

GLOBAL ECONOMIC OUTLOOK

THE ECONOMIC STORM IS PASSING

EDC Economics

April 1, 2021

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

Canada



EDC

OVERVIEW

- In our spring 2021 *Global Economic Outlook*, EDC Economics is revising up its forecast for near-term global economic growth (notably in North America and China) reflecting:
 - significant additional fiscal policy support from the United States;
 - improvements in suppressing new COVID-19 cases globally;
 - continued progress on vaccine rollouts in systemically-important countries; and
 - better-than-expected momentum in Q1 2021 for key indicators.
- Conversely, the economic outlooks in 2021 have been revised down for the Eurozone and Brazil due to worsening COVID-19 infections.

EXECUTIVE SUMMARY

GLOBAL ECONOMIC OUTLOOK: THE ECONOMIC STORM IS PASSING

By Peter Hall

Vice-President and Chief Economist



Economic stormwatchers might have been accused of spreading a bad April Fool's joke this time last year. It was no joke; in almost every way, the fallout of the storm we know as COVID-19 couldn't have been worse. Or as long: it just kept coming back, again and again, in waves. Could it really be passing?

We could all be forgiven for a little—or a lot—of cynicism. Our lives have been so radically altered that this episode will leave a permanent mark on this generation. No more so than for those most affected: first-time workers, or hopefuls; families with young children; workers in devastated parts of the service sector; frontline workers; and the list goes on. Everyone wants to leave this nasty phase in the dust; but can we? Will we?

We're getting a lot of help. First, new infection rates are a lot lower than a few weeks ago. Second, there's growing evidence in medical circles of herd immunity. Finally, as vaccine rollouts increase, confidence in the economy's ability to return to normal will rise.

Lower uncertainty has the strong potential to unleash a powerful force in the economy: the massive pent-up savings accumulated over the months when there was a lot less to spend on. Once consumers reach the point of willingness, these funds could hit the economy like a tidal wave.

There's more: now that U.S. President Joe Biden's administration's US\$1.9 trillion stimulus program is official, it's being written into forecasts. The plan calls for US\$750 billion of this to hit the streets mere weeks from now, and economists are unanimous that U.S. growth will in 2021 ring in at the 5%-6% level.

In response, we have raised the forecast for U.S. growth in 2021 to 6.3%, a boost of over two percentage points from the release of our last outlook. That's a massive upward revision, and despite Buy American fears, is having a profound effect on global growth. Forecasts for other key nations have been revised up as a result, and upside risks to growth are now more likely.

As a result, in our new spring 2021 [Global Economic Outlook](#), EDC Economics has increased the call for global growth to 6.4% for 2021, with a still-robust 5.4% forecast for 2022, as stimulus, together with rising private sector activity, spills into next year.

The improved outlook for the U.S. economy will anchor the forecasts we see for the rest of the world, and will provide a boost to certain key economies. The industrialized world is forecast to grow by 5.2%, mostly making up for last year's losses, but with enough in the tank to see a further 4.1% in 2022.

EXECUTIVE SUMMARY (continued)

GLOBAL ECONOMIC OUTLOOK: THE ECONOMIC STORM IS PASSING



Emerging economies will also benefit. China's early rebound suggests strong support for its 10.8% bounce this year, while India, a little slower off the mark, is expected to see a whopping 12.3% pop. Overall, emerging markets look to add an impressive 7.1% this year, with 6.2% more to come in 2022.

Following a decline of 5.3%, Canada is forecast to see a rebound of 5.5% this year, followed by above-average 4.1.% growth in 2022. Average forecasts were revised up smartly in the wake of the U.S. stimulus news, and created a buzz of conversation about accommodating growth possibilities this year and next.

Growth has shaken up commodity prices already. Copper, facing short-run constraints, has spiked in recent days and is now far above initial expectations. Uncertainty is keeping precious metal prices high, but they should fade somewhat in 2022. Oil and gas prices are the biggest surprise. Initially expected to be weaker than usual, higher growth and short-run supply constraints have pushed our forecast for West Texas Intermediate crude to just under US\$57 for this year, before edging down to US\$55 in 2022.

One of the key signs that a growth mentality is setting in is the nascent focus on inflation. With an ocean of available liquidity and growth on the rise, there's increasing worry that the inability to ramp up production will set off price pressures that we haven't seen in decades. In short, the global economy has the capacity to handle the ramp-up in activity, but there likely will be constraints in the short run, which will temporarily lift prices above target growth. As long as these increases don't get entrenched into expectations, inflation should remain contained.

Commodity price increases have given lift to the Canadian dollar, which is forecast to average US\$0.79 this year and next.

The bottom line?

Big growth is hitting the U.S.—and global—economies in mere weeks. This is the best short-run news since the pandemic hit a year ago. All being well, the fiscal boost should encourage private spending, finally lifting us from COVID-19's quagmire. Enjoy!

A stylized handwritten signature in black ink, featuring a large loop and a cross-like mark.

RECENT DEVELOPMENTS

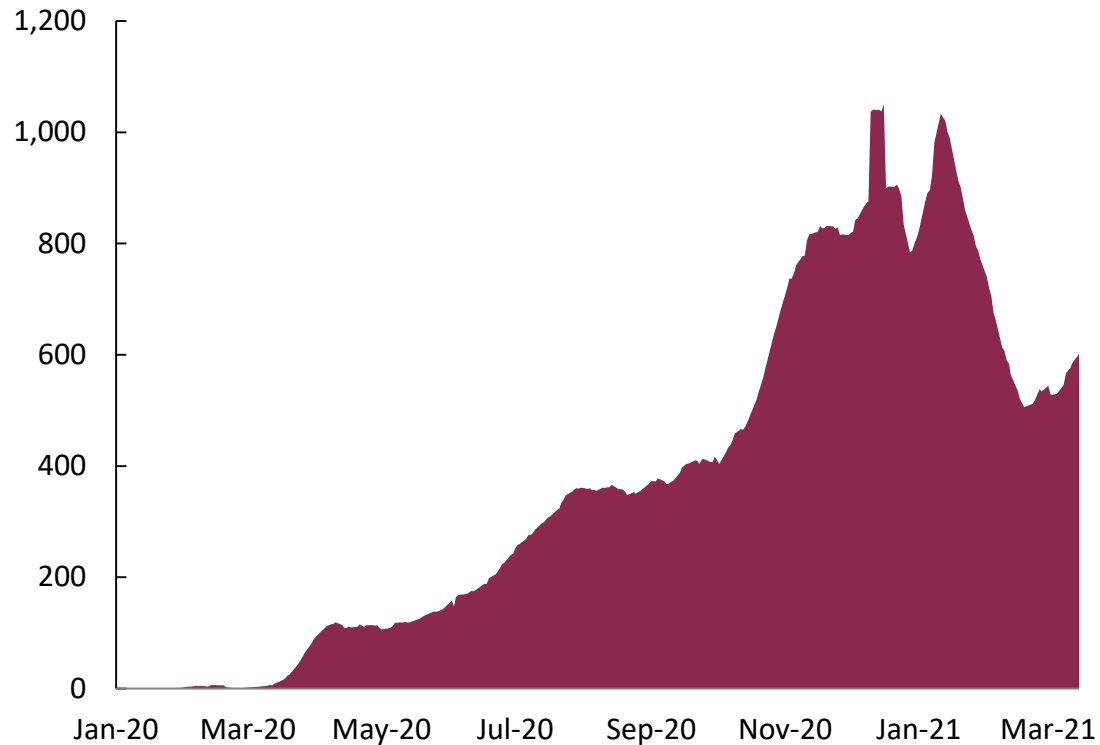


CONFIRMED COVID-19 CASES

COVID-19 spread across the globe with the highest number of cases reported in the United States, Brazil and India. With many government restrictions reimposed, new case counts fell in early 2021, but began to creep up in March driven by new variants.

