Global Economic Outlook

Beginning the descent

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

EDC Economics
July 2024

Canada

EDC

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Global Economic Outlook: Beginning the descent

Stuart Bergman
Vice-President and Chief Economist

When climbing a mountain, the focus is usually on reaching the peak. With a gaze firmly fixed on the summit, the way up often seems easier than the way down. But it's often on the descent when trouble strikes, as sheer mental and physical exhaustion can lead to costly mistakes, with sometimes painful consequences.

As global inflation returns to a more acceptable range, central banks in advanced economies—with the notable exception of the U.S. Federal Reserve—have taken steps to begin easing monetary policy. But, together with price increases, higher-for-longer interest rates have pressured the economic outlook in many countries. This has left policy-makers grappling to find their footing, all while navigating economies squeezed by tighter financial conditions.

In our summer Global Economic Outlook (GEO), EDC Economics expects the global economy to see modest growth of 3.1% in 2024, as key central banks begin their policy rate descent. In 2025, growth will increase to 3.5%, as the lagged effects of interest rate cuts and a more stable price environment improve demand conditions.

A weak outlook for Canada's economy is one of the key factors that caused the Bank of Canada to take the lead once again among G7 central banks, cutting rates at its June meeting. We forecast growth of 1.1% for the Canadian economy in 2024, before improving to 1.9% in 2025.

While interest rates have started to come down, more is needed to ease the pressure on the heavily indebted Canadian consumer, as total household debt payments increased by nearly 8% in the first quarter of 2024, compared to a year earlier. An elevated debt service ratio, among the highest in the Organisation for Economic Co-operation and Development (OECD), has caused Canadians to focus on saving rather than spending.

As demand cools, businesses will take a breather on near-term spending plans again this year, before rebounding in 2025, alongside easing borrowing costs and firming demand conditions. This relatively soft backdrop, together with the Bank of Canada's trailblazing policy moves, will cause the loonie to fall to an average US$0.72 in 2024, before jumping to US$0.75 in 2025, as the policy gap closes.

Continued momentum in the U.S. economy, and persistent inflation, has forced the Fed to keep its powder dry so far this year. However, the gravitational pull of higher interest rates appears to be catching up with the labour market, curbing the pace of job gains and moderating wage increases from their peaks of the last few years. Slower hiring and wage growth, coupled with depleted pandemic-era savings, will wear on consumer demand and overall U.S. growth through the second half of 2024. We expect the U.S. economy to post growth of 2.3% in 2024, and 1.8% in 2025.

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A weaker second half will set the Fed up for a late-year rate cut, beginning its cautious descent, while keeping close watch of inflationary pressures. At this pace, U.S. interest rates will experience some divergence from other major economies, providing some lift to the U.S. dollar and putting other currencies under pressure.

While Euro weakness will provide a minor boost to European exports, it won't be enough to propel overall growth. We forecast Euro Area growth of just 1% in 2024 and 1.7% in 2025. In Germany, the region's industrial engine, capacity utilization continues to be the weakest in recent history, outside of the COVID-19 and global financial crisis periods. France will also continue to post below potential growth, but a somewhat resilient consumer should be emboldened by declining interest rates and the impacts of the Paris Olympics.

China's economy will continue to face challenges, though it'll record growth of 5% this year and 4.6% in 2025. While these would be impressive growth rates in many parts of the world, for China, this is a step down from its pre-pandemic peaks. Despite targeted government support measures, ongoing impacts of the property sector collapse, together with weak consumer and business confidence, will cause domestic activity to underwhelm. Exports, meanwhile, will be constrained by ongoing retaliatory protectionist measures and still-soft global demand.

The relatively modest global outlook in 2024 will translate into a soft environment for commodity prices. Copper and gold have been exceptions to this trend, driven mainly by idiosyncratic factors—like the energy transition, supply constraints, geopolitical volatility and speculative activity—which we expect to continue through the second half of the year. West Texas Intermediate oil prices are forecast to average slightly less than US$81 per barrel in 2024, before dropping to around US$75 per barrel in 2025, as supply growth continues to outpace demand growth.

The bottom line?

While reaching the summit requires strength and endurance, discounting the descent can lead to a world of trouble. As central banks begin the slow climb down from their historic rate hikes, they'll need to be cautious to avoid any policy missteps, ensuring growth returns to economies while inflation remains in check.

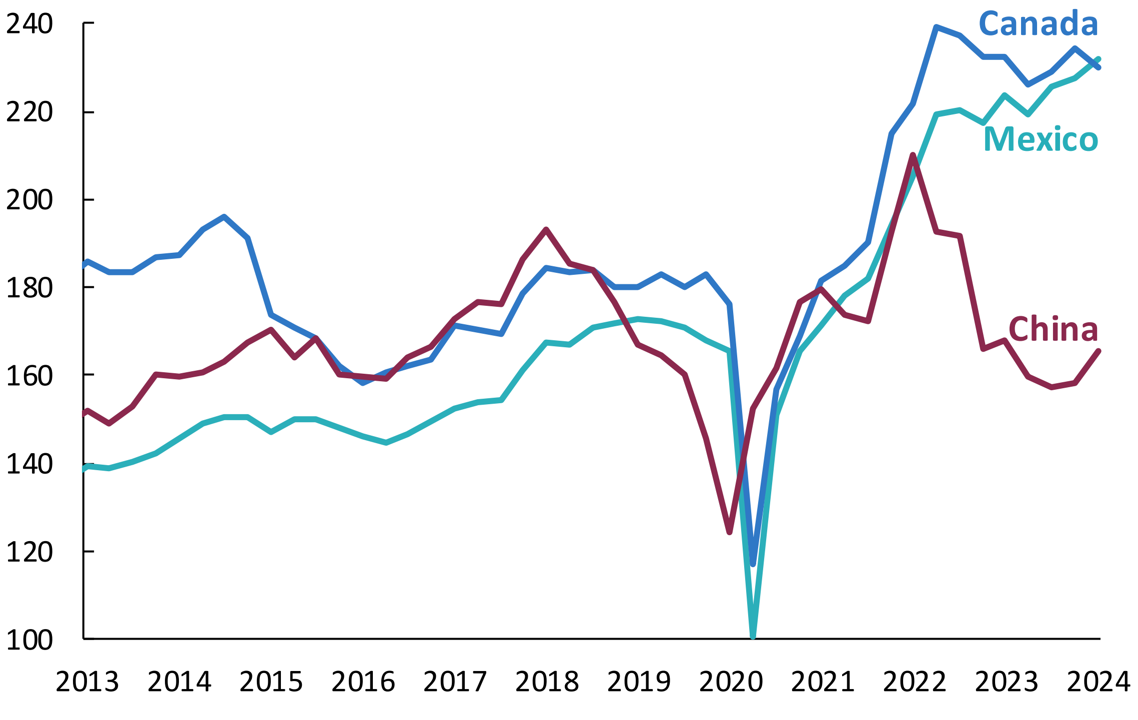
MACROECONOMIC CONTEXT

International trade flows are shifting

The 2008 financial crisis, rising geopolitical tensions, and a global pandemic have weighed heavily on global trade and capital flows. Despite this, the data shows a reorientation of global trade links rather than a complete severing. Supply chain management isn't solely a cost-based exercise anymore, but it is also focused on increasing resilience. This likely means shifting trade and investment patterns that now pass through more diverse markets.

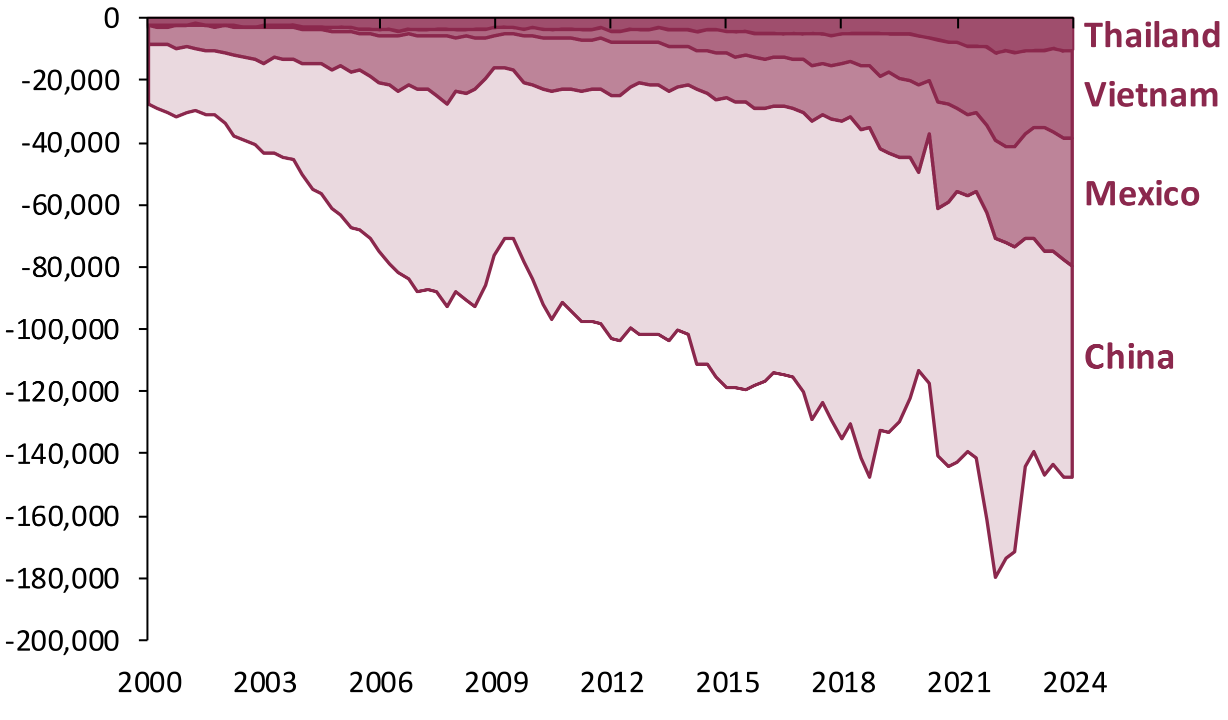
Mexico becomes top U.S. trading partner

Total trade in millions of US$, SA



U.S. trade deficit with China may be changing, not shrinking

U.S. trade deficits with select countries in millions of US$, SA



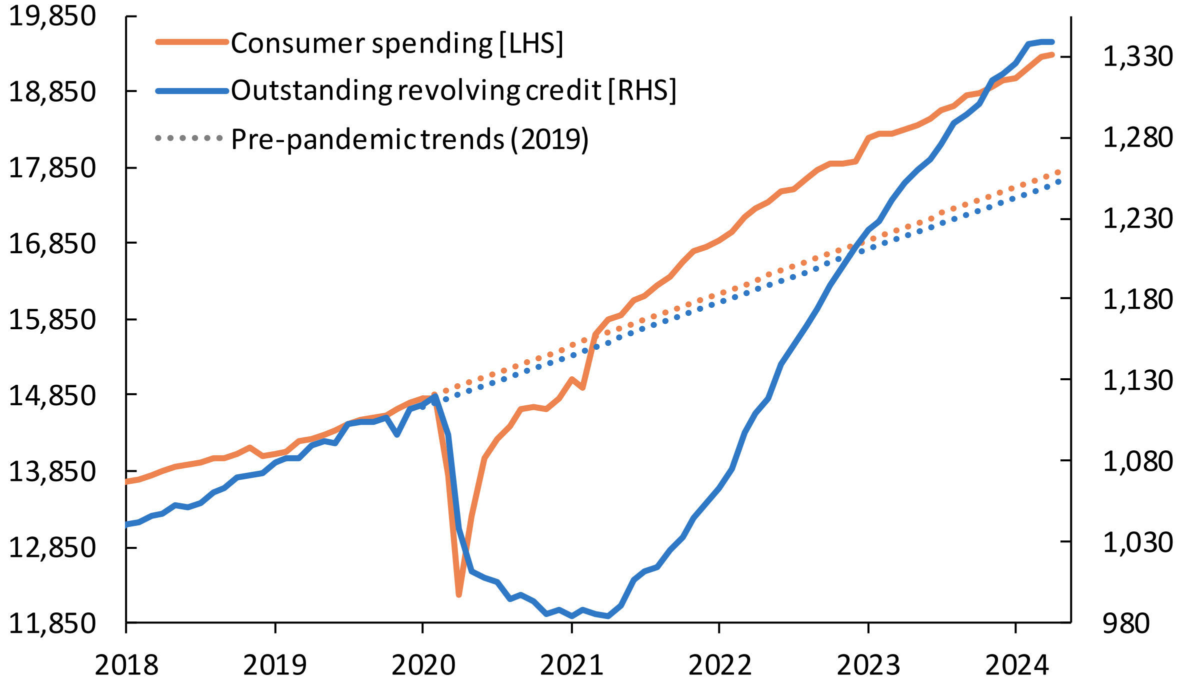
Sources: Haver Analytics, EDC Economics
Note: Seasonally adjusted (SA) and all graphed data is quarterly

U.S. consumer revolving credit and spending at record levels

U.S. consumer spending has defied all expectations—buoying global demand, dispelling recession expectations, and postponing Federal Reserve rate cuts. Now, the world is waiting for spending to slow and U.S. inflation to fall. Advanced indicators, like Visa's spending momentum index, suggest spending may already be slowly decelerating. This is backed by declining wage growth and rising new delinquencies signaling a growing weakness in consumer finances.

