Global Economic Outlook

Inflation pulls back, growth underwhelms

EDC Economics

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

Canada

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Executive summary

Global Economic Outlook: Inflation pulls back, growth underwhelms

By Stuart Bergman
Vice-President and Chief Economist

When the U.S. Federal Reserve began hiking interest rates in spring 2022, in its attempt to quell inflationary pressures, debate around monetary policy lag times resurfaced. An oft-cited rule of thumb suggests that it can take anywhere from 18-24 months for interest rate moves to finally reach the real economy and impact consumer and business spending decisions. Nearly 19 months later, and it looks like that rule of thumb is holding strong.

After more than a decade's worth of ultra-loose monetary policy and other extraordinary measures, efforts by the U.S. Federal Reserve, the Bank of Canada, the European Central Bank (ECB), and others to firmly anchor inflation to their preferred target range are beginning to have their intended effects. While this has helped significantly cool inflation, we also expect it to weigh heavily on growth in 2024.

Signs of slowing are already showing up in the labour market. In the U.S., job gains over the last three months have averaged 266,000, down significantly from the pace of 423,000 a year ago. At the same time, the number of job openings and the level of workers quitting their jobs have fallen. Meanwhile, wage growth is running well-below the rates that employees had grown accustomed to last year and excess pandemic savings are expected to be completely depleted this fall.

This will limit the U.S. consumer's ability to continue to spend over the next few quarters. As a result, EDC Economics expects U.S. growth to fall to 2% in 2023 and just 0.6% in 2024.

Despite the accompanying drop in inflation, we expect the Fed to raise interest rates by 25 basis points before this hiking cycle is over, consistent with its intention to bring inflation back to target. While any future moves will be data dependent, with an eye on its dual mandate to achieve both price stability and maximum sustainable employment, we expect the central bank to stand pat through mid-2024.

In Canada, the situation has mimicked that of the United States, but with the Bank of Canada acting earlier—both to increase interest rates in 2022, and move into reactive hiking in 2023. With Canadian consumers more heavily indebted, facing a 181% debt-to-income ratio, higher rates pose an even greater challenge to Canadian consumers. At the same time, Canada's labour market has also begun to stall, with job openings declining and overall unemployment ticking up. Slowing domestic demand, coupled with weaker growth out of our largest trading partner will result in gross domestic product (GDP) growth of 1.3% in 2023 and 0.6% in 2024 for Canada.

Executive summary

Global Economic Outlook: Inflation pulls back, growth underwhelms

Facing a fragile domestic economy, we expect the Bank of Canada to remain on the sidelines. Weaker growth will help ease pricing pressures, and we expect inflation to return to the upper-bound of its target range by late 2023. Similar to the Fed, we expect the Bank of Canada to only begin gradually cutting its benchmark rate in mid-2024, once inflationary pressures have settled. As a result, we expect the Canadian dollar to average US$0.75 in 2023 and US$0.76 in 2024.

China, meanwhile, is facing a very different set of challenges. Following a faster post-reopening normalization of activity early in the year, the country is struggling with the lingering effects of a property slowdown (accounting for nearly one-third of its economy), reduced confidence, record youth unemployment and soft export demand. We believe that a significant policy response to stimulate the economy is unlikely, due to high levels of local government indebtedness and a reluctance to continue to fund growth through credit. This will keep GDP growth below its already reduced target of around 5%, at 4.8% in 2023 and 4.4% in 2024. With China accounting for roughly 40% of global growth over the last 15 years, this weak performance will hinder growth elsewhere.

Euro Area growth of just 0.7% in 2023 and 1.1% in 2024 demonstrates this challenge. Germany—the bloc's largest economy—is weighing heavily on the outlook, as it struggles to escape stagnation. The ECB will be challenged with balancing the need to manage persistent inflationary pressures against ongoing economic weakness across the bloc. We expect Frankfurt to hold its policy rate steady until next fall.

Weakness out of China will depress demand for key industrial commodities and impact pricing across much of the commodity complex. Oil prices will remain more volatile, as OPEC+ works to offset weaker demand by managing supplies. While we forecast West Texas Intermediate crude oil prices to average $78 this year and $73 in 2024, we expect swings across both years as the market reacts to these conflicting dynamics.

The bottom line?

The impacts of central bank rate increases are finally hitting home in a real way in North America, Europe, and across other major economies. China's economy is grappling with a set of both cyclical and more structural challenges. Taken together, we expect the global economy to grow by just 2.9% in 2023 and 2.7% in 2024.

Outlook overview

- Central banks around the world have taken drastic measures to tame prices and expectations. Now that these actions are taking effect, nearly 19 months later, they're also weighing heavily on global economic growth—subduing forecasts for 2023 (2.9%) and diminishing them in 2024 (2.7%). This weakness is expected to continue until rate cuts begin later next year and work their way through the economy.
- China's post-reopening recovery was short-lived, as consumers hastily regained fiscal restraint following substantial uncertainty in the property sector, labour market, and geopolitical landscape. Due to this, we forecast 2023 growth at 4.8% following expectations of limited stimulus from the government.
- Canada was one of the first countries to hike rates and now is showing more advanced signs of cooling—unemployment is ticking up and debt burdens are stifling demand. These factors have weighed on our growth forecasts for 2023 (1.3%) and 2024 (0.6%), but have also brought Canada closer to the end of its tightening cycle—with cuts beginning mid-2024. Trailing just behind Canada is the United States, with a loosening labour market but expectations for one more interest rate hike before their cycle ends.
- Europe faces a vastly different picture as worries of stagflation grow. Germany, Europe's largest economy, is struggling to reinvent itself as it faces structural changes due to the loss of cheap Russian oil. Reduced demand from China and the rest of the world will also subdue future growth.

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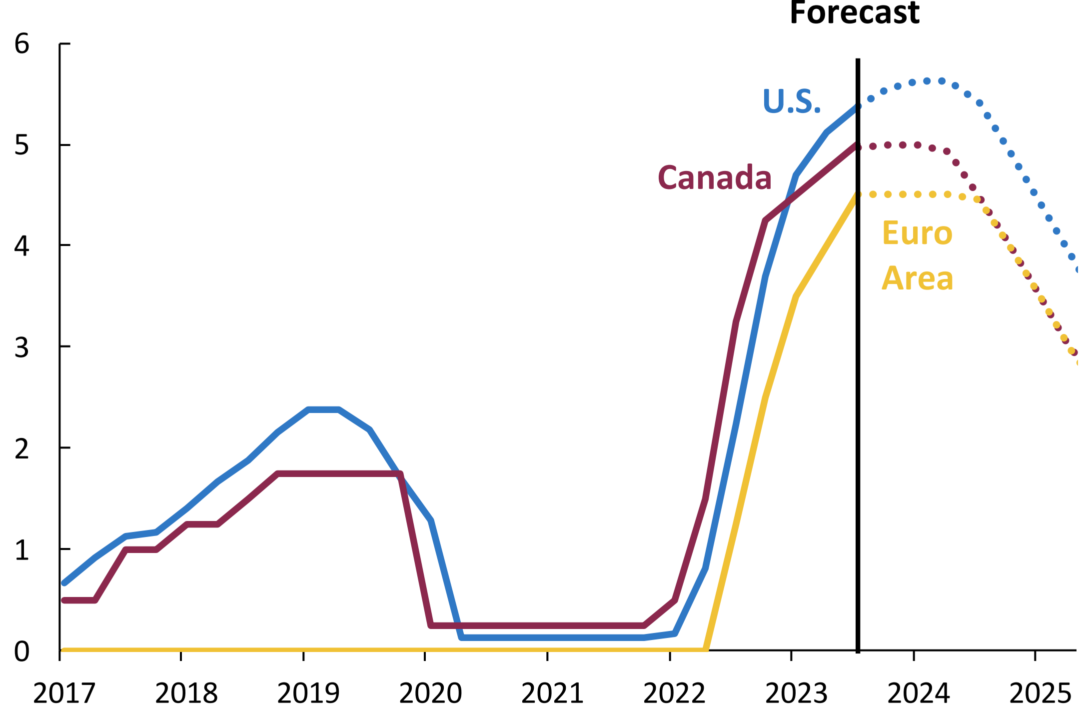
Macroeconomic context

Monumental interest rates taking effect

Central banks have hiked interest rates higher and faster than at any time in the last two decades. With EDC forecasting rate cuts to commence later next year, this is one of the longest periods that rates have been sustained at such high levels. As these actions finally work through the economy, weighing on business and consumers alike, the remaining question is when and how fast will rates fall.