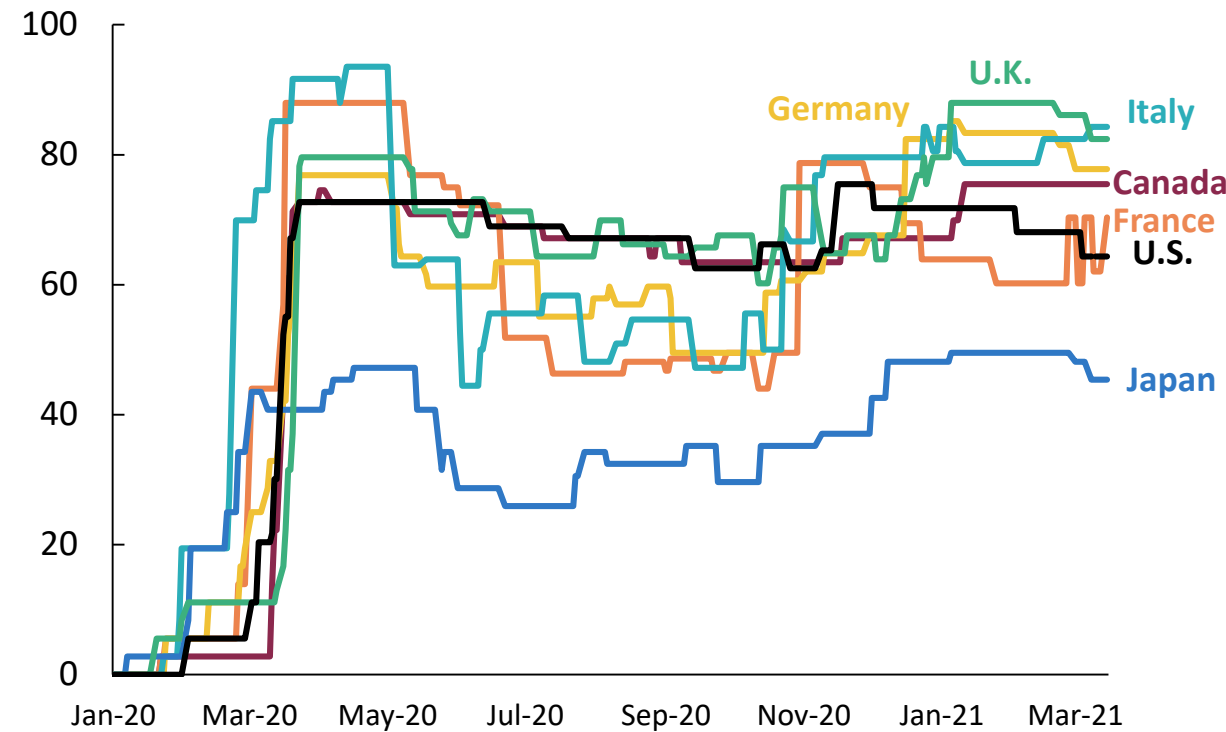
Global confirmed new COVID-19 cases

Daily change, thousands, five-day average



Stringency of government restrictions for G7 countries

Index value, maximum=100

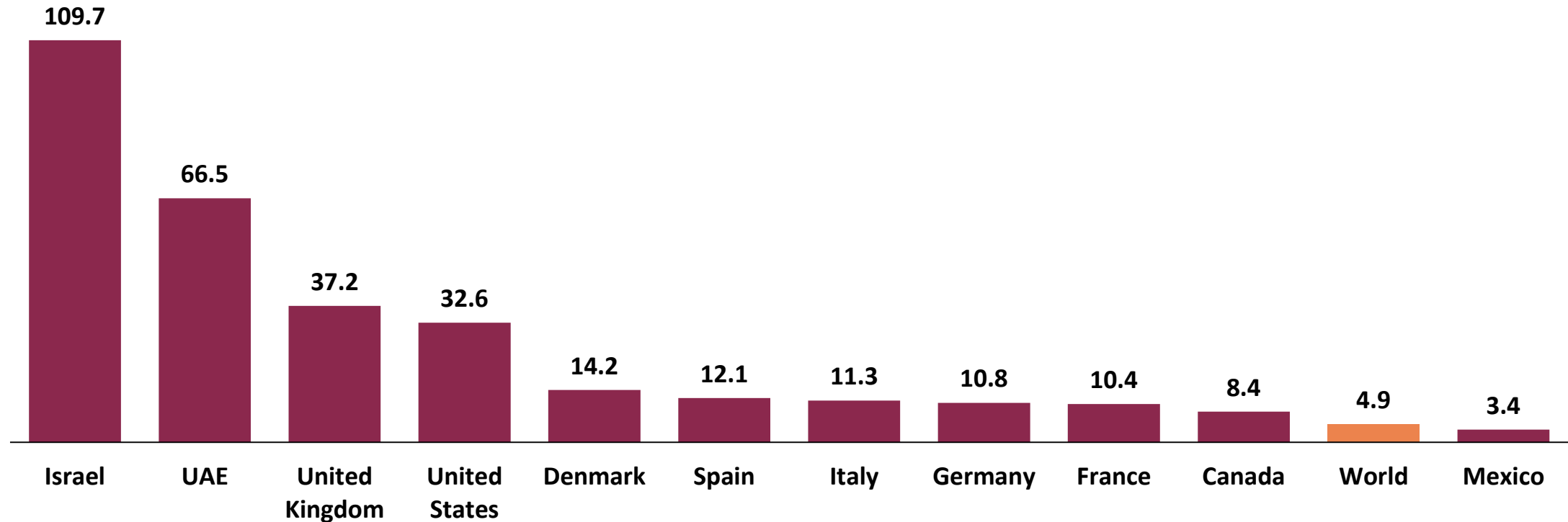


COVID-19 VACCINE DISTRIBUTION

Vaccines were developed and approved in record time, as distribution began in December 2020. Israel has had by far the fastest rollout, along with notable success in the U.K. and U.S.; most emerging markets are lagging behind.

Vaccine doses administered

Per 100 adults, as of March 16, 2021



UNPRECEDENTED GLOBAL POLICY RESPONSE

To address COVID-19, rapid central bank interest rate cuts and various large-scale asset purchase programs were followed by massive expansions in direct support for households and businesses in order to maintain liquidity. In March, U.S. President Joe Biden's administration passed that country's third major fiscal support package.

Monetary policy

U.S. Federal Reserve

150 bps rate cuts to effective lower bound (ELB) of 0.0-0.25%

Bank of Canada

150 bps rate cuts to ELB of 0.25%

European Central Bank

Operating at ELB of -0.5%

Bank of England

65 bps rate cuts to ELB at 0.1%

Bank of Japan

Already operating at ELB at -0.1%

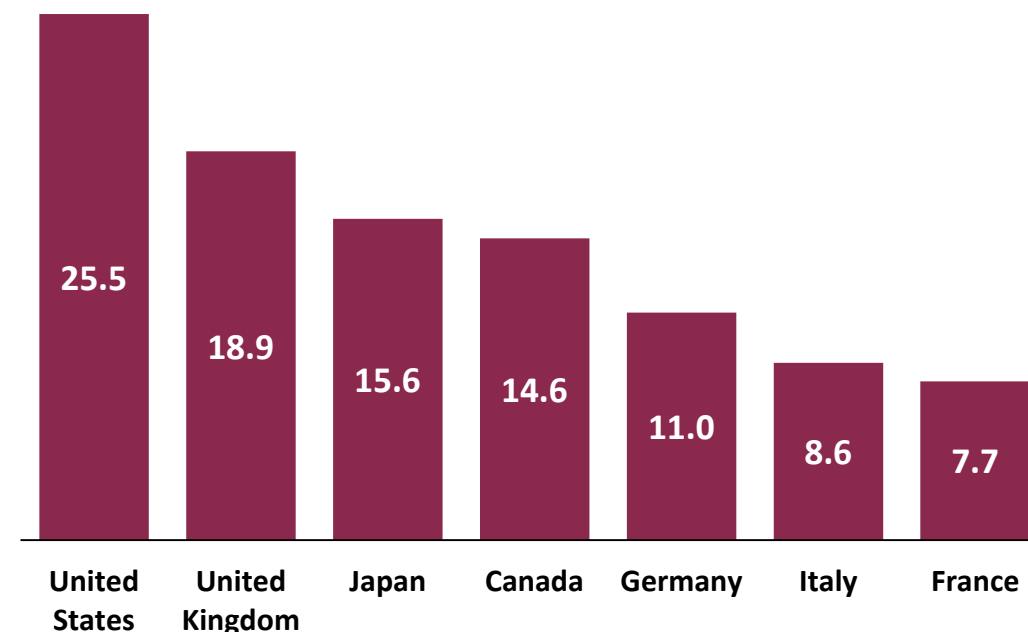
People's Bank of China

Various term lending rates cut to ease financial conditions

Central bank asset purchases have grown rapidly, and in G7 countries has been more than three times larger than the 2008-2009 global financial crisis.

