GLOBAL ECONOMIC OUTLOOK

THE FORK IN THE ROAD

EDC Economics

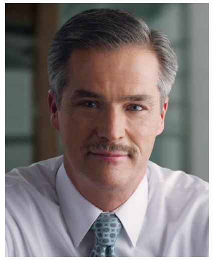
Sept. 29, 2021

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

Canada

EXECUTIVE SUMMARY

GLOBAL ECONOMIC OUTLOOK: THE FORK IN THE ROAD



By Peter Hall
Vice-President and Chief Economist

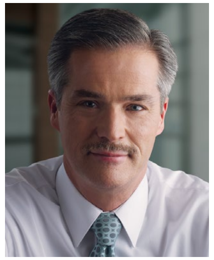
It was the famous quipster Yogi Berra who advised: “When you come to a fork in the road, take it.” We laugh, conclude that it’s impossible, and move on. Not so fast: It seems we’re doing that very thing in real time. Faced with waves of COVID-19 infections, we opted for lockdowns, which worked, but sadly, only temporarily. While it did buy time for vaccinations to catch up, we’re not there yet. Faced yet again with rising infections, this time the economy is charging on, as is the race to herd immunity. We’re taking the fork in the road, but what does this mean for the world economy?

Current growth is looking resilient. Consumers are in a good mood all over the developed world, and businesses are just as upbeat. And with good reason: Across our planet, business is brisk at the till. Pan-European retail sales are up 6% from pre-pandemic levels, and it only gets better from there: Canada is up 8% and the United States, by a whopping 17%. Global exports are also fully recovered. They are up 1% from pre-pandemic levels in advanced economies, and by a stunning 21% in emerging economies to bring the world up 7% in the same timeframe. Add in vast public stimulus spending, easy liquidity and business investment, and you’d think we were sort of back to normal.

Inflation numbers would sort of agree. Upstream business costs are on a tear, accelerating in the U.S. from less than 1% to more than 8% year-to-year between December and August, and in as many months, Canada started at the same point and is now up more than 15% as of July. Well, these are the costs that get passed on to consumers, so if it’s a gauge of what’s to come, the recent consumer price index numbers for the U.S. at 5.2% and for Canada at just under 4%, both well ahead of the 2% target, may be with us for a while. While inciting fear, this increase in prices is one of the strongest indications that growth is robust.

Will it continue? Great question. Most of the developed world entered the pandemic with lots of growth potential. Sluggish growth for years preceding the pandemic resulted in significant pent-up demand. With a vast reduction in things to spend on during lockdown moments, and vast numbers of people still pulling down a full salary, savings soared, and bank accounts bulged. Excess readily available cash in Canada totals about 13% of gross domestic product (GDP), while in the U.S. it’s more than 17% and Western Europe is similar. It represents a wall of cash that for about 50% of world GDP could wash into the economy overnight, given the opportunity. It’s an enormous storehouse of pent-up pressure, let alone the pent-up demand that preceded it.

GLOBAL ECONOMIC OUTLOOK: THE FORK IN THE ROAD



With this as a backdrop, Export Development Canada's Autumn 2021 Global Economic Outlook is forecasting a world economy at 6% growth this year and a still-hot 5.5% in 2022. Emerging markets will collectively accelerate from a 6.3% recovery this year to 6.4% next. Advanced economies will grow well ahead of their collective long-term trend, up by 5.5% in 2021 and followed by 4.2% in 2022. After a 4.9% performance this year, Canada will be ahead of the advanced economy average at 4.4% in 2022.

Supply chain and shipping shortages, all over the news at the moment, are frictional, not structural—that is, the capacity is there, it's just a matter of getting it to where it needs to be. As such, we expect that movement of goods and services will be more fluid as we move through 2022. Consequently, price growth should moderate. Our forecast calls for oil and gas prices to moderate over the coming two years, and for copper prices to remain relatively high, but down from the 2021 average. The same goes for wood product prices, which are down sharply from peak levels, but remain a good deal higher than average.

All the inflation talk has created buzz as to when central banks will begin tightening. The Bank of Canada was first to announce an immediate tapering of its bond purchase program, with the European Central Bank (ECB) following weeks later. The U.S. Federal Reserve board is more reserved, signalling that it may begin tapering late this year.

Interest rates will be next—the Bank of Canada is expected to begin modest rate-tightening in late 2022, with the Fed holding off until 2023, and the ECB stalling until 2024.

The forecast is far from risk-free. Failure to contain the coronavirus conclusively could result in further lockdowns, either local or—it pains me to say it—global, which could radically alter our projections for next year. Inflation could lead to central banks tightening more than the economy can handle, putting the brakes on growth. Large increases in public debt could be another bugbear. And there's also a fair chance that growth could overdo it—initially a good news story—but against current constraints, not without a potential backlash.