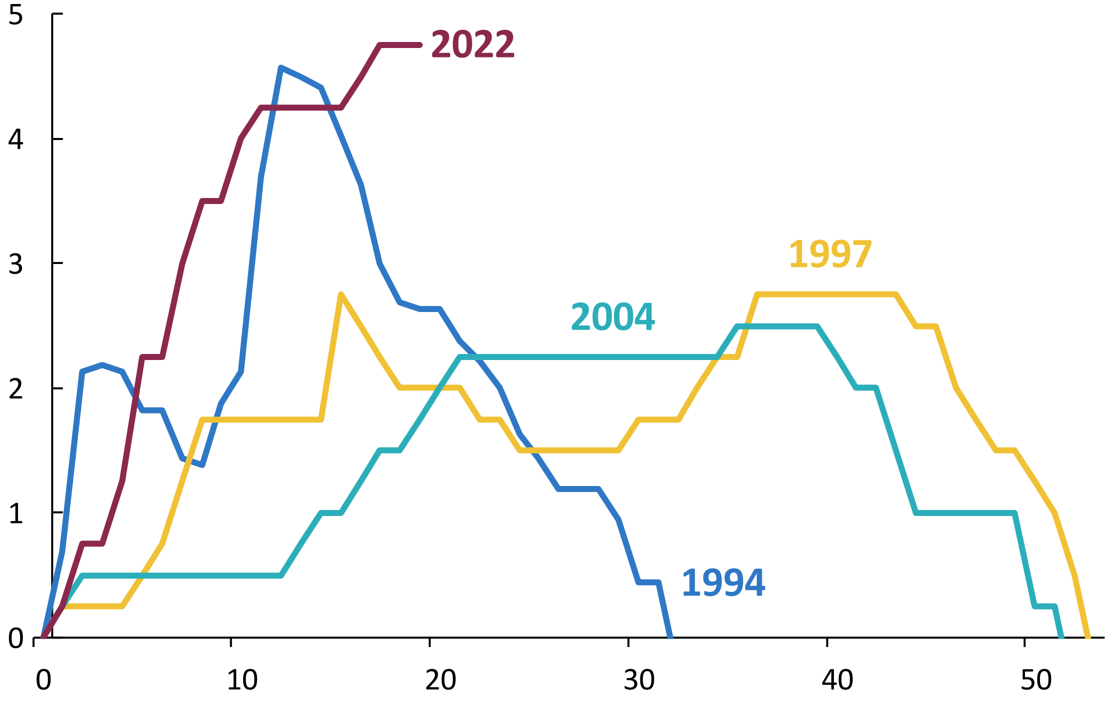
Policy interest rates

Quarterly, end-of-period, %



Top Canadian interest rate cycles since 1993

Percentage-point change over number of months since start date*



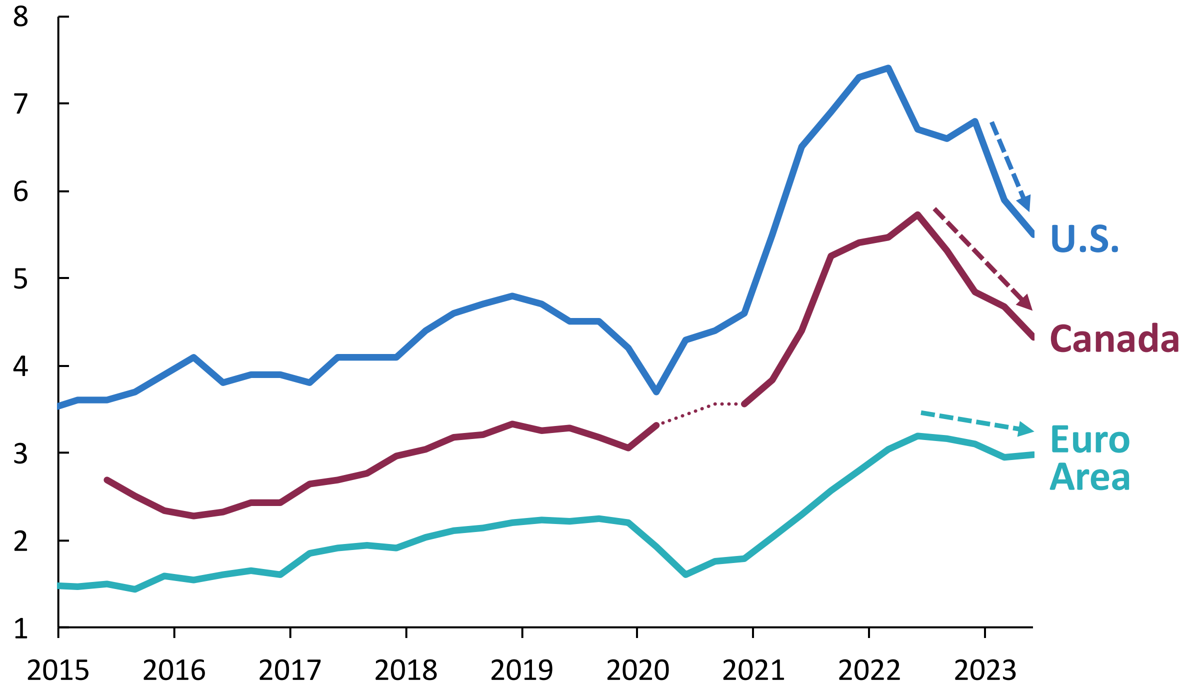
*The start dates of the interest rate hiking cycles are labelled and normalized to zero. Detailed start dates are Feb-1994, May-1997, Aug-2004, and Feb-2022.
Sources: Haver Analytics, Organisation for Economic Co-operation and Development (OECD), EDC Economics

Labour pressures diverging

Labour conditions and core inflation rates have improved in the U.S. and Canada, while moving sideways in the Euro Area. Despite softening labour markets, Canada and the U.S. are also experiencing near record high participation rates—pushing the participation gender-gaps to all-time lows. The U.S. progress may not last as federal support for childcare ran out in late September—potentially dragging on participation rates and impacting labour conditions.

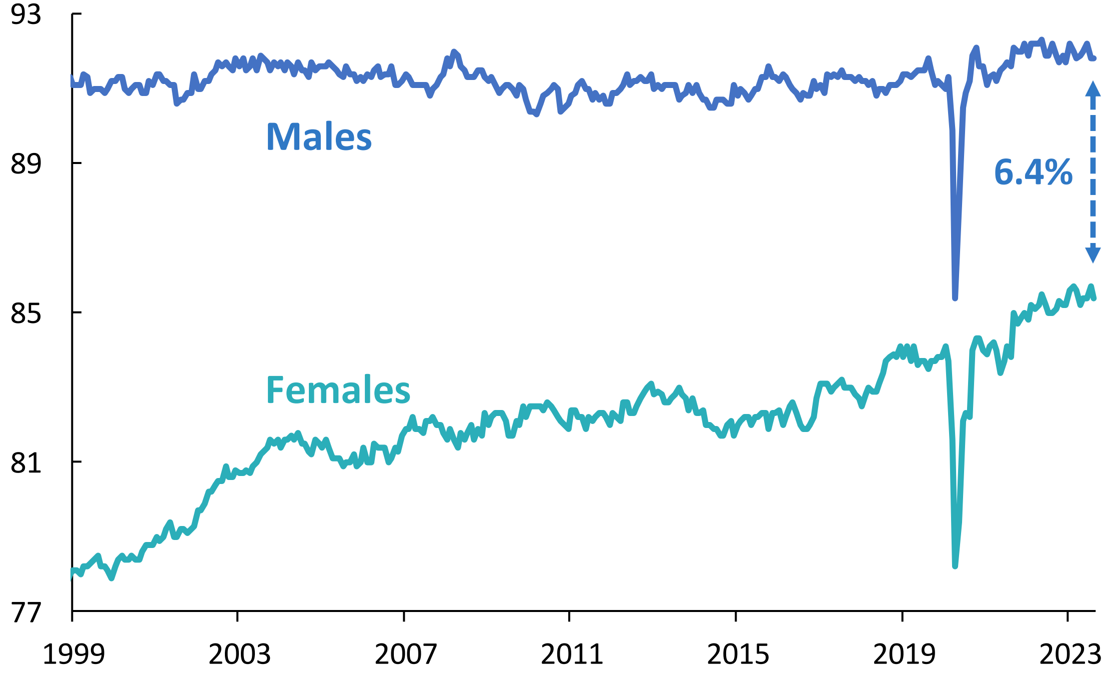
Job vacancy rates*

Percent



Canadian labour-force participation gender gap

Percent, seasonally adjusted



Sources: Haver Analytics, EDC Economics

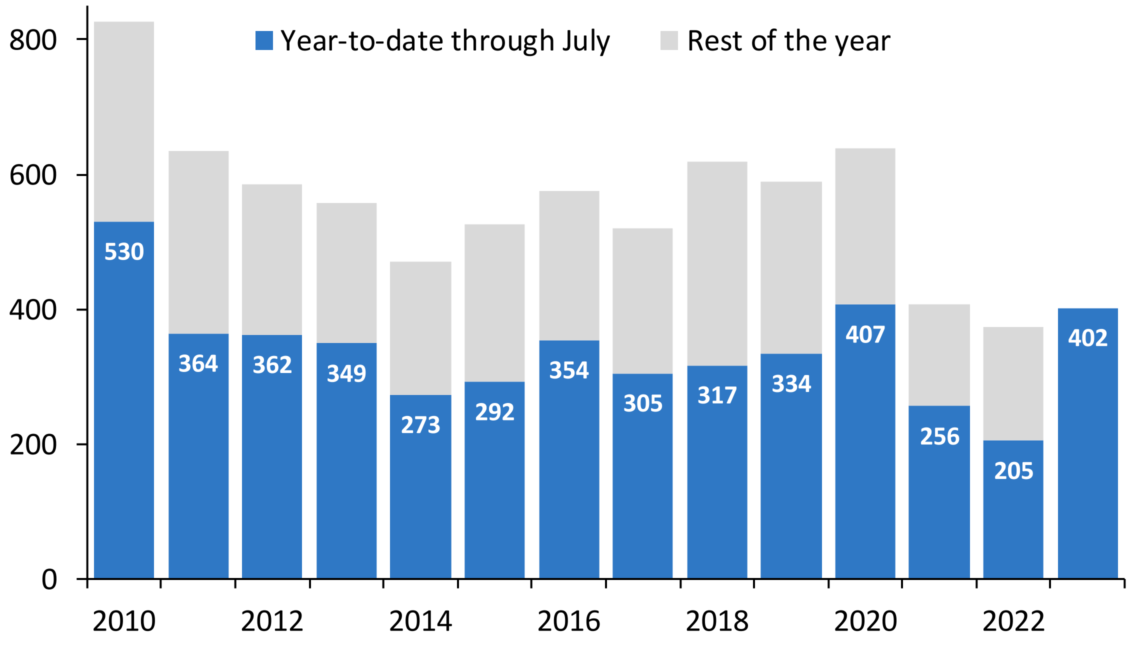
*Statistics Canada did not release job vacancy rates over the pandemic. The dotted line is just a visualization of missing data

Lagging effects of interest rates impacting U.S. economy only slightly

High interest rates and expensive borrowing costs spark concerns of a wave of corporate bankruptcies in the U.S. However, the burden on household debt remains low despite the Fed's rampant tightening, with more than 40% of all mortgages locked into low 30-year rates during pandemic. These counter trends will help the U.S. economy weather price pressures and higher interest rates.

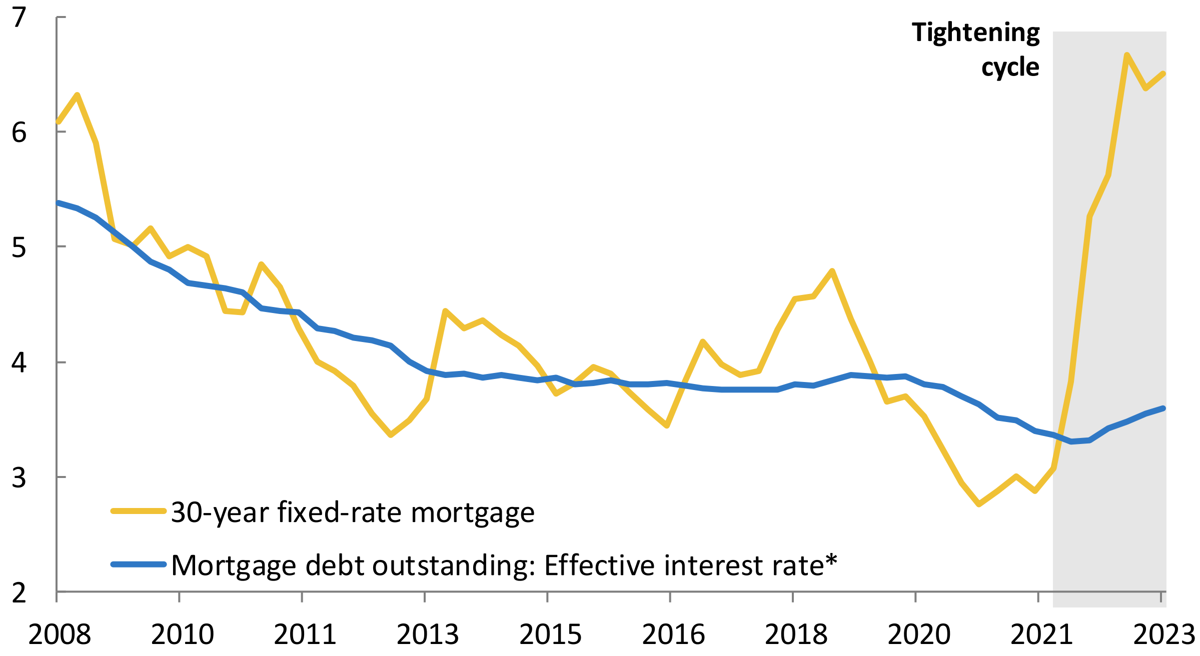
U.S. bankruptcy filings

Annual; 2023 data through July 31, 2023



U.S. effective and actual mortgage rates

Percent



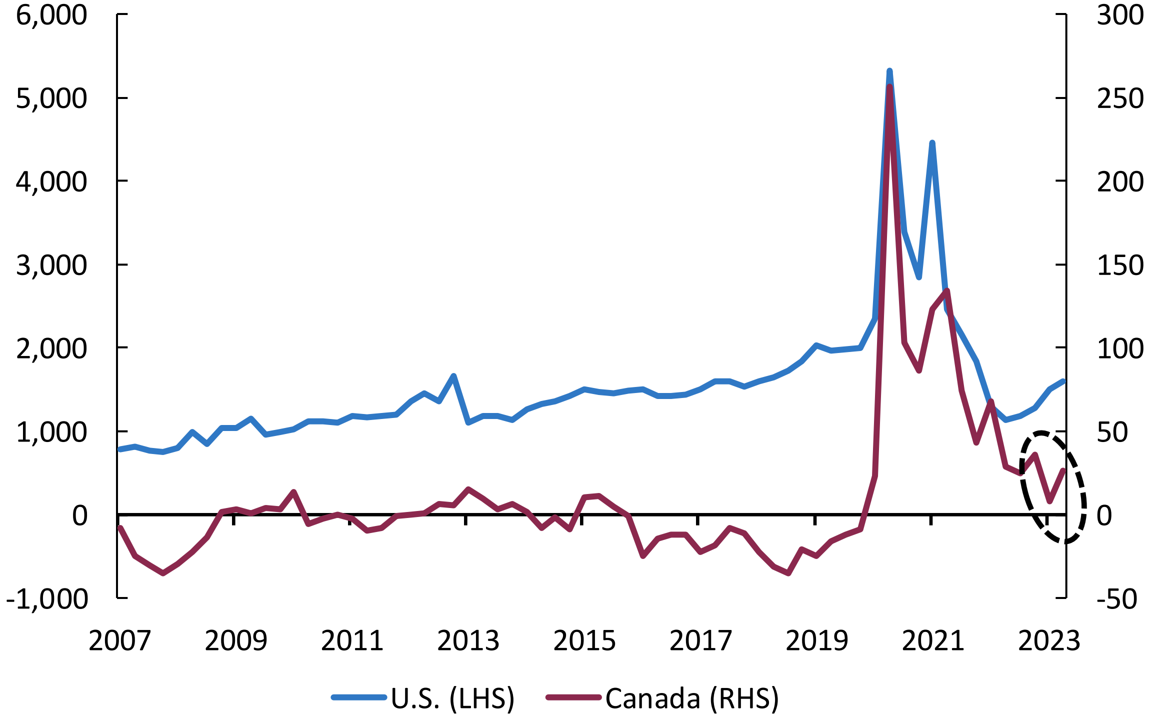
Sources: S&P Global, Bloomberg, Haver
*Values are mid-price