G7 Direct Fiscal Measures to COVID-19

As of March 17, 2021, % of GDP

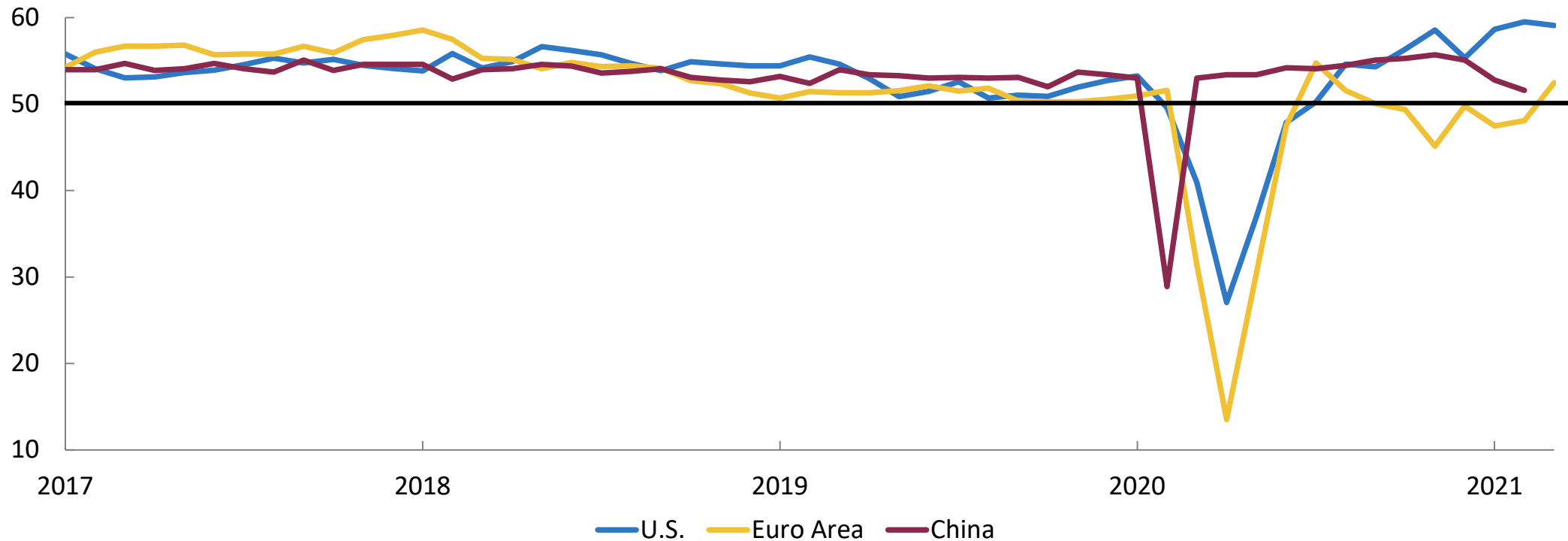


PURCHASING MANAGERS' INDICES

Manufacturing orders fell first in China, but bounced back once the pandemic came under control there. The rebound in Asia was followed by the U.S. and Europe. And while the U.S. continues to show strength, unfortunately European orders have slowed in recent months, leading to some decoupling across the global economies key engines of growth.

Purchasing managers' indices

50+ = expansion

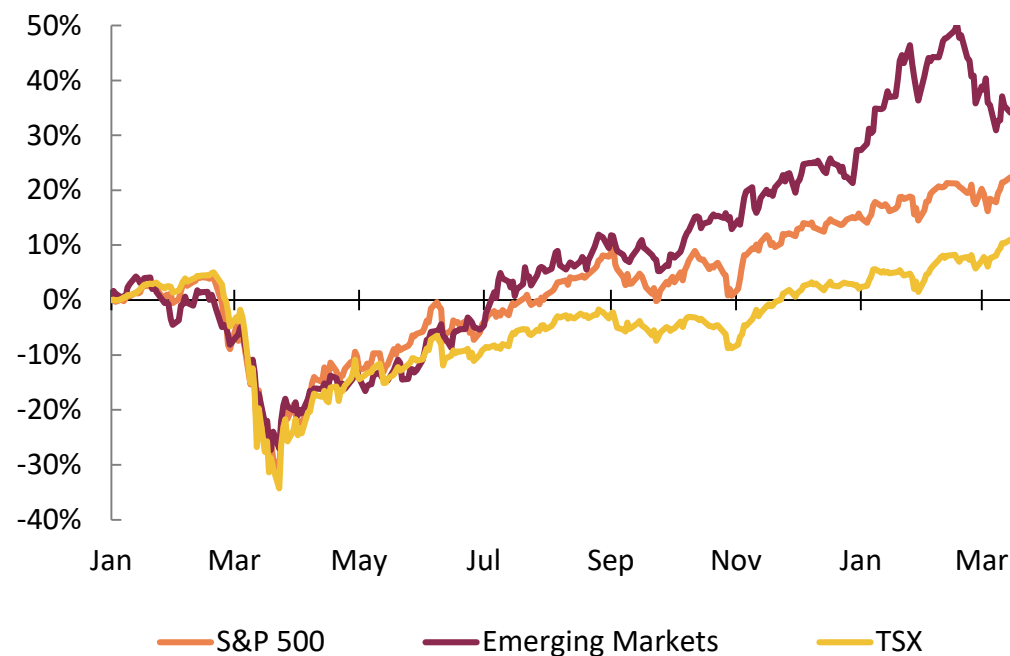


FINANCIAL MARKETS

Aided by massive policy support, equity markets have been buoyant, running well above pre-pandemic levels, but with large variation across sectors. Corporate borrowing costs and emerging market bond spreads fell from distressed levels early in the pandemic, but began inching up in March due to spillovers from rising inflation concerns in the U.S.

Global stock markets

% change since Jan. 1 2020



Global debt markets

%

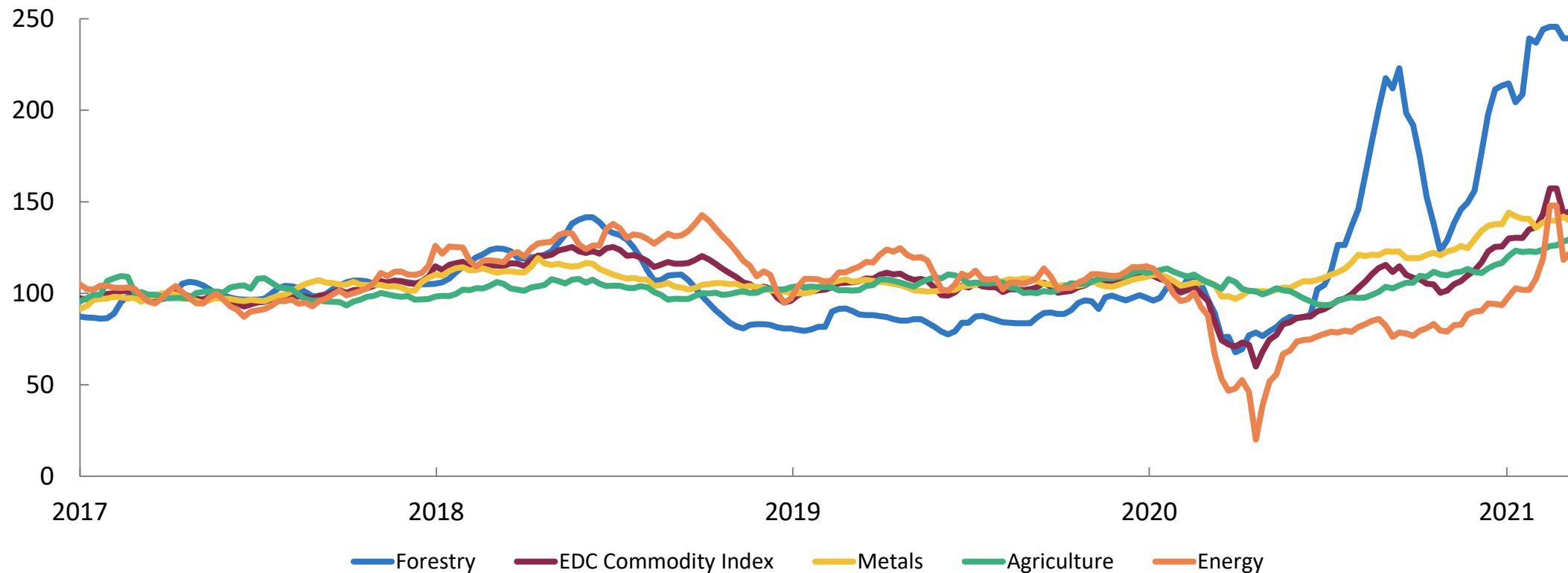


COMMODITY PRICES

Commodity prices have grown steadily from early pandemic lows. Forestry prices have led the way, supported by strong housing demand. Agriculture demand has been resilient. Metals, and more recently, energy prices have benefited from the stronger-than-expected global economic recovery.