The bottom line?
When we reach an unmarked fork in the road, most of us pause. Global competition and prior activity lost to the pandemic suggest that's not an option. Embracing the growth and developing viable COVID-19 coping strategies seem to be the winning dual approach to the charge back to a fully functioning economy. So, grab that fork and go for it!

CHANGES TO THE OUTLOOK

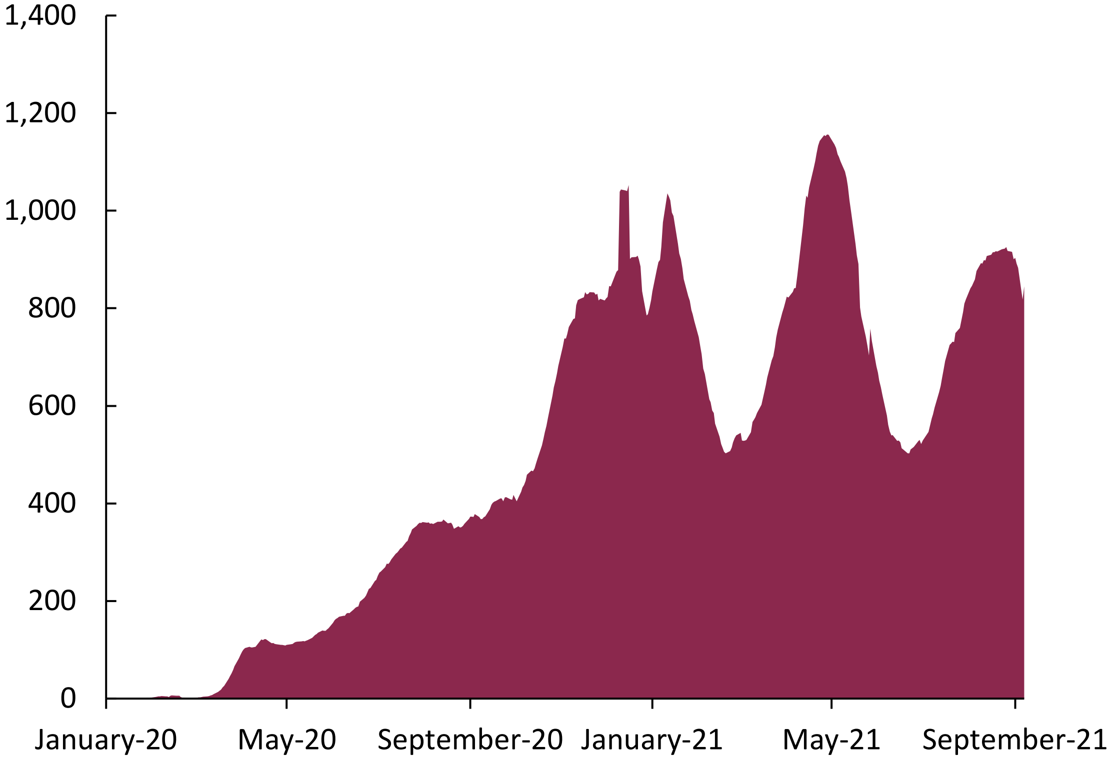
- Export Development Canada's Economics team expects a strong bounce-back in global growth this year, followed by a slight moderation in 2022. The recovery profile resembles our spring *Global Economic Outlook* forecast, but has been adjusted to reflect recent data, ongoing supply chain disruptions and relevant country-specific factors related to viral spreads and vaccine rollouts.
- Economic recovery and further reopening measures are supported by an increase in the number of people inoculated, led primarily by developed markets. Vaccine requirements are being implemented to ensure high-touch services can remain open.
- The recovery in developing markets, which have less fiscal policy room to manoeuvre and more limited and slower access to vaccines, is expected to lag that of developed markets.
- As economies recover, stimulus efforts will eventually be curtailed, leading to an easing in the pace of economic growth.

COVID-19 CASES RISE, BUT RESTRICTIONS EASE

With high vaccination rates among G7 economies, countries such as the U.S. and U.K., have eased restrictions, despite the sharp rise in cases driven by the highly contagious Delta variant.