Strength and resilience of the U.S. consumer faces uncertainties

Canadian and U.S. consumers surprisingly increased their cash-on-hand in Q2-2023, but levels are down considerably from their post-pandemic peaks. Consumer spending in the U.S. has been robust since the pandemic, but U.S. household debt has also increased to a record US$17 trillion. With the possibility of further U.S. interest rate hikes, and the resumption of student loan interest accrual in September after a three-year pause, U.S. consumption could take a significant hit.

Cash-on-hand

Quarterly, USD billions



U.S. student loan repayments soar ahead of September

Monthly, USD billions*

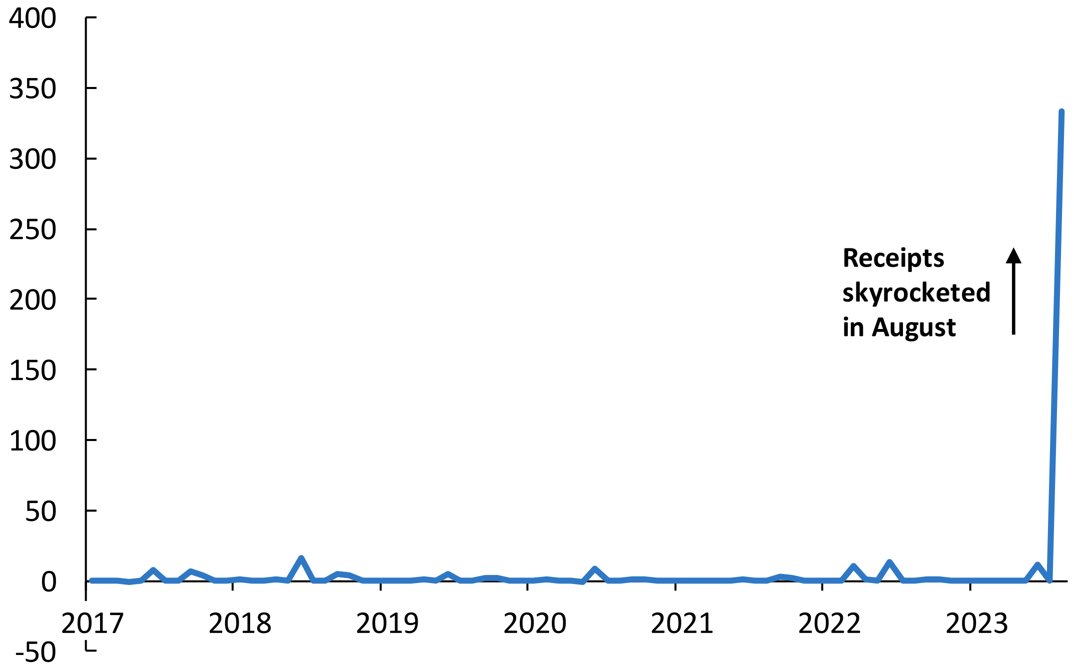


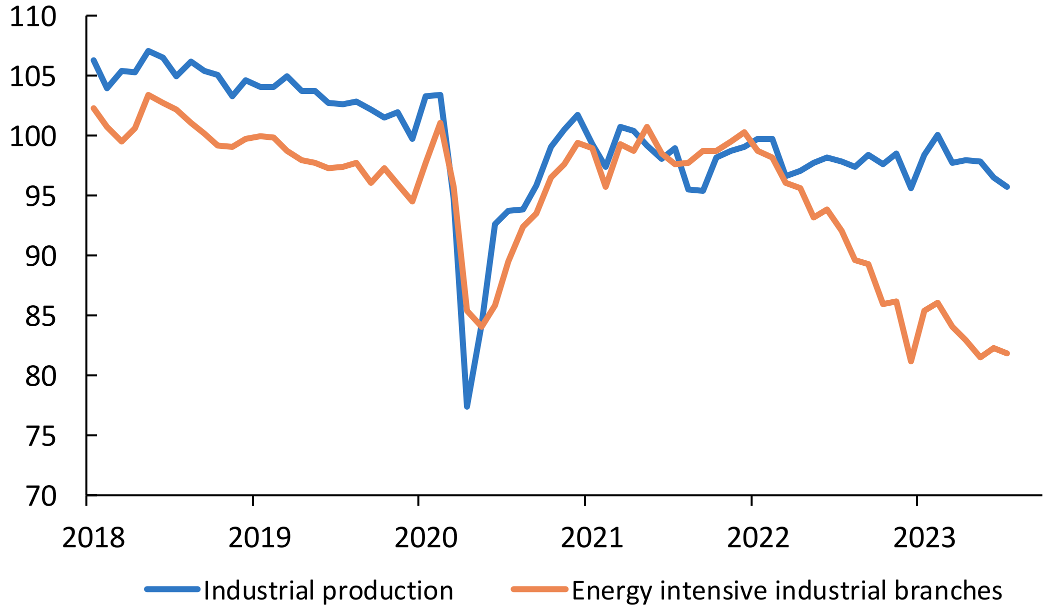
*Chart indicates U.S. Treasury's receipts from the Department of Education
Sources: Haver Analytics, EDC Economics

Grim outlook for Europe as Germany's economy falters

Europe remains impacted by the Russia-Ukraine war and soaring energy prices, which raises expectations of prolonged high inflation. The European central bank has raised its benchmark rate to near record levels, further dampening growth. The German economy is also impacted by China's weakening demand for exports as that country deals with high energy prices and interest rates. German investors are increasingly shunning domestic investments in favour of opportunities outside the country.

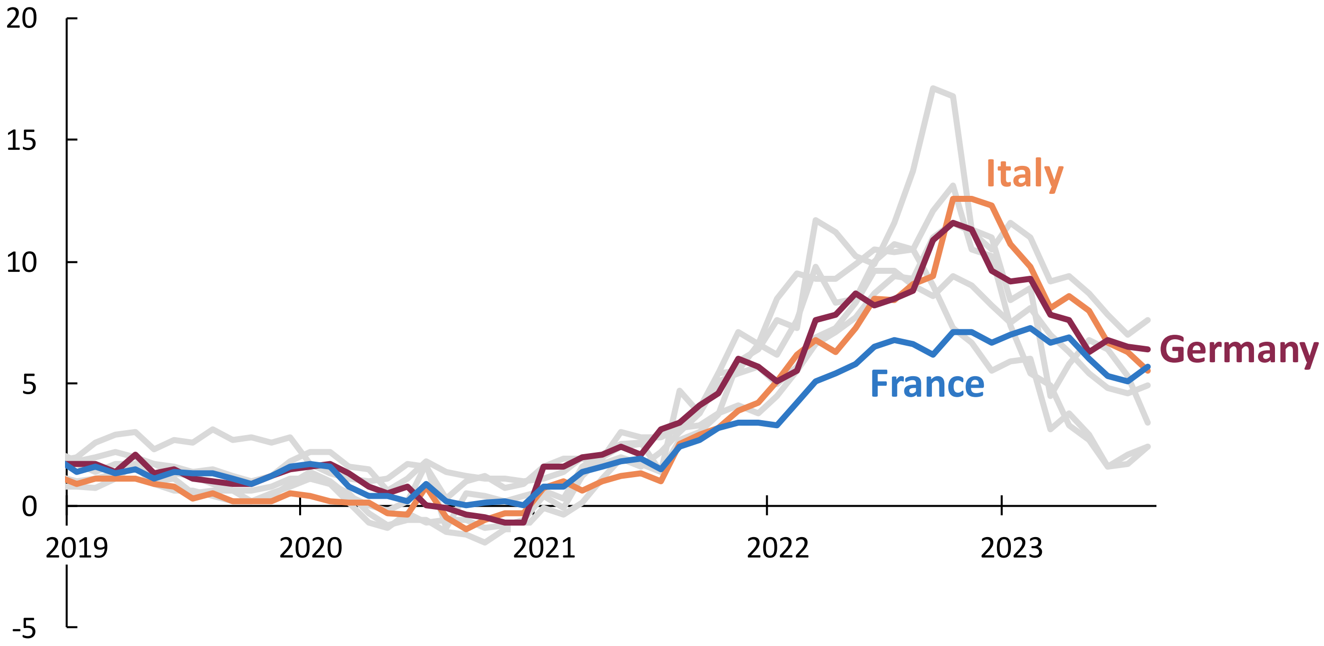
Energy remains a concern for Germany's industries

German industrial production index (2015=100), SA



Euro Area still grappling with high inflation

Year-over-year percent change of inflation in Euro Area economies, NSA



Note: Last data point is July 2023, SA: Seasonally adjusted. NSA: Not seasonally adjusted. Industrial Production Index includes construction. Euro Area inflation includes tobacco and alcohol.
Sources: Haver Analytics, EDC Economics

Declining economic indicators signal weak growth outlook for China

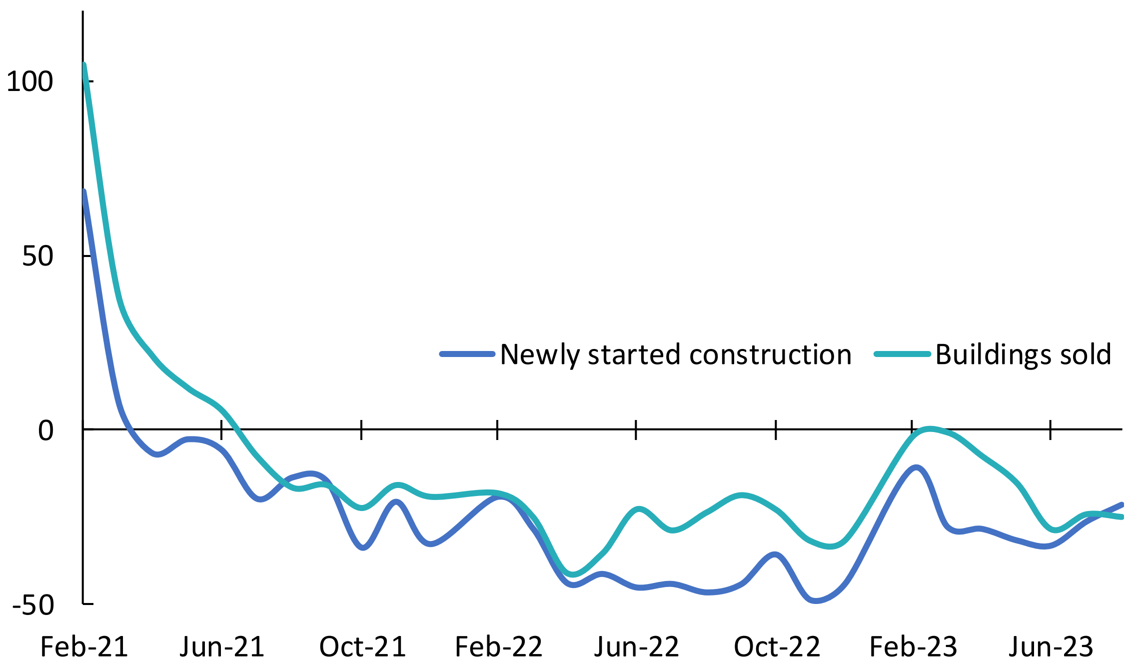
A waning consumer confidence is reflected in reduced consumer spending and a decrease in economic activity in China. Low business confidence is leading to downward trends in investment, while exports are slowing down due to dwindling global demand. With a faltering property sector not expected to contribute to growth as much as previous recoveries, Chinese economic growth is expected to remain muted.

