q2 2024 – Q1 2025), *average of next four quarters
Source: EDC Global Economic Outlook, March 2024

Annual real GDP growth

Global Economic Outlook (Annual % change)	2023	2024F	2025F	2026F	2027F	2028F
Developed countries	**1.8**	**1.4**	**1.8**	**1.9**	**1.6**	**1.5**
Canada	1.1	0.9	1.8	2.2	2.5	2.4
United States	2.5	2.3	1.8	2	1.6	1.6
Eurozone	0.5	0.7	1.7	1.7	1.4	1.4
Germany	-0.1	0	1.3	1.5	1.6	1.6
France	0.9	0.7	1.6	1.6	1.8	1.8
Developing countries	**4.3**	**4**	**4.4**	**4.2**	**3.9**	**3.7**
China	5.2	4.7	4.4	4	3.6	3.5
India	8	6.2	6.6	7.1	6.6	6.2
Indonesia	5	4.9	5.5	5	5.1	4.9
Brazil	2.9	1.8	2.3	1.9	1.7	1.7
Mexico	3.2	2.4	2.2	2.1	1.8	1.8
World	**3.2**	**2.9**	**3.3**	**3.2**	**2.9**	**2.8**

Note: * denotes the forecast period. India's forecast based on fiscal year (2024 FY = Q2 2023 – Q1 2024, 2025 FY = Q2 2024 – Q1 2025)

Source: EDC Global Economic Outlook, March 2024

EDC

Currencies and interest rates

Global Economic Outlook		2023	2024F	2025F	2026F	2027F	2028F
Currencies	**Exchange rate**						
U.S. dollar	USD per CAD	$0.74	$0.74	$0.78	$0.81	$0.82	$0.82
Euro	USD per EUR	$1.08	$1.10	$1.10	$1.09	$1.14	$1.20
Euro	CAD per EUR	$1.46	$1.49	$1.40	$1.34	$1.40	$1.47
Interest rates, annual average							
Bank of Canada *(Overnight target rate)*		4.7	4.8	3.8	2.9	2.8	2.8
U.S. Federal Reserve *(Fed Funds Target Rate – mid-point)*		5.1	5.2	4.2	3.2	2.6	2.6
European central bank *(Policy interest rate)*		3.8	4.3	3.0	1.8	1.8	1.8

Note: F denotes the forecast period.

Source: EDC Global Economic Outlook, March 2024

Commodity prices

Global Economic Outlook	2023	2024F	2025F	2026F	2027F	2028F
Brent Crude Spot, *USD / barrel (bbl)*	$82.47	$80.80	$73.65	$70.38	$69.96	$69.74
West Texas Intermediate, *USD / bbl*	$77.63	$76.80	$70.15	$67.38	$66.96	$66.74
Western Canada Select, *USD / bbl*	$59.49	$60.55	$58.15	$55.38	$54.96	$54.74
Natural gas, *USD / MMBtu*	$2.54	$2.59	$3.09	$3.35	$3.43	$3.50
Gold, *USD / troy ounce*	$1,943	$2,040	$1,984	$1,913	$1,807	$1,699
Copper, *USD / tonne*	$8,476	$8,461	$8,811	$9,192	$9,453	$9,704

Note: F denotes the forecast period.