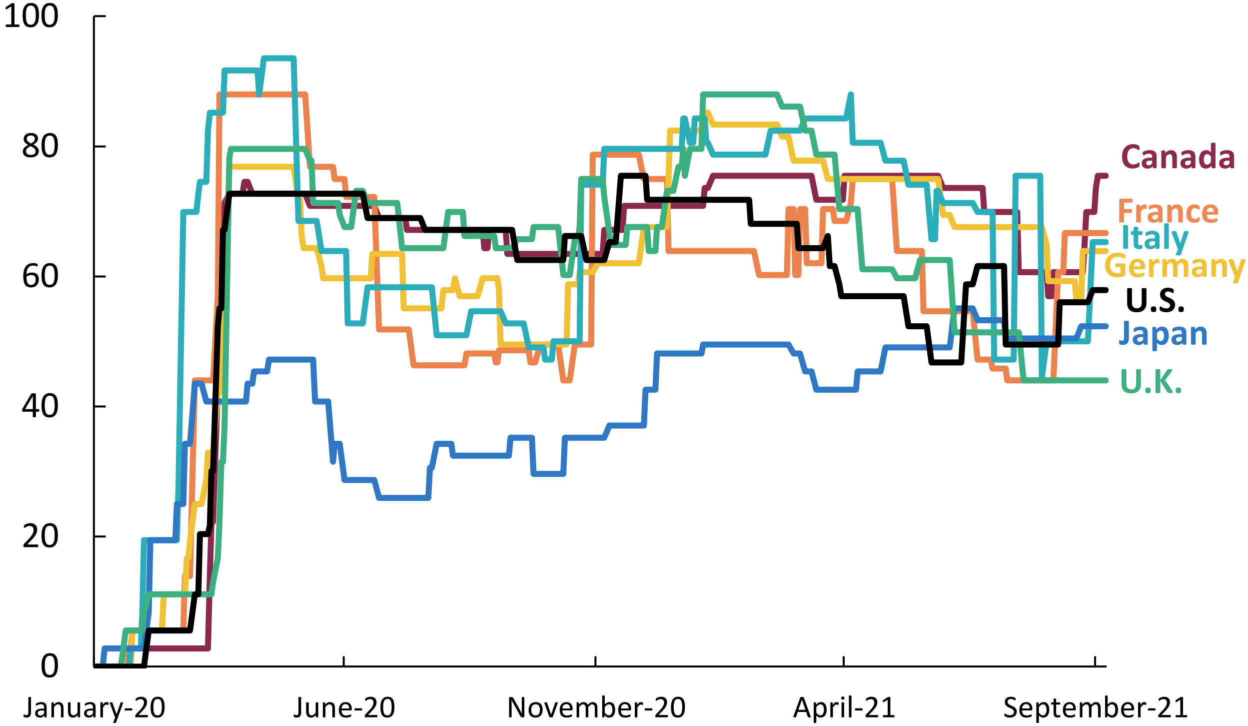
Global confirmed new COVID-19 cases

Daily change, thousands, five-day average



Stringency of government restrictions for G7 countries

Index value, maximum=100



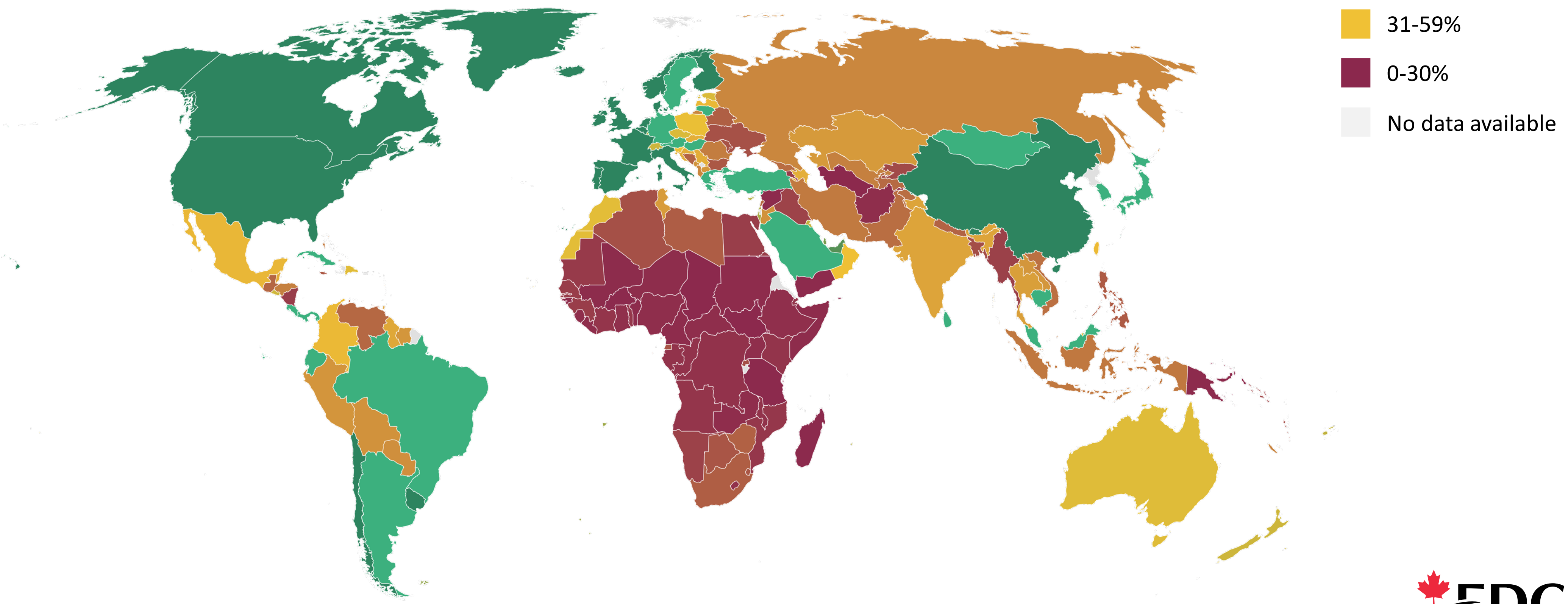
Sources: EDC Economics, Johns Hopkins Coronavirus Resource Center, Oxford University.