Economic activity is contracting in China

*YiCai High Frequency Economic Activity Index**

Chinese property market in a slump

Year-over-year percentage change of square metres of residential buildings



Source: Haver Analytics

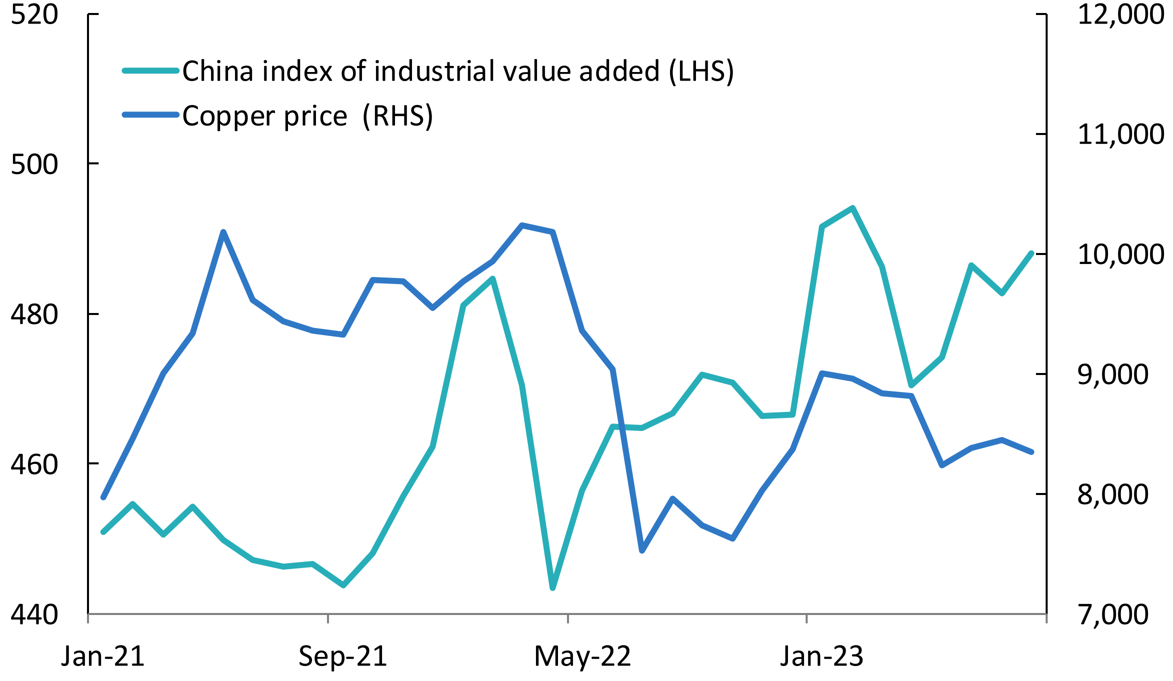
*The index is normalized so that the 2019 average equals one

Commodity prices falling amid depressed global demand

Ebbing demand from China, Europe, and the U.S. are driving downward trends in some major commodity prices—excluding oil. These downslides may continue as the global economy continues to recover slowly. Agri-food prices have been falling as well, providing some respite to the import-dependent countries and lowering inflation pressure. However, food prices remain above pre-pandemic level and are prone to supply-side shocks, including export bans.

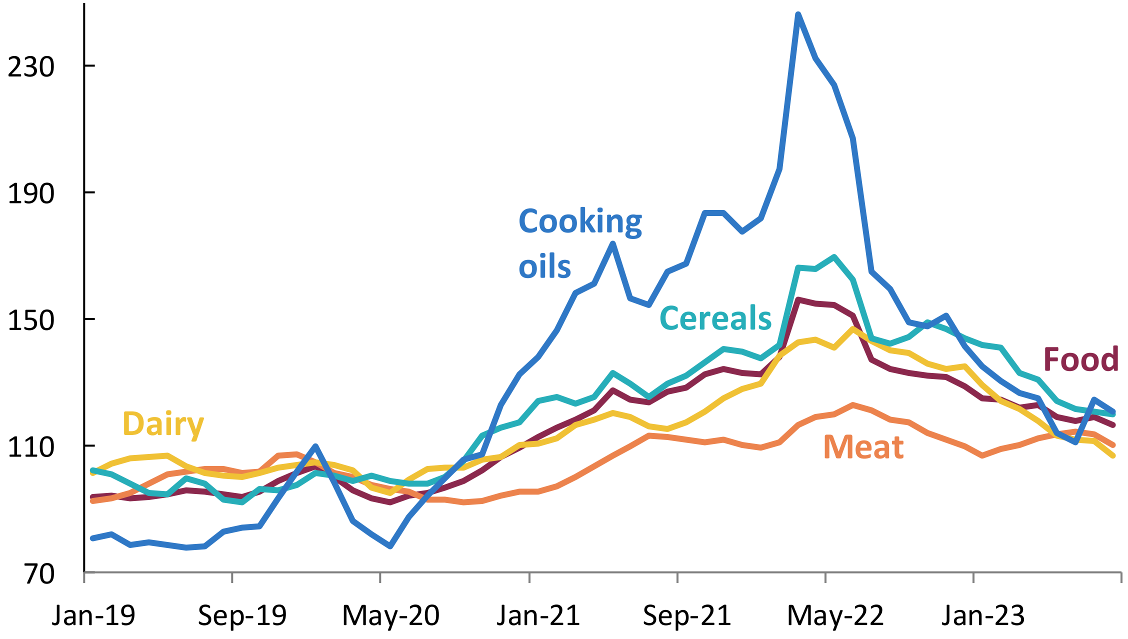
Chinese industrial production and copper price

Index, SA, 2005=100 (LHS); USD per metric tonne (RHS)



Food commodity price indices

Real (2014-2016=100)



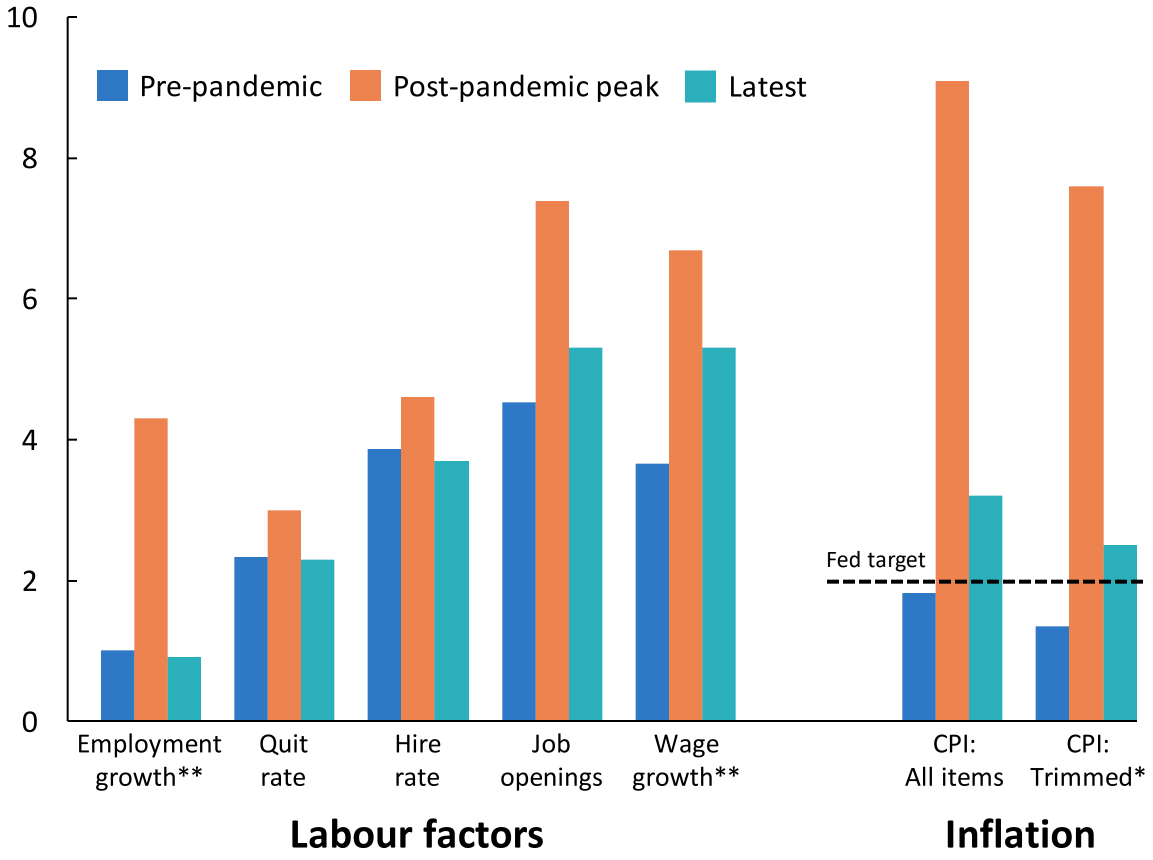
Source: Haver Analytics, FAO

Country outlooks

United States

Labour and inflation improving, but full-recovery remains difficult

Rates and percentages



Sources: BLS, BEA, FRB of Atlanta, Haver Analytics, EDC Economics

Notes: Non-CPI data is seasonally adjusted; CPI and growth are year-over-year values; *trimmed = CPI minus food, energy, and shelter; **growth rates are three-month moving averages

The U.S. economy has defied gloomy market expectations on the back of resilient domestic demand. Gross domestic product (GDP) is forecast to grow by 2% this year followed by a slowdown to 0.6% in 2024.

The post-pandemic business cycle has defied recession calls but won't defy gravity. Instead of slowing down amidst the Federal Reserve's sharpest rate hiking cycle in decades, the U.S. economy reaccelerated in the third-quarter of this year. Consumers are leveraging excess savings and tight labour markets while businesses benefit from supply chain reshoring and landmark industrial policy to boost productive capital investments in advanced manufacturing technologies. Having locked-in, long-term borrowing at ultra-low rates, the private sector is also partly insulated from the transmission of tighter financing conditions. What's more, the ongoing normalization of supply chain bottlenecks is easing cost pressures, and although talent hoarding by businesses given skilled labour shortages fuels wage pressures, labour market and inflation dynamics continue to ease only gradually, thereby cushioning demand.

