

GLOBAL ECONOMIC OUTLOOK

TO IMMUNITY AND BEYOND!

EDC Economics

June 29, 2021

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

Canada



 **EDC**

EXECUTIVE SUMMARY

GLOBAL ECONOMIC OUTLOOK: TO IMMUNITY AND BEYOND!

By Peter Hall
Vice-President and Chief Economist



It's an appropriate moment to adapt Buzz Lightyear's signature cry to the economy and to declare: "To immunity and beyond!" The statistics on vaccine distribution seem to be improving just about everywhere, and as a more generalized reopening seems imminent, companies and individuals are gearing up for a surge of activity. If that's really what's in the works, what will the journey look like?

First off, it's going to be a rocket-launch. In fact, ignition is already behind us, but the G-force is going to increase considerably as we move into the second half of the year. First, we have the regular recovery of sectors that are still in the abyss, brought on as more countries zero in on herd immunity. Second, there's ongoing public stimulus—primarily the US\$1.9-trillion plan currently unfolding in the United States. And third, pent-up demand will reinforce growth, aided greatly by the massive pileup of business and consumer cash in demand deposit accounts in the U.S., Europe, Canada and elsewhere.

The dynamics of this growth are evident in EDC Economics' new Global Economic Outlook. We have revised up growth for 2021 in the U.S. economy to a whopping 7.1%. At 4.6% growth, the Eurozone isn't as aggressive, but is still well above its long-term trend rate, and is expected to repeat this pace in 2022. Emerging economies will see explosive growth as they recover from last year's drubbing, and as the revival in the industrialized world feeds global demand for goods and services. Collectively, emerging market growth will reach 6.5% this year and will accelerate further to 6.8% growth in 2022. As such, world growth will hit an outsized 6.3% for 2021 followed by a very impressive 5.7% next year.

The rocket-ride won't be particularly smooth. What the pandemic has shown us is that we can turn off an economy pretty quickly—we just have to say the word. Getting it going again is a different matter—we can declare it open, but it's then up to the return-to-work decisions of businesses and labour, which aren't necessarily synchronized and linear.

EXECUTIVE SUMMARY (continued)

GLOBAL ECONOMIC OUTLOOK: TO IMMUNITY AND BEYOND!



That's showing up in current prices. Rapid growth has led to shortages of key industrial inputs, including wood products, foodstuffs, base metals and semiconductors. As such, prices are rising at a monthly pace that at the very least is concerning. Upstream producer prices in the U.S. are red-hot, and the effects are immediate on final prices. Canada is following suit, while Europe is a bit more stable. Central banks are united in their belief that this is temporary, but they are taking different policy positions—with the European Central Bank and the U.S. Federal Reserve Board standing pat, and the Bank of Canada signalling tightening. We believe that price growth will moderate through 2022, and that's reflected in our commodity price projections.

Even so, there's a significant risk that inflation expectations will rise. Labour markets keep tightening, and industry is once again flagging skilled labour shortages, which will only be exacerbated if sidelined money flows into the economy soon, not to mention the impact on existing physical capacity constraints. If so, monetary policy might find itself in catchup mode, which isn't a pleasant prospect. As things stand, we can expect financial market volatility to persist during the uncertain transition period before prices and exchange rates settle down into 2022. Canada's exchange rate is expected to average US\$0.81 in 2021 and US\$0.82 next year.

The rise in global demand will be the main driver in Canada's near-term growth. This is evidenced by the surge in EDC's Trade Confidence Index, which strongly suggests that Canada's exporters are arming themselves for a roaring second half of the year. All told, Canada is forecast to grow by a stunning 6.1% this year and an impressive 4% in 2022.

Until this point, downside risks to forecasts have predominated. While it's still possible that infection rates rise and recovery is delayed, there's now a greater chance that in our exuberance, we overdo it a bit. There's certainly enough pent-up pressure for this to occur, and given local capacity constraints, there'll likely be more than enough business for everyone to chime in on.

The bottom line?

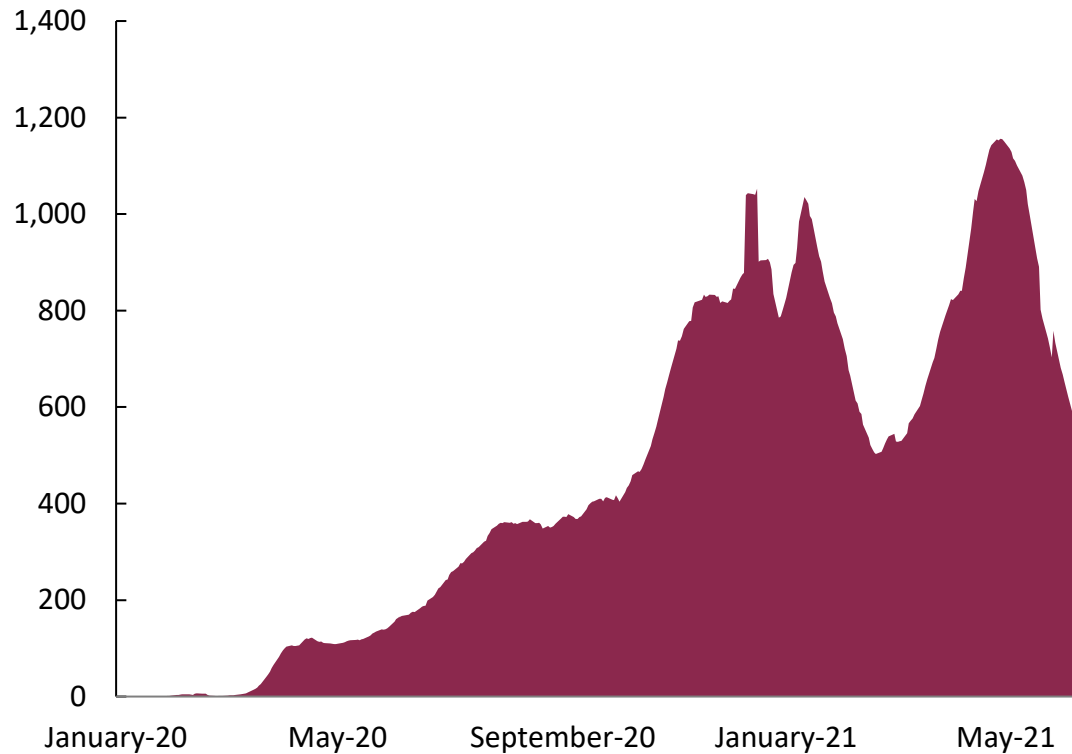
Our global forecast may seem optimistic; it's not. As more businesses are realizing, it's aggressive, but quit realistic. Optimists have good reason to boost even our outsized numbers. Either way, the best business strategy is to make sure you can capture as much of the coming activity as possible. It's going to be one of the most exhilarating economic rides we have seen in a long time.

COVID-19 CASES CRESTED, SOME RESTRICTIONS RELAXING

Another global wave of COVID-19 cases crested in April 2021; this time driven by India. Some G7 economies, such as the U.S. and U.K. who've been leaders in terms of fully-vaccinated adults, have started relaxing restrictions.