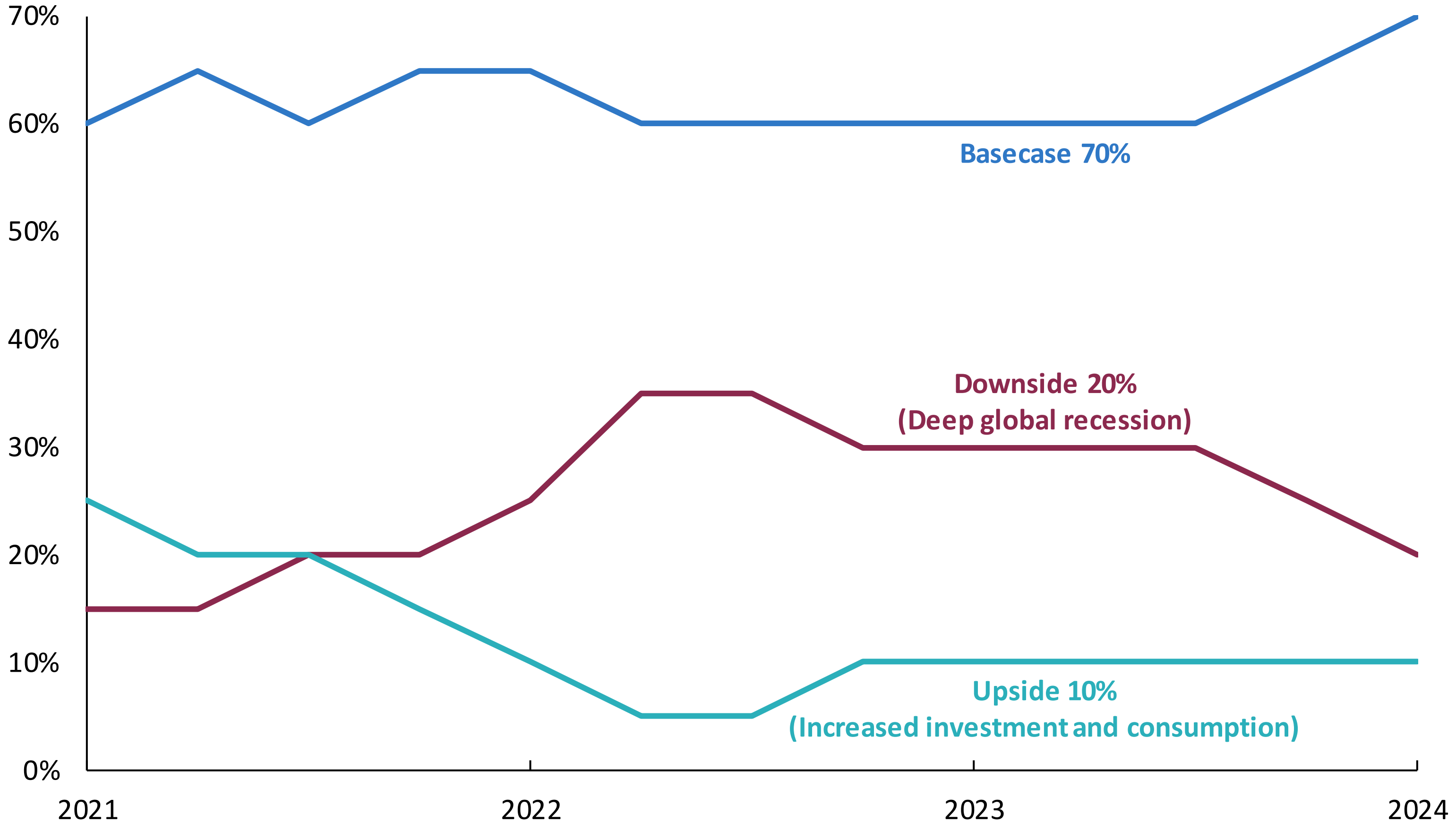
 Source: EDC Global Economic Outlook, March 2024

FORECAST SCENARIOS

Forecast scenarios

Assigned scenario probabilities over time

Percentage



The recommended probabilities for 2024 Q1 basecase, upside and downside economic scenarios are set at 70%, 10% and 20%, respectively.

This represents a modestly less negative outlook as the previous scenario probabilities were set at 65%, 10%, and 25%. This adjustment incorporated the latest economic developments, including progress on controlling inflation, stronger than anticipated growth in Q4, and moving forward a shift towards more eased monetary and financial environment.

However, the lingering effects of higher interest rates still pose a risk to the economy, with the potential for a recession remaining a concern.

Source: EDC Economics.

Basecase scenario assumptions

1. Monetary policy

Slowing inflation and a softening growth outlook suggest that policy interest rates in most developed markets have peaked.

Timing for major central banks (U.S., Canada and Europe) to ease monetary policy remains somewhat connected, but there's room for divergence in paths depending on country/regional specific factors.

2. Financial conditions

Bankruptcies and insolvencies will continue to increase to multi-decade highs led by sectors and corporations that are highly leveraged or more exposed to variable interest rates.

The effect of higher interest rates are passing through the economy with long and variable lags. Impacts will increase in the coming quarters, hitting activity well into 2024.

Pressures on emerging market sovereign credit-worthiness and countries' balance of payments will continue to build due to higher interest costs and softening demand—particularly from China.

Economic conditions are increasingly dependent on financial conditions. An ensuing recession would largely be driven by feedback between monetary policy and broader financial market conditions.