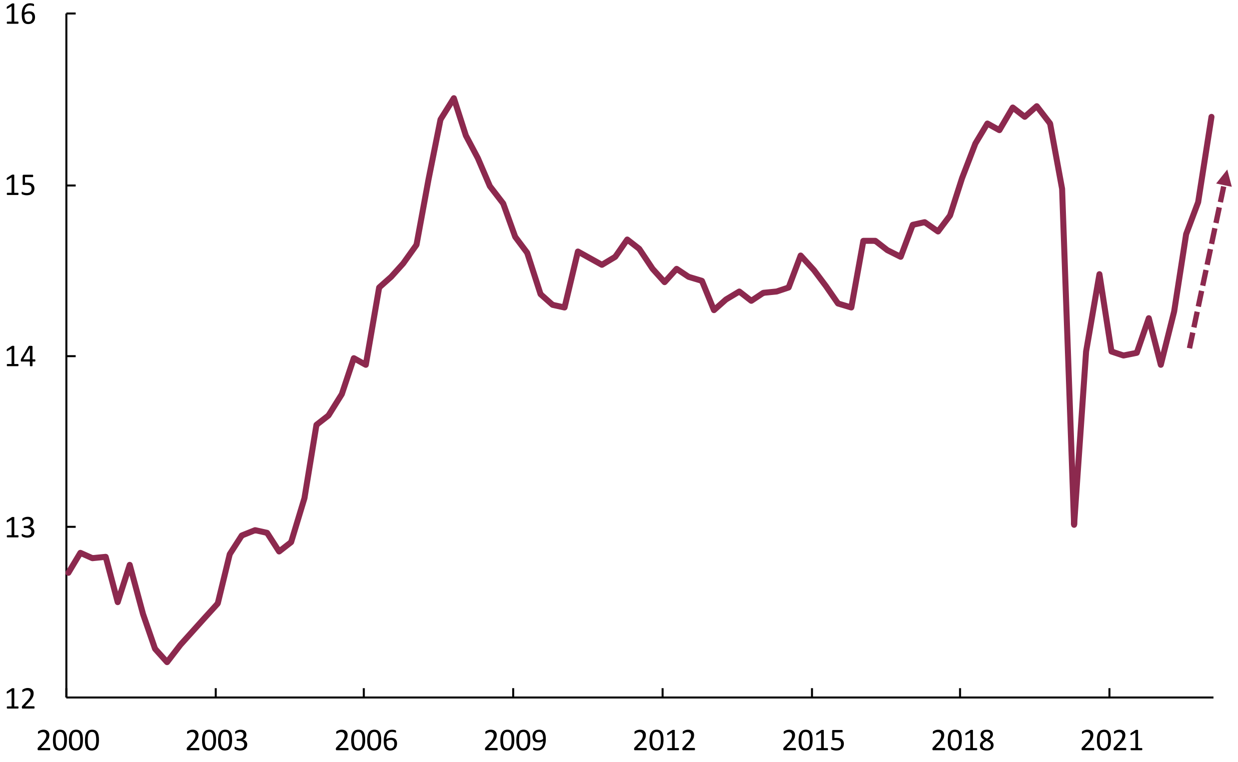
Despite the progress achieved to bring inflation down, the last mile will be the hardest. We expect a final rate hike this year and a pivot to rate cuts in mid-2024. Higher-for-longer rates will hinder activity and credit growth. Refinancing risk is leading to a plunge in resale housing supply, hitting affordability and setting a solid floor for new residential construction. Affordability for other durables, like new vehicles, is also a rising concern. Fiscal largesse will also give way to tighter budgets, while the resumption of student loan repayments, depletion of excess savings, and softening labour market will cool consumer demand.

The main risk to the outlook centres around the speed of disinflation and implications for monetary policy, financial stability and demand growth. Commodity price shocks, financial market volatility, a potential government shutdown, the 2024 elections, and geopolitics are key risks to watch.

Canada

Household debt service ratio

Percent



Canada's economy will slow as household indebtedness drags on consumer spending and softer global growth dents external demand—causing gross domestic product (GDP) to slow to 1.3% in 2023 and a meagre 0.6% in 2024. A healthy 2% rebound is in store for 2025.

Canada's economy has been sideswiped by higher interest rates leading to a sharp decline in consumption. The trend will continue this year and through the better part of 2024. Fortunately, inflationary pressures appear to be subsiding, as the Bank of Canada enacted significant policy changes last year and carried it through to the first half of this year. Domestic demand has eased and with interest rates likely retreating next year, this will allow for pressures on debt affordability ease in late 2024. Government spending will see a one-time boost this year due to increased transfer payments to low-income groups, while military spending is likely to rise going forward. Net exports will remain weak this year and the next due to the decline in international demand as our key trading partners see softer growth in 2024. This should result in modest incremental gains in business investment. Off a weak base, economic growth in 2025 is shaping up for a solid 2% bounce back led by consumption and business investment.

Upside risk for Canadian is a less pronounced slowdown in the U.S. and China, alongside a more convincing softening of inflation.

The main downside risk is a resurgence in global inflation, which results in interest rates remaining higher for longer.

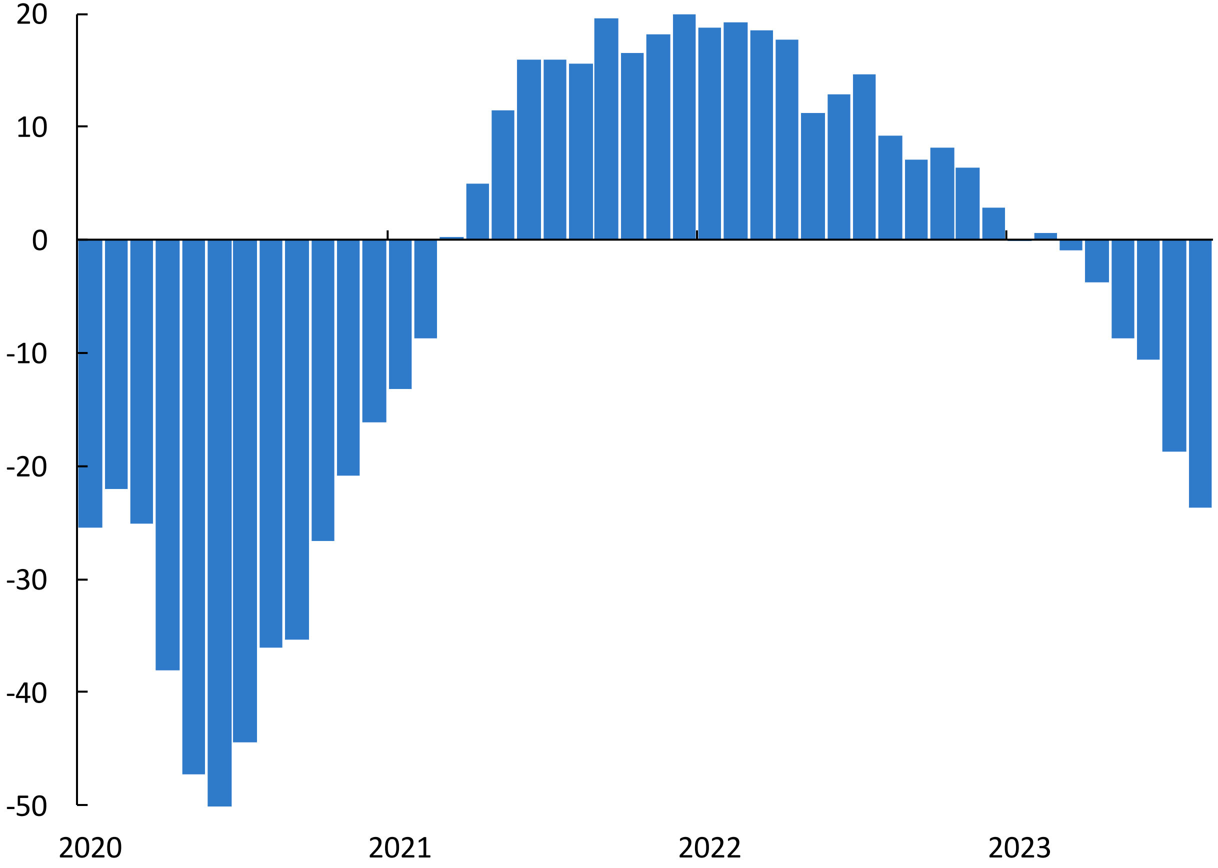
Sources: Haver Analytics, EDC Economics

Note: Debt service ratio equals household debt payments over incomes

Germany

Export order books are declining due to a weak Chinese recovery

Volume of export order books (percent balance)



Sources: Haver Analytics, EDC Economics

Germany entered 2023 in a state of technical recession with the economy contracting by 0.3% in the first half of 2023 after a 0.5% contraction in the latter part of 2022. The economy is expected to contract by 0.3% in 2023 followed by growth of 0.9% in 2024.

The anticipated energy crunch following the Russian invasion of Ukraine failed to materialize last winter, but consumers and businesses are now coming to terms with their new "stagflationary" environment. High prices and low economic growth has dampened household spending and curtailed business investments. This has been reinforced by the Chinese economy failing to substantially bounce back after reopening, resulting in less global demand than expected.

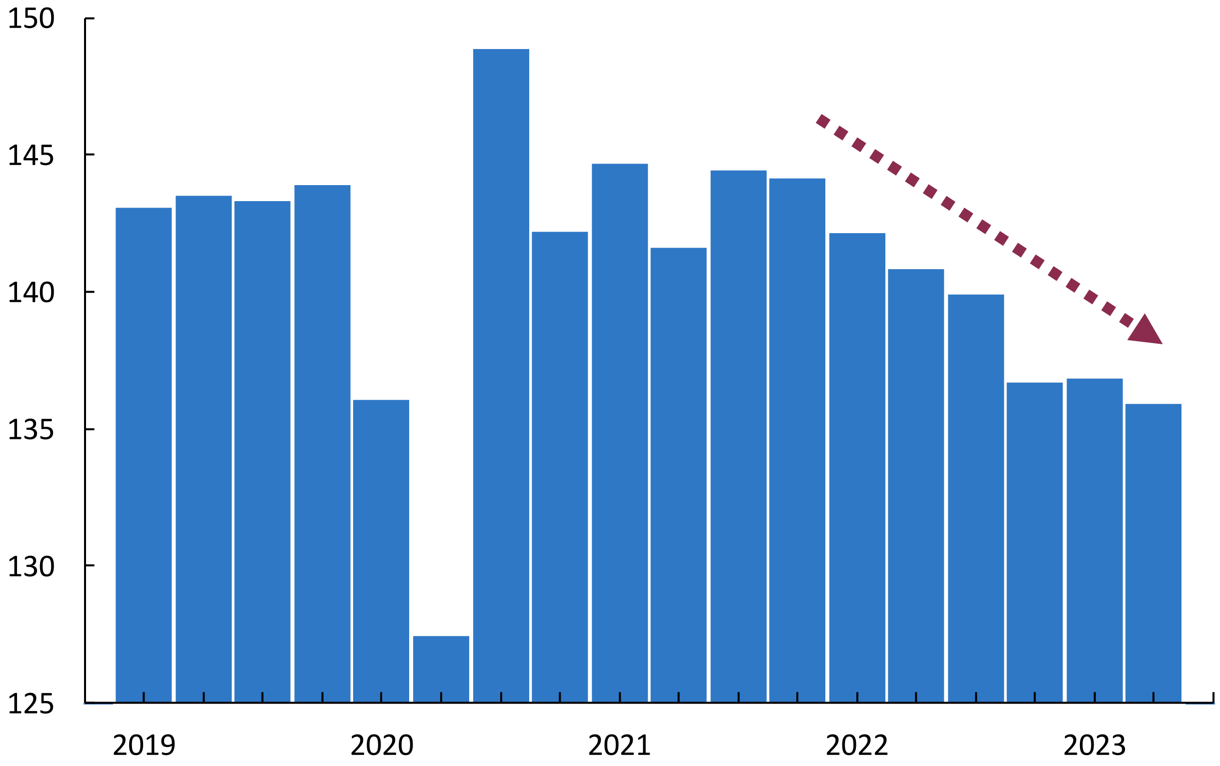
Structural challenges for Germany remain as they search for alternatives to cheap Russian gas imports and grapple with a reliance on China's market for exports.

The slow death of the internal combustion engine also poses challenges to the automotive sector, which has been an important pillar for German economic growth. Structural challenges from demographics also weigh on the medium-term prospects of Europe's largest economy.

France

French consumption has declined since late 2022

Real total household expenditure, millions of 2014 euros



Sources: Haver Analytics, EDC Economics

France is expected to grow 1% in 2023 and expand by 0.7% in 2024.

With consumption driving 55% of gross domestic product (GDP) in France, weakness in French consumption will always translate weakness in French national and European economic data. While the economy is expected to dodge a recession in 2023—a forecast growth of 1% indicates that 2023 is driven primarily by resilience of French exports contributing to the economy.