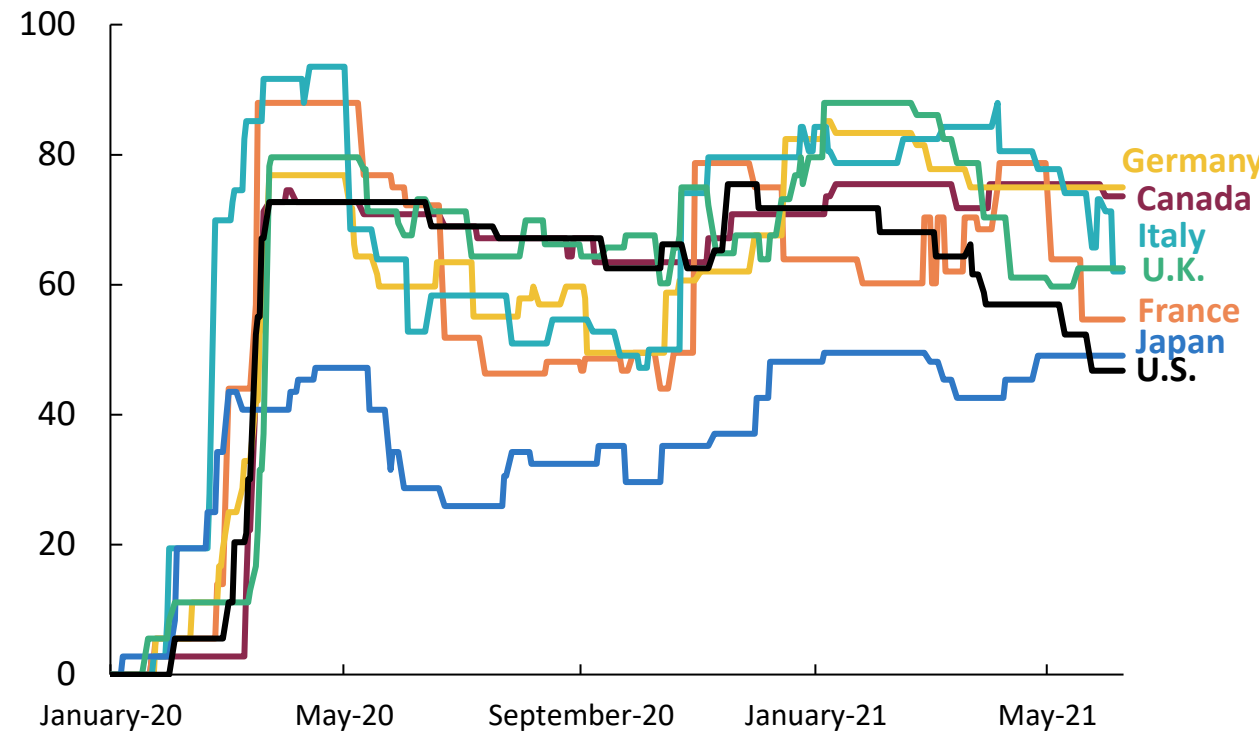
Global confirmed new COVID-19 cases

Daily change, thousands, five-day average



Stringency of government restrictions for G7 countries

Index value, maximum=100

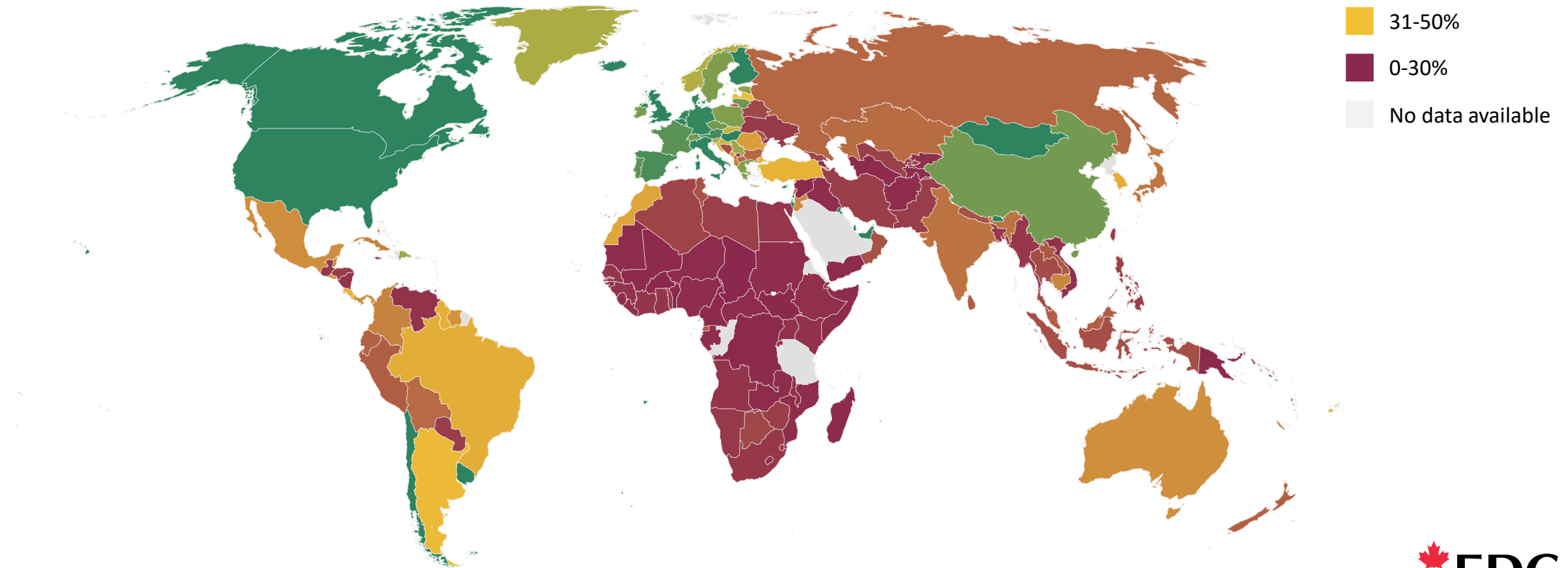


MUCH VACCINE PROGRESS, BUT HIGHLY UNEQUAL

There's been a rapid and impressive vaccination rollout across the world. But there's also a large disparity in progress between advanced economies and emerging markets, notwithstanding recent commitments from the former to increase supply for the latter.

Recent share of population vaccinated

% of total population with at least one dose, as of June 15, 2021

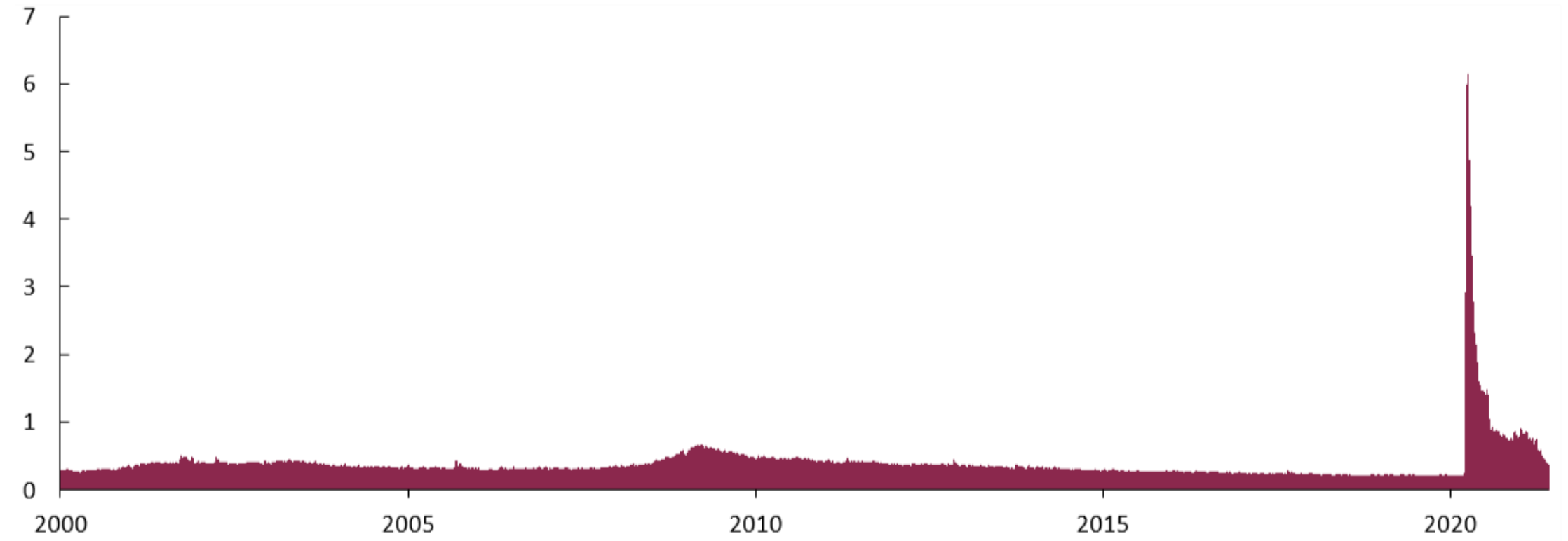


MASSIVE LABOUR MARKET DISRUPTION

At the start of the pandemic, unemployment claims in the U.S. were 10 times higher than in past recessions. Labour markets have improved significantly in the past year, but as claims slow, large adjustments are still ongoing.

U.S. initial unemployment claims

Millions per week

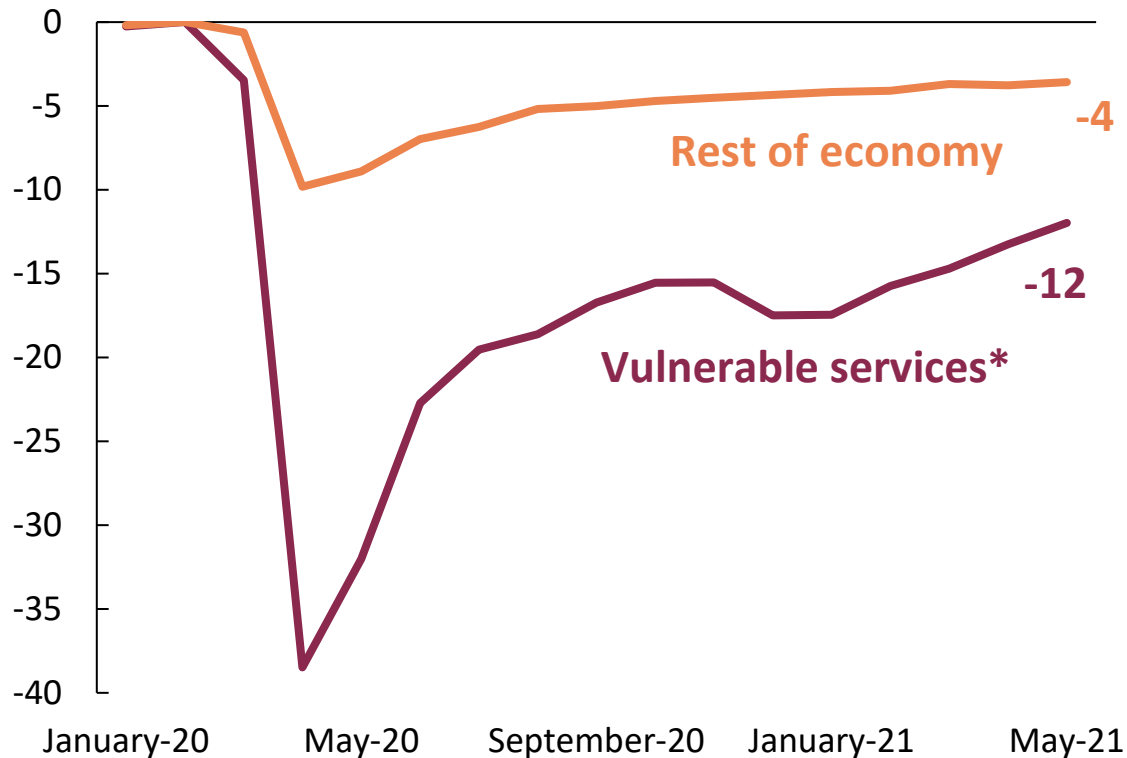


VARIED JOB IMPACTS BY SECTOR

While services that can be delivered online (such as professional, finance, education and public administration) are now above pre-pandemic employment levels, in-person jobs in restaurants, retail and recreation have yet to recover.

U.S. employment

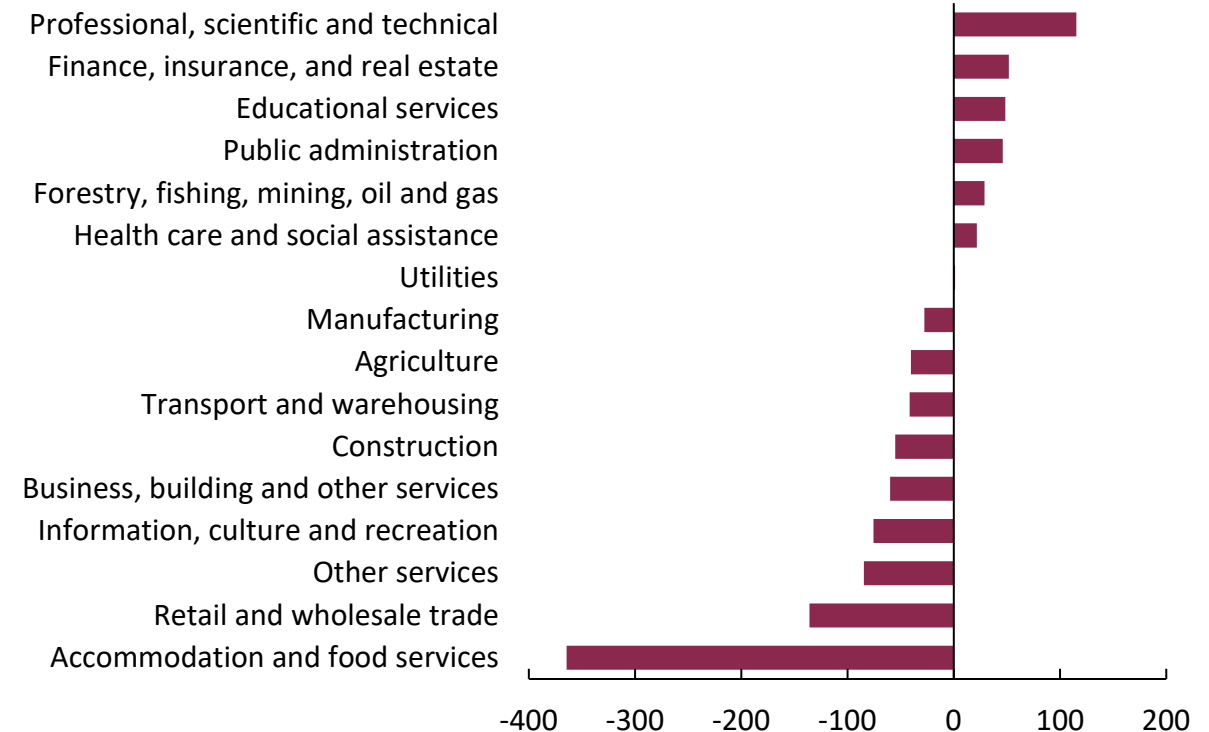
% change since February 2020



*Restaurants, hospitality, arts, entertainment, recreation, other personal services

Canadian employment

May 2021, changes since February 2020, thousands of jobs by sector



UNPRECEDENTED GLOBAL POLICY RESPONSE

To address COVID-19, rapid central bank interest rate cuts and large-scale asset purchase programs were followed by massive expansions in direct support for households and businesses to maintain liquidity. In March, U.S. President Joe Biden passed the third major American fiscal support package, making this total support the largest among the G7.