EDC commodity indices

Index 2017 = 100

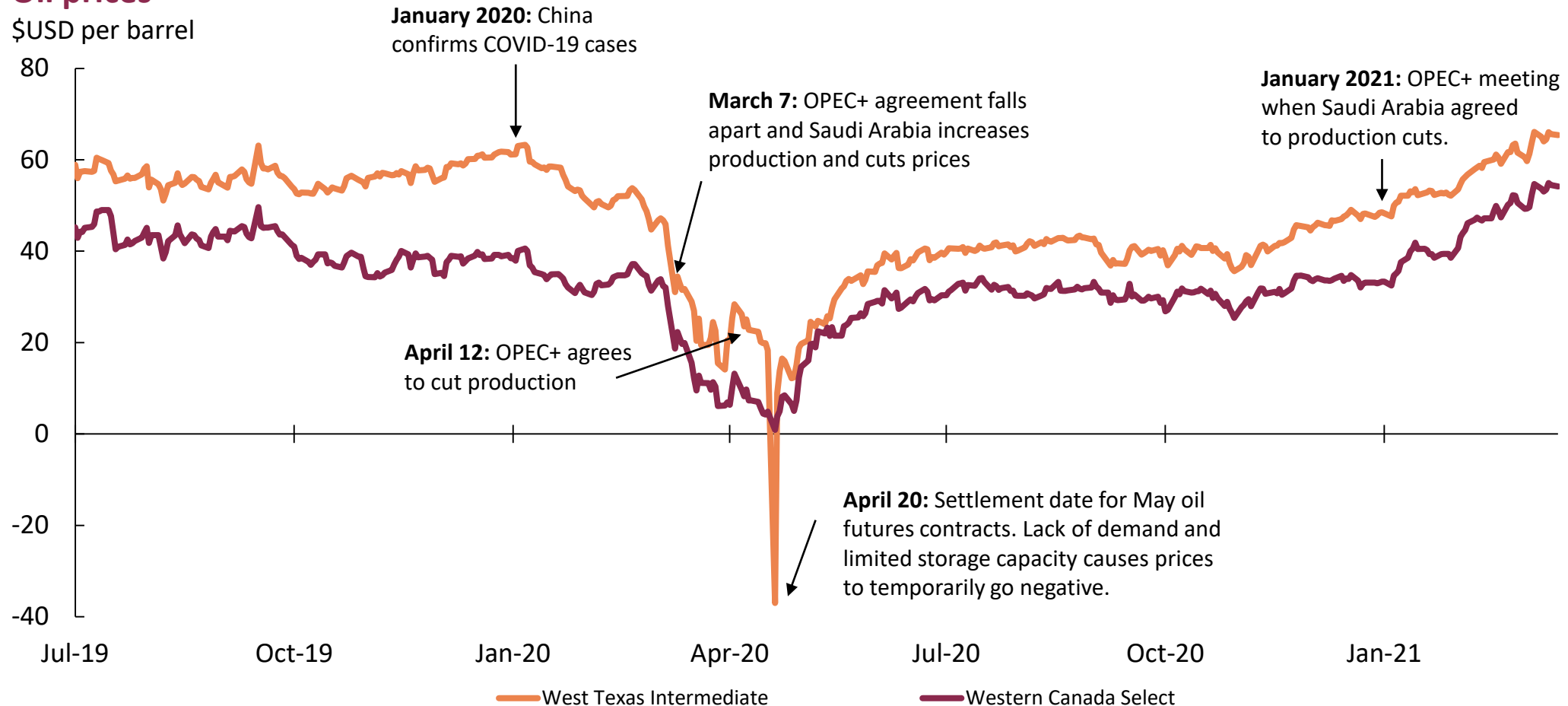


OIL PRICES

Oil prices have gained considerable strength in 2021, given growing evidence of recovering demand and restrained supply from key producers.

Oil prices

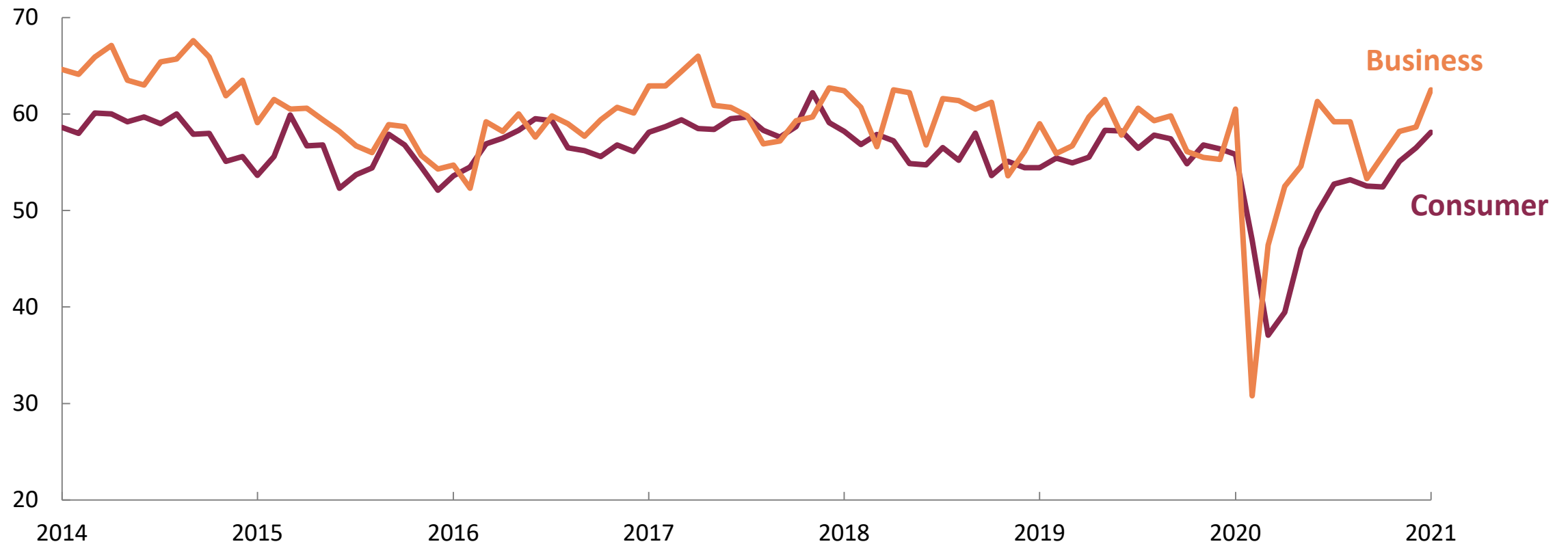
\$USD per barrel



CONFIDENCE

Canadian confidence has improved rapidly from the depths of the initial shutdown, with both businesses and consumers now above pre-pandemic levels.

Business and consumer confidence indices



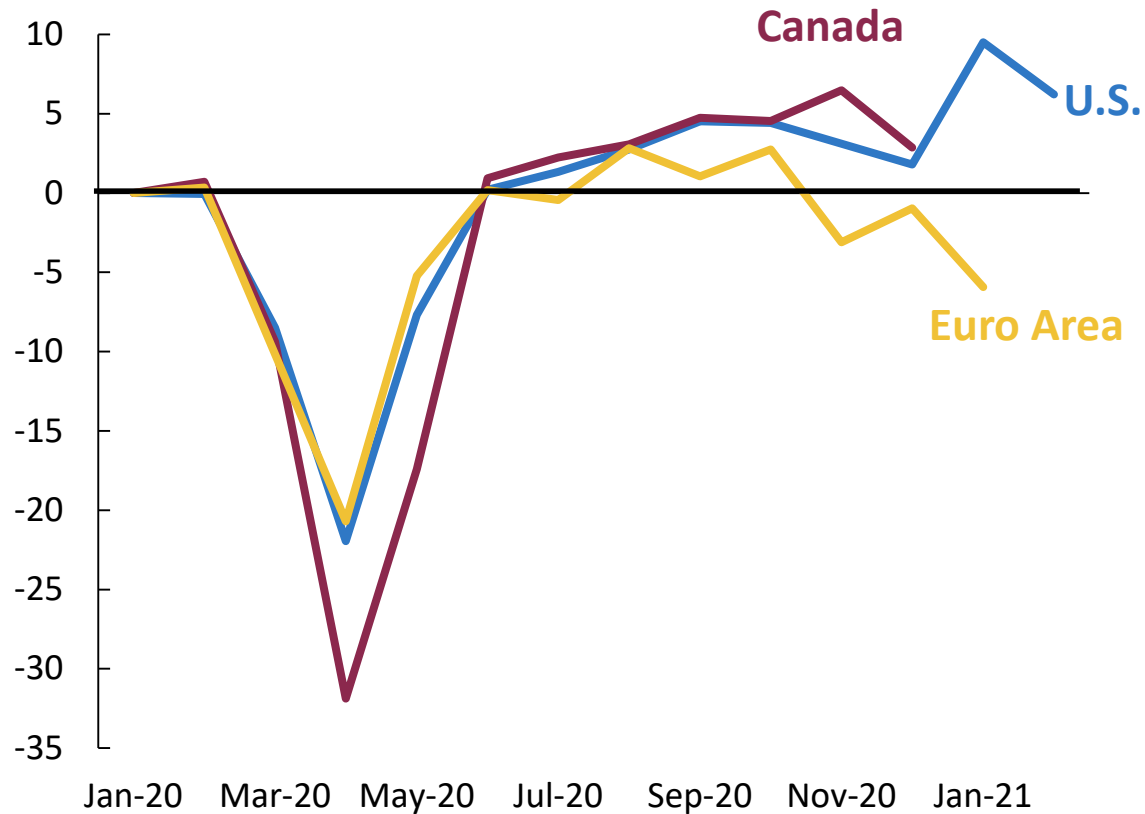
Sources: Nanos Canadian consumer sentiment index, CFIB business barometer

CONSUMERS

Retail sales took a major hit during the initial lockdowns, but activity shifted online and spending quickly recovered. With increased government transfers and limited ability to spend on high-contact services, savings rates spiked and high-income households now have large cash reserves, which will support future spending.