While EDC Economics' baseline outlook doesn't anticipate a widespread financial crisis, there'll be additional strains beyond the U.S. banking sector (March 2023) and China's enduring property crisis.

3. Geopolitical risks

The Russia-Ukraine war will continue but isn't expected to spillover beyond Ukraine and Russia. Western sanctions against Russia will remain in place beyond the forecast period with an increasing risk of secondary sanctions to target non-U.S. and non-European Union (EU) companies or persons involved in commercial activities with Russia.

The Israel-Hamas war and disruptions in the Red Sea are impacting global trade and shipping, however, effects are largely anticipated to remain contained baring a more broad-based conflict that pulls in other regional players.

China's rise in relation to the United States is slowly changing the global balance of power. There's no sign of material improvement in U.S.-China relations. Escalating commercial competition between western allies and China will characterize bilateral relations, and play out through trade and investment policy, particularly in key sectors (e.g. advanced technology).

Amid an active election cycle this year, the forthcoming election outcomes could pose uncertainty in policy, fiscal spending, and geopolitical relations across nations.

4. Risks posed by El Niño and possible La Niña

El Niño is expected to last at least until April in the Northern Hemisphere. As El Niño winds down, the chances of La Niña developing this summer have increased, which will likely trigger more unusual weather events, with impacts varying across countries.

5. Artificial intelligence

The rapid evolution of AI is improving productivity across various sectors. As AI techniques enhance business efficiencies and open new avenues for innovation, they're also drawing new demand and investment that may drive the next wave of global economic growth. We haven't included any such impacts in our forecast.

Downside scenario assumptions

1. Deep global recession

The most plausible downside economic scenario would be a recession in both developed and emerging markets, to varying degrees. The timing of the downside risk begins in summer (versus spring in a previous forecast).

In this scenario, high interest rates hit economic activity more powerfully than the baseline, weakening demand and consumption to a greater extent and reveal vulnerabilities for governments, sectors, and companies whose debt levels and maturity profiles are subject to more pressure in this environment. There's substantial rise in default risk and risk perceptions.

Central banks adopt a more cautious approach towards easing monetary policy compared to their aggressive rate cuts and quantitative easing measures implemented during previous financial crises. Credit conditions remain tight for debt refinancing in the near-term.

Financial markets weaken due to high borrowing costs, increased corporate stresses, and renewed global banking strains. Asset prices fall, generating adverse wealth effects and raising the cost of capital. Business and consumer demand shocks lead to declines in prices for most industrial commodity. Lenders incur increasing provisioning and losses.

A strong U.S. dollar in this scenario makes it more difficult for emerging market sovereigns and corporates to borrow.

As a result, there's a significant synchronized hit to the real economy globally. Growth rates are below the basecase in the near-term before returning to pre-crisis levels in the long term. There's a permanent loss to total economic output with GDP levels below the basecase in long term.

Other risks:

- Longer interest rates, broadening of the Middle East crisis, China entering an economic recession, wave of corporate defaults, sovereign debt crisis, populist upswing that leads to trade fragmentation, U.S. regional bank crisis due to commercial real estate exposure, U.S. constitutional crisis, supply chain and labour constraints, Russia-Ukraine war and possible military escalation beyond Ukraine borders.
- This scenario increases the probability of other top risks occurring. The interplay of these other risks isn't specifically modelled in the outlined downside scenario.
- There's a vulnerability of a Lehman's-type event with a systemically important financial institution, sector or country going into distress, revealing a broader systemic vulnerability and repricing of risk. This scenario would likely lead to a greater demand for some of EDC's products and services, including EDC being used as a tool of public policy to help add liquidity to the market.

Upside scenario assumptions

1. Global increase in consumption and investment

The most reasonably plausible upside economic scenario would see higher global investment and consumption than in the basecase scenario. The timing of the upside risk begins in autumn (versus this summer in the previous forecast).

Investment growth is supported by increased consumer demand, government industrial policies, a reversing of past underinvestment in some sectors, and to a lesser extent reorientation of global supply chains.

Inflation is higher for a short period of time but remains largely in check as sustained growth in investment increases the total stock of productive capital. A higher capital stock allows for economic output (real GDP) to be higher than in the basecase without triggering permanently higher inflation. Real GDP growth rates return to levels seen in the basecase as the acceleration in investment and consumption is temporary.

Major central banks hold interest rates higher than in the basecase but return to basecase levels in the medium term.

Disclosure

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TAKE ON

THE WORLD

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