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%

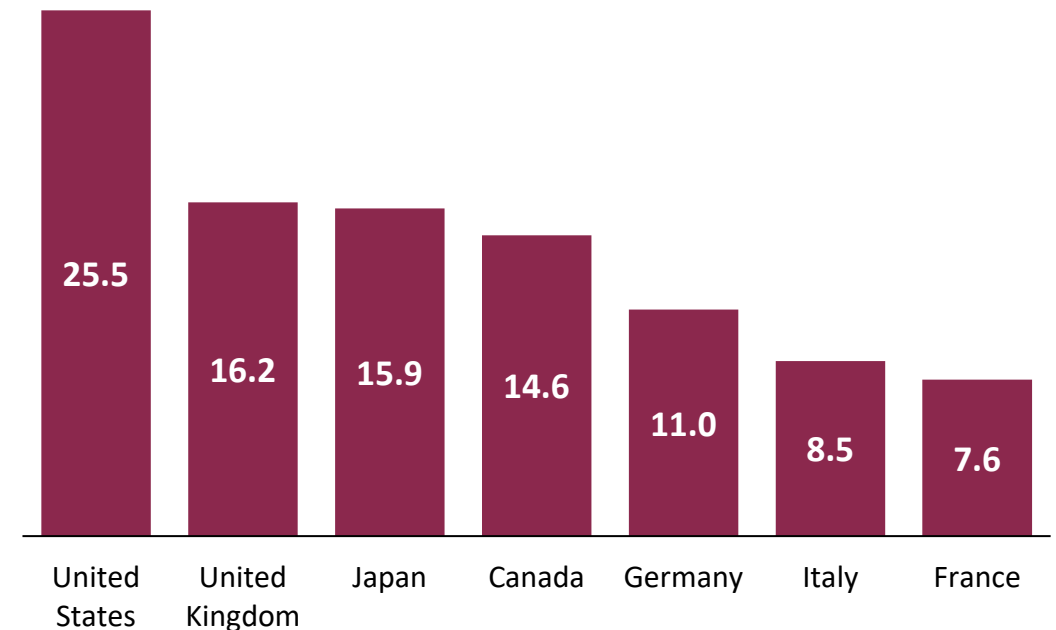
People's Bank of China

Various term lending rates cut to ease financial conditions

Central bank asset purchases grew rapidly, and in G7 countries were 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

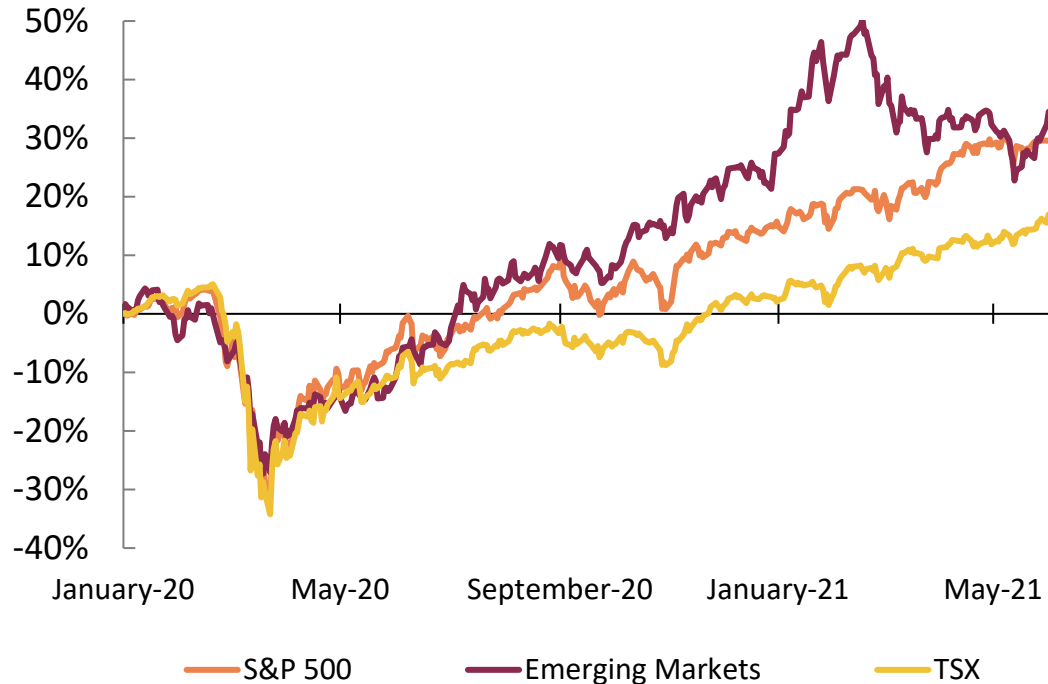


BUOYANT FINANCIAL MARKETS

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 started inching up in March due to rising inflation concerns in the U.S.

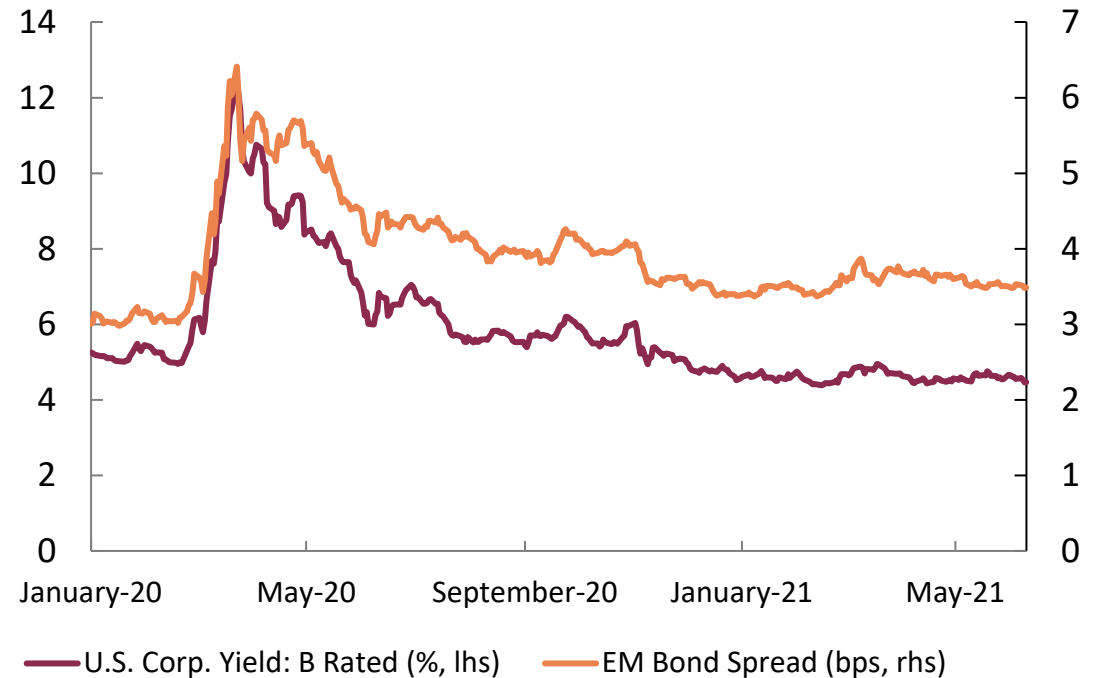
Global stock markets

% change since Jan. 1, 2020



Global debt markets

%

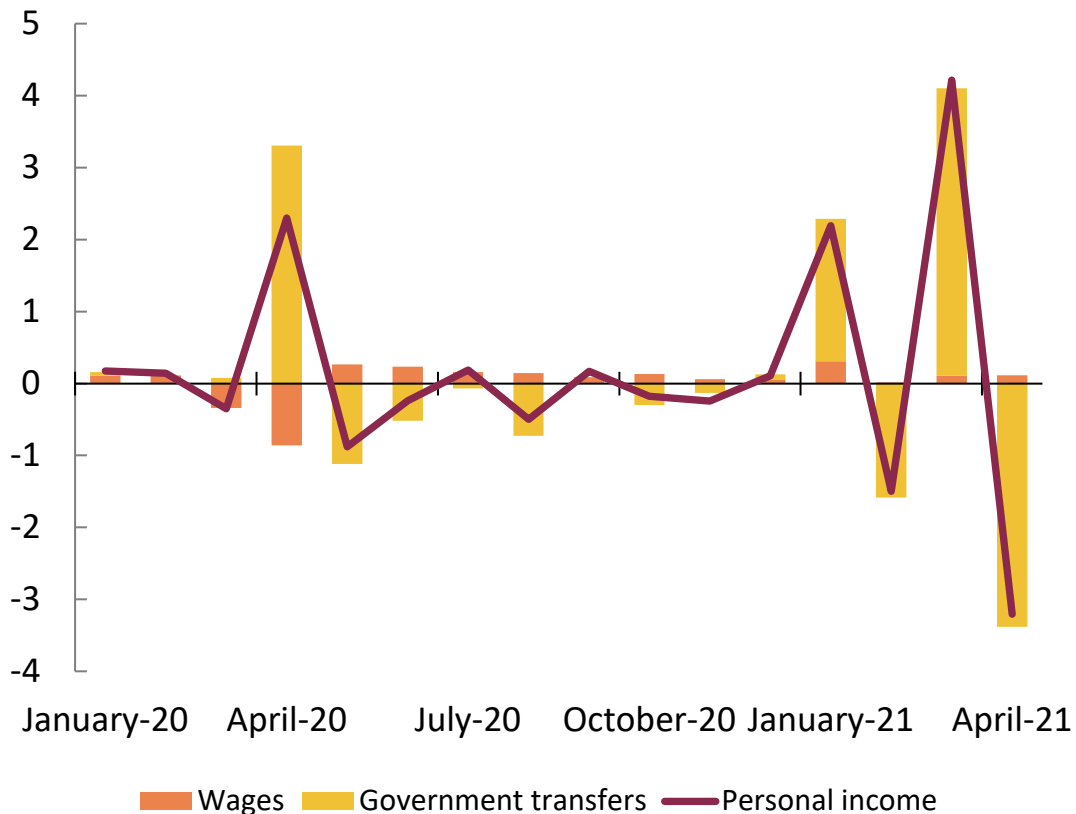


HEALTHY U.S. HOUSEHOLD FINANCES

Aggregate personal income in the U.S. increased during the pandemic, thanks to government transfers, which more than offset the declines in wage earnings. With higher incomes, and spending constraints on some in-person services, households have accumulated a significant amount of savings.