MUCH VACCINE PROGRESS, BUT STILL HIGHLY UNEQUAL

While the swift vaccination rollout around the globe has been impressive, the disparity between advanced and emerging markets has widened, despite recent commitments by the former to increase supplies to the latter.

Recent share of population vaccinated

% of total population with at least one dose, as of Sept. 13, 2021



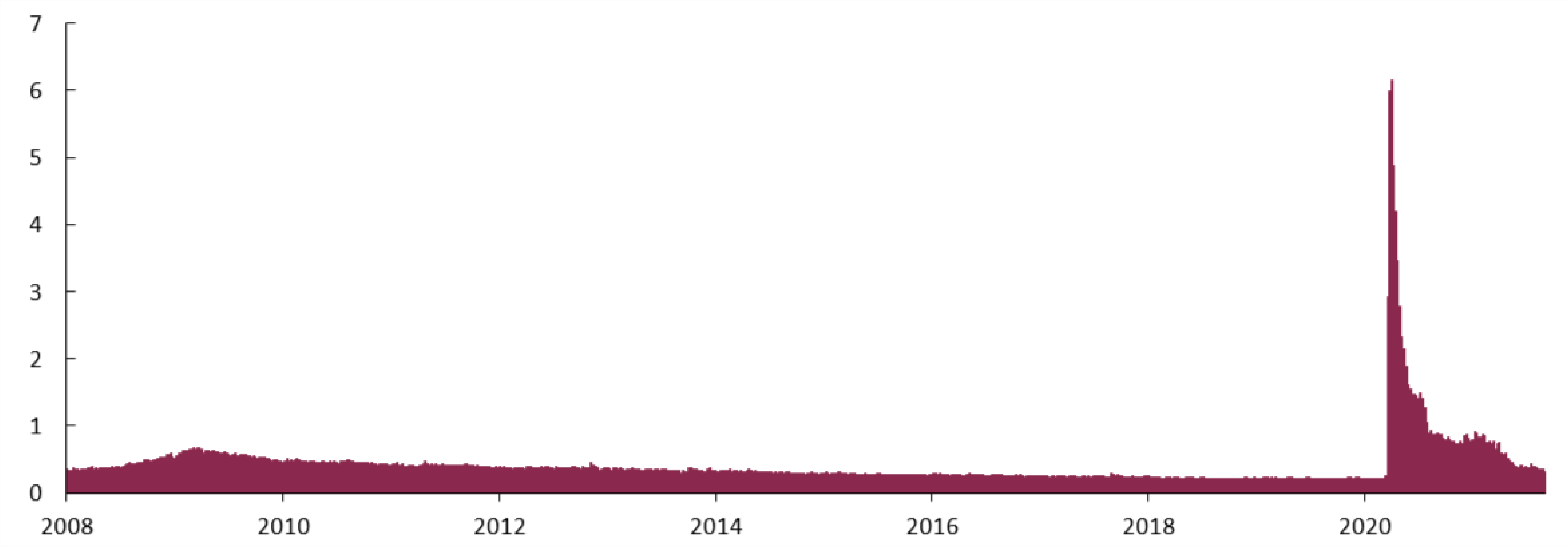
Sources: EDC Economics, Our World in Data.

LABOUR MARKET DISRUPTION IMPROVING

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, they remain at elevated levels.