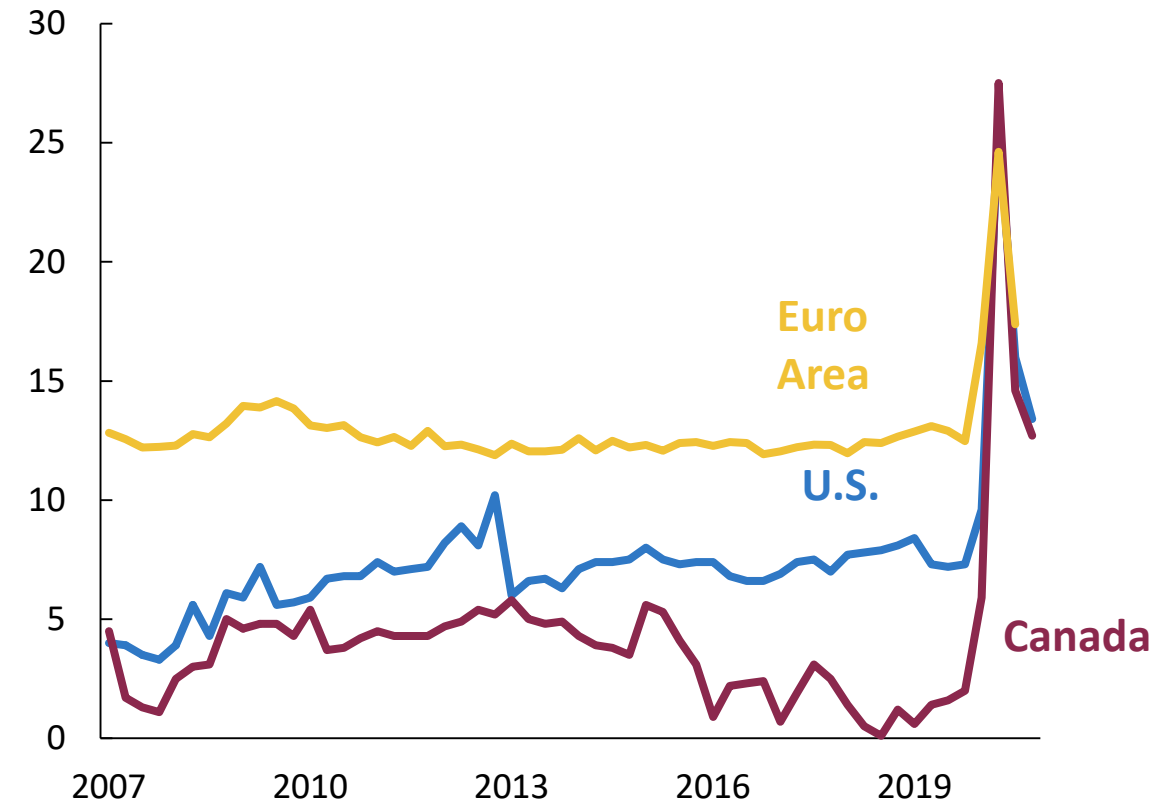
Retail sales

% change from January 2020



Savings rates

% of disposable income

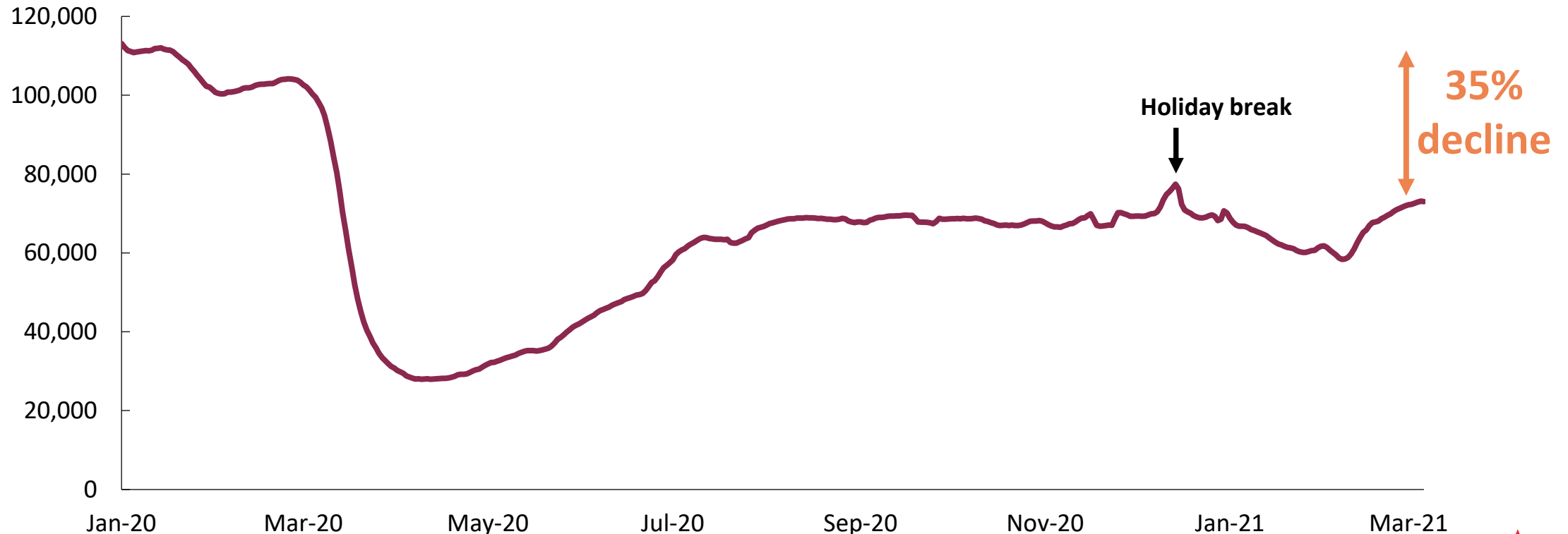


AIR TRAVEL

After restrictions grounded most international flights, there was an initial lockdown rebound in summer 2020, followed by a long period of subdued, but stable, activity. Flight traffic has increased recently, but remains 35% below pre-COVID-19 levels.

Daily active commercial flights

Weekly global average

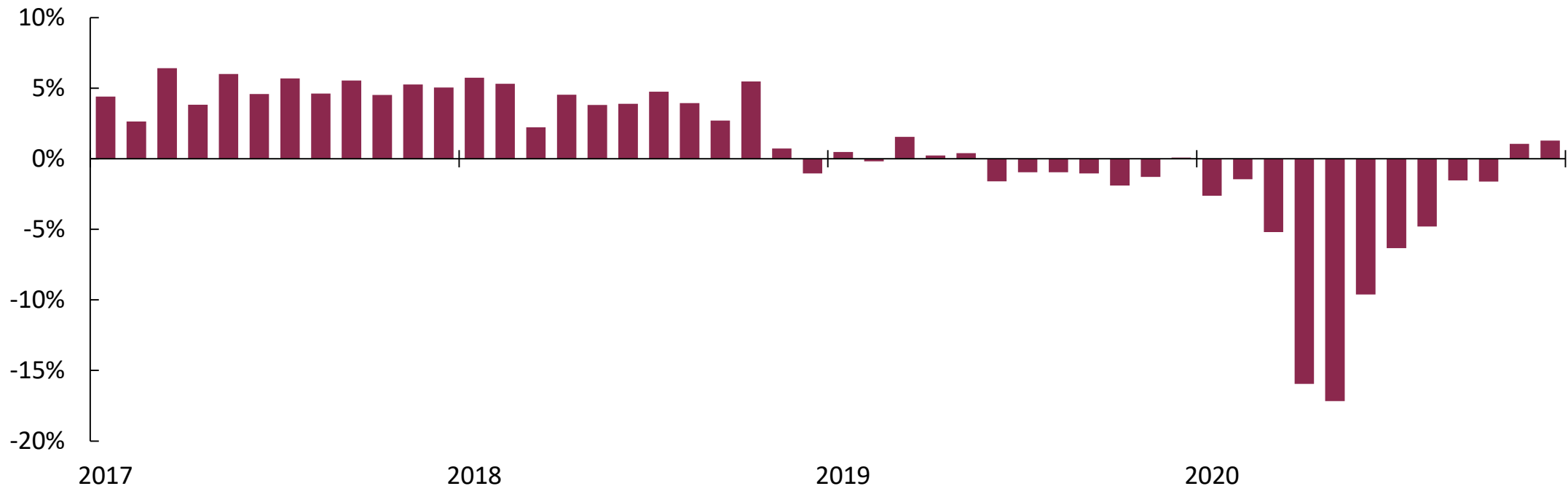


GLOBAL TRADE

Goods trade was hit hard during shutdowns from March to May 2020, but rebounded much faster-than-expected to finish 2020 above year-ago levels. In 2021, there are now reports of cargo container shortages. Services trade, particularly tourism, has been hit harder and more persistently due to border closings.