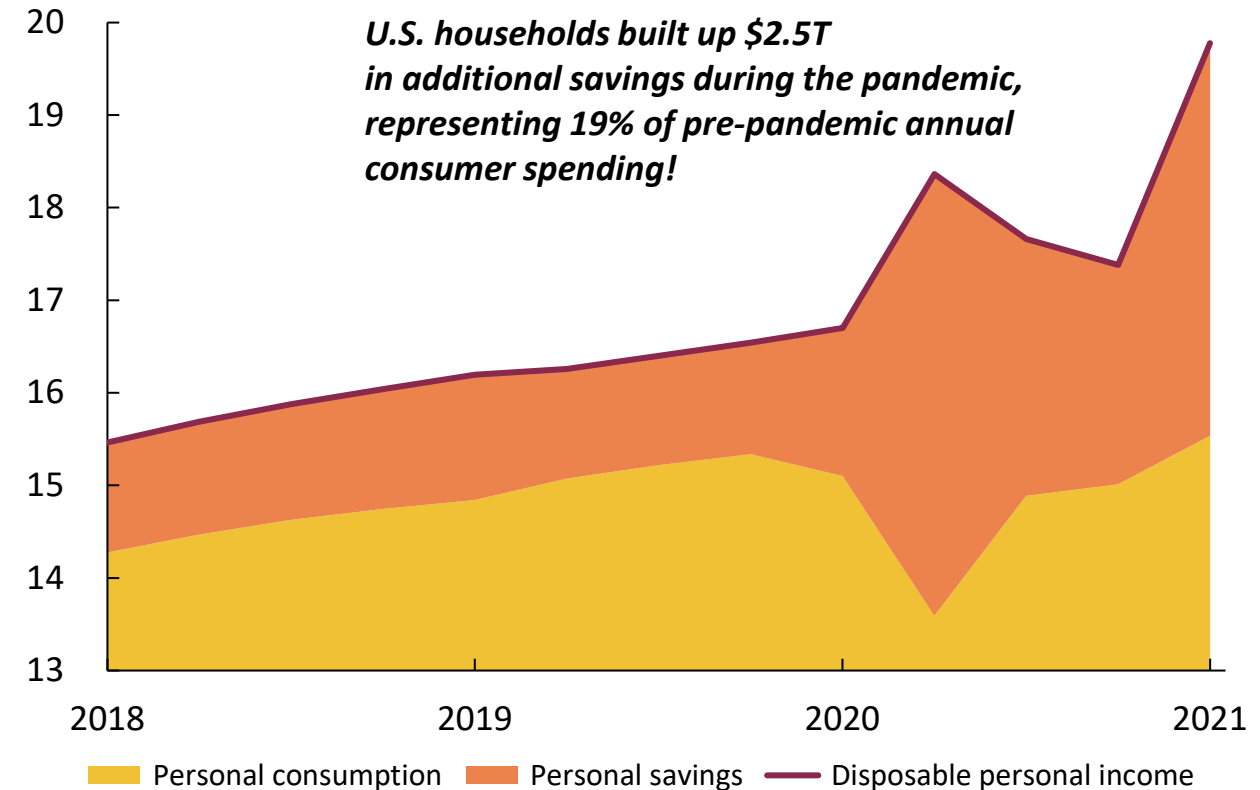
Monthly change in personal income

Trillions of dollars



Personal income, spending, and savings

Trillions of dollars

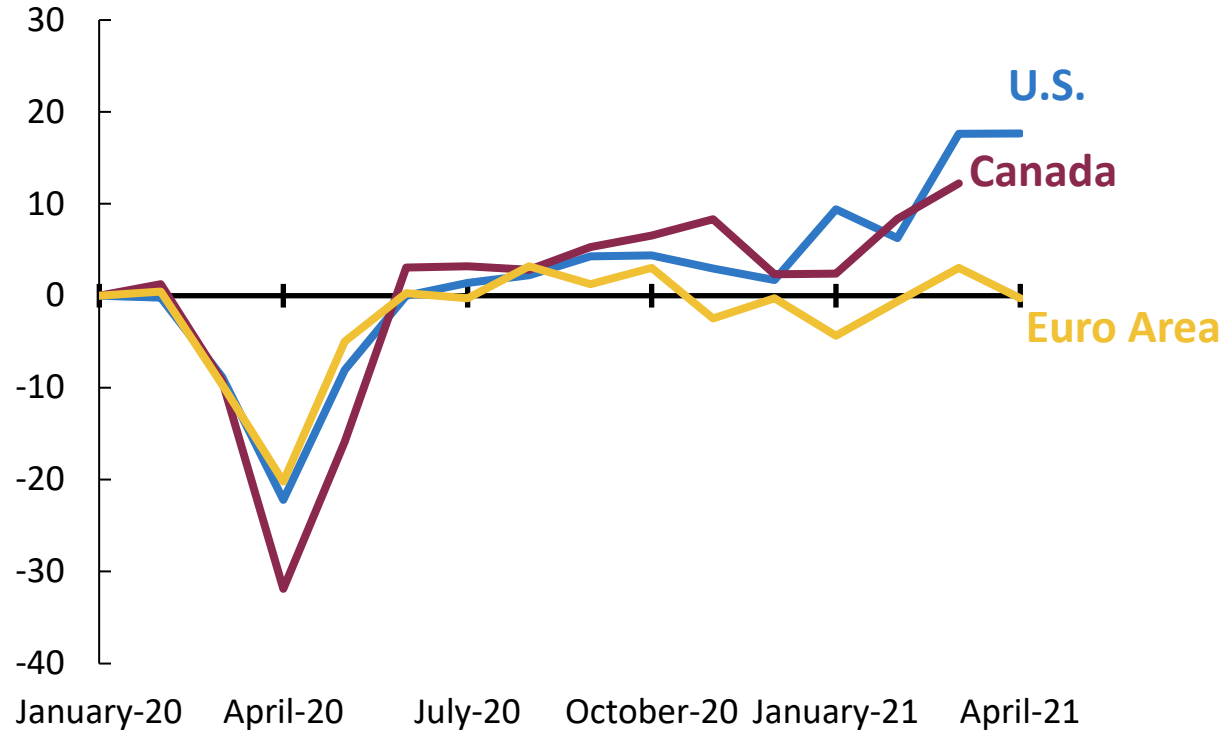


SIMILAR CONSUMER DYNAMICS IN OTHER ADVANCED ECONOMIES

Much like in the U.S., retail sales fell sharply in other countries 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' large cash reserves will support future spending.

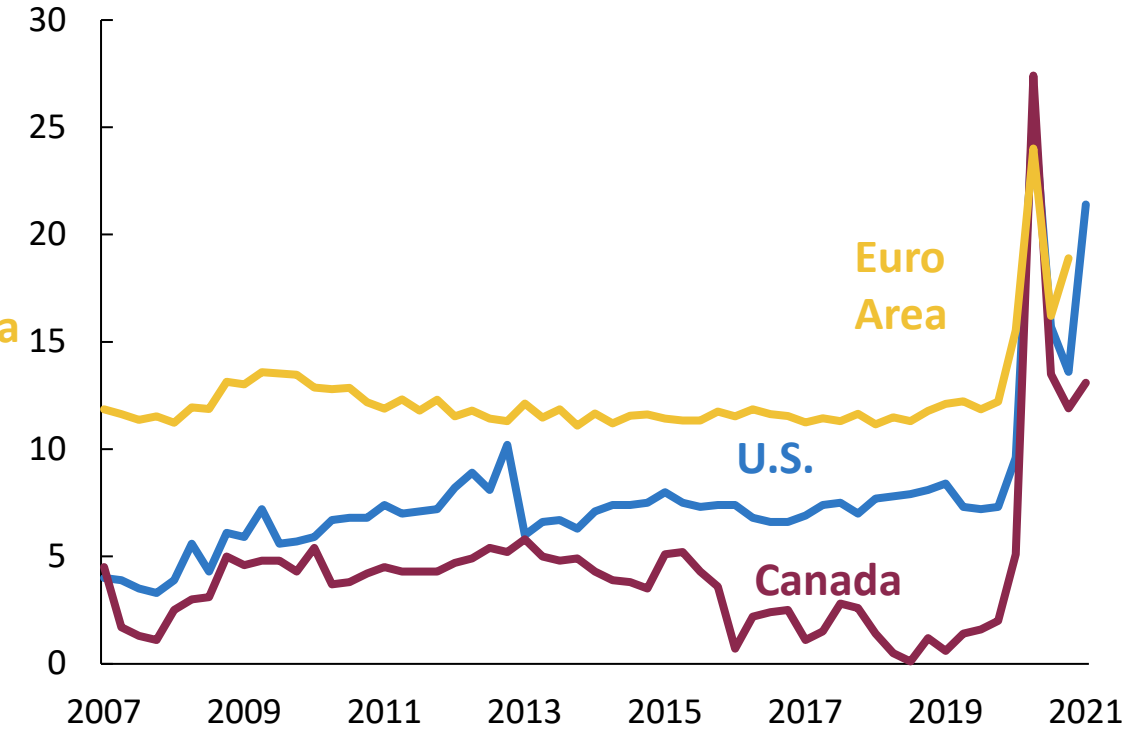
Retail sales

% change from January 2020



Savings rates

% of disposable income

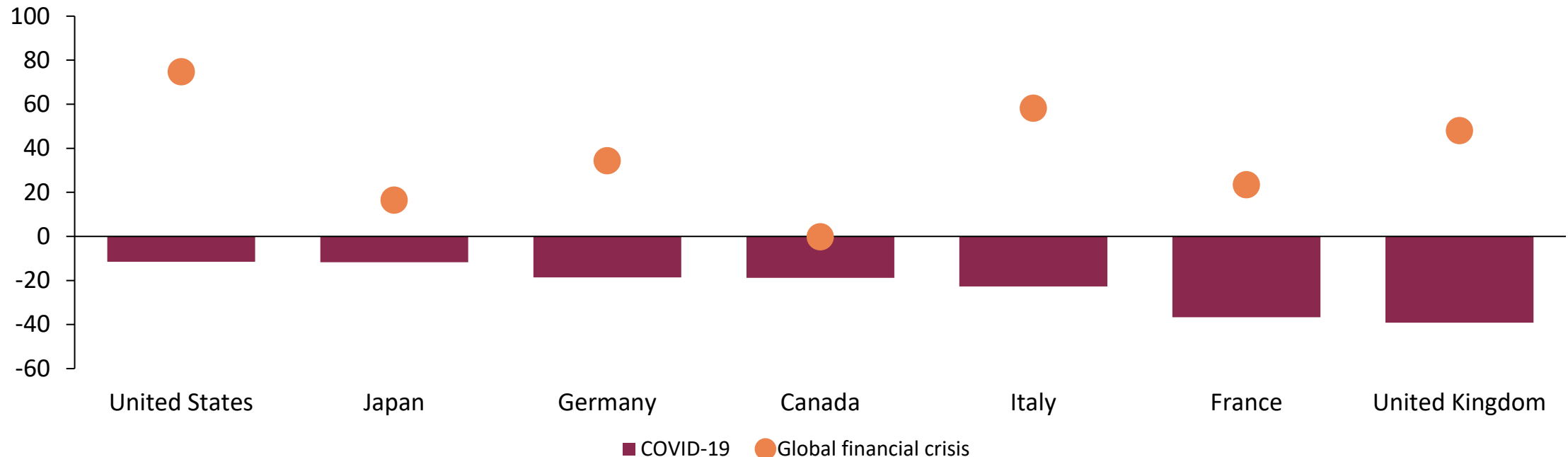


FALLING CORPORATE BANKRUPTCIES

Unlike the previous recessions, in the COVID-19 recession, because of significant policy support, corporate bankruptcies in advanced economies didn't rise, they fell. This atypical trend may eventually reverse when central banks tighten monetary policy and governments withdraw fiscal supports.