U.S. initial unemployment claims

Millions per week



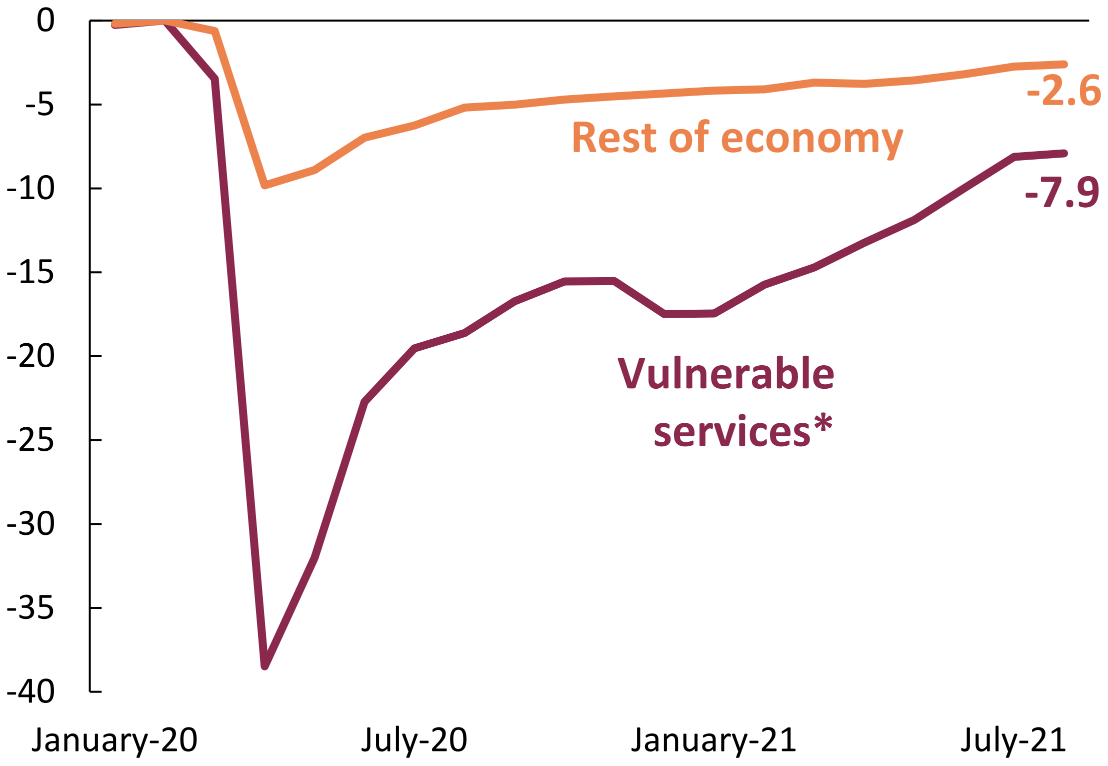
Source: U.S. Department of Labor

VARIED JOB IMPACTS BY SECTOR

In-person jobs in the U.S. and Canada benefited from summer reopening, but remain below pre-pandemic levels. Services that can be delivered online (professional, finance, education, public administration) continue to gain employees.

U.S. employment

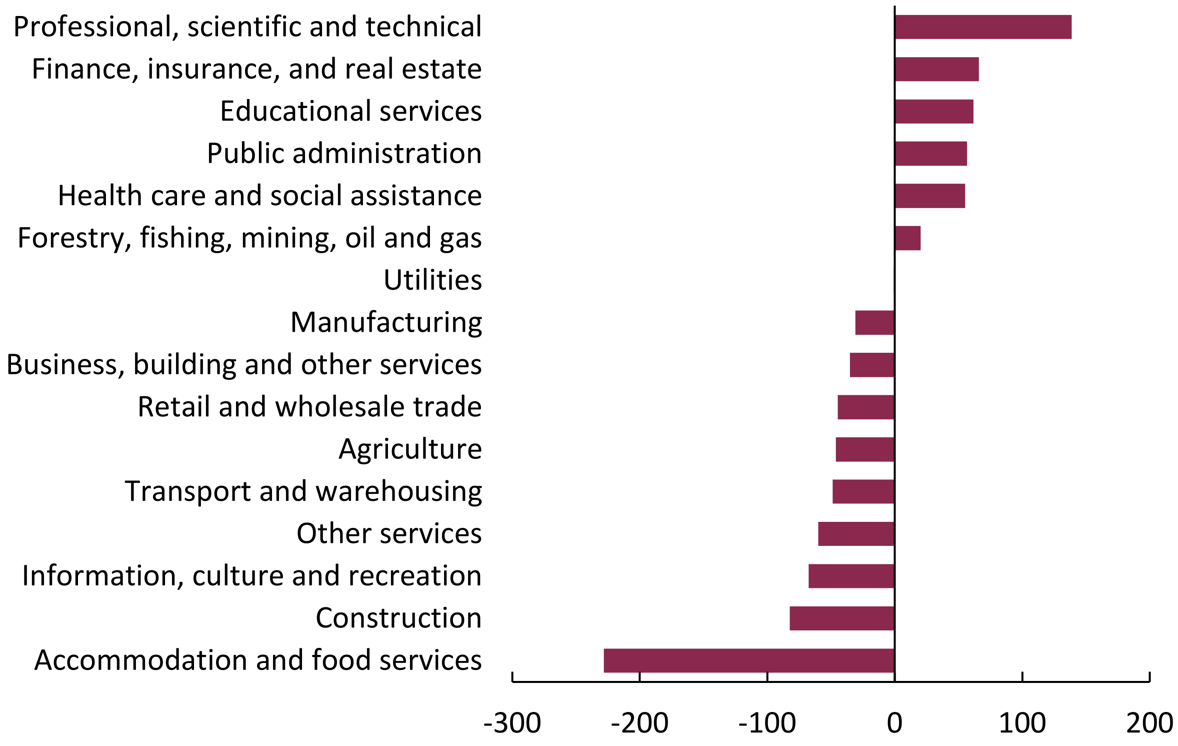
% change since February 2020



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

Canadian employment

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



Sources: EDC Economics; U.S. Bureau of Labor Statistics

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. As central banks monitor the economic recovery, they will taper asset purchases and tighten monetary policy, as needed.