Global merchandise trade volumes

Annual % change

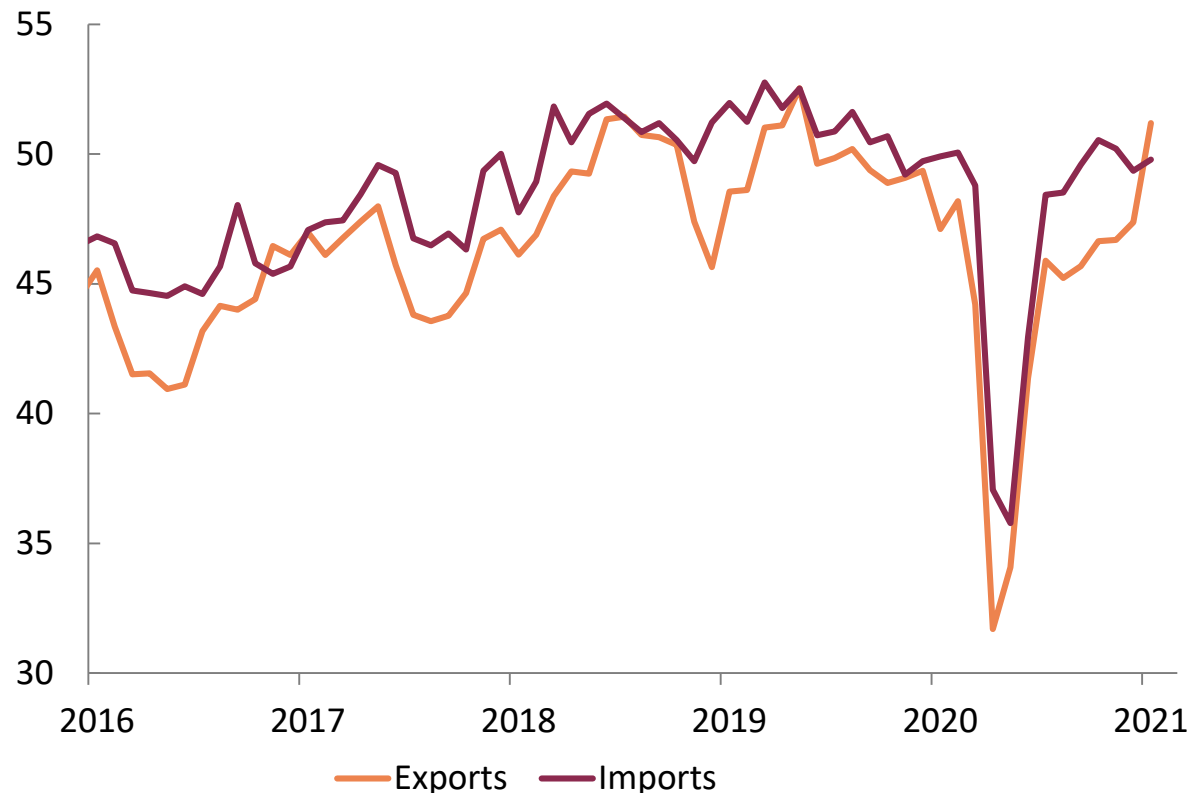


CANADIAN TRADE

Like global trade, Canadian goods trade rebounded quickly with a V-shape driven by restarting factories. January's export data were remarkably strong. Conversely, travel and transportation services have suffered an L-shaped setback in Canada and across the world.

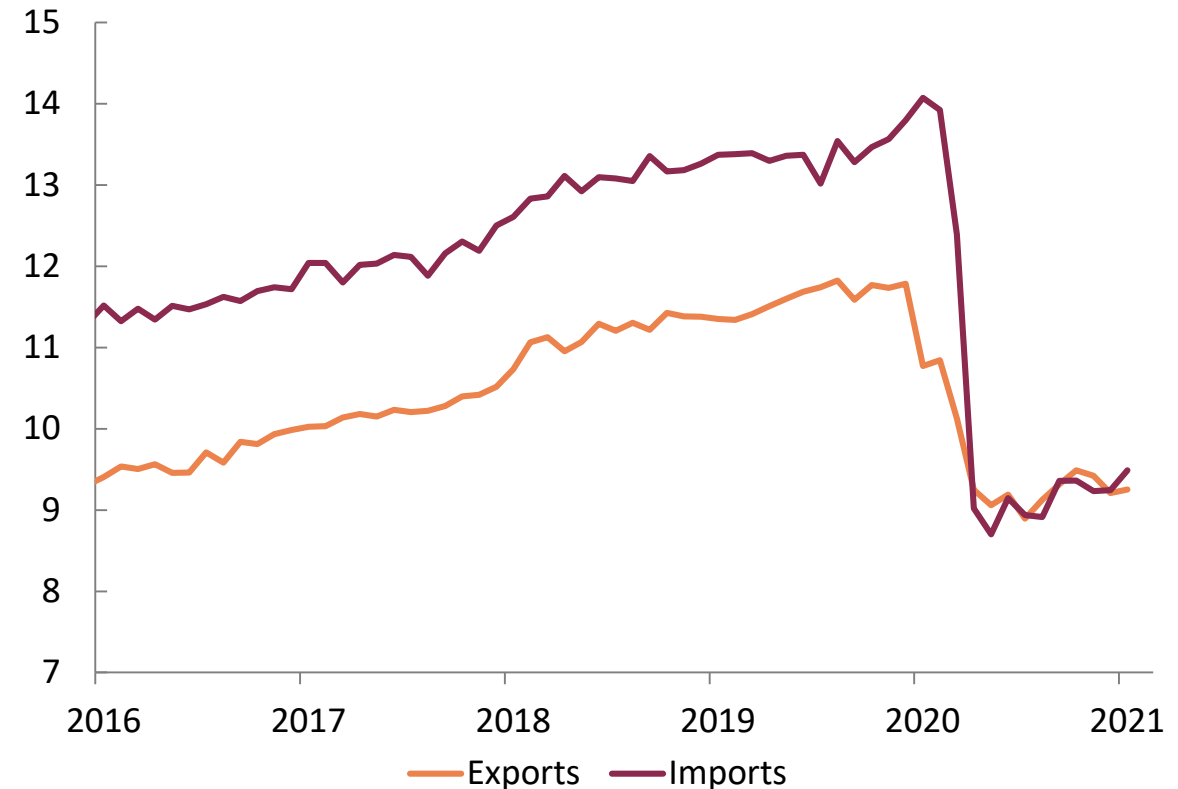
Merchandise trade

Billions of dollars



Services trade

Billions of dollars

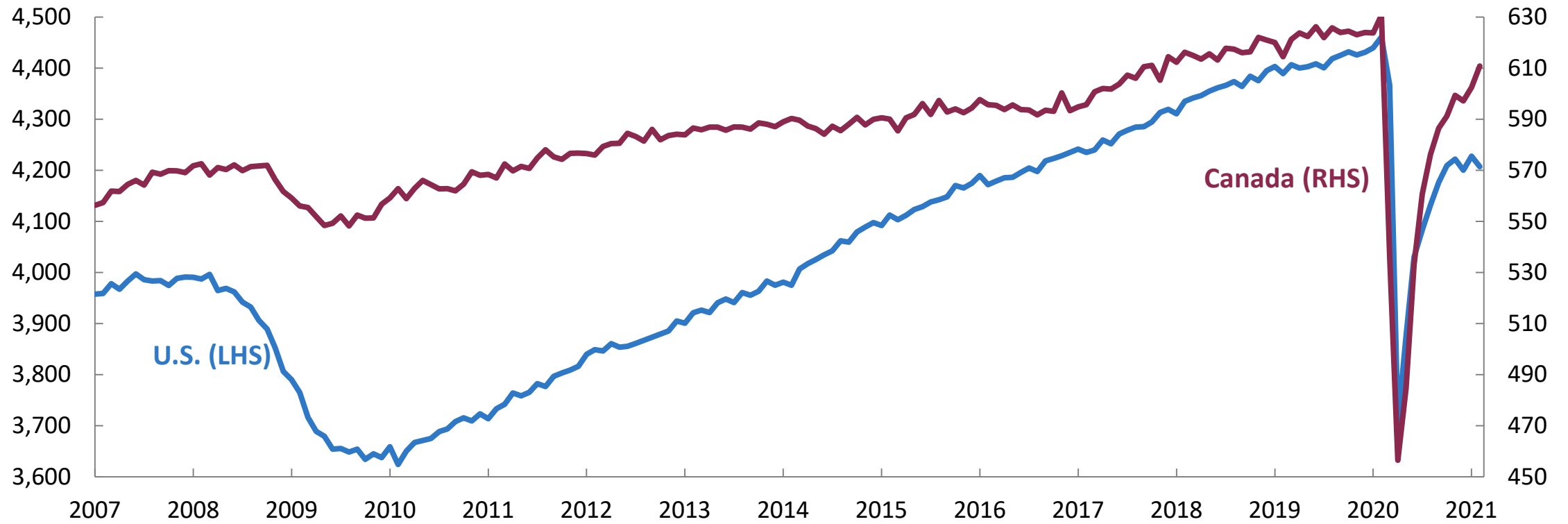


LABOUR MARKET

To date, the rebound in overall hours worked in Canada has out-performed the United States, but both countries still have further to go to reach pre-pandemic levels.