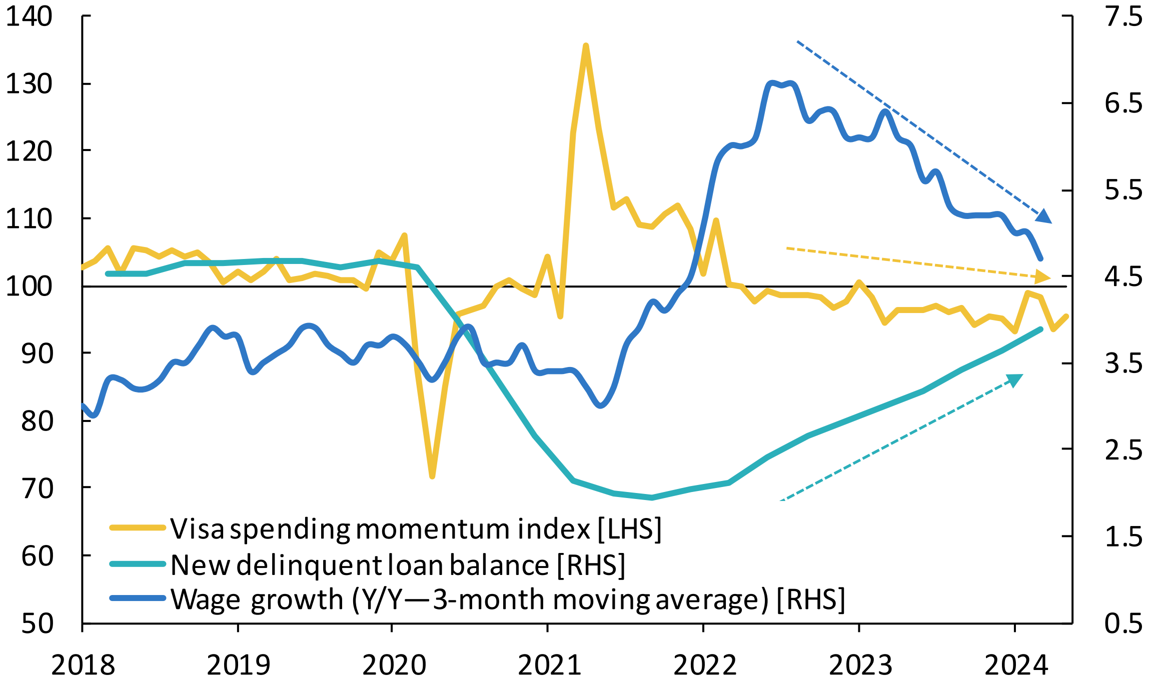
U.S. consumer spending and outstanding revolving credit

Billions of US$, seasonally adjusted



Consumer spending losing support

Index (+100 = strengthening); percents



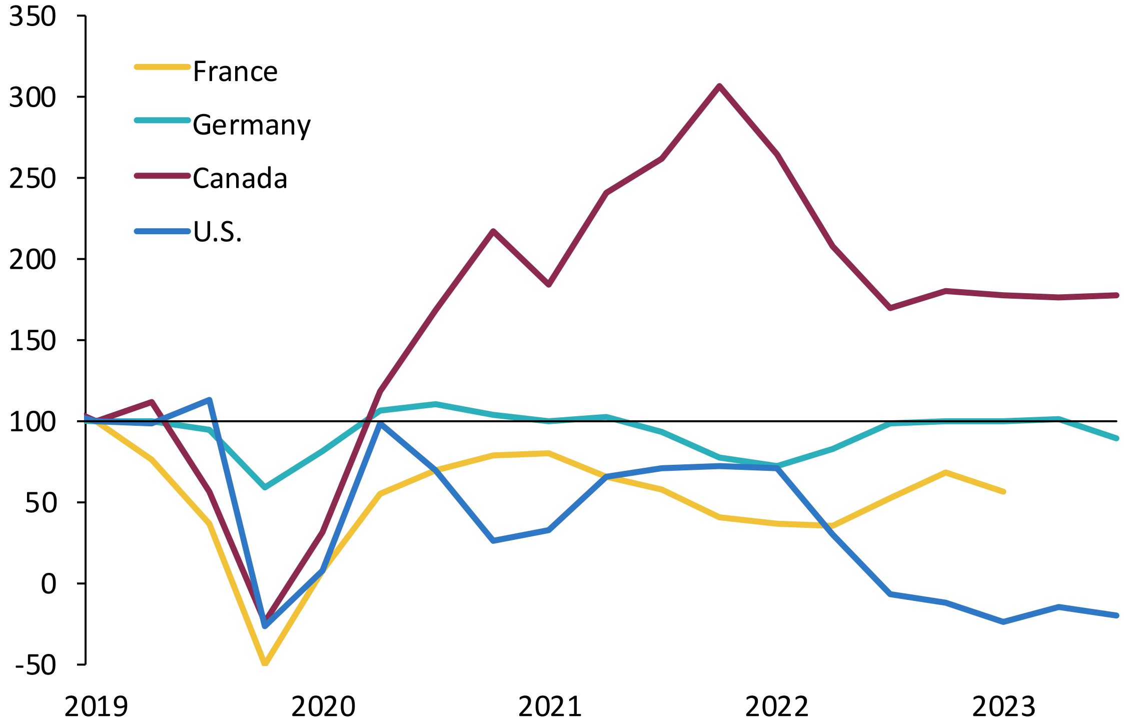
Sources: Haver Analytics, EDC Economics
Note: The pre-pandemic trend is a linear fit to the 2019 monthly data, Y/Y = year-over-year

Heavily indebted Canadians cautious as debt servicing weighs on sentiment

In stark contrast to many others, Canadian consumers have continued to save substantially following the pandemic—weighing heavily on demand growth. This can be partly attributed to Canadian household debt levels and exposure to elevated interest rates. Canadian consumer confidence, which has trended downward since 2022 (compared to the more confident U.S. consumer), is also a driving factor in their savings decisions.

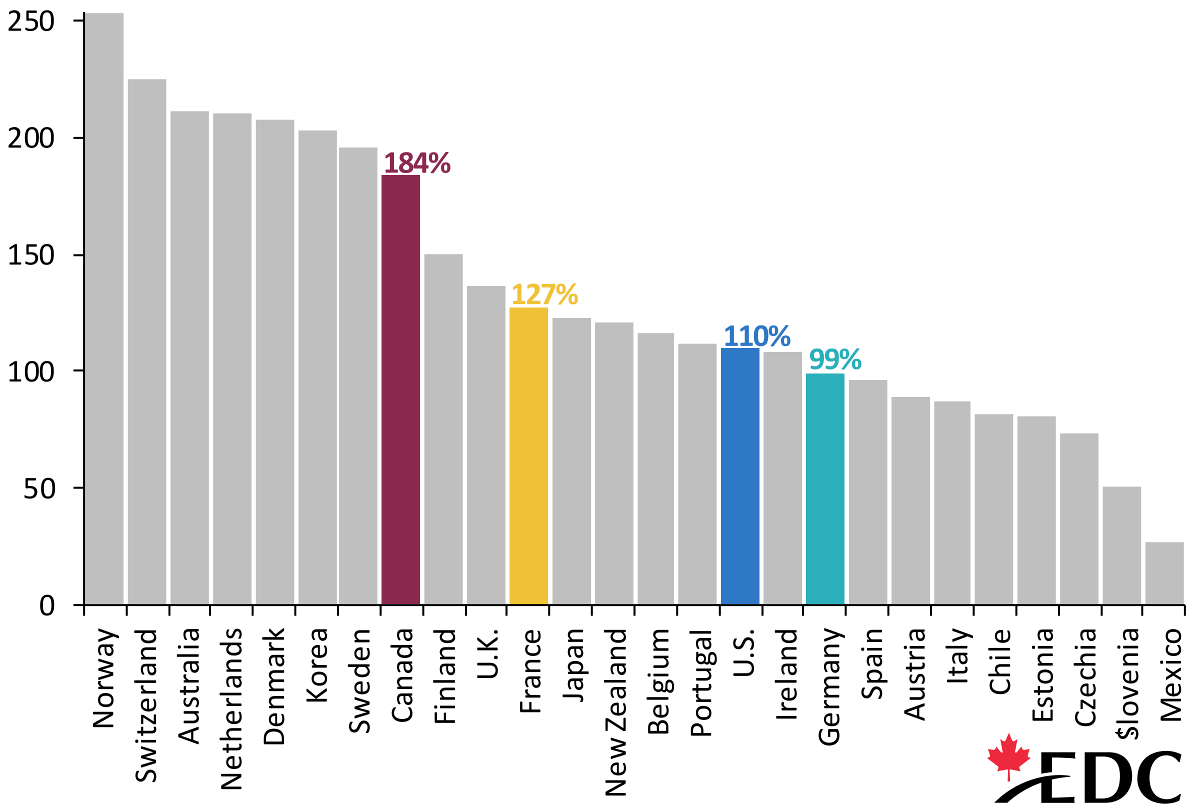
Canadian's saving more than peers

Net national savings indexed to Q1-2019 = 100



Canadian household debt above most peers

Share of household debt to disposable income



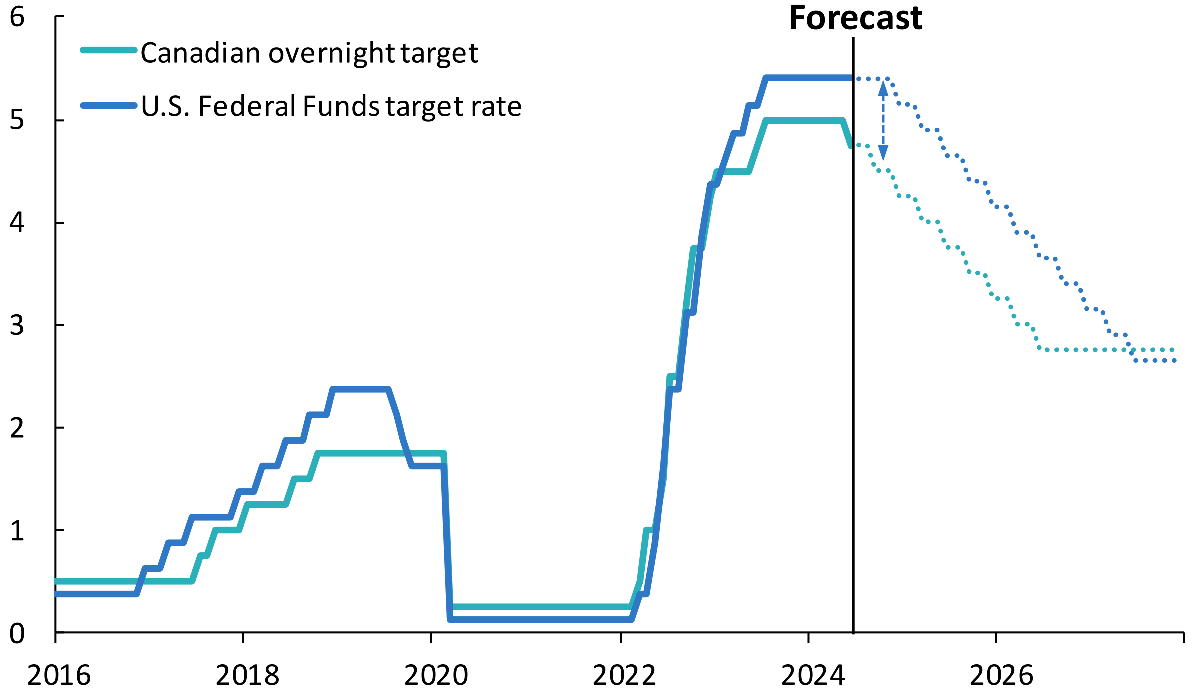
Source: OECD, Haver Analytics
Note: Household debt values are most recent annual values—primarily 2022, but some 2021 and 2023; U.S. consumer confidence refers to the University of Michigan's consumer sentiment values

Policy rate divergence between Canada & the United States

In June 2024, Canada was the first G7 country to cut its interest rates—followed by the European Central Bank. EDC Economics expects these cuts to continue steadily until 2026. In contrast, the U.S. is expected to push rate cuts back until the end of 2024, resulting in policy rate divergence. This will increase demand for the U.S. dollar, putting downward pressure on the loonie—supporting export demand, but raising import costs.