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%

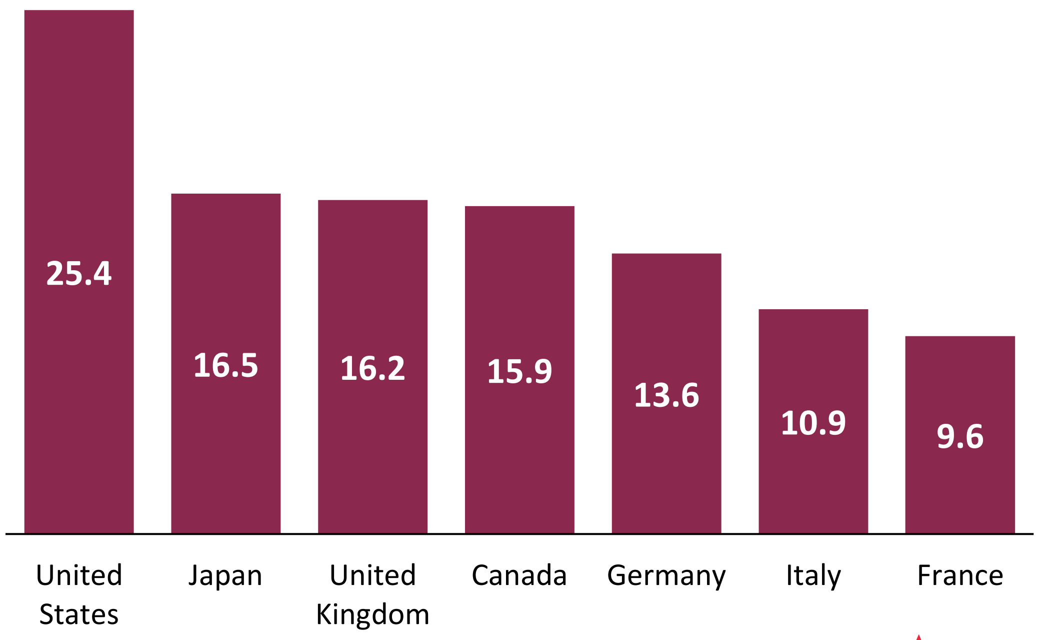
Bank of Japan
Already operating at ELB at -0.1%

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 June 5, 2021, % of GDP



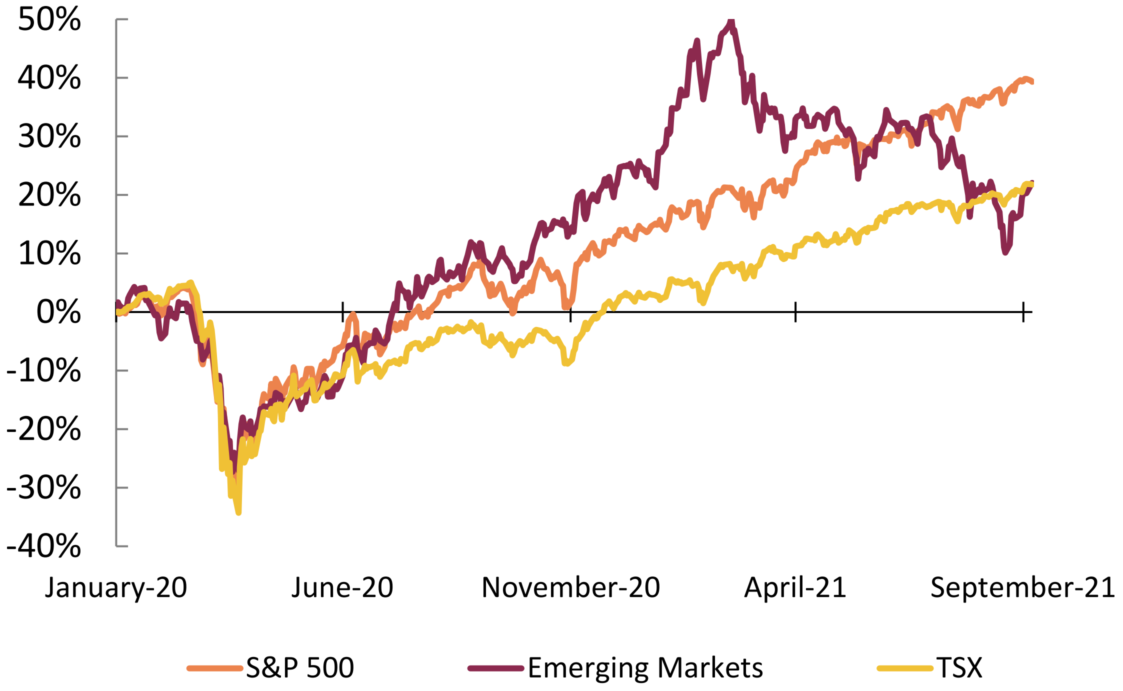
Sources: EDC Economics; IMF COVID-19 policy tracker.