Number of corporate bankruptcies

% change*



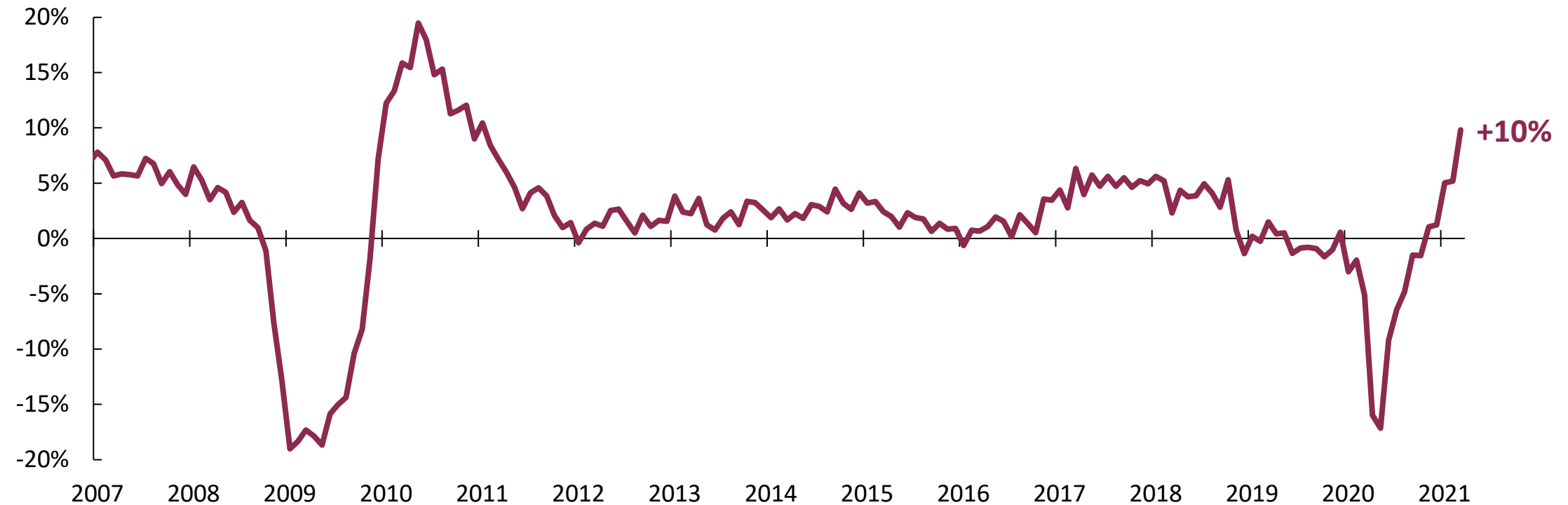
*Percent change in corporate bankruptcies during the COVID-19 pandemic (2019Q4 to May 2021) and the global financial crisis (2008Q1 to respective peaks between 2008Q2 and 2009Q4). Canada's numbers includes bankruptcies of sole proprietorships.

GLOBAL GOODS TRADE REBOUND

Global goods trade has rebounded much faster than most expected at the start of the pandemic. With such a surge in activity, attention has now turned to growing supply chain bottlenecks and capacity and price pressures.

Global merchandise trade volumes

Annual % change

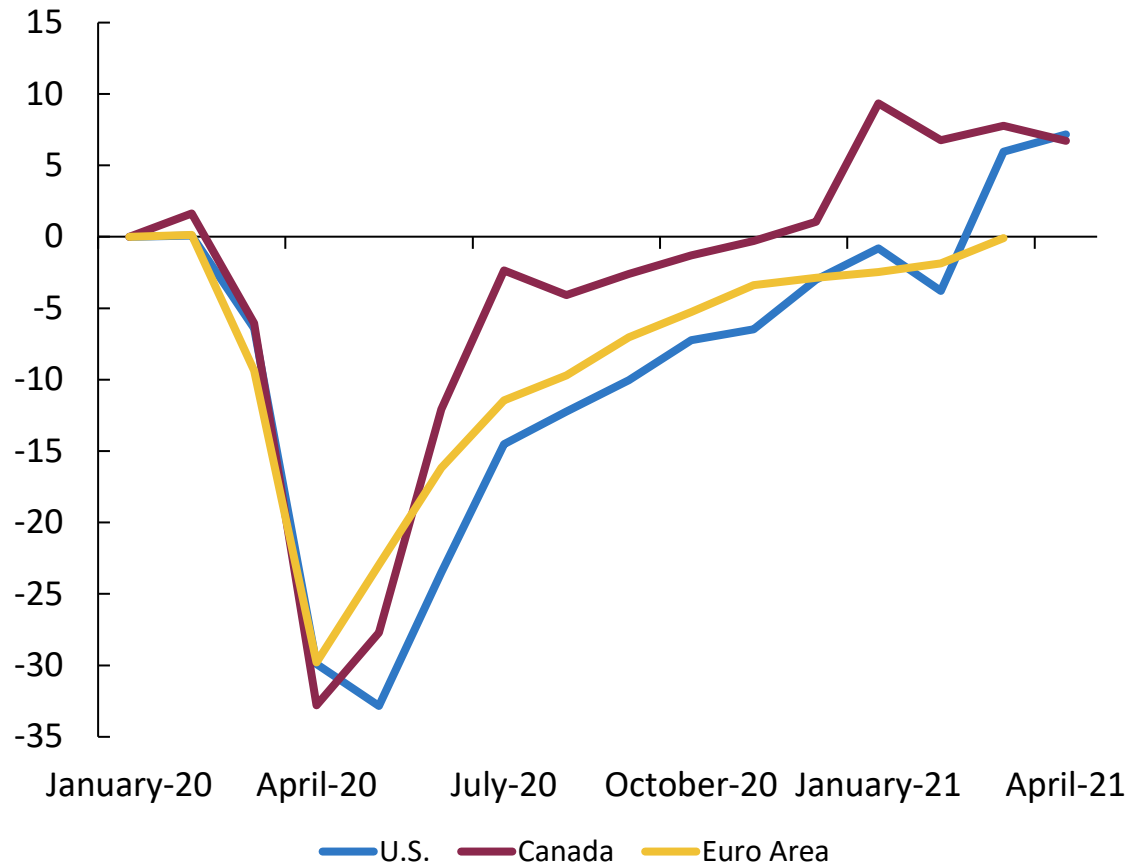


ADVANCED ECONOMY TRADE DYNAMICS

While goods exports rebounded quickly, services trade has been hit much more persistently due to restrictions on cross-border travel.

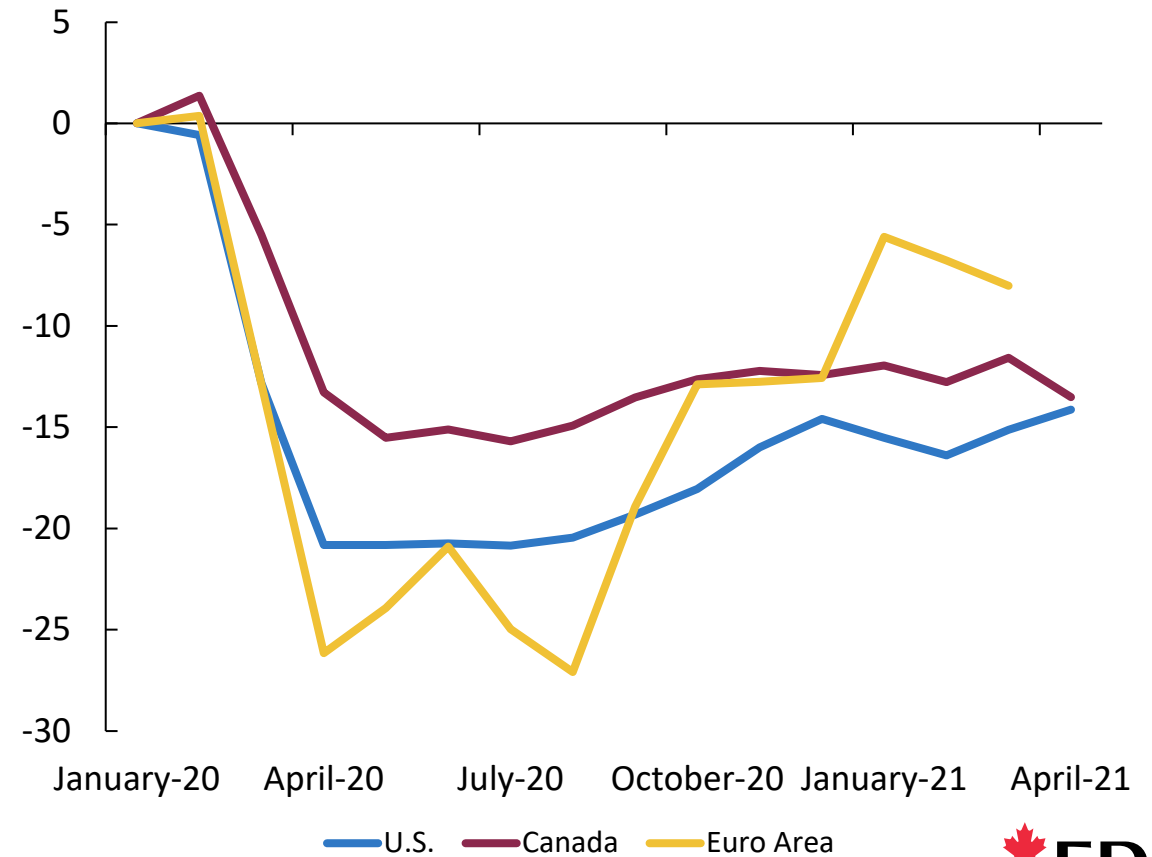
Merchandise exports

% change since January 2020



Services exports

% change since January 2020

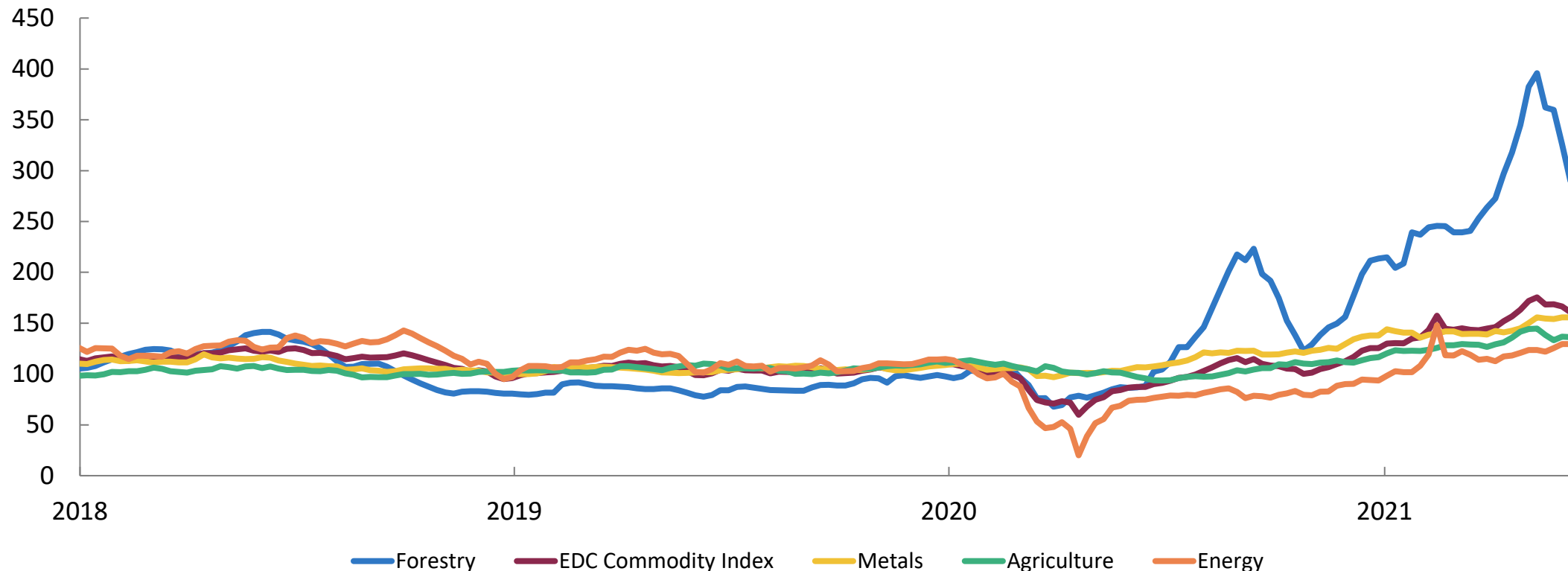


COMMODITY PRICES RISING

Commodity prices grew steadily from early pandemic lows. Lumber prices soared, supported by strong housing demand, but have since come down from record highs. Agriculture demand has also been resilient. Metals, and more recently, energy prices have benefited from the stronger-than-expected global economic recovery.