Total hours worked

Millions, monthly



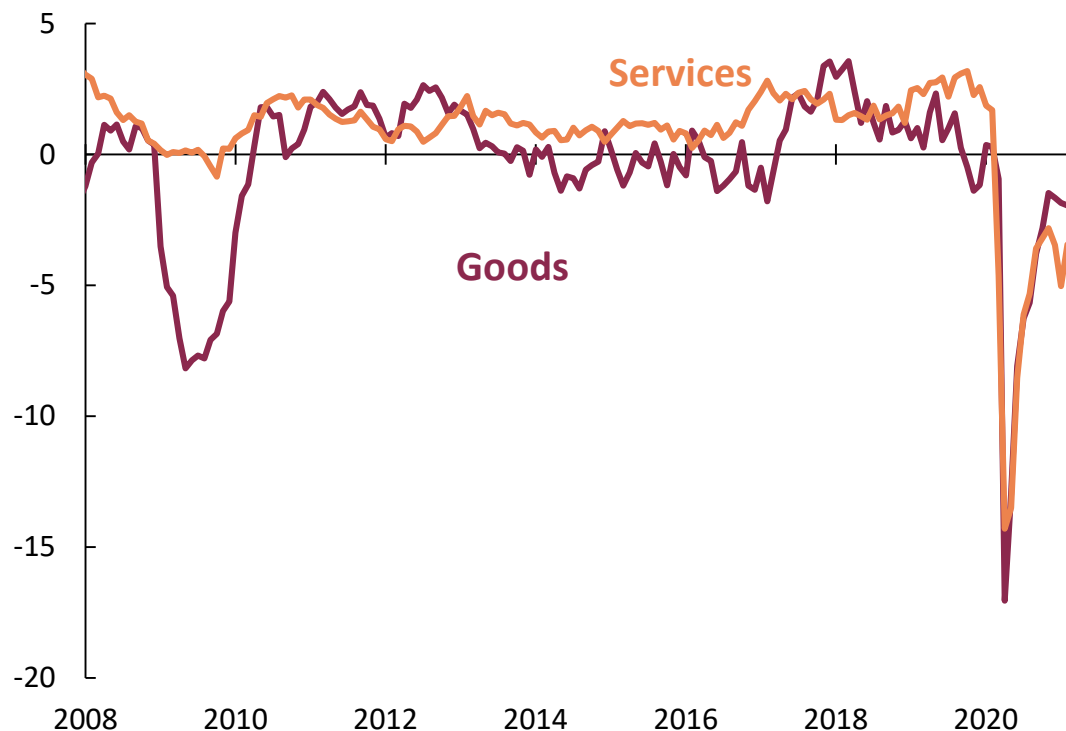
Sources: Haver Analytics, EDC Economics.

LABOUR MARKETS CONTINUED

Service jobs have been hit hardest in areas such as restaurants, retail and recreation. Alternatively, jobs have increased in services that can be delivered online, such as professional, education, finance and public administration.