FINANCIAL MARKETS

Equity markets continue to run well above pre-pandemic levels, aided by the massive policy support. However, emerging market stock markets have trended downwards due to further COVID-19 outbreaks in those regions. Corporate borrowing costs and emerging market bond spreads have remained steady since March 2021.

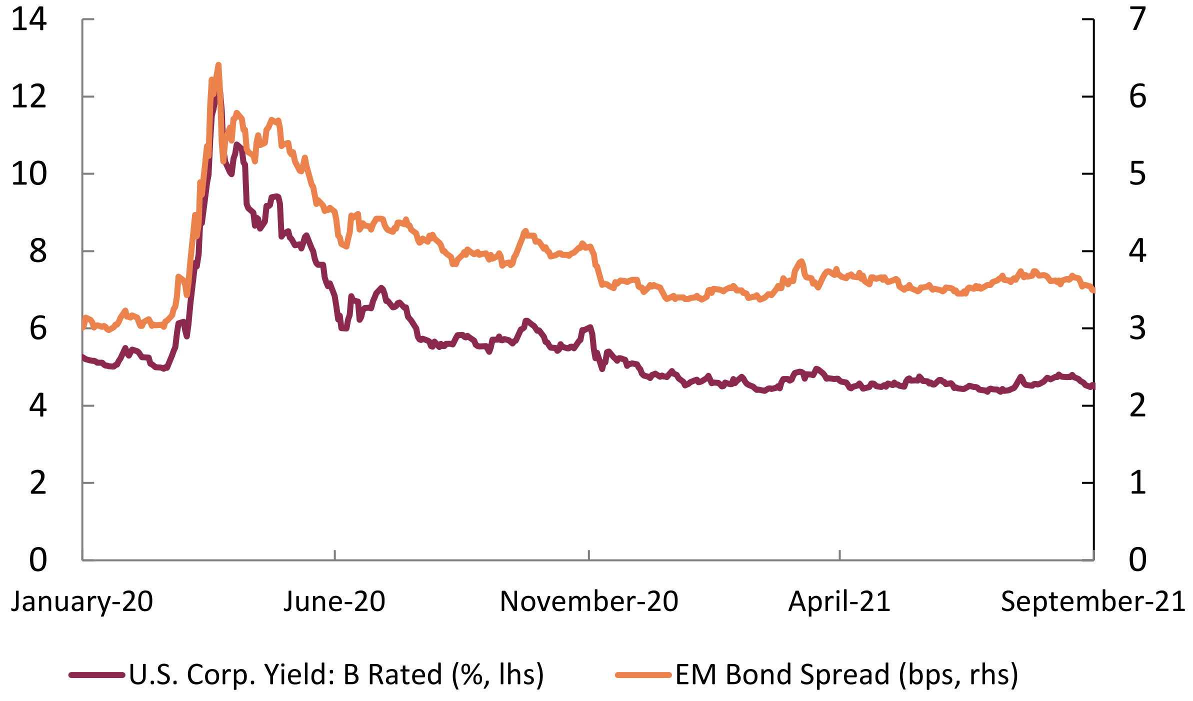
Global stock markets

% change since Jan. 1, 2020



Global debt markets

%



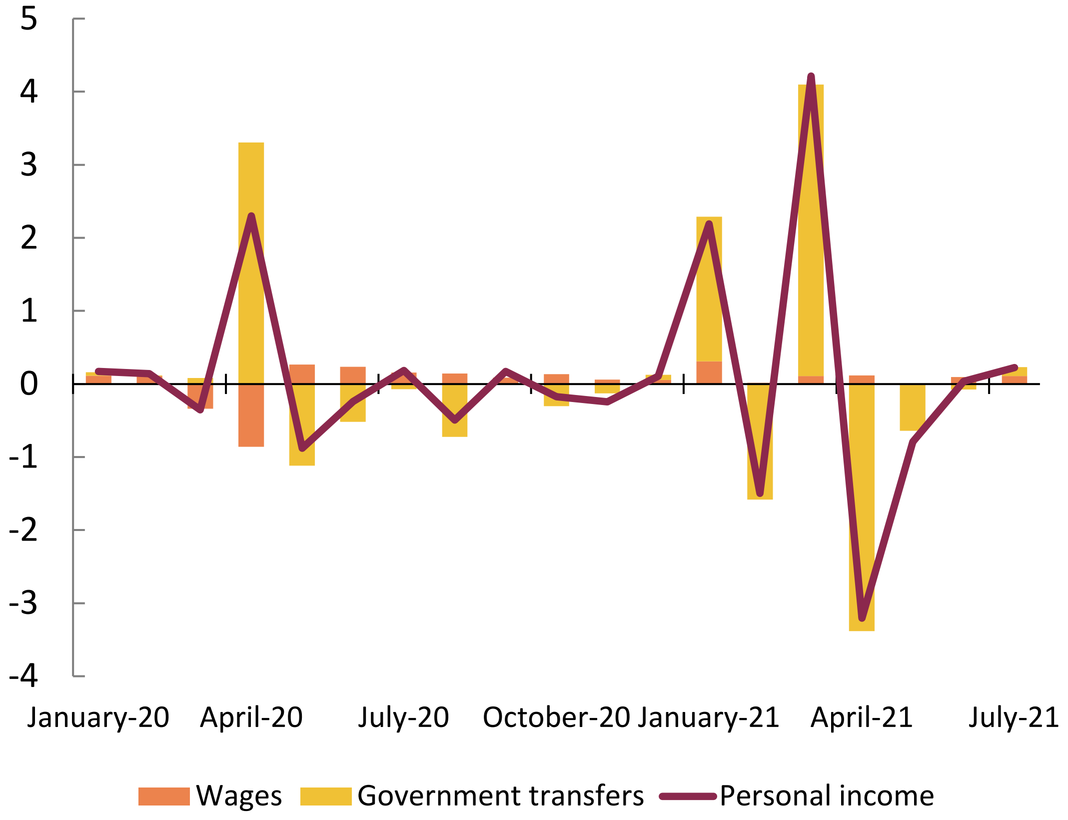
Sources: Haver Analytics, EDC Economics; EDC Global Financial Markets.