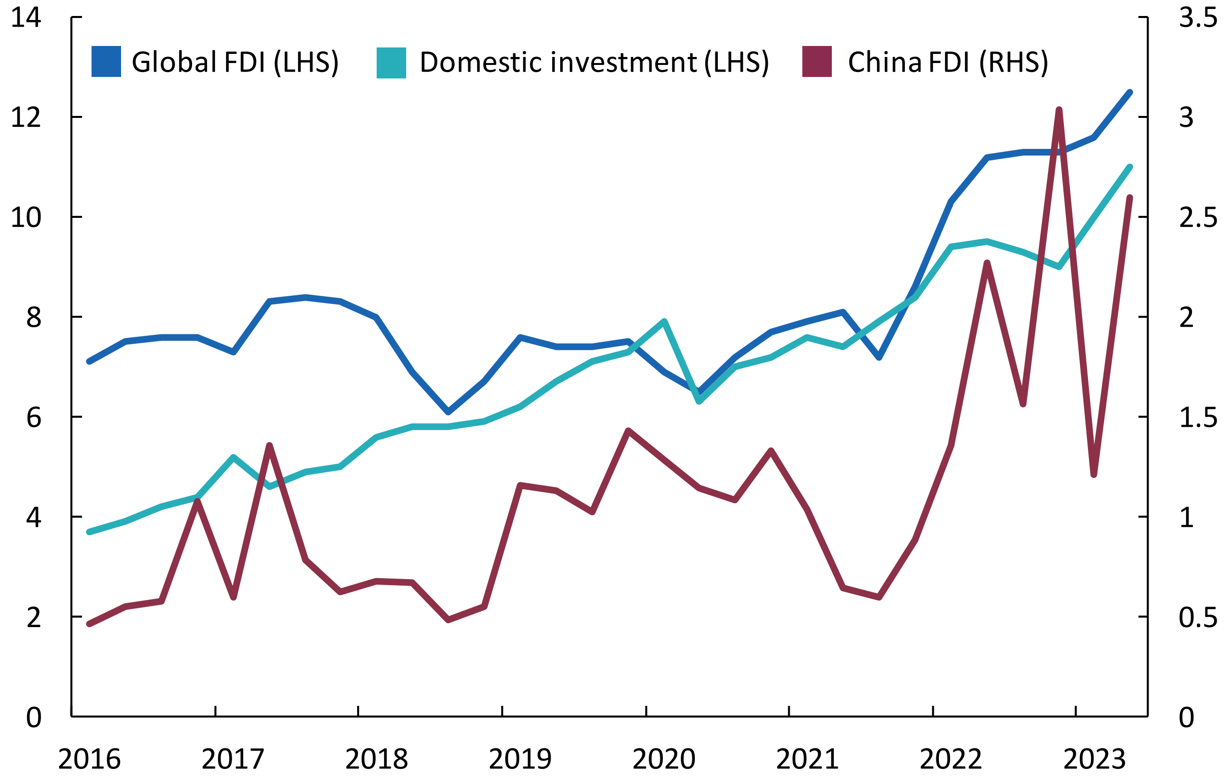
The French government is on a structural mission to reduce its role in the economy. The government has lowered budget deficit targets for 2023 and is working towards reduction in public spending as part of its 2027 medium-term goals. These actions are further necessitated by recent national downgrades by ratings agencies this past summer.

Growth in exports comes on the heels of solid recovery in tourism, which contributes 8% of French GDP. France is also benefiting from a solid recovery in aviation as Airbus order books are growing alongside airline optimism about the future sustainability of the aviation sector.

Indonesia

Investment resilience despite Chinese volatility

USD billions of investment in Indonesia



Sources: Indonesia Investment Coordinating Board, Haver Analytics, EDC Economics
Note: FDI = Foreign direct investment; LHS = left hand side axis; RHS = right hand side axis

Indonesia's economy remains on track for robust growth in 2023 and 2024, despite the global slowdown and China's mounting economic woes. EDC Economics maintains its forecast of 4.8% growth in 2023 and 5.1% in 2024.

Growth was surprisingly positive in summer 2023 with retail consumption and industry keeping momentum and setting the stage for Indonesia to be one of the fastest-growing economies in the Indo-Pacific this year and next. Domestic and foreign investment continues to drive the economy, alongside inflationary pressures that have been less severe on the Indonesian consumer. But tight credit conditions and a high interest rate environment are beginning to take a toll. Add in steady declines this year in the export basket, expected to worsen as the Chinese economy continues to underwhelm, and some headwinds are building to offset the strong first half of 2023. Expect a cut to interest rates in either late 2023 or early 2024 depending on how the economy handles the volatility in the weeks and months ahead.

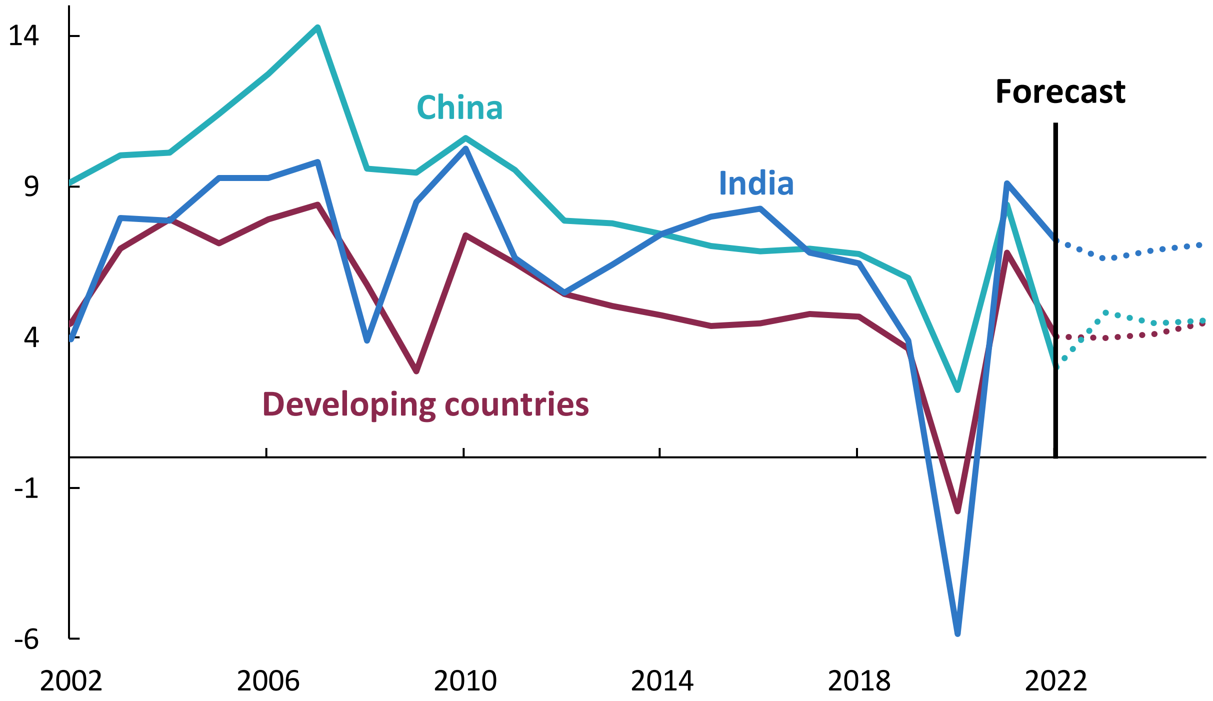
Downside risk is a worsening outlook for China and precipitous drop in decline for Indonesian energy, alongside a more acute carbon transition in the global economy.

Upside risk is a more sustained global reconfiguration and diversification of existing supply chains and investment in Asia, including increased demand for Indonesia's ample reserves of base metals needed for battery and other clean technology.

India

Real GDP growth rates

Percent; year-over-year changes of real GDP



The Indian economy is expected to continue to deliver solid growth and retain its status as the fastest-growing major market in the world.

Growth will reach 6.6% in 2023, rising to 6.9% in 2024, and 7.1% in 2025. Two large contributors will be consumption and government spending.

The Ministry of Finance has put forward an ambitious spending plan for the coming fiscal year, which will help drive consumption spending and business investment. India's inflation pressures are also subsiding, which will allow the Reserve Bank of India to curb interest rates and begin lowering them in the near future. These factors will help keep the economy rolling, despite the global slowdown that's unfolding.

Exports will slump over the coming year and only recover in mid-2024 following the rebound of global demand. Over the near-term, exports will also be constrained by government actions, such as the policy holding back rice shipments due to poor harvests and elevated local food costs. Imports will remain elevated in part due to high food and energy prices.

The main downside risk for India is a protracted global downturn or recession that drags further on demand and investment.

An upside risk to India's outlook is better-than-expected inflation readings in coming quarters and a faster credit-easing cycle.

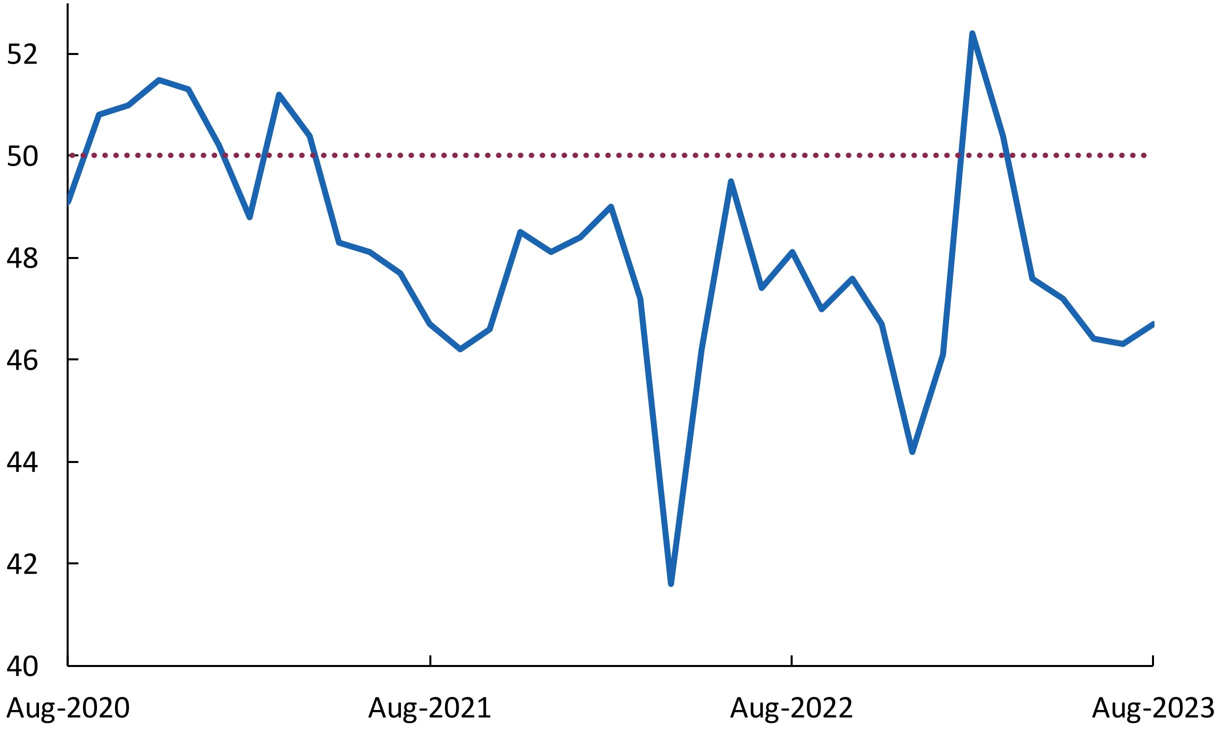
Sources: Haver Analytics, EDC Economics

Note: Dotted lines are EDC forecasts; India's forecast based on fiscal year (2024 FY = Q2 2023 – Q1 2024), but preceding data is not

China

PMI's indicate export expectations continue to slump in 2023

PMI: Manufacturing new export orders; seasonally adjusted



Source: Haver

Note: PMI = Purchasing Managers' Index; PMI's above 50 = expansionary

China's economic outlook is weakening amid tepid consumer confidence, an increasingly problematic property sector, ongoing geopolitical tensions with the U.S. and a weak global demand environment which will keep exports weak for the rest of 2023. Our real gross domestic product (GDP) outlook has consequently been revised down from our spring forecast from 5.5% to 4.8% for 2023. GDP growth is forecast at 4.4% for 2024.