EDC commodity indices

Index 2017 = 100

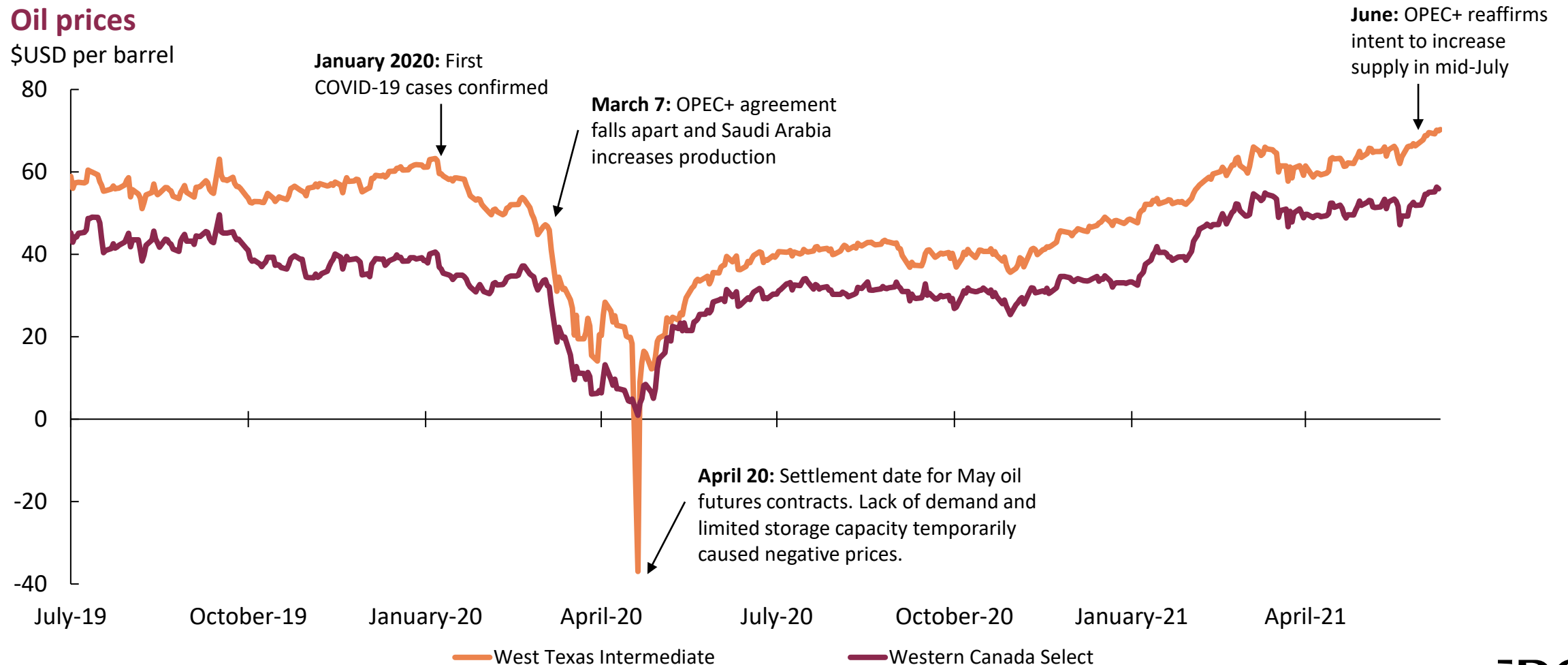


OIL PRICES HAVE RISEN SIGNIFICANTLY

Oil prices have enjoyed a period of sustained growth into 2021, given growing evidence of recovering demand and some restraints to-date on supply from key producers.

Oil prices

\$USD per barrel

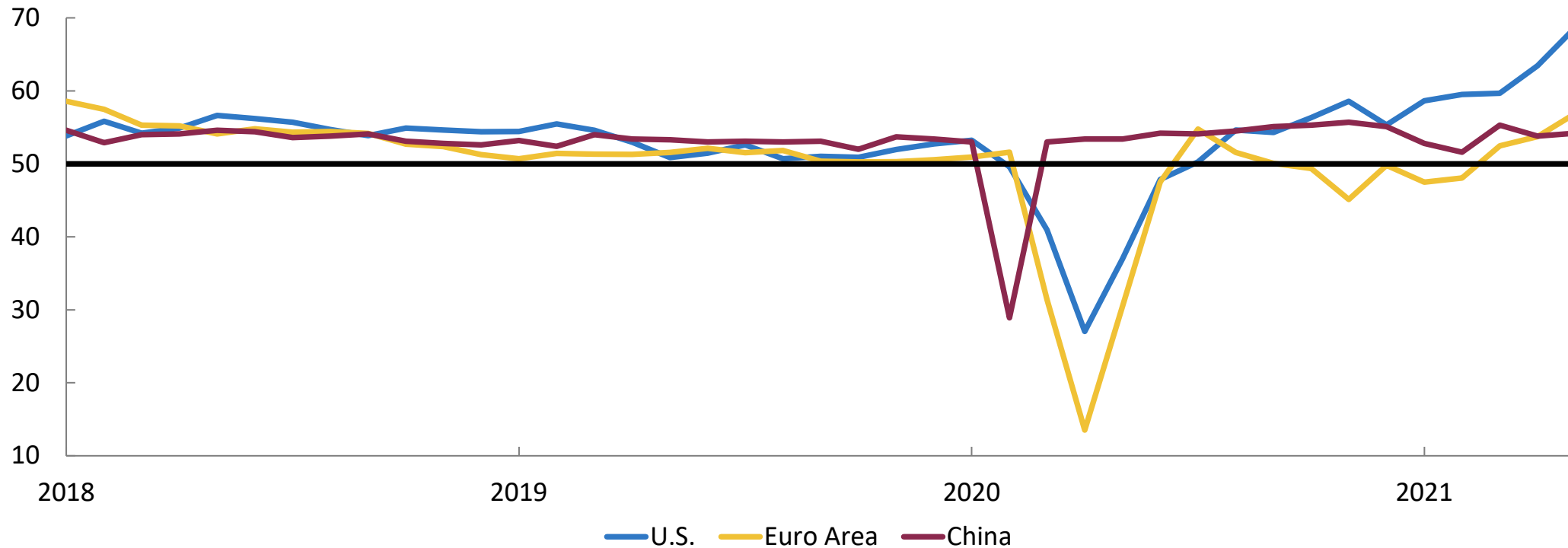


PURCHASING MANAGERS' INDICES

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. The U.S. has recently led the way as its manufacturing sector gears up.

Purchasing managers' indices

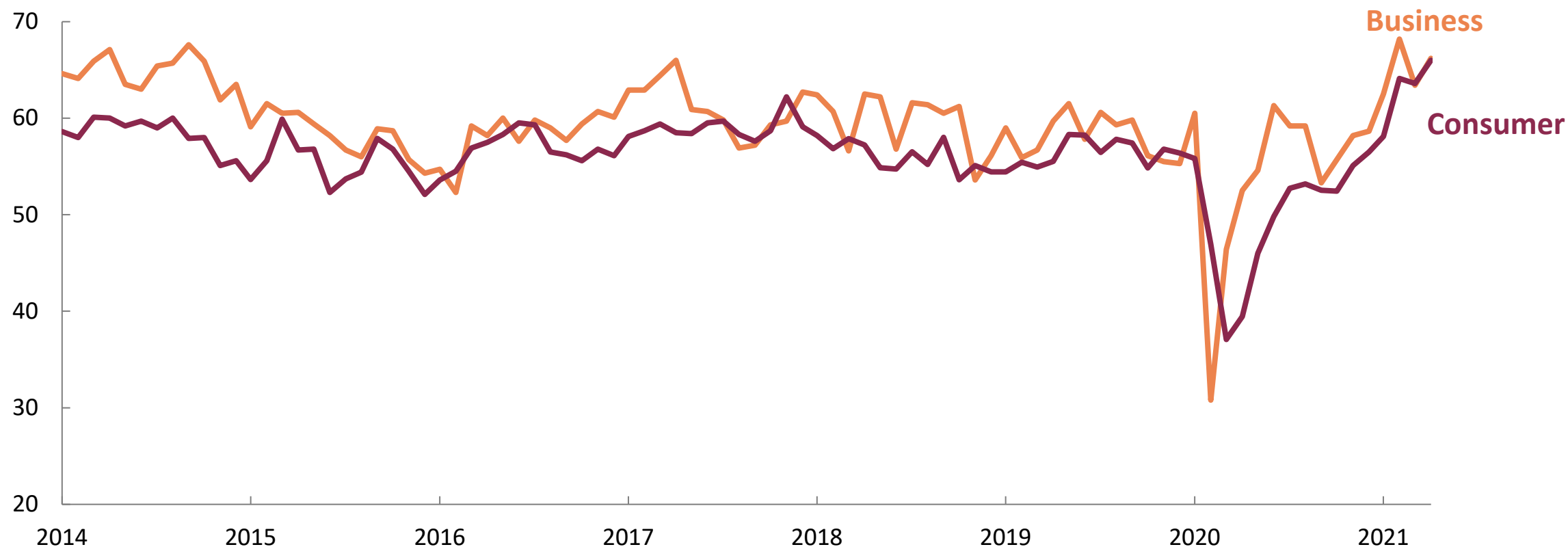
50+ = expansion



REBOUNDED CONFIDENCE

Canadian business and consumer confidence measures have risen above their levels prior to the pandemic.

Business and consumer confidence indices



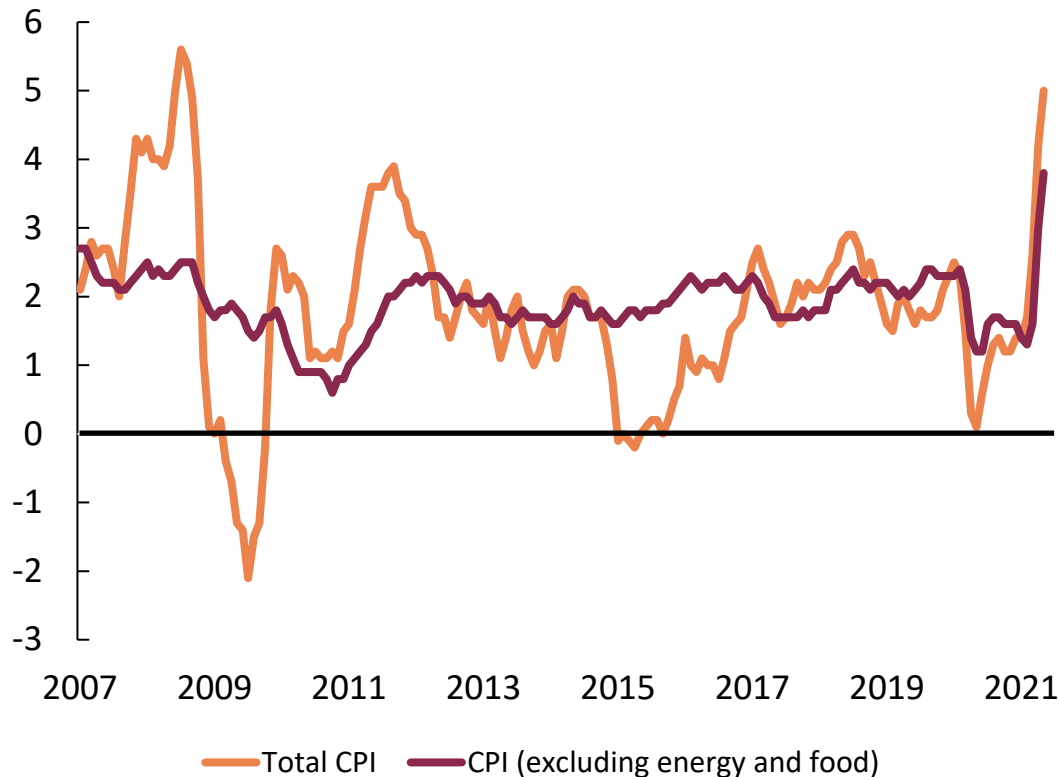
Sources: Nanos Canadian consumer sentiment index, CFIB business barometer

FEDERAL RESERVE POLICY

The Fed has a dual mandate of both stable prices and maximum employment. In August 2020, the first pillar was adjusted to “average inflation targeting”, which allows for the over-shooting of inflation we are now experiencing, after a period of undershooting. At the same time, U.S. labour markets still have considerable ground to make up.