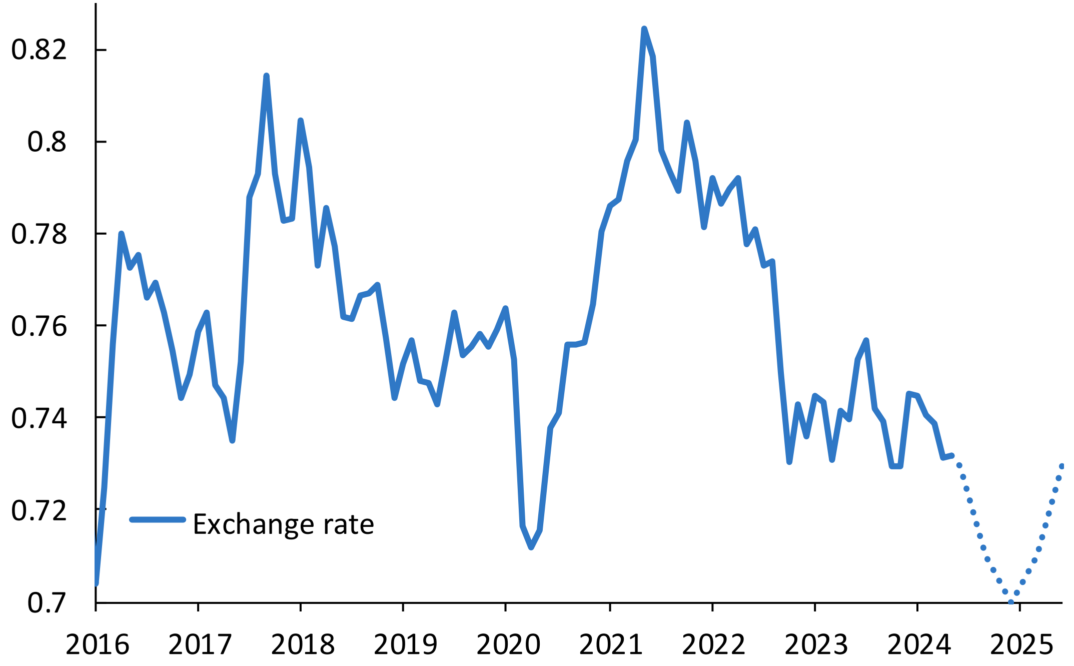
Policy interest rate projections

Monthly end-of-period policy rates (%)



Policy divergence expected to weigh further on C$

US$ per C$ exchange rate



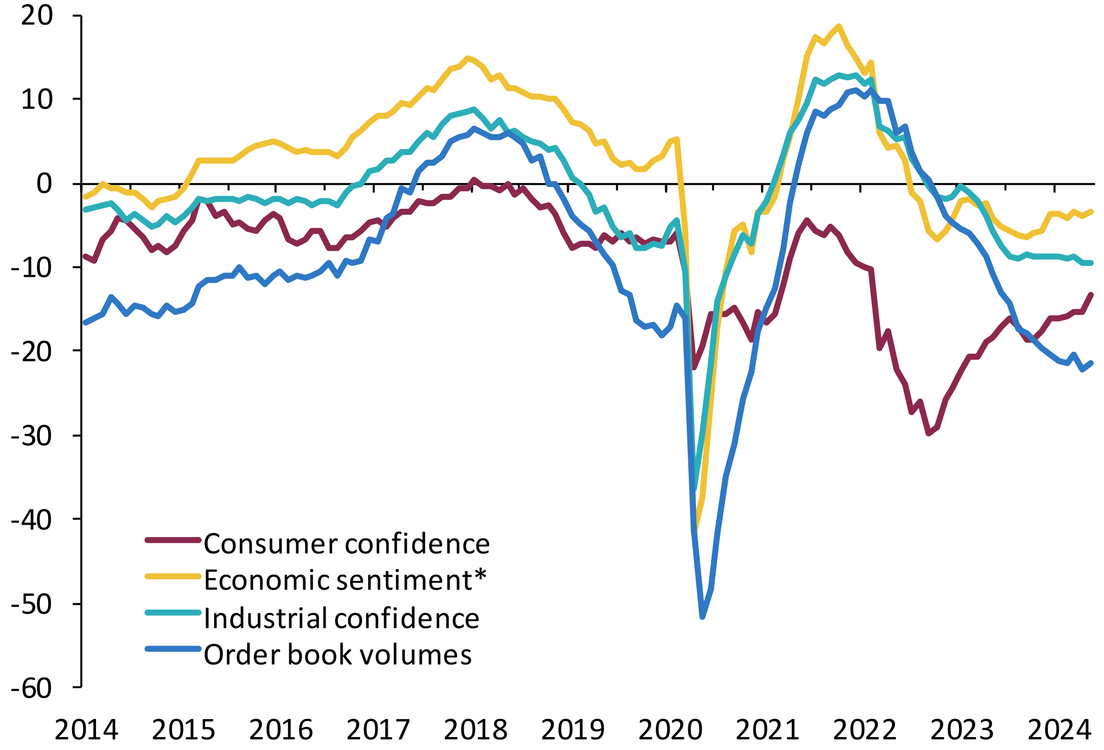
Sources: Haver Analytics, EDC Economics

Despite rising inflation, weakness keeps EU interest rate cuts on track

Notwithstanding a surprise uptick in European Union (EU) inflation, there's been little impact on the European Central Bank's (ECB) interest rate cut expectations. This is primarily driven by underlying economic weakness in the region, mitigating risks of overheating. Consumer confidence, economic sentiment, and industrial confidence have all been weak for more than a year. As the EU focuses on building growth and confidence, it's also confronting structural challenges, like energy security and aging demographics.

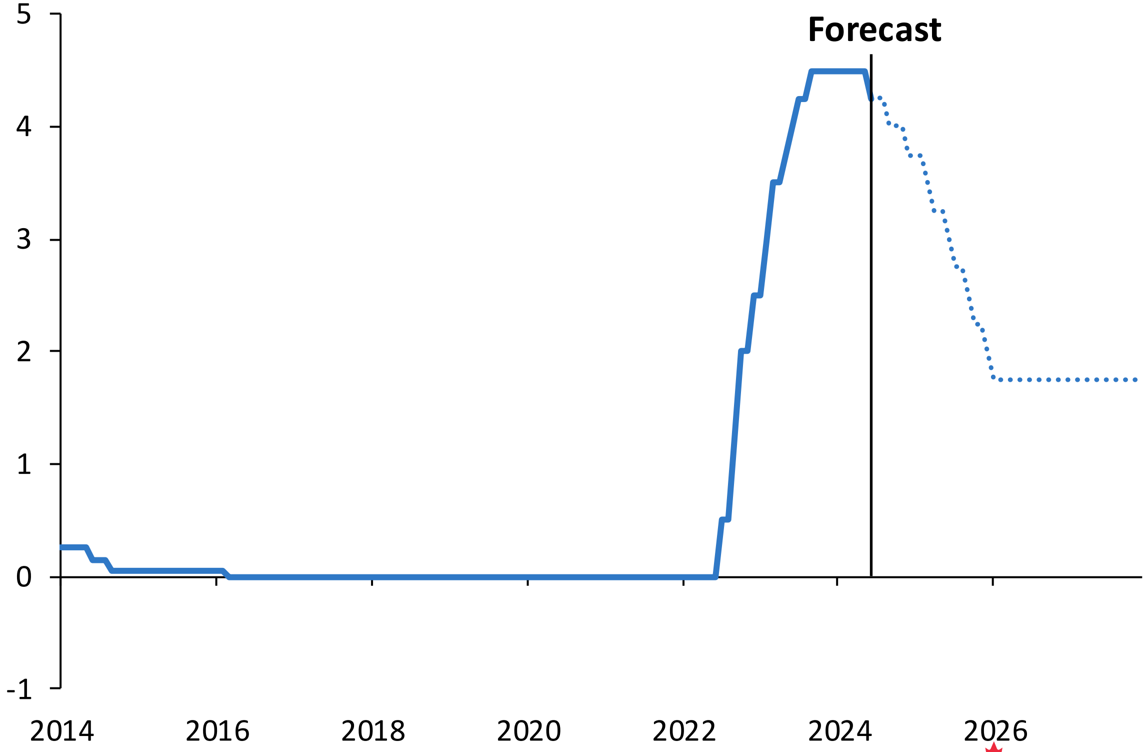
European sentiment indicators remain low

Percent balance of survey results



EDC's forecasted European policy rates unadjusted

Policy interest rates for the European Central Bank (ECB)



Sources: Haver Analytics

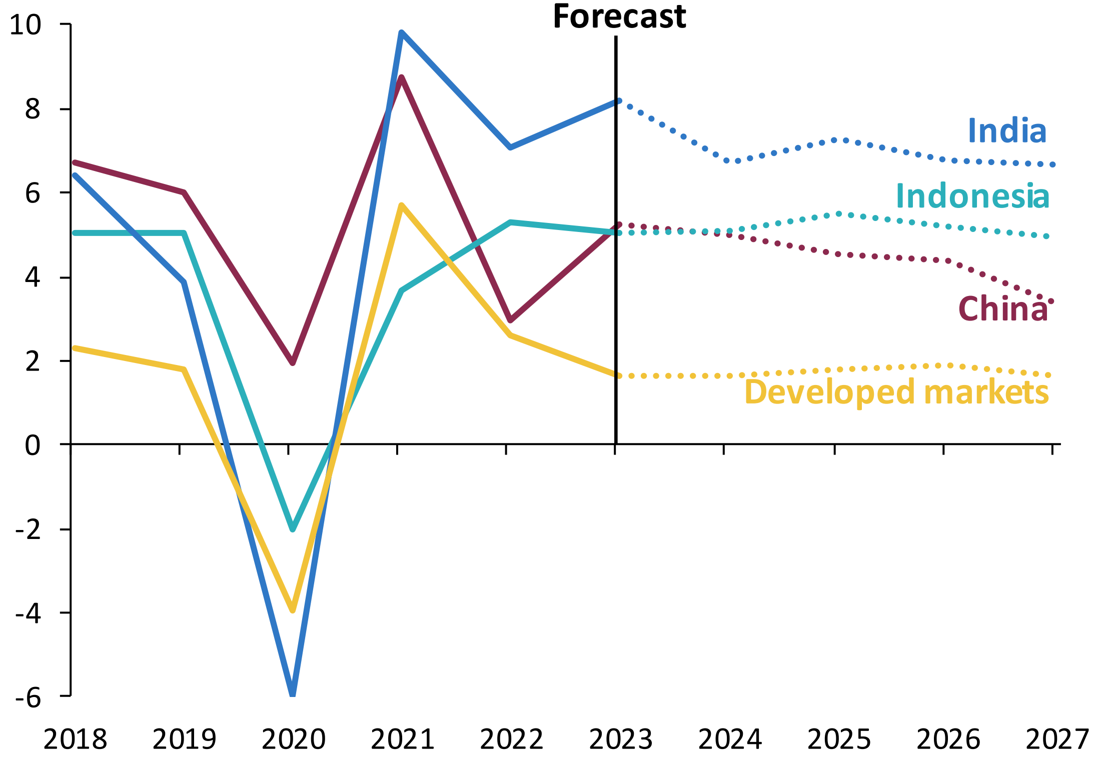
Note: * "Economic sentiment" is 0 = long-term average, instead of a percent balance, like the other indicators

Strong growth prospects continue in the Indo-Pacific

Notwithstanding a global pandemic and rising geopolitical tensions, the Indo-Pacific region continues to demonstrate resilient and dynamic economic growth—particularly India. In China, the fallout from its real-estate crisis, ongoing trade tensions, and demographic challenges weigh on prospects. Despite this, China still grows at double the rate of advanced economies and continues to integrate further into trade networks with high-growth Association Southeast Asian Nations (ASEAN).