Softening in retail and auto sales highlights China's slowing consumption as consumers remain cautious amid the weak global recovery, uncertain labour market, and tumbling home prices. The most recent data for consumer confidence from the China National Bureau of Statistics remains low at 88.2—well below the optimistic range of 100 or above.

Exports are also expected to continue to remain soft as noted in the chart, with the *Purchasing Managers' Index* (PMI) for new export orders in contraction for six consecutive months. The property market outlook will also remain problematic although we expect the government to continue to bring in a rash of targeted measures to try and stabilize the sector and improve housing demand.

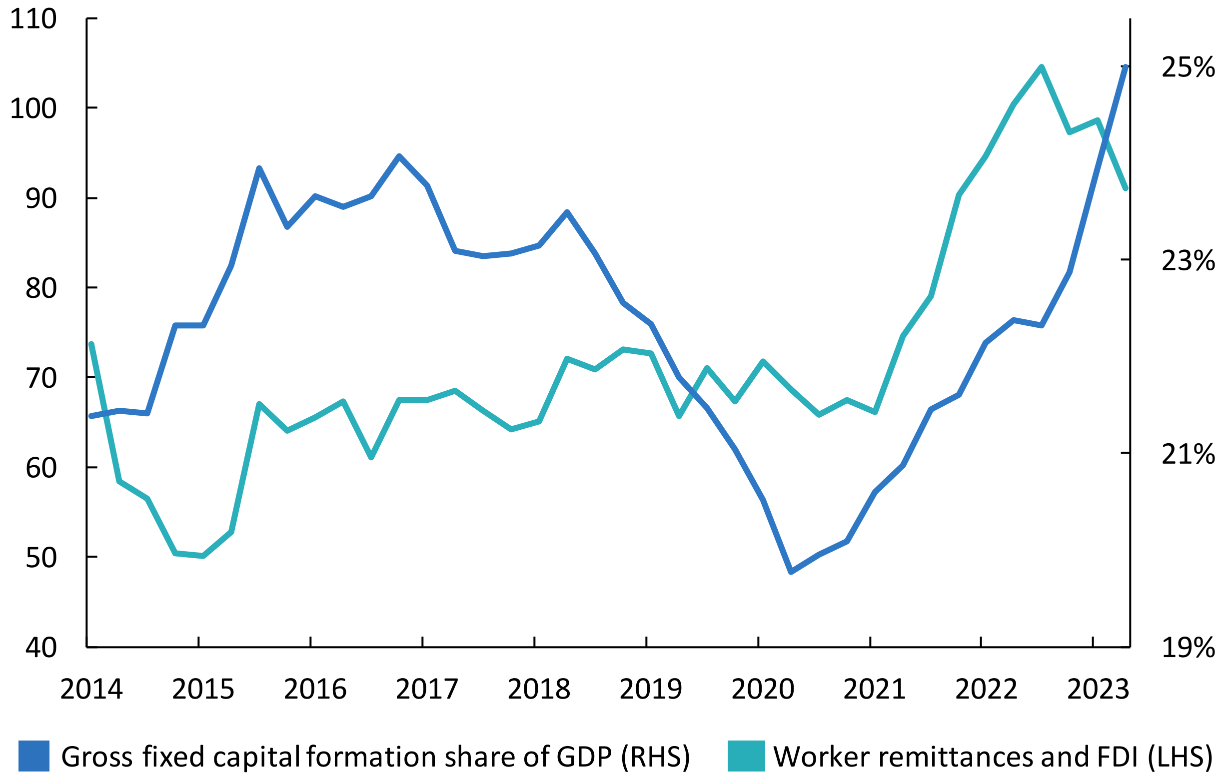
Our upside risk for China includes faster and deeper than expected government stimulus measures to support stronger consumption and economic growth.

While not our baseline scenario, a key downside risk to our outlook includes weak stimulus measures that fail to lift the property sector from a deepening crisis. Beyond defaults in the sector, such a shock could spill beyond the real estate sector and into the banking sector which is already struggling with thin profit margins. Any escalation of geopolitical tensions with the U.S. is also a key downside risk.

Mexico

Economy supported by external tailwinds and resurgent investment

Billions of U.S. dollars; percent of GDP



Sources: INEGI, Banco de Mexico, Haver Analytics, EDC EPIC

Note: FDI = foreign direct investment; LHS = left hand side axis; RHS = right hand side axis

Mexico's economic situation has been improving over the last few years, supported largely by external tailwinds driving capital inflows and resurgent domestic demand. Real gross domestic product (GDP) is forecast to grow by 3% in 2023 but falls to 1.5% in 2024 due to the global economic slowdown.

Mexico's post-pandemic recovery has been stronger than anticipated following material revisions to historical GDP data. Additionally, resilient U.S. economic activity and strong nearshoring demand have boosted inflows from worker remittances and foreign direct investment, fuelling positive spillover effects to domestic demand. Of note, in addition to the rush to complete large public infrastructure projects ahead of elections, private capital investment—until recently the key missing piece in Mexico's growth puzzle—is seeing strong growth. This surge reflects the strength of the global tailwinds materializing despite protracted policy risks, and if sustained, it could herald much-needed productivity gains and higher long-term economic growth potential.

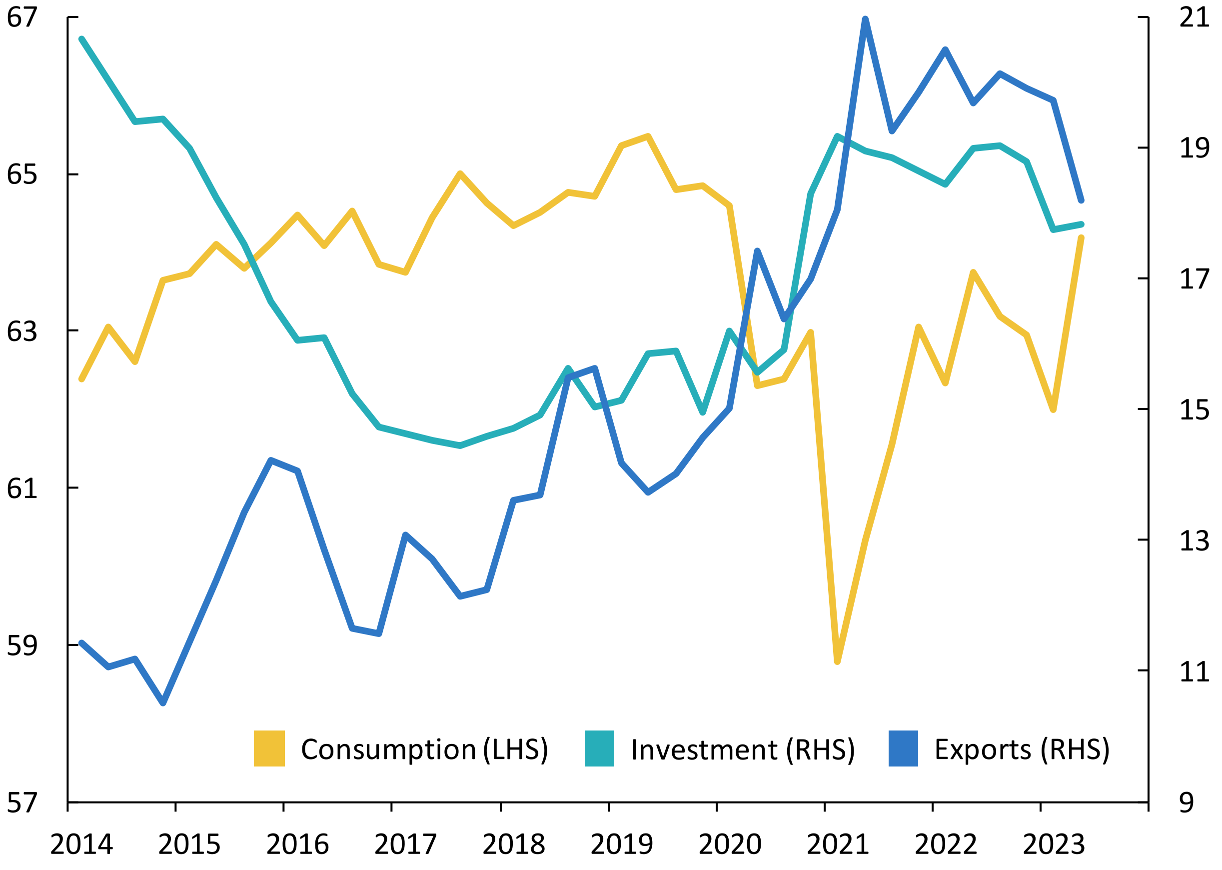
The central bank will keep its high interest rate on hold until the end of 2023—implying a restrictive monetary stance supporting the peso exchange rate—and is seen pivoting to interest rate cuts going into 2024. This will gradually ease domestic financing conditions to cushion the economy amid the expected slowdown due to weaker U.S. and global dynamism.

Key risks to the outlook include shocks to the expected path of the U.S. economy or interest rates. Any significant political shifts resulting from upcoming elections in both Mexico and the U.S. next year could also present added uncertainty.

Brazil

Improved political certainty and demand support economic resilience

Components percentage share of GDP



Sources: Instituto Brasileiro de Geografia e Estatística, Haver Analytics, EDC Economics

Brazil's economy outperformed expectations supported by improved fundamentals due to international demand and reduced political uncertainty. Gross domestic product will subsequently expand by 3.1% in 2023, but be pulled down to 1.2% in 2024 amidst the global economic slowdown.

The Brazilian consumer is increasingly optimistic about economic prospects. Inflation is under control and the labour market is the tightest in almost a decade, lifting real wages. Household balance sheets remain weighed down by high-debt burdens. And despite the central bank's incipient rate cutting cycle, borrowing costs will stay high. In this context, the boosted social welfare transfers—tripled from pre-pandemic—and policies, like the "Desenrola" private debt renegotiation program, will support consumption. This year's bumper crop and high demand for Brazilian energy and metal mining products boost the country's growing role as an exporting powerhouse. Rising exports and foreign direct investment inflows will fuel positive spillover effects to the broader economy supporting margins, investment plans, and job creation.