U.S. Inflation

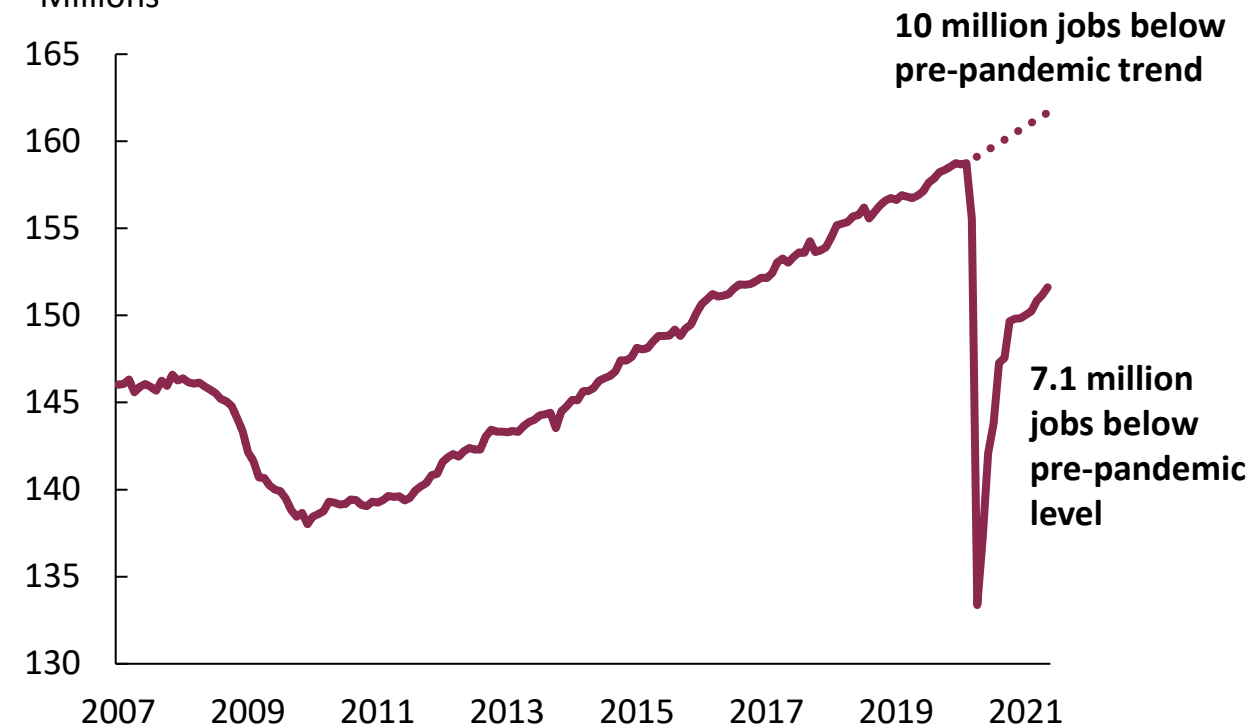
Year-over-year % change in consumer prices



Note: CPI = Consumer Price Index

U.S. employment

Millions



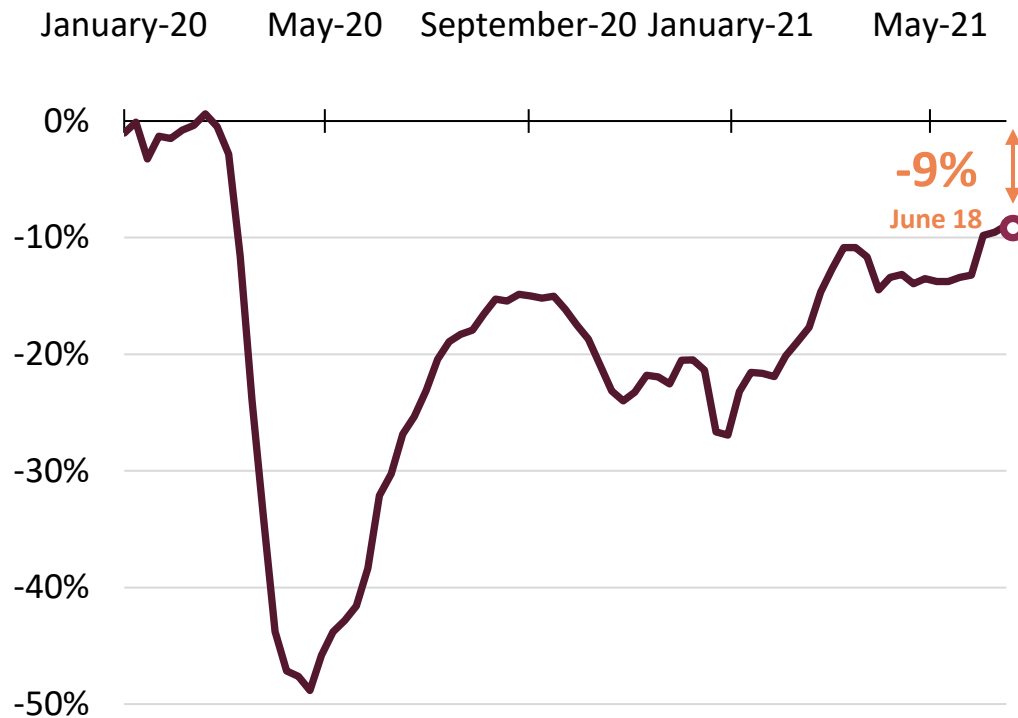
Note: Relative to the five-year pre-pandemic averages.

CANADIAN ECONOMIC RECOVERY TRACKER

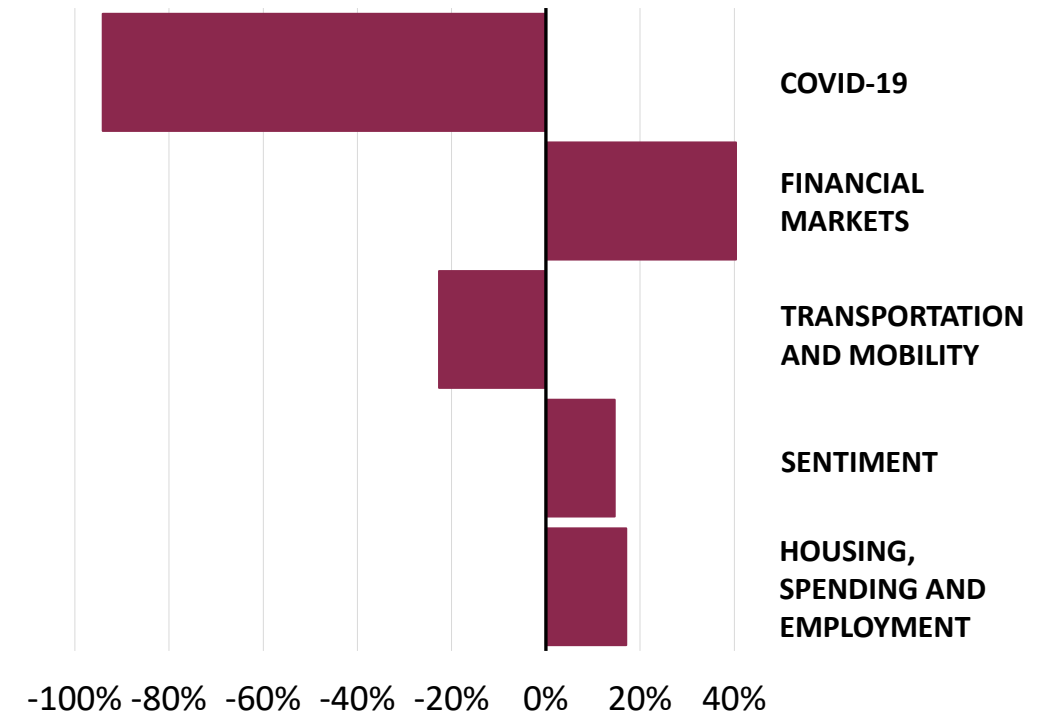
Canadian economic recovery experienced another setback during the third wave of COVID-19 cases. Financial markets, sentiment, housing and spending remain the bright spots in the recovery.