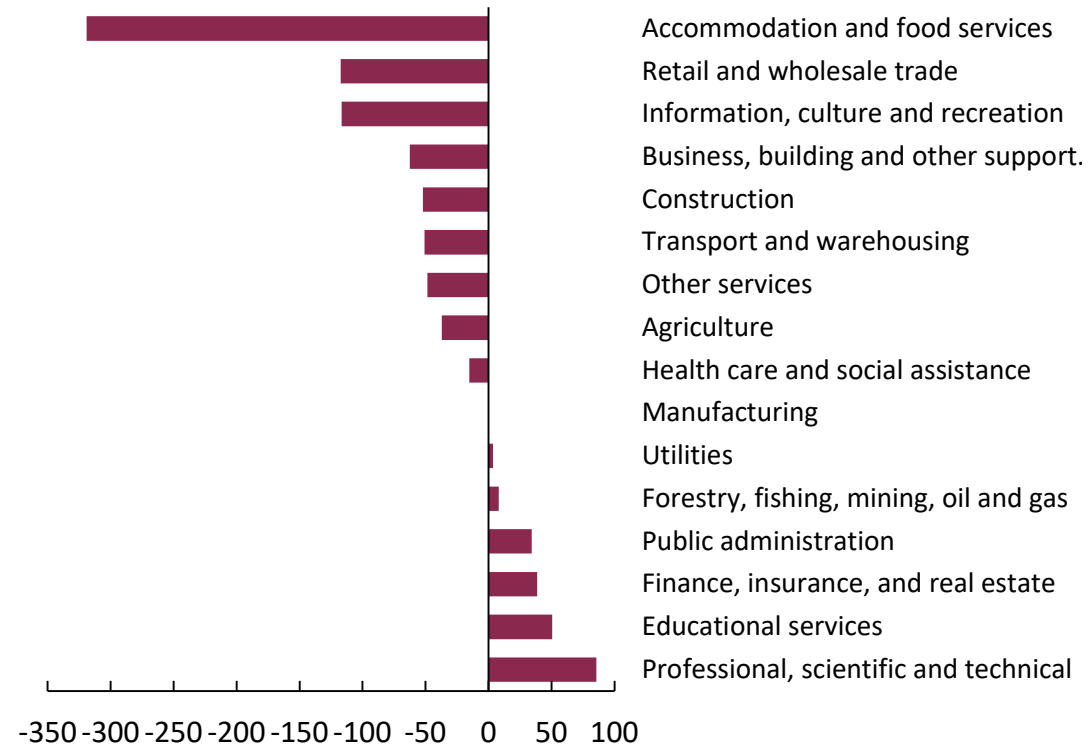
Goods and services employment

Annual % change



Canadian sectoral employment changes

February 2021, thousands of jobs year-over-year change

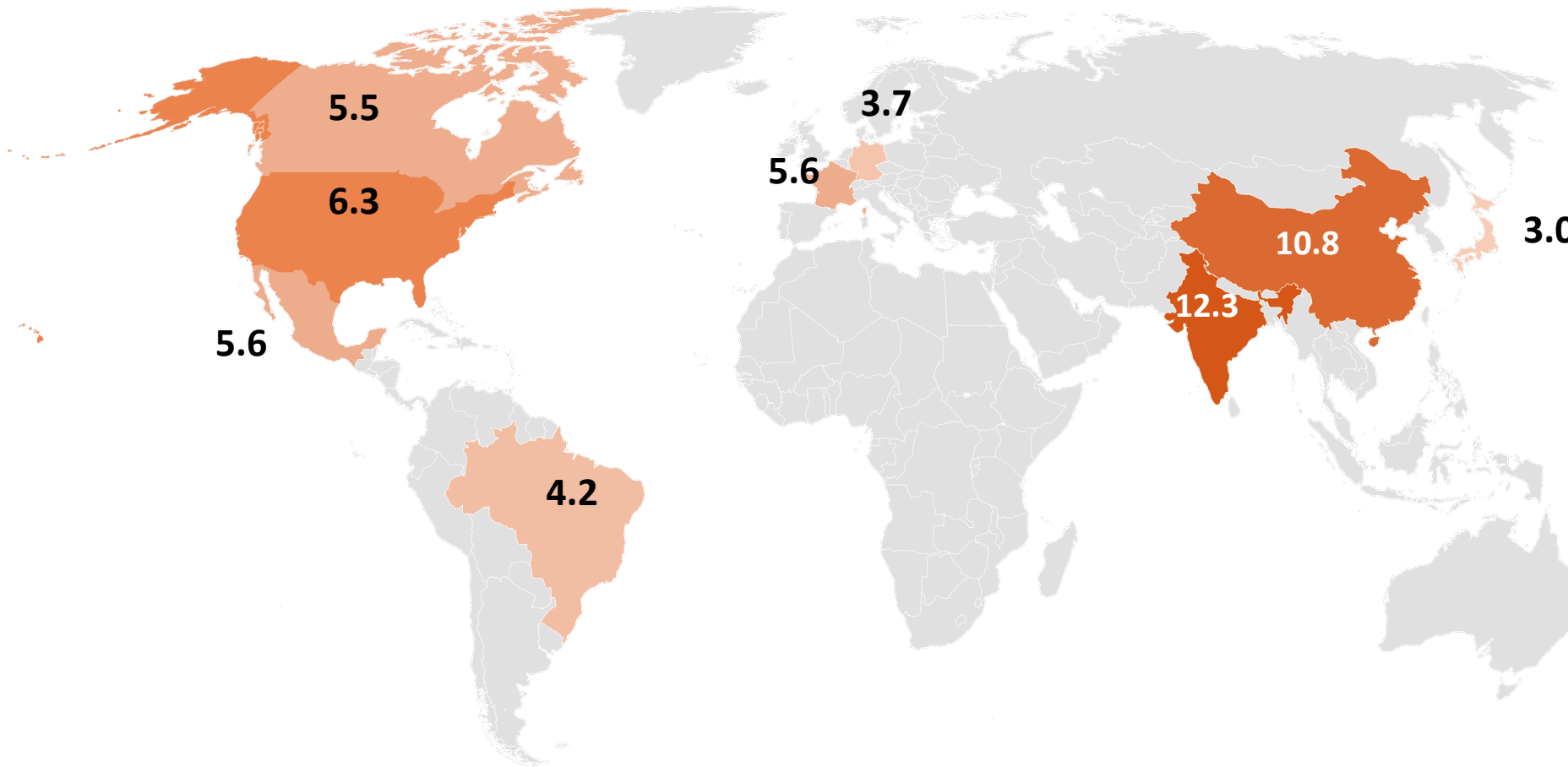


GLOBAL ECONOMIC OUTLOOK



2021 GROWTH OUTLOOK

Real GDP growth, %



6.4%

World

5.2%

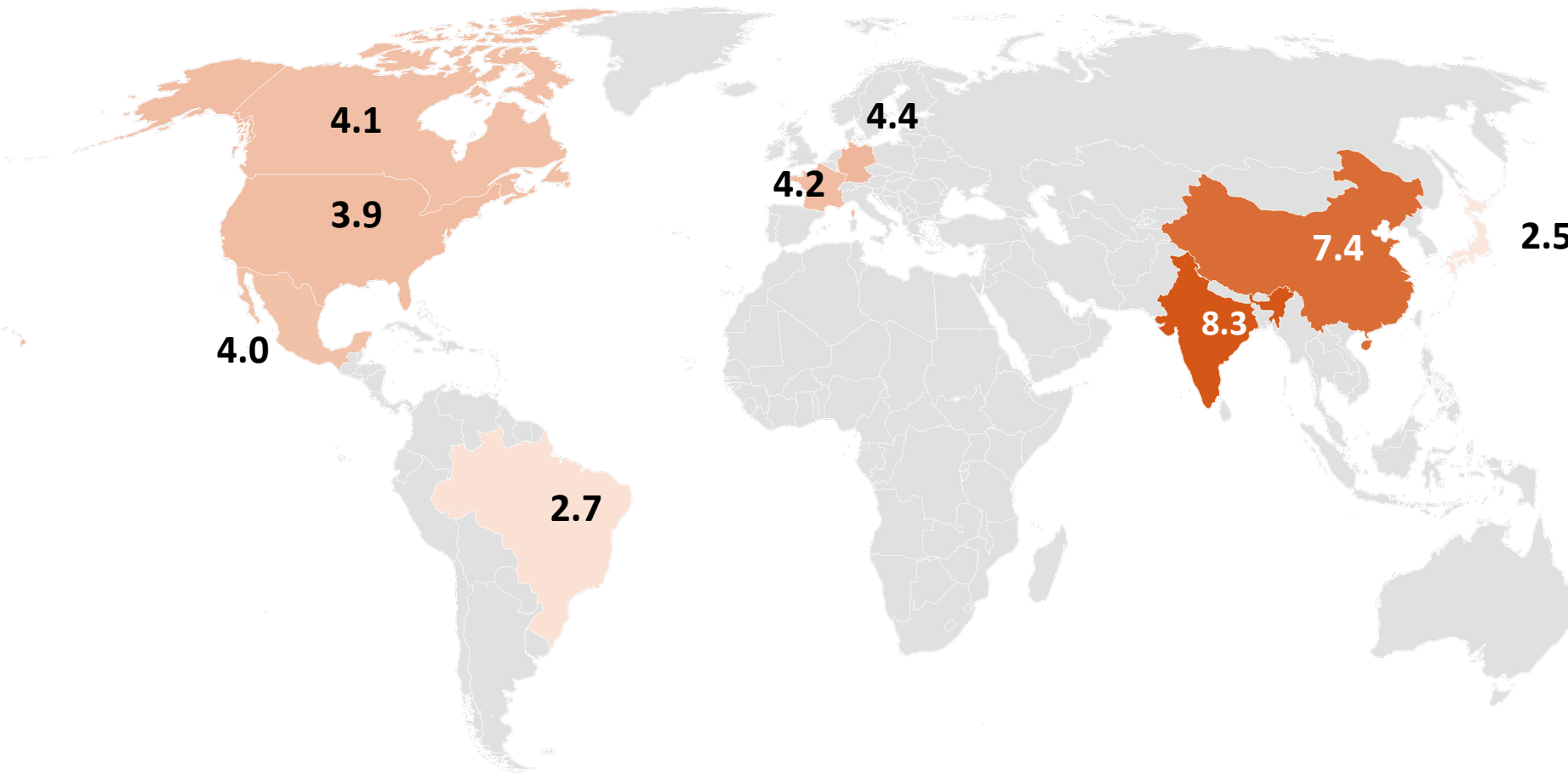
Developed

7.1%

Emerging

2022 GROWTH OUTLOOK

Real GDP growth, %



5.4%

World

4.1%

Developed

6.2%

Emerging

REAL GDP GROWTH

Global Economic Outlook (Annual % change)	2020	2021*	2022*
Developed countries	-4.8	5.2	4.1
Canada	-5.3	5.5	4.1
United States	-3.5	6.3	3.9
Eurozone	-6.8	4.3	4.4
Germany	-5.3	3.7	4.4
France	-8.2	5.6	4.2
Japan	-4.9	3.0	2.5
Emerging countries	-2.6	7.1	6.2
China	2.3	10.8	7.4
India	-6.9	12.3	8.3
Brazil	-4.2	4.1	2.7
Mexico	-8.5	5.6	4.0
Total World	-3.5	6.4	5.4

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, April 2021

CHANGES FROM PREVIOUS FORECAST

Global Economic Outlook Real GDP Growth (percentage point change)	2021*	2022*
Developed countries	1.0	0.1
Canada	1.1	0.1
United States	2.2	-0.1
Eurozone	-0.6	0.4
Germany	-0.9	0.8
France	-1.3	1.0
Japan	-0.1	0.2
Emerging countries	0.6	0.2
China	1.7	1.5
India	-0.2	-3.6
Brazil	-0.7	0.5
Mexico	0.0	-0.4
Total World	0.7	0.2

Note: * denotes the forecast period. Green shading denotes upward adjustments; red shading denotes downward adjustments.
Source: EDC Global Economic Outlook, April 2021 relative to January 2021.

CURRENCIES AND INTEREST RATES

Global Economic Outlook		2020	2021*	2022*
Currency	Exchange Rate			
U.S. dollar	USD per CAD	0.75	0.79	0.79
Euro	CAD per EUR	1.53	1.53	1.54
Euro	USD per EUR	1.14	1.21	1.22
Interest Rates, annual average				
Bank of Canada, <i>Overnight Target Rate</i>		0.56	0.25	0.25
U.S. Federal Reserve, <i>Fed Funds Target Rate (Upper limit)</i>		0.39	0.10	0.10
European Central Bank, <i>Policy Interest Rate</i>		0.00	0.00	0.00

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, April 2021

COMMODITY PRICES

Global Economic Outlook	2020	2021*	2022*
Brent Crude Spot , <i>USD / bbl</i>	41.76	57.15	57.43
West Texas Intermediate , <i>USD / bbl</i>	39.27	56.75	54.68
Western Canada Select , <i>USD / bbl</i>	27.82	40.71	43.68
Natural Gas , <i>USD / MMBtu</i>	2.02	2.76	2.80
Gold , <i>USD / troy ounce</i>	1,770	1,770	1,730
Copper , <i>USD / tonne</i>	6,170	8,790	7,575

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, April 2021

KEY FORECAST ASSUMPTIONS

COVID-19

EDC Economics' base case forecast includes the significant wave of new COVID-19 cases in North America, Europe and other regions in January 2021. Despite the fact many governments tightened restrictions, our forecast assumes these responses will generally be more decentralized and location-specific than the economy-wide lockdowns used earlier, and that there'll be less economic disruption.

In the first wave, companies were forced to adapt on the fly, changing how they do business in an environment of significant distress and uncertainty; in subsequent waves of infections, many companies and households will apply these learnings to mitigate the economic impacts.

Vaccines distribution began to ramp up in early 2021. We assume vaccines won't be widely adopted in advanced economies until the second half of 2021, and notably later in emerging economies.

Financial conditions

Central banks around the world are expected to continue to provide extraordinary liquidity to maintain market functioning and overall financial stability. The base case forecast doesn't include any systemic financial crises resulting from the COVID-19 pandemic. However, our outlook doesn't rule out the potential for localized debt defaults in some sectors and amongst some emerging markets during the later stages of the recovery as debt overhangs are worked out.

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 March 19, 2021.

Key upside risks

- The unprecedented government support in play across advanced economies could lead to a very strong recovery once vaccines are rolled out broadly, as significant “pent-up demand” is released into the economy.
- The rapid adoption of new technologies and shift of economic activity online due to COVID-19 lockdowns, includes e-commerce, remote work, automation and more. These changes could drive a productivity revival leading to a virtuous cycle of improved consumer, business and financial market confidence, stronger spending and investments, and a prolonged period of growing financial wealth due to strengthening asset prices in equities and housing.

Key downside risks

- New variants of the virus could lead to further spikes in COVID-19 cases, hospitalizations and mortality, leading governments to reimpose strict lockdowns.
- Given the highly unequal nature of the COVID-19 shock across sectors, labour market “scarring” could reduce labour force participation for those in some of the hardest hit sectors, and eventual insolvencies of SMEs and other adjustment costs of reallocating capital and labour across sectors could significantly slow the recovery, even after the pandemic is under control.

DISCLOSURE

Ce document est également disponible en français.

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