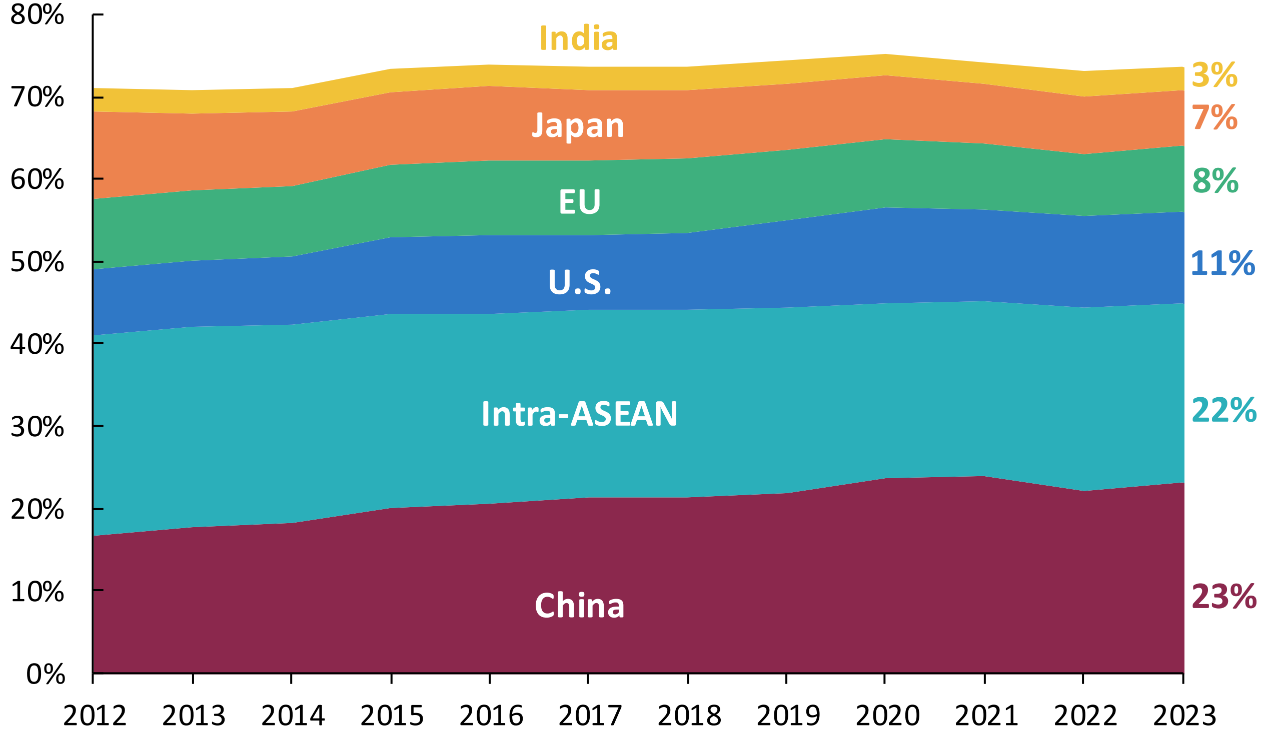
China losing ground in global growth contributions...

Annual real GDP growth rates and EDC forecasts



...but gaining ground in regional trade

Share of total trade with ASEAN countries



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

Note: India growth rates are based on fiscal year data (e.g. 2024 FY=Q2 2023—Q1 2024, 2025 FY=Q2 2024—Q1 2025), Chinese trade values include Hong Kong

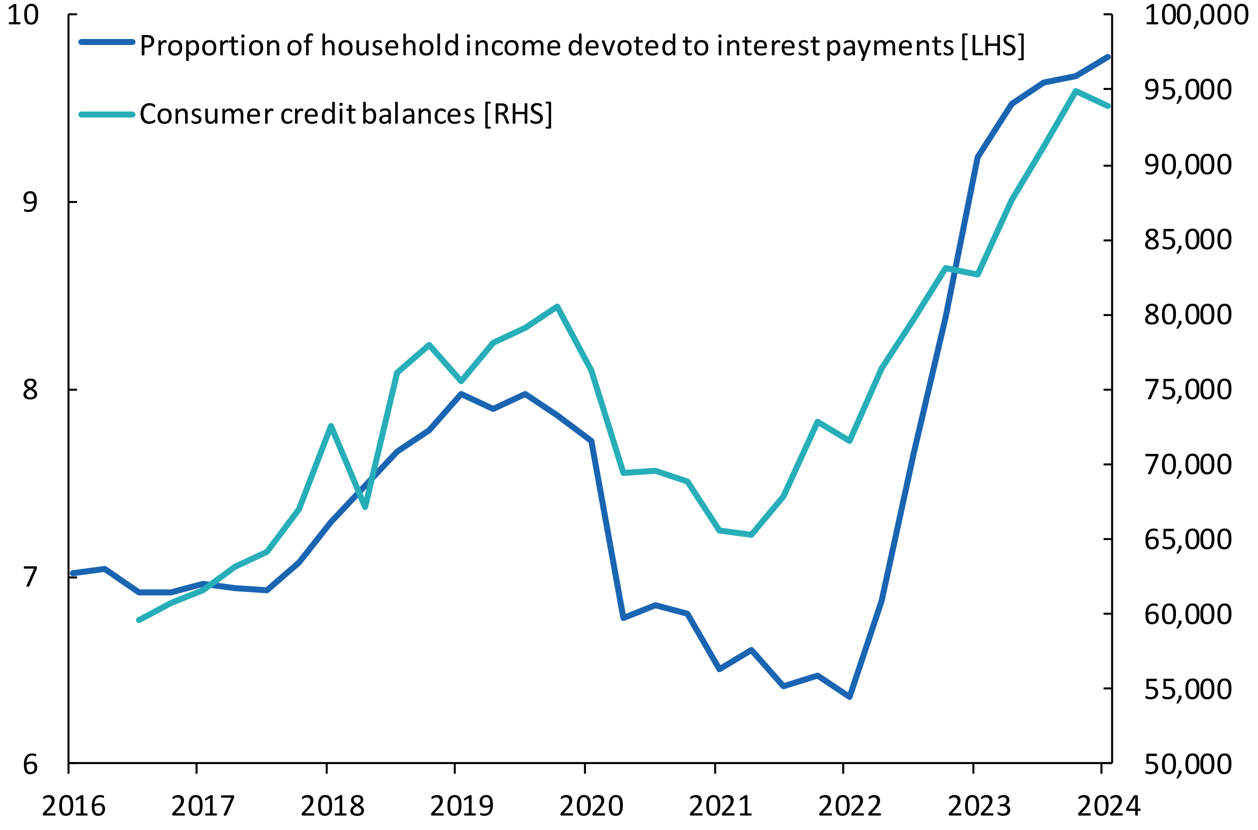
COUNTRY OUTLOOKS

Canada

Prince Owusu, senior economist

Canadian household finances under strain

Percent; Million C$



After posting growth of just 1.2% last year, Canada will see another below average growth performance in 2024, as the impact of the interest rate hikes weighs on highly indebted households.

A cooling labour market, elevated borrowing costs and a more cautious consumer will make for weak spending in 2024. At the same time, soaring population growth has boosted the labour pool and is weighing on wage growth. Overall inflation is slowing, but some key components—particularly rental and housing prices—continue to take a bite out of household budgets.

We forecast that businesses will remain on hold in 2024, with near-term spending to remain low as they face tepid consumer demand. However, long-term capital plans are likely to remain intact and companies are unlikely to conduct broad-based layoffs. As borrowing cost 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 will struggle—due to line retooling and maintenance—exports of energy, agri-food and other key products are likely to do well.

The outlook for 2025 is more positive. The cooling of inflation and gradual benefits from the beginning of interest rate cuts will likely leave consumers less cautious and lead them to dip into their sizable savings. We forecast this to lift real gross domestic product (GDP) growth from 1.1% in 2024 to 1.9% the next year.

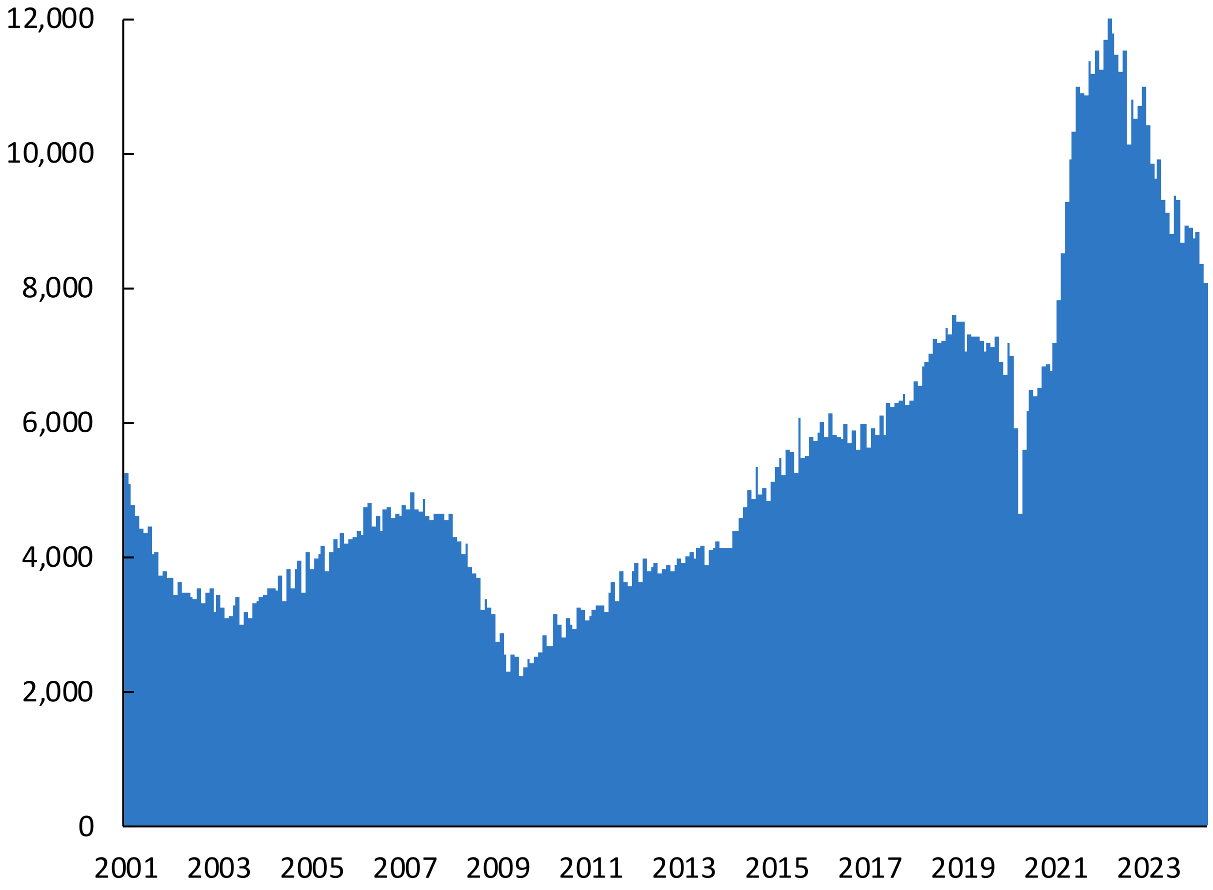
Source: Haver, EDC Economics

United States

Prince Owusu, senior economist

Labour market vacancies remain above historical level

Thousands



The United States continues to lead the charge as having one of the top-performing advanced economies in 2024. Strong momentum from last year has carried into the start of this year and a stable—if cooling—labour market supports our near-term outlook. We forecast, after expanding by 2.5% in 2023, the U.S. economy will grow by 2.3% in 2024.