U.S. CONSUMER SPENDING ON THE RISE

As the economy reopens, employment numbers have been on a rise and government transfers are gradually scaling back. Spending has increased, reducing the level of household savings accumulated over the pandemic.

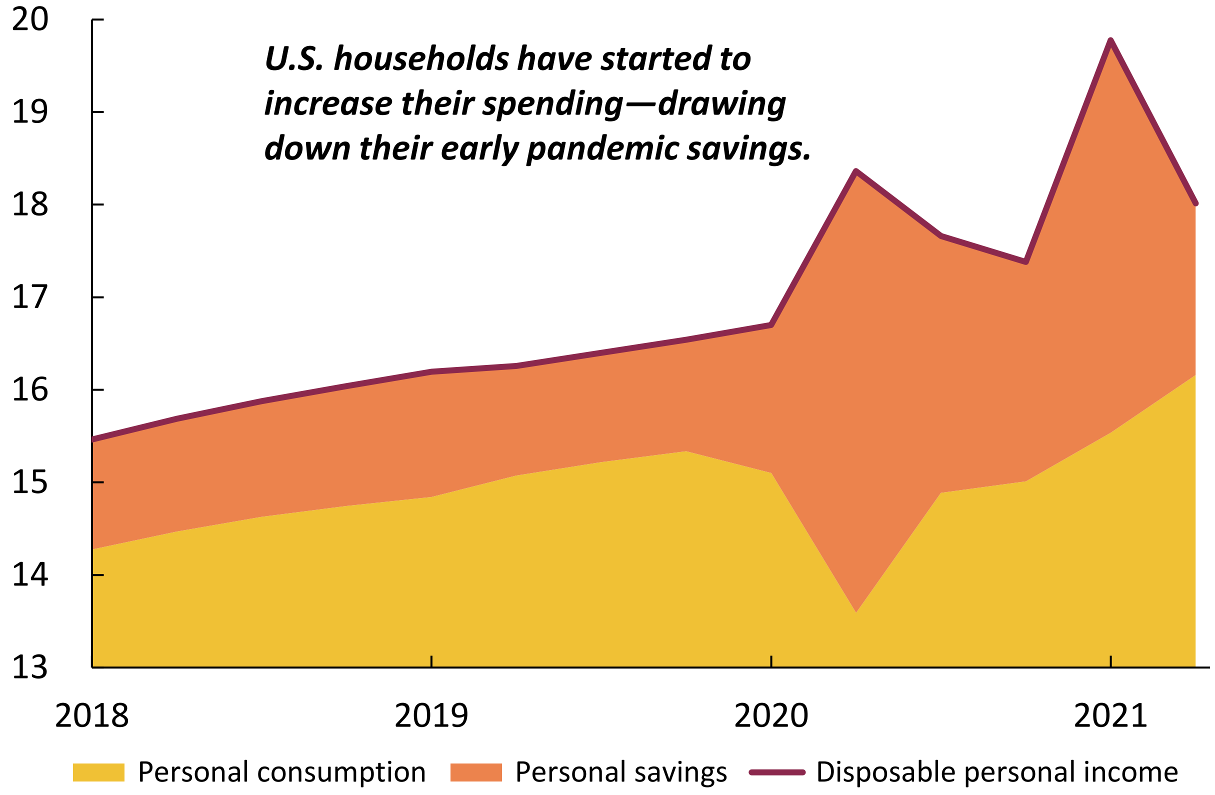
Monthly change in personal income

Trillions of dollars



Personal income, spending, and savings

Trillions of dollars



Source: U.S. Bureau of Economic Analysis

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

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