CERT index combines 13 high-frequency indicators

% change from pre-COVID-19 baseline



Percent change versus pre-COVID-19 baseline, week ending June 18

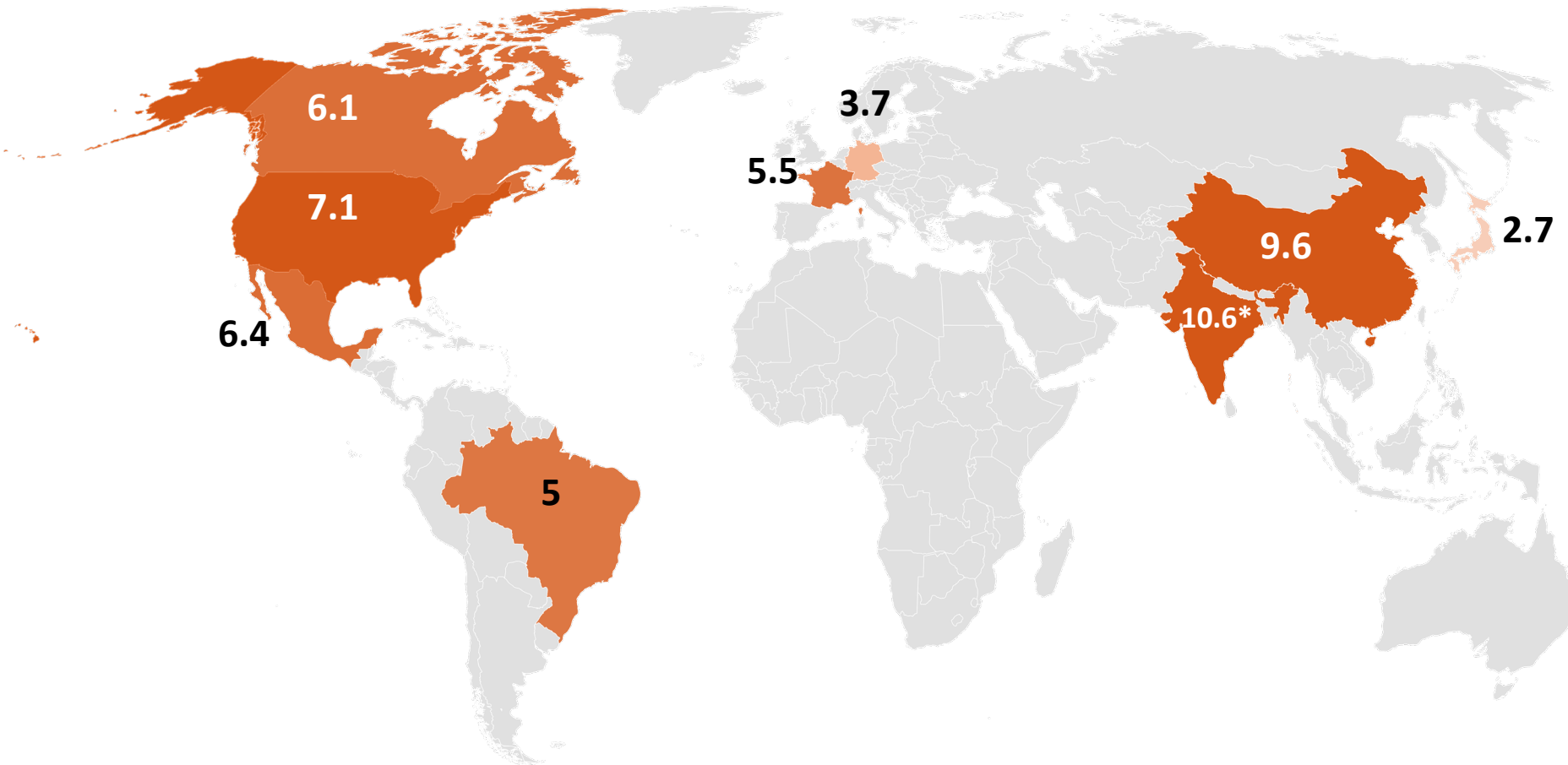


GLOBAL ECONOMIC OUTLOOK



2021 GROWTH OUTLOOK

Real GDP growth, %



6.3%

World

5.9%

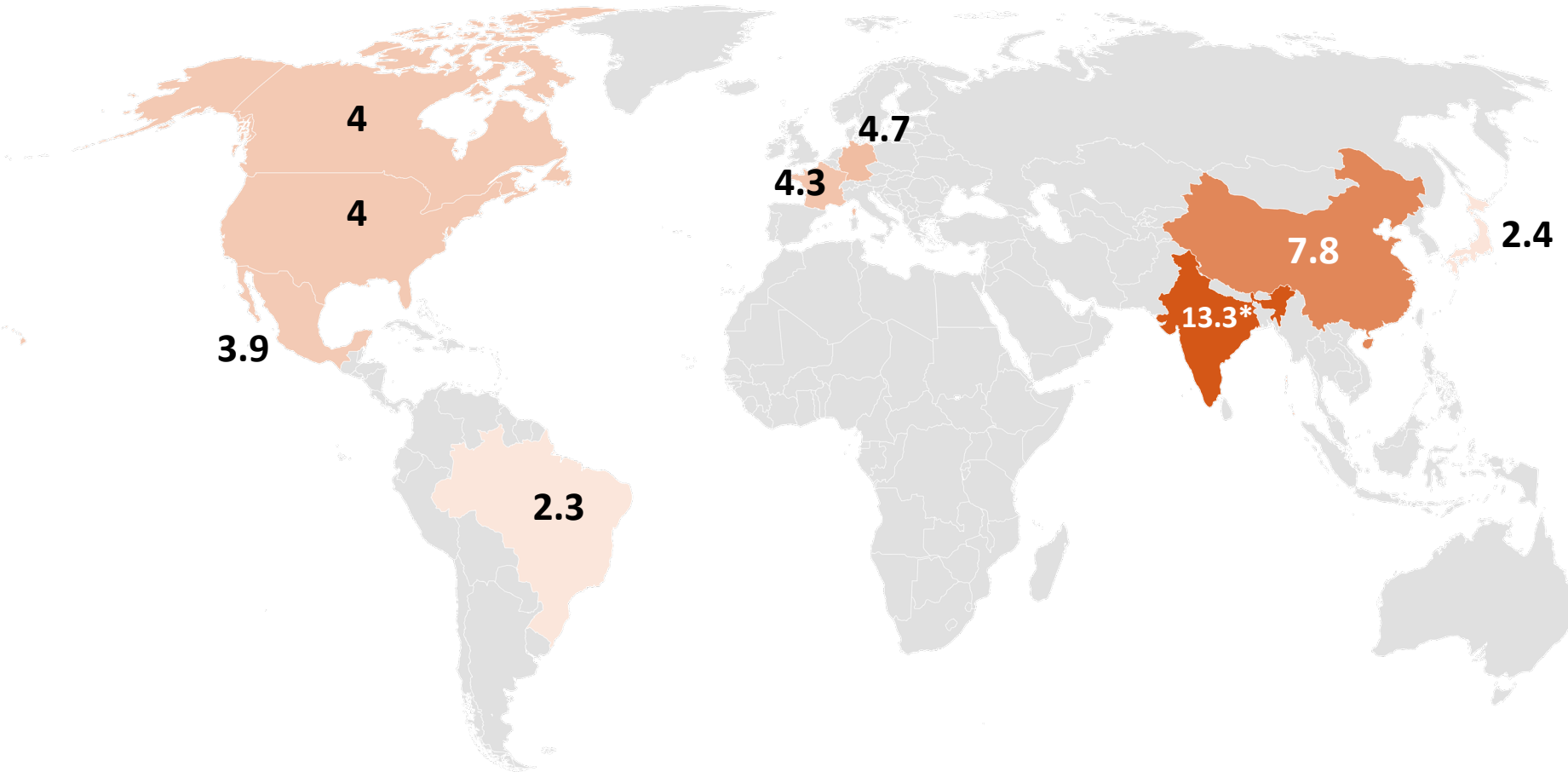
Developed

6.5%

Emerging

2022 GROWTH OUTLOOK

Real GDP growth, %



5.7%

World

4%

Developed

6.8%

Emerging

* India's 2022 FY = Q2 2022 – Q1 2023

Source: EDC Global Economic Outlook, June 2021

REAL GDP GROWTH

Global Economic Outlook (Annual % change)	2020	2021*	2022*
Developed countries	-4.7	5.9	4.0
Canada	-5.3	6.1	4.0
United States	-3.5	7.1	4.0
Eurozone	-6.7	4.6	4.4
Germany	-5.1	3.7	4.7
France	-8.0	5.5	4.3
Japan	-4.7	2.7	2.4
Emerging countries	-2.2	6.5	6.8
China	2.0	9.6	7.8
India	3.2	10.6	13.3
Brazil	-4.4	5.0	2.3
Mexico	-8.5	6.4	3.9
Total World	-3.3	6.3	5.7

Note: * denotes the forecast period. India's forecast based on fiscal year (2021 FY = Q2 2021 – Q1 2022, 2022 FY = Q2 2022 – Q1 2023)

Source: EDC Global Economic Outlook, June 2021

CHANGES FROM PREVIOUS FORECAST

Global Economic Outlook		2021*	2022*
Real GDP Growth (percentage point change)			
Developed countries		0.8	0.0
Canada		0.6	-0.1
United States		0.8	0.1
Eurozone		0.3	0.0
Germany		0.1	0.3
France		-0.1	0.2
Japan		-0.3	-0.1
Emerging countries		-0.5	0.6
China		-1.2	0.4
India		-2.7	3.9
Brazil		0.9	-0.4
Mexico		0.8	-0.1
Total World		-0.1	0.3

Note: * denotes the forecast period. Green shading denotes upward adjustments; red shading denotes downward adjustments.

Source: EDC Global Economic Outlook, June 2021 relative to April 2021.

CURRENCIES AND INTEREST RATES

Global Economic Outlook		2020	2021*	2022*
Currencies	Exchange Rate			
U.S. dollar	USD per CAD	0.75	0.81	0.82
Euro	USD per EUR	1.14	1.21	1.21
Euro	CAD per EUR	1.53	1.49	1.48
Interest Rates, annual average				
Bank of Canada, <i>Overnight Target Rate</i>		0.56	0.25	0.35
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. The first interest rate hike forecasted for the Bank of Canada is September 2022; the Federal Reserve is June 2023; and the European Central Bank is Q1 2024.

Source: EDC Global Economic Outlook, June 2021

COMMODITY PRICES

Global Economic Outlook	2020	2021*	2022*
Brent Crude Spot , <i>USD / bbl</i>	41.76	66.02	62.39
West Texas Intermediate , <i>USD / bbl</i>	39.27	63.02	59.29
Western Canada Select , <i>USD / bbl</i>	27.82	50.46	46.79
Natural Gas , <i>USD / MMBtu</i>	2.02	3.00	2.88
Gold , <i>USD / troy ounce</i>	1,770	1,779	1,730
Copper , <i>USD / tonne</i>	6,170	9,117	8,303

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, June 2021

KEY FORECAST ASSUMPTIONS

COVID-19

Vaccines distribution has made significant progress so far in 2021. We assume vaccines will be widely adopted in most advanced economies by the second half of 2021, but notably later in some emerging economies.

EDC Economics' base case forecast doesn't assume an additional significant wave of new COVID-19 cases across systemically-important economies in the second half of 2021. However, we do not rule out several additional outbreaks in various locations. Our forecast assumes government responses to restrict economic activity will be more decentralized and location-specific than the economy-wide lockdowns used earlier, and that there'll be less economic disruption.

This is because 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. As we have seen, in subsequent waves of infections, many companies and households have applied these lessons to mitigate the economic impacts.

Financial conditions

Central banks around the world are expected to continue to provide extraordinary liquidity, at least over the next year, in order to maintain market functioning and overall financial stability. The tightening of policy interest rates is expected to proceed relatively gradually and smoothly in a return to neutral levels.

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 June 9, 2021.

Key upside risks

- The unprecedented government support provided across advanced economies, alongside reduced ability to spend on some services, has led to a large accumulation of household savings in many countries. As vaccines rollouts progress and economies re-open, the drawing down of these savings could result in a strong-than-expected recovery releasing significant “pent-up demand” into the economy, as supply struggles to keep pace.
- 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 spark 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

- The emergence of new variants of the COVID-19 virus which are highly-contagious and much more resistant to existing vaccines, 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.

Forecast probabilities	
Upside	20%
Base case	65%
Downside	15%

DISCLOSURE

Ce document est également disponible en français.

This document isn't intended to provide specific advice and shouldn't be relied on as such. It's intended as an overview only. No action or decision should be taken without detailed independent research and professional advice concerning the specific subject matter of such action or decision. While Export Development Canada (EDC) has made reasonable commercial efforts to ensure that the information contained in this document is accurate, EDC doesn't represent or warrant the accurateness, timeliness or completeness of the information contained herein. This document or any part of it may become obsolete at any time. It's the user's responsibility to verify any information contained herein before relying on such information. EDC isn't liable in any manner whatsoever for any loss or damage caused by or resulting from any inaccuracies, errors or omissions in the information contained in this document. This document isn't intended to and doesn't constitute legal or tax advice. For legal or tax advice, please consult a qualified professional. EDC is the owner of trademarks and official marks. Any use of an EDC trademark or official mark without written permission is strictly prohibited. All other trademarks appearing in this document are the property of their respective owners. The information presented is subject to change without notice. EDC assumes no responsibility for inaccuracies contained herein.

Copyright © 2021 Export Development Canada. All rights reserved.





 **EDC** | **75**
ANS
YEARS