After posting impressive growth following the pandemic, the cooling U.S. labour market in early 2024 has experienced slower hiring and an uptick in unemployment. Wage gains have also eased, falling to the weakest pace since 2021. While still positive, we expect this will start to curb the vigorous pace of consumer spending heading into 2025.

While inflation in the U.S. has started to ease, it's fallen more slowly than in many other advanced economies. Wary about inflation resurfacing, the Federal Reserve will hold off on starting to cut interest rates until December. We expect this divergence in interest rates across countries will support the value of the U.S. dollar and put other currencies under pressure.

Business investment is expected to remain strong in 2024 and 2025, driven by recent legislation and industrial policy. Thanks to the *Inflation Reduction Act*, *CHIPS and Science Act* and *Bipartisan Infrastructure Law*, companies have increased incentives to invest in key sectors. To date, about C$877 billion of private investments in clean energy and manufacturing have been announced.

After growing by 2.3% in 2024, due to the softening consumer outlook, we forecast U.S. growth to sag to 1.8% in 2025.

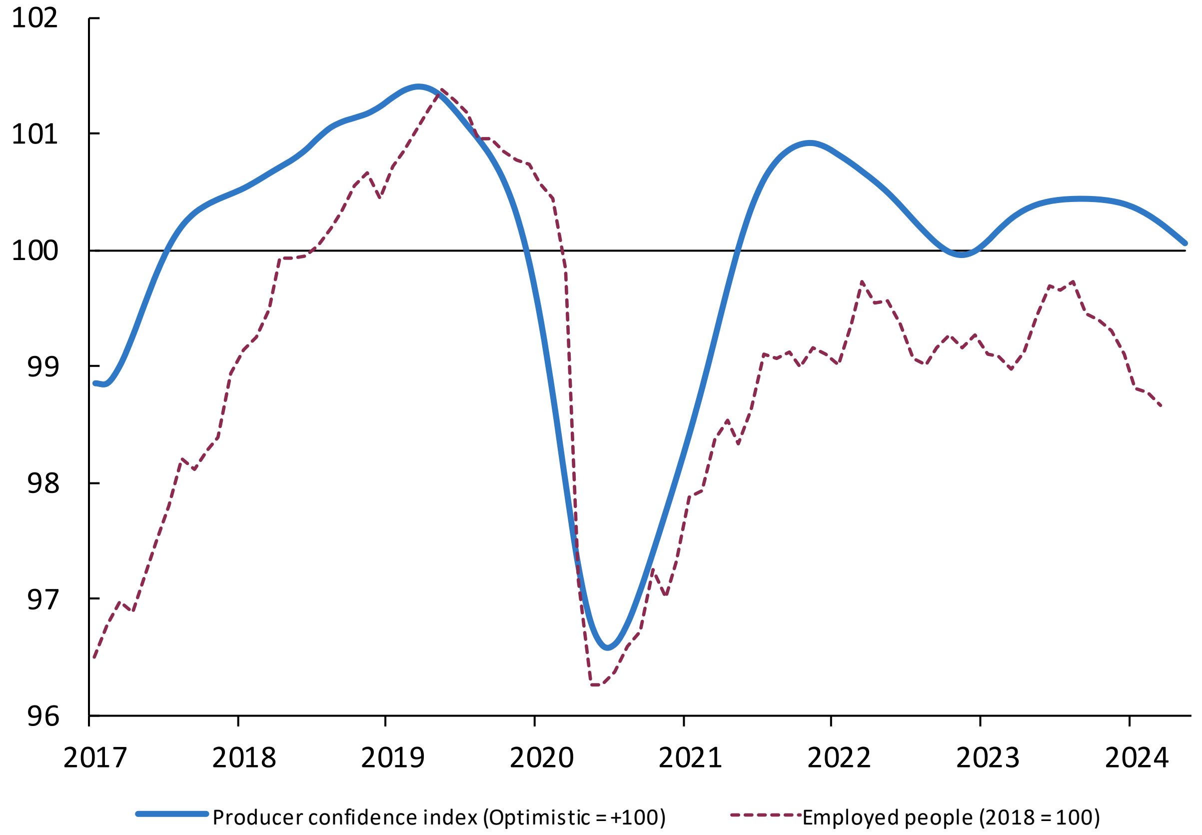
 Source: Haver, EDC Economics

Mexico

Prince Owusu, senior economist

Robust economy set to moderate amidst high post-election uncertainty

Indices



Mexico's economic drive remains robust but will moderate due to an uncertain policy outlook post-election. The growth forecast for this year has been cut to 1.9% (from 2.5%) and is expected to stabilize at 2% in 2025.

Although domestic demand fundamentals remain relatively robust, economic activity weakened in late-2023 and early-2024. This is signalling a moderation after the brisk post-pandemic growth and lingering concerns about the outlook for nearshoring and potential post-election risks, in Canada and the U.S.

Activity in the first half of the year was supported by real wage growth, elevated—if softening—remittance inflows, and significant government spending, which boosted public investment and social transfers.

Capital expenditure plans are likely to slow to a more cautious level until the political transition takes place and the policy direction of the incoming administration of president-elect Claudia Sheinbaum becomes clear. This in turn will take some steam out of the tight labour market. The historic sale of fiscal deficit growth will need to be addressed by the next government.

The outlook for the central bank's policy interest rate cuts is challenged by sticky above-target inflation and the Federal Reserve's higher-for-longer interest rate stance. All this will translate into restrained economic activity during the second half of this year and into 2025.

Radical post-election policy shifts—at home and in the U.S.—are key risks to the outlook. The historic landslide victory of Sheinbaum on June 2, and the incumbent Morena coalition—including virtual congressional supermajorities that open the door to disruptive constitutional changes—is an important tail risk. This is fuelling substantial financial market volatility and adds important downside risks to macroeconomic stability and the sovereign's creditworthiness.

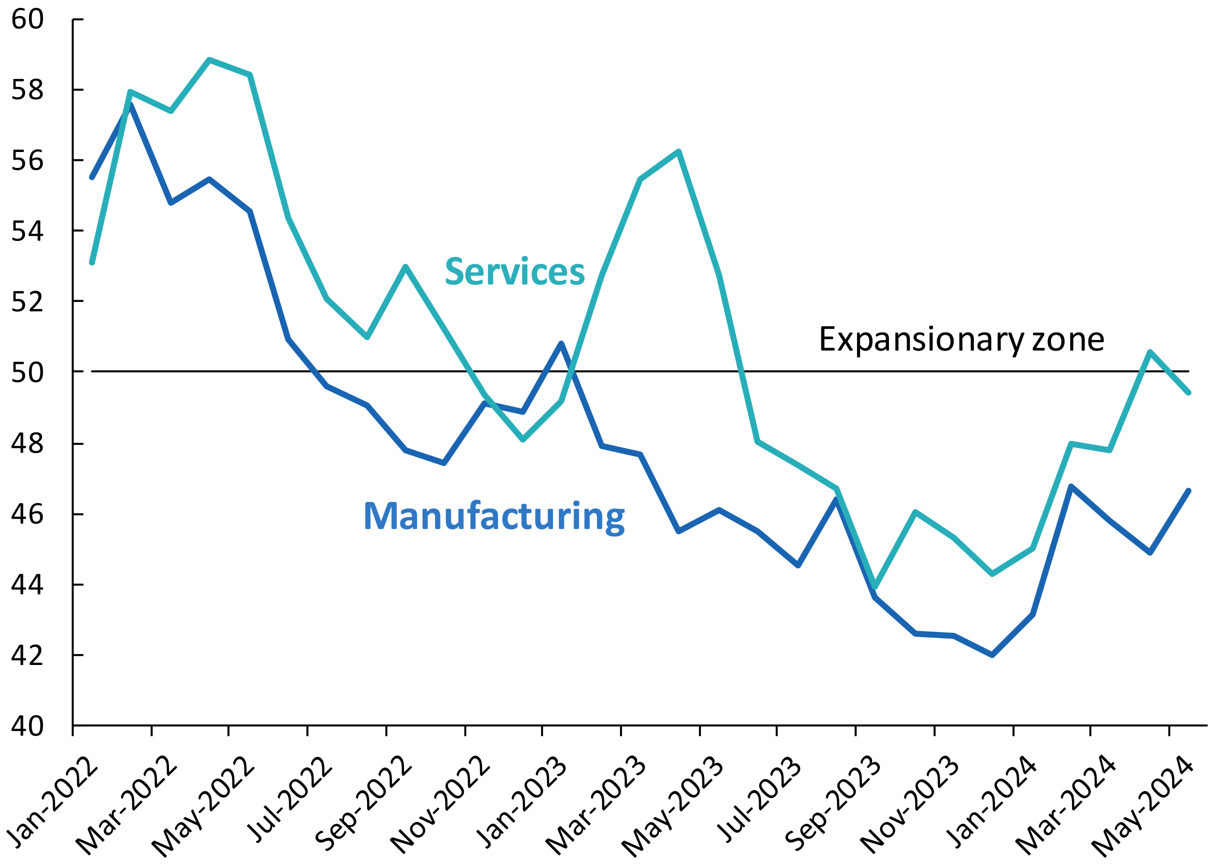
Sources: National Institute of Statistics and Geography (INEGI), EDC Economics
Note: Data for Real Remuneration and Employed People refer to Global Indices in all sectors of the economy

France

Sanjam Suri, country risk analyst

French businesses show nascent optimism around the economy

Purchasing manager's indices (PMIs)



Sources: Haver Analytics, Agence France Trésor, EDC Economics
Note: Purchasing Managers' Index (PMI)

France's economy enters the second half of 2024 on the back of surprisingly resilient growth in 2023 and the first half of 2024. The country's economy exceeded expectations in the first quarter of 2024 by expanding 0.2% compared to late 2023. We forecast that France's economy will grow by 0.9% in 2024.

Household consumption in France has managed to grow for the last five consecutive quarters. This demonstrates the resilience of French consumers; despite the headwinds they've faced from elevated inflation and recent record high interest rates. While we don't forecast it to be an enormous driver of growth, positive sentiment from a summer dominated by the Paris Olympics, coupled with the start of the European Central Bank starting to ease interest rates, will support consumers' outlook.

French businesses have been less resilient, as they struggle with high interest rates and stubborn inflation. But there's some positive signs, as both manufacturers and services Purchasing Managers' indices (PMI) have stabilized, as well as the business climate outlook—although it remains below the long-term trend.

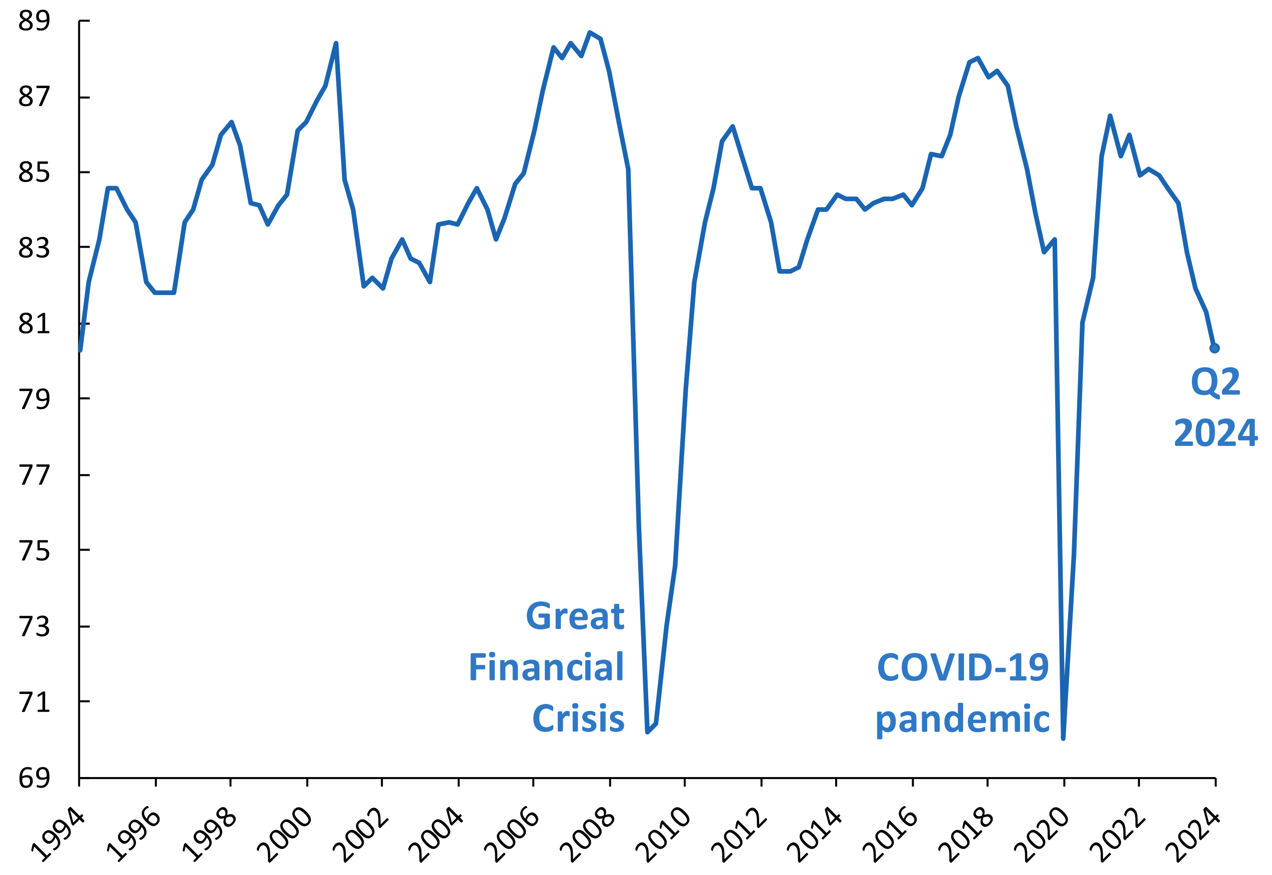
This recovery in sentiment by businesses, as well as the resilience of the French consumer, will support growth in 2024 and into the beginning of 2025. Key risks to the economy, include the outcome of snap elections this summer, which has increased uncertainty and caused pressure on the Euro, and a selloff in French government debt and equity markets.

Germany

Sanjam Suri, country risk analyst

German industry is struggling, with utilization above only COVID-19 and GFC

Industrial capacity utilization as a percent



The German economy has suffered since the Russian invasion of Ukraine, with growth flatlining in 2023. This was a severe dropoff from the 1.8% average annual growth rate Germany experienced for the six years prior to the pandemic. While we forecast growth to resume in 2024, it'll be anemic—with the economy expanding by just 0.2%.

The manufacturing and construction sectors remain stuck in recessionary territory with consumption being the only driver of growth. As inflation subsides, and the rate cuts by the European Central Bank trickle down into the economy in 2025, we forecast growth to reach 1.3%.

While some of the weakness in the economy can be attributed to recent high interest rates, there are structural factors weighing on the economy. Industrial production levels in Germany have failed to reach pre-pandemic levels for the last four years. At the same time, German manufacturers continue to struggle, with order books shrinking—from already weak levels—for the first half of 2024.

This weakness is also visible in industrial capacity utilization rates, which have been plummeting in 2024. These structural trends will require a period of transition and troubles won't be resolved by the lowering of cost of capital. Economic growth will require reforms, government investments, as well as addressing demographic issues such as a declining labour force due to a rapidly aging population.

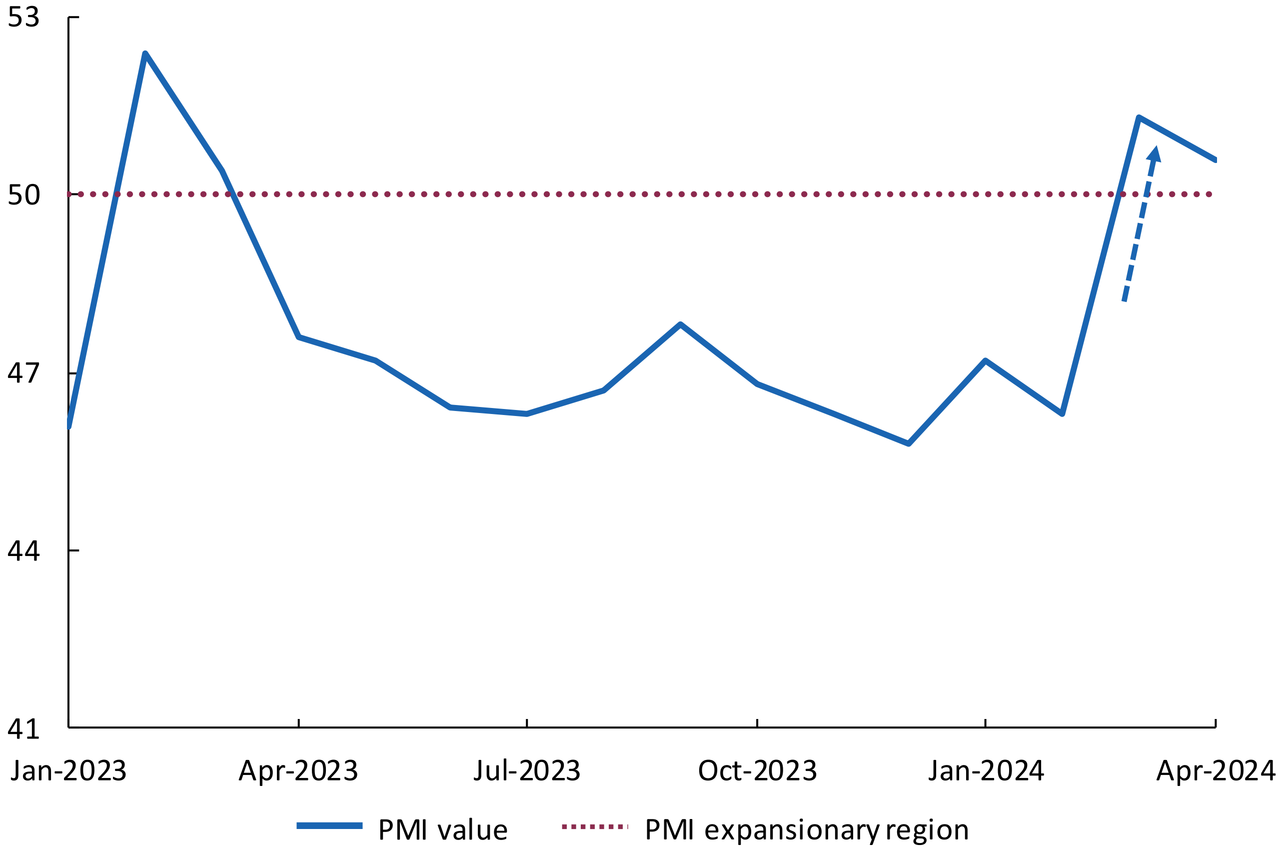
Sources: Haver Analytics, EDC Economics
Note: Great Financial Crisis (GFC)

China

Zenzhen Ye, country risk analyst

Export outlook brightens as external demand gradually picks up

PMI: Manufacturing new export orders; seasonally adjusted



Source: Haver

Note: Purchasing Managers' Index (PMI). PMI more than 50 indicates expansionary outlook

China announced a 5% GDP growth target for 2024, which in the face of ongoing weak consumer confidence and a property sector crisis, is an ambitious target to meet. However, the first quarter of 2024 saw exports pick up, industrial profits grow and ongoing targeted fiscal support. We have revised up our 2024 and 2025 forecasts to 5% and 4.6%, respectively.

While the auto sector will remain a bright spot in the overall export picture, and recent the *Purchasing Managers' Index* (PMI) data for new export orders is showing a brightening outlook, after more than a year of contraction, it remains to be seen if gradually increasing exports will remain on track for the remainder of 2024. Additionally, with tariff barriers to Chinese electric vehicles increased in the United States, European Union and other countries, this could dent the positive export momentum.

China's domestic consumption growth outlook remains challenging, as the ongoing real estate market convulsions and weak wage growth concerns are negatively impacting consumer confidence.

China will continue to focus on its advanced manufacturing and technology sectors and is supporting economic growth with the issuance of renminbi (RMB) 1 trillion (C$188 billion) in ultra-long-term, central government bonds this year and next.

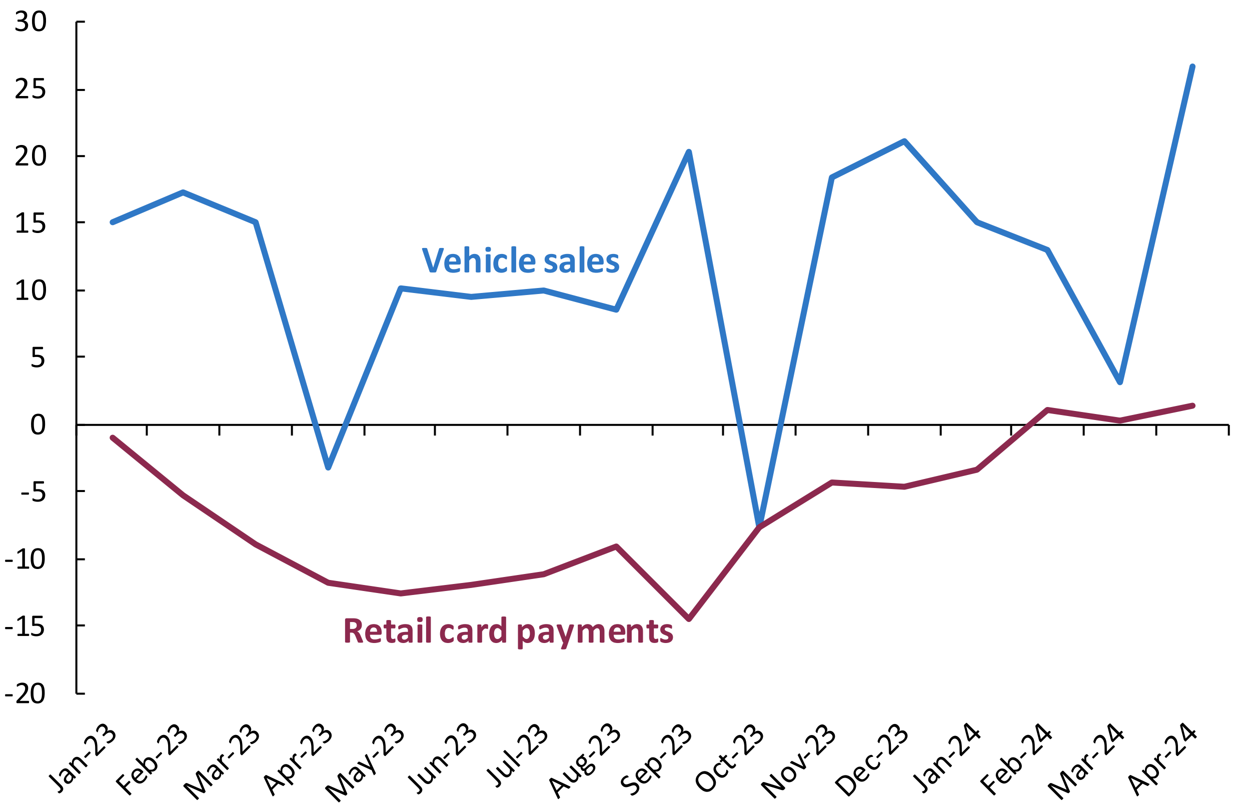
Upside risks to our forecast include faster and deeper than expected government stimulus measures to support stronger consumption and economic growth. Key downside risks include any spillover from the real estate crisis into the financial sector, an expansion of sectors facing tariff increases, or an escalation of geopolitical tensions with the U.S.

India

Nadeem Rizwan, country risk analyst

Private consumption is expected to remain strong

Year-over-year percent growth



The Indian economy grew beyond expectation in 2023 by 8.2% and that momentum is expected to continue. EDC Economics has revised our growth forecasts upwards to 6.7% for 2024 and to 7.3% 2025.

Robust private consumption and an uptick in government spending contributed to the GDP growth in the first quarter of 2024.

With a gradual moderation in inflation and consumer confidence reaching its highest level since the pandemic, the strength in domestic consumption is expected to continue as indicated by the high-frequency economic and financial market variables. The continued increase of India's working-age population will provide a solid foundation for growth.

Private investment is expected to remain steady and may gain momentum when financial conditions begin to ease later in the fiscal year. With the Modi government's re-election, public spending on infrastructure is going to follow their aggressive plan for further growth. While weakness in trade will continue amid the subdued environment for global demand, the weakness will slowly dissipate into 2025, as we forecast stronger global growth.

Volatility in commodity prices, particularly oil, is a key downside risk to inflation and growth as India is a net oil importer. A faster than expected global recovery could further boost growth through a better-than-expected export performance.

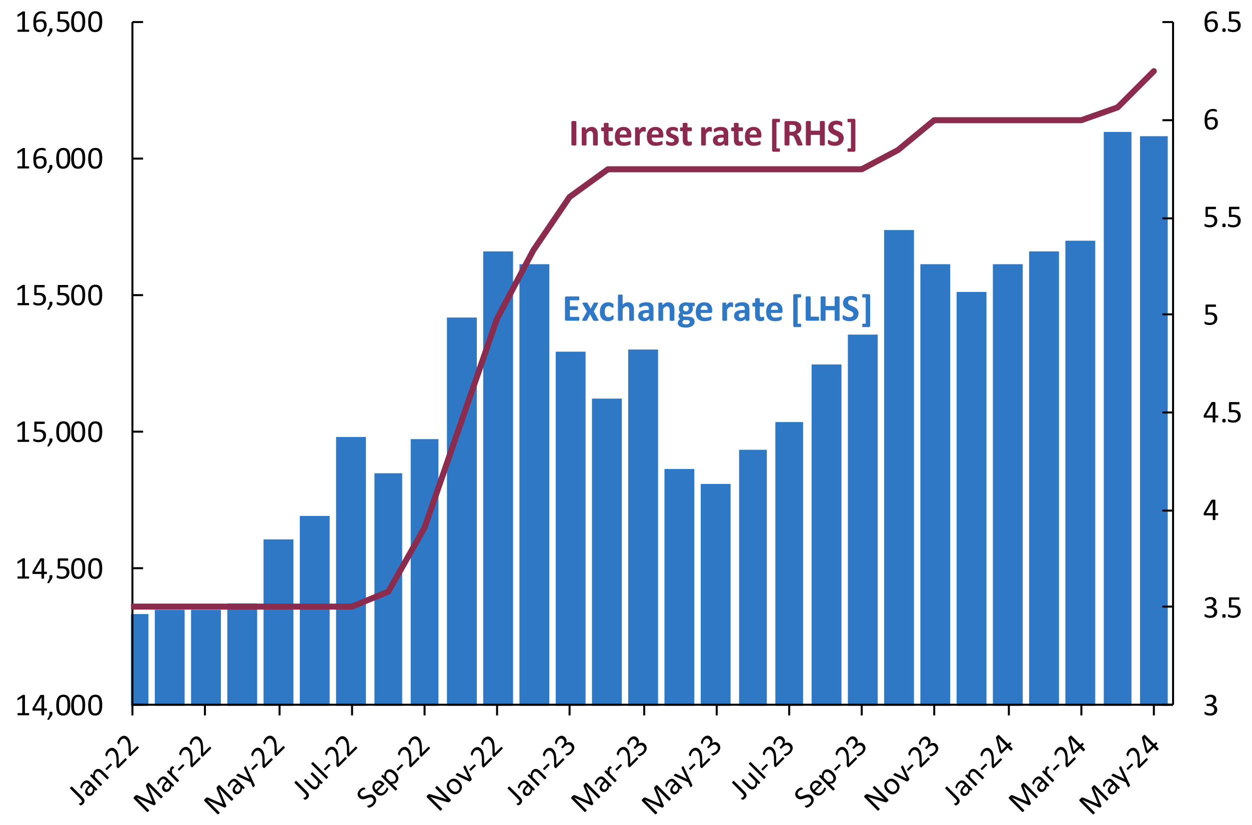
Source: Reserve Bank of India, Ministry of Petroleum and Natural Gas, FADA, Haver Analytics
Note: India growth rates are based on fiscal year data (e.g., 2024 FY = Q2 2023 —Q1 2024, 2025 FY = Q2 2024 – Q1 2025)

Indonesia

Nadeem Rizwan, country risk analyst

Raising interest rate stabilized the exchange rate

Rupiah to US$ exchange rate; central bank interest rate in percent



Growth in Indonesia is expected to remain moderate in 2024 as financial conditions remain tight and our outlook for the global economy remains muted. However, given some positive data to start 2024, we have modestly revised up our 2024 growth forecast to 5.1%, while maintaining our 2025 growth outlook at 5.5%.

The combination of spending during Ramadan, Eid and election-related activities, has provided a sturdy start to 2024 for Indonesia's economy. But, as these temporary factors fade, we expect consumption to moderate and remain solid, thanks to income and population growth.

While inflation has been easing in Indonesia, the central bank has been intermittently continuing to increase interest rates to ease the depreciatory pressure on the Indonesian rupiah. The latest 0.25% increase in April followed a similar hike in October.

With the central bank focused on the exchange rate, these hikes have tightening financial conditions for businesses. This has hit business confidence and will ensure that the recovery of private investment remains sluggish into 2025.

As a key commodity producer, an upside risk to our forecast is stronger demand—especially from China—and higher commodity prices. A potential negative risk to our outlook is food price inflation remaining elevated, accounting for more consumer spending and dampening overall growth.

Sources: Bank Sentral Republik Indonesia, Haver Analytics
Note: The central bank interest rate is an average seven-day reverse repo rate

Brazil

Daniel Benatuil, senior economist

Robust consumption fundamentals joined by early investment recovery

Percent; index

Sources: Brazilian Institute of Geography and Statistics, Haver Analytics, EDC Economics
Note: Real wage bill is calculated as employed population x real monthly earnings

The Brazilian economy is forecast to grow 2% this year fuelled by a tight labour market, an emerging recovery in investment, and robust export growth. Compared to our last forecast, we have reduced the outlook for 2025 to 2%, as well on the expectation of a higher-for-longer interest rate environment.

Economic growth will be better balanced and more closely aligned with underlying domestic demand fundamentals after accounting for last year's "super crop" agricultural bounty. While this year's harvest will decline due to the El Niño weather pattern, it's still expected be the second highest ever and should sustain activity in the broader supply chain and related services.

The historic flooding in the state of Rio Grande do Sul will weigh on headline growth, while reconstruction efforts will add volatility to quarterly data.

Consumer fundamentals are well-supported by a tight labour market, lifting real wage gains, as well as by minimum wage increases, contained inflation, and recovering credit activity. The government's large lump-sum disbursement of judicial liability payments will provide an additional support for demand.

Business investment will recover from last year's lull amid improved sentiment, better funding conditions, and commercial opportunities amidst the government's turbo-charged push toward industrial policy.

However, growing concerns about fiscal sustainability and government interventionism in the economy, as well as a slower pace of interest rate cuts by the U.S. Federal Reserve, will drive asset price volatility and a higher-for-longer rate environment. A highly restrictive monetary stance over the forecast horizon will challenge the incipient investment. The government's fiscal policy stance around upcoming municipal elections in late-2024 and general elections in 2026 is a key risk to watch for macroeconomic stability.

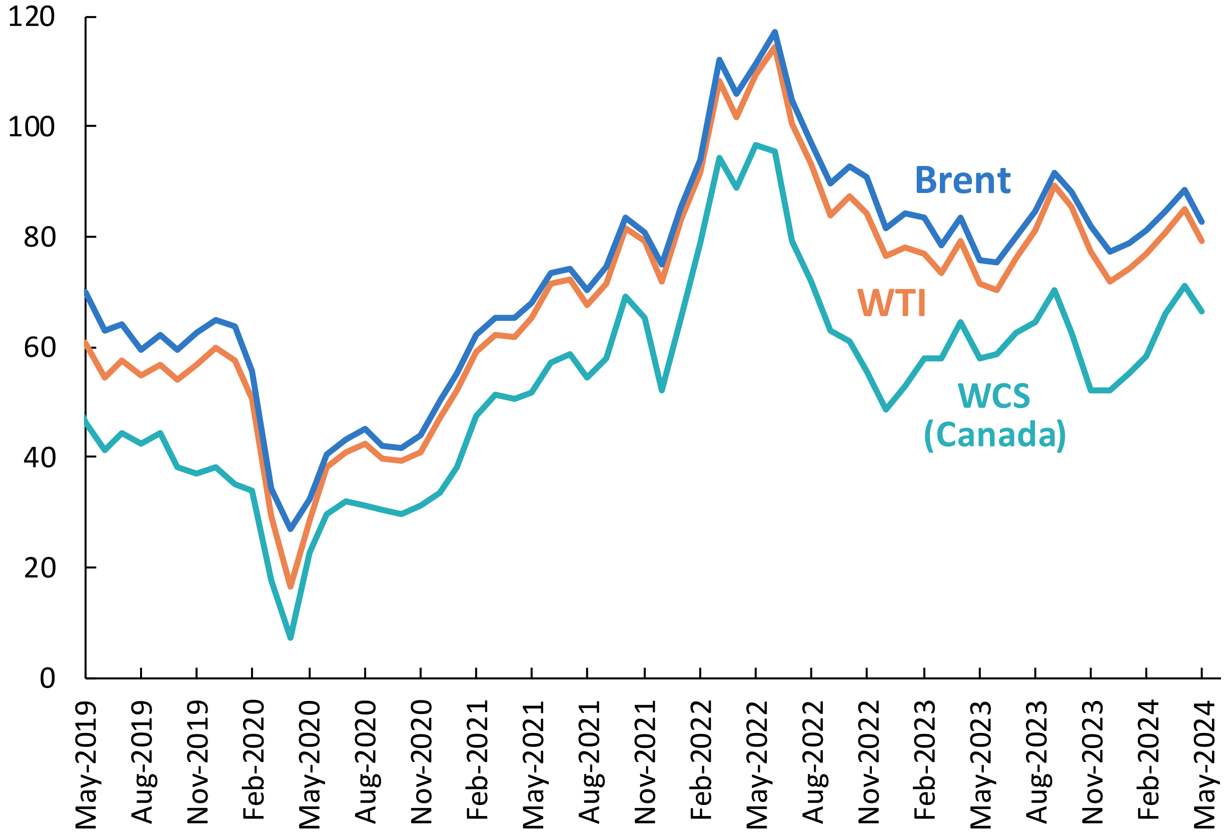
COMMODITY OUTLOOKS

Oil

Zhenzhen Ye, country risk analyst

Oil price will likely remain elevated in summer-autumn driving season

US$ per barrel



Source: Haver Analytics
Note: West Texas Intermediate (WTI), Western Canadian Select (WCS)

The price of West Texas Intermediate (WTI) oil is expected to remain elevated in the second half of 2024 due to a slight deficit in the global oil supply balance and the start of major central banks' easing cycles.

In the first half of 2024, international benchmark crude prices have traded about 5% higher than 2023, owing to the production cuts by the Organization of the Petroleum Exporting Countries (OPEC+) and its allies, as well as tensions in the Middle East, where one-third of the world's oil is produced.

Entering the summer driving season, oil prices are expected to remain elevated due to the seasonal demand for oil, but the upward pressure will be partially offset by a record production in the U.S., Canada, Brazil, and Guyana and OPEC+ unwinding some voluntary cuts starting in October. In the long term, 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.

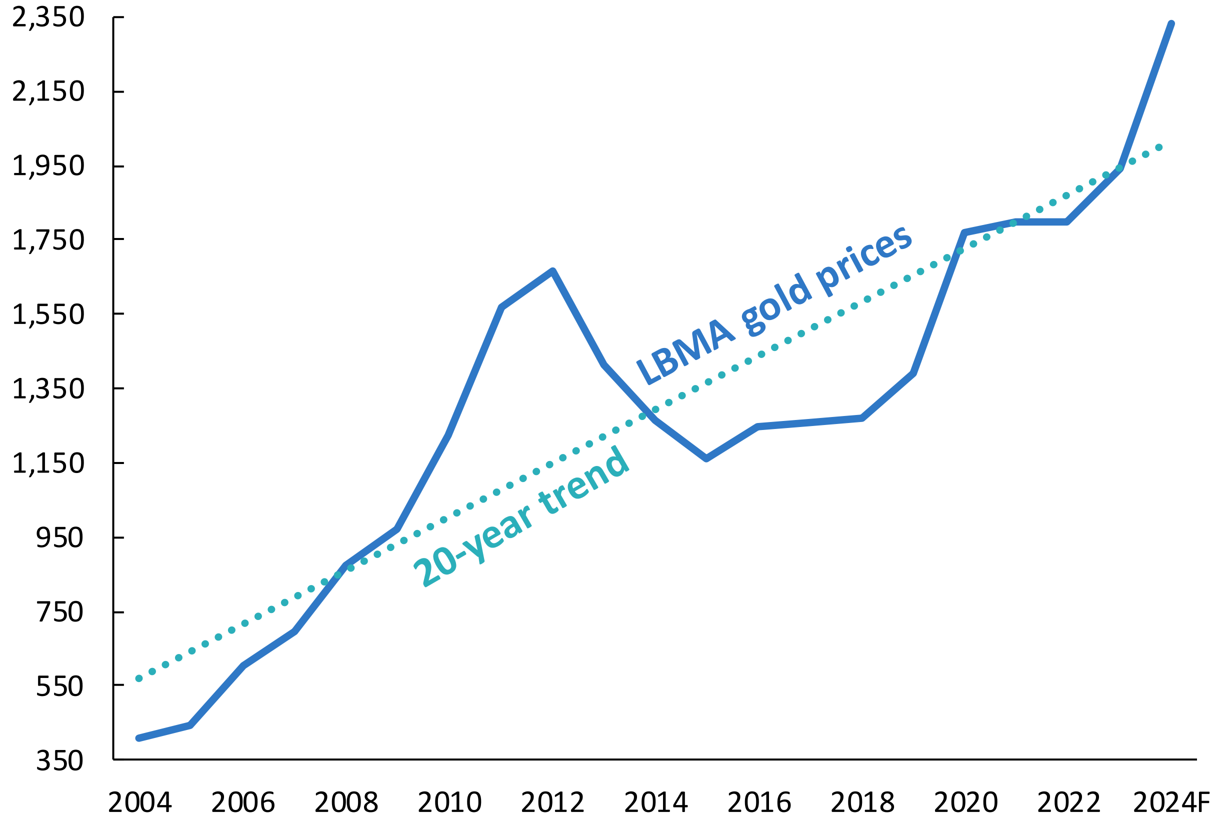
Sooner-than-expected interest cuts by the U.S. Federal Reserve, which translate into better demand and stronger-than-expected economic growth in China, are an upside risk on oil prices. OPEC+ increasing production to fight aggressively for market share would likely slash oil prices.

Gold

Karicia Quiroz, economist

Driven by geopolitical and economic risks, gold prices reach record highs

US$ per troy ounce



Gold has seen record high prices this year due to the uncertain economic and interest rate outlook and heightened geopolitical tensions. Our forecast is that gold prices will average to US$2,335 per troy ounce in 2024, and US$2,257 per troy ounce in 2025.

This past May was the highest month on record for gold prices, fuelled by investor speculation on upcoming U.S. Federal Reserve rate cuts and the use of gold holdings as a safe investment amidst economic and geopolitical uncertainties.

As the prospects of Federal Reserve rate cuts materialize, with the first cut occurring in December, the interest in gold could dampen. However, we don't forecast prices to fall dramatically in the second half of the year as purchases of gold from China, geopolitical tensions, and election uncertainty—especially related to the U.S.— will continue to position gold as a safe-haven asset.

In 2025, we expect the gold price to fall due to the assumption that central banks demand for gold reserves will have stabilized and they begin to accumulate other assets. Additionally, a more stable global economy and more certainty in the outlook for inflation and interest rates will start to ease demand for gold.

Upside risks to the baseline forecast include higher geopolitical risks and limited gold supply; and downside risks include potential gold import restrictions by the People's Bank of China (PBoC) in response to changing local economic conditions.

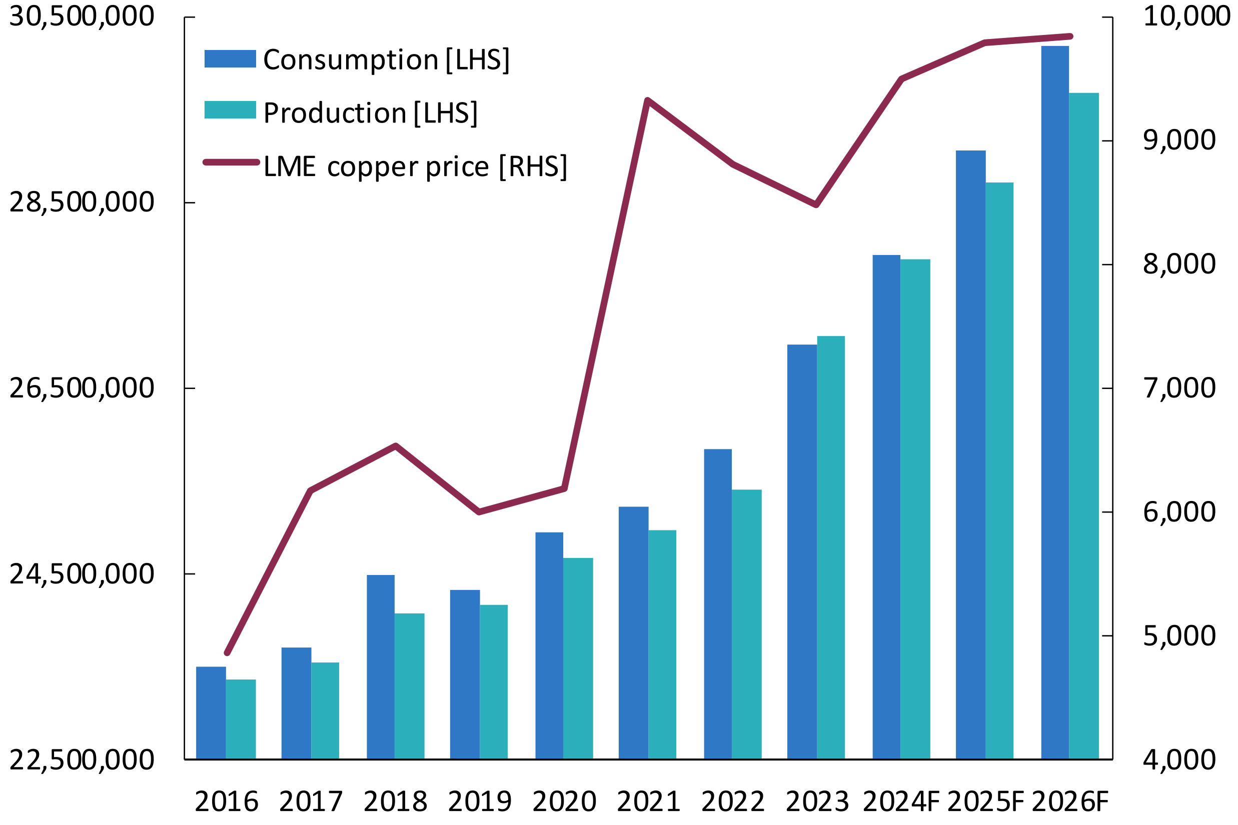
Sources: Haver Analytics, EDC Economics.
Note: London Bullion Market Associate (LBMA)

Copper

Karicia Quiroz, economist

Growing copper demand and tight supply is driving record high prices

Tonnes of global refined copper; US$ per metric tonne



Sources: BMI/Fitch, Haver Analytics, EDC Economics.
Note: London Metal Exchange (LME)

Copper, which spans multiple clean energy applications and is a critical part of electrification infrastructure, has seen record high prices in 2024 due to supply tightness and growing demand. We expect copper prices to average US$9,498 per tonne in 2024, and US$9,785 per tonne in 2025.

This past May was the fourth-highest month on record for copper prices. Increasing demand from China and the United States, along with an announcement from China—the world's biggest consumer of copper—that it would begin raising one trillion yuan (C$188 billion) of long-term bonds to stimulate the Chinese economy, fuelled the price gain.

While demand has grown, we continue to expect that the supply of new copper from mines will remain tight in 2024. Mine supply hasn't kept pace with recent demand, thanks to longer-term issues, like higher capital and operating costs as interest rates climbed. This led to a reduction in investment and more recent issues, like a strike at Peru's Las Bambas copper mine—a source of 2% of all global output. We forecast that these factors will persist and create a copper supply-demand gap, which will support higher prices for the metal.

While not our baseline scenario, upside risks include stronger than expected demand due to growth in production of electric vehicles, clean energy projects, and other electrification demand. Downside risks include increased investment in copper alternatives, such as aluminum, due to high copper prices.

EDC FORECASTS

Annual real GDP growth

Global Economic Outlook (Annual % change)	2023	2024F	2025F	2026F	2027F	2028F
Developed countries	**1.6**	**1.6**	**1.8**	**1.9**	**1.6**	**1.5**
Canada	1.2	1.1	1.9	2.2	2.5	2.5
United States	2.5	2.3	1.8	1.9	1.7	1.6
Eurozone	0.5	1	1.7	1.6	1.4	1.2
Germany	0	0.2	1.3	1.6	1.4	1.3
France	1.1	0.9	1.6	1.6	1.7	1.6
Developing countries	**4.3**	**4.2**	**4.7**	**4.4**	**3.8**	**3.7**
China	5.2	5	4.6	4.4	3.4	3.3
India	8.2	6.7	7.3	6.8	6.7	6.3
Indonesia	5	5.1	5.5	5.2	4.9	4.7
Brazil	2.9	2	2	1.9	1.8	1.7
Mexico	3.2	1.9	2	2.1	2	2
World	**3.2**	**3.1**	**3.5**	**3.3**	**2.9**	**2.8**

Note: F 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, July 2024

Currencies and interest rates

Global Economic Outlook		2023	2024F	2025F	2026F	2027F	2028F
Currencies	**Exchange rate**						
U.S. dollar	USD per CAD	$0.74	$0.72	$0.75	$0.81	$0.82	$0.82
Euro	USD per EUR	$1.08	$1.06	$1.06	$1.09	$1.12	$1.18
Euro	CAD per EUR	$1.46	$1.47	$1.42	$1.35	$1.37	$1.44
Interest rates, annual average							
Bank of Canada *(Overnight target rate)*		4.74	4.76	3.80	2.90	2.75	2.75
U.S. Federal Reserve *(Fed Funds Target Rate – Mid-point)*		5.07	5.37	4.71	3.71	2.79	2.62
European central bank *(Policy interest rate)*		3.81	4.27	2.96	1.77	1.75	1.75

Note: F denotes the forecast period.

Source: EDC Global Economic Outlook, July 2024

Commodity prices

Global Economic Outlook	2023	2024F	2025F	2026F	2027F	2028F
Brent Crude Spot, *USD / barrel (bbl)*	$82.5	$84.9	$78.8	$70.5	$70.1	$70.2
West Texas Intermediate, *USD / bbl*	$77.6	$80.5	$75.3	$67.5	$67.1	$67.2
Western Canada Select, *USD / bbl*	$59.5	$66.2	$63.3	$55.5	$55.1	$55.2
Natural gas, *USD / MMBtu*	$2.5	$2.3	$2.9	$3.2	$3.4	$3.5
Gold, *USD / troy ounce*	$1,943	$2,335	$2,257	$2,034	$2,010	$1,997
Copper, *USD / tonne*	$8,476	$9,498	$9,785	$9,831	$9,727	$9,871

Note: F denotes the forecast period.
Source: EDC Global Economic Outlook, July 2024

Disclosure

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