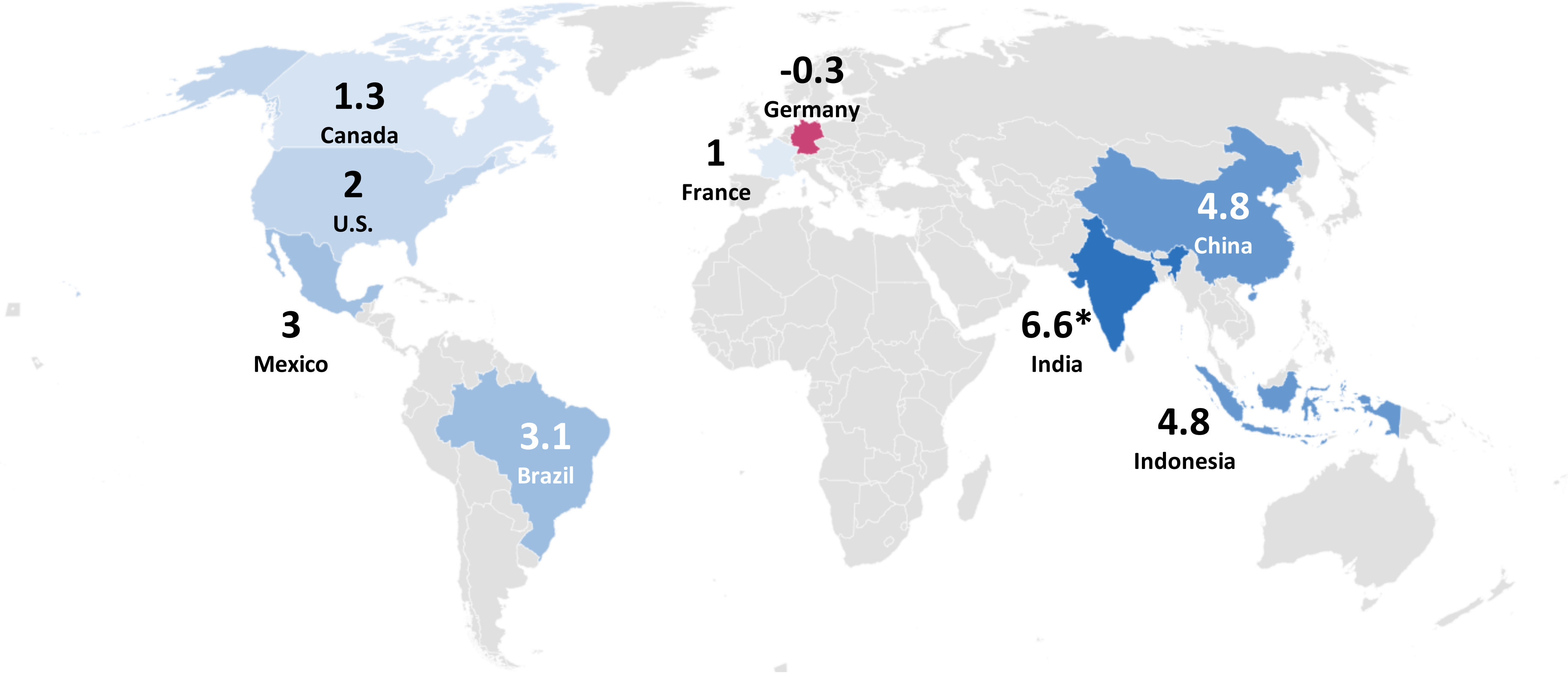
Still, private sector dynamism remains constrained by high borrowing costs, so lower interest rates will be key. The approval of a new Fiscal Framework enables modest increases in public spending, while precluding fiscal sustainability tail risks from spending profligacy, which eases long-term inflation expectations and supports a lower terminal interest rate.

Progress on broadly pragmatic legislative reforms reflects reduced political uncertainty. If well-implemented, the proposed Growth Acceleration Program and long-awaited tax reform could be game changers for long-term productivity. Risks to the outlook centre around political shifts affecting reform momentum, fiscal rule implementation and interest rate policy, as well as global growth dynamism–especially in China.

Forecast

2023 growth outlook

Real GDP growth, %



2.9%
World

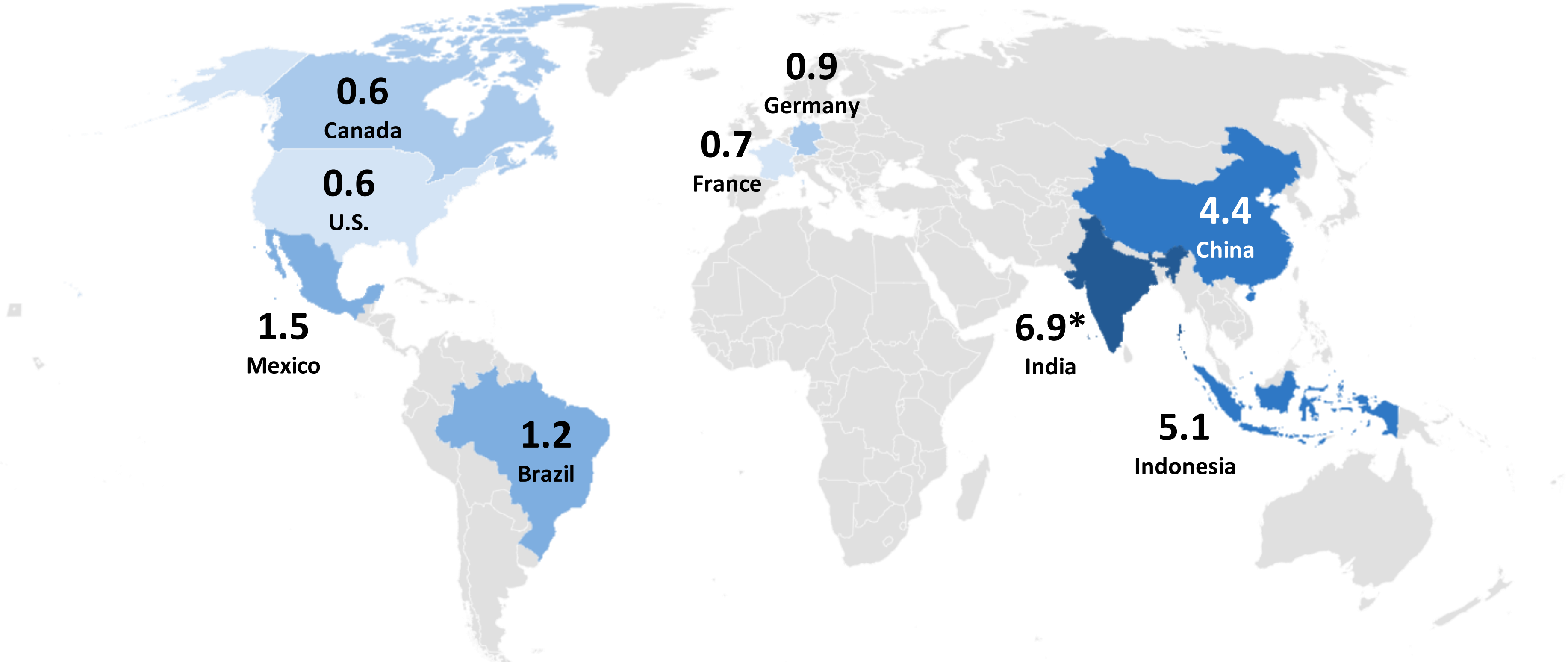
1.6%
Developed

4%
Developing

*India's 2024 FY = Q2 2023 – Q1 2024
Note: Red shading indicates negative growth
Source: EDC Global Economic Outlook, October 2023

2024 growth outlook

Real GDP growth, %



2.7%
World

0.9%
Developed

4.1%
Developing

*India's 2025 FY = Q2 2024 – Q1 2025
Note: Red shading indicates negative growth
Source: EDC Global Economic Outlook, October 2023

Real GDP growth

Global Economic Outlook (Annual % change)	2022	2023*	2024*
Developed countries	**2.7**	**1.6**	**0.9**
Canada	3.4	1.3	0.6
United States	2.1	2	0.6
Eurozone	3.4	0.7	1.1
Germany	1.9	-0.3	0.9
France	2.5	1	0.7
Developing countries	**4**	**4**	**4.1**
China	3	4.8	4.4
India	7.3	6.6	6.9
Indonesia	5.3	4.8	5.1
Brazil	3	3.1	1.2
Mexico	3.9	3	1.5
World	**3.4**	**2.9**	**2.7**

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, October 2023

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Changes from previous forecast

Global Economic Outlook Real GDP growth (percentage point change)	2023*	2024*
Developed countries	**0.5**	**-0.3**
Canada	0.1	-0.8
United States	0.7	-0.4
Eurozone	**-0.2**	**-**
Germany	-0.2	-0.4
France	0.4	-0.2
Developing countries	**-0.3**	**-0.3**
China	-0.7	-0.3
India	1.3	-0.1
Indonesia	-	-
Brazil	0.5	-0.4
Mexico	0.8	-0.3
World	**-**	**-0.3**

Note: * denotes the forecast period. Green shading represents upward adjustments; red shading represents downward adjustments; dashes represent no change
Source: EDC Global Economic Outlook, June 2023 relative to March 2023.

Currencies and interest rates

Global Economic Outlook		2022	2023*	2024*
Currencies	**Exchange rate**			
U.S. dollar	**USD per CAD**	$0.77	$0.75	$0.76
Euro	**USD per EUR**	$1.05	$1.08	$1.10
Euro	**CAD per EUR**	$1.37	$1.45	$1.46
Interest rates, annual average				
Bank of Canada, *Overnight target rate*		1.93	4.74	4.60
U.S. Federal Reserve, *Fed Funds Target Rate (Upper limit)*		1.73	5.11	5.40
European central bank, *Policy interest rate*		0.58	3.81	4.36

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, October 2023

Commodity prices

Global Economic Outlook	2022	2023*	2024*
Brent Crude Spot, *USD / barrel (bbl)*	$100.78	$82.02	$77.24
West Texas Intermediate, *USD / bbl*	$94.6	$78.38	$73.37
Western Canada Select, *USD / bbl*	$75.02	$61.84	$58.43
Natural gas, *USD / MMBtu*	$6.37	$2.56	$3.10
Gold, *USD / troy ounce*	$1,801	$1,926	$1,831
Copper, *USD / tonne*	$8,813	$8,537	$8,392

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, October 2023

Key forecast assumptions

1. Monetary policy

While the pace of inflation is slowing, in most countries it will remain above central bank targets in the very near-term. As such, policy rates at major central banks are likely to remain more restrictive than otherwise would be the case at this stage of the business cycle before gradually declining to long-term rates. There's increased room for divergence in interest rates between Canada, Europe, China, and the U.S. China is likely to continue to have an accommodative policy, the extent of which will be dictated by domestic market conditions. Most other emerging markets will be forced to keep rates elevated.

2. Financial conditions

Bankruptcies and insolvencies are likely to reach multi-decade highs (excluding the Global Financial Crisis) for corporations and sectors that are highly leveraged or more exposed to variable interest rates. Challenges will be greater for sectors that are less able to pass on higher prices to end-consumers and facing weaker overall demand. Due to different debt durations and structures the impact of higher interest rates hasn't fully passed through the global economy. The effect will increase in the coming quarters, hitting activity well into 2024. China's economy faces more downward pressure as the property crisis deepens. Over the medium-term, demographics and over-indebtedness may pose recurring headwinds to overall growth. Sovereign defaults and balance of payments crises are occurring in a growing number of markets, continuing to expand beyond frontier markets to larger emerging markets. 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 Economics' baseline outlook doesn't anticipate a systemic financial crisis, there will be additional strains beyond the U.S. banking sector (March 2023) and China's enduring property crisis.

3. Russia-Ukraine war

Our base case sees the Russia-Ukraine war settling into a stalemate. Fighting will continue but armed conflict isn't expected to spillover beyond Ukraine. Western sanctions against Russia will remain in place beyond the forecast period with increasing risk of secondary sanctions to target non-U.S. and non-EU companies or persons involved in commercial activities with Russia. Despite western sanctions, Russia continues to export a significant number of commodities to other countries. While this is generally occurring at steeply discounted prices—which impacts Russia's economy—the availability of supply has reduced the risk of a global supply crunch. Supply chain adjustments have limited the impact on key commodities.

4. U.S.-China relations

Tensions and policy decisions between China and the U.S. are altering the global balance of power. We don't foresee a material improvement in relations between the U.S. and China. Companies will continue to de-risk, and each country will look to increase its influence in key sectors. China will seek to expand its network and agreements with other countries to reduce the power and influence of U.S. and EU. We expect that U.S., EU, and other western bilateral relations with China to continue to be constrained and susceptible to an increased level of uncertainty. U.S.-China relations will also be influenced by domestic concerns such as politics and economic condition.

5. Global fiscal policy

Fiscal policy will serve as a headwind to economic growth, as governments look to repair their balance sheets post-COVID-19. China will be an exception as it's expected to use fiscal policy to support its slowing domestic economy. For some markets exchange rate depreciation, large deficits and higher borrowing costs are working together to trigger a need to rebalance public finances. This will increase political volatility and policy uncertainty to varying degrees in many markets.

Disclosure

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Media inquires

1-888-222-4065
media@edc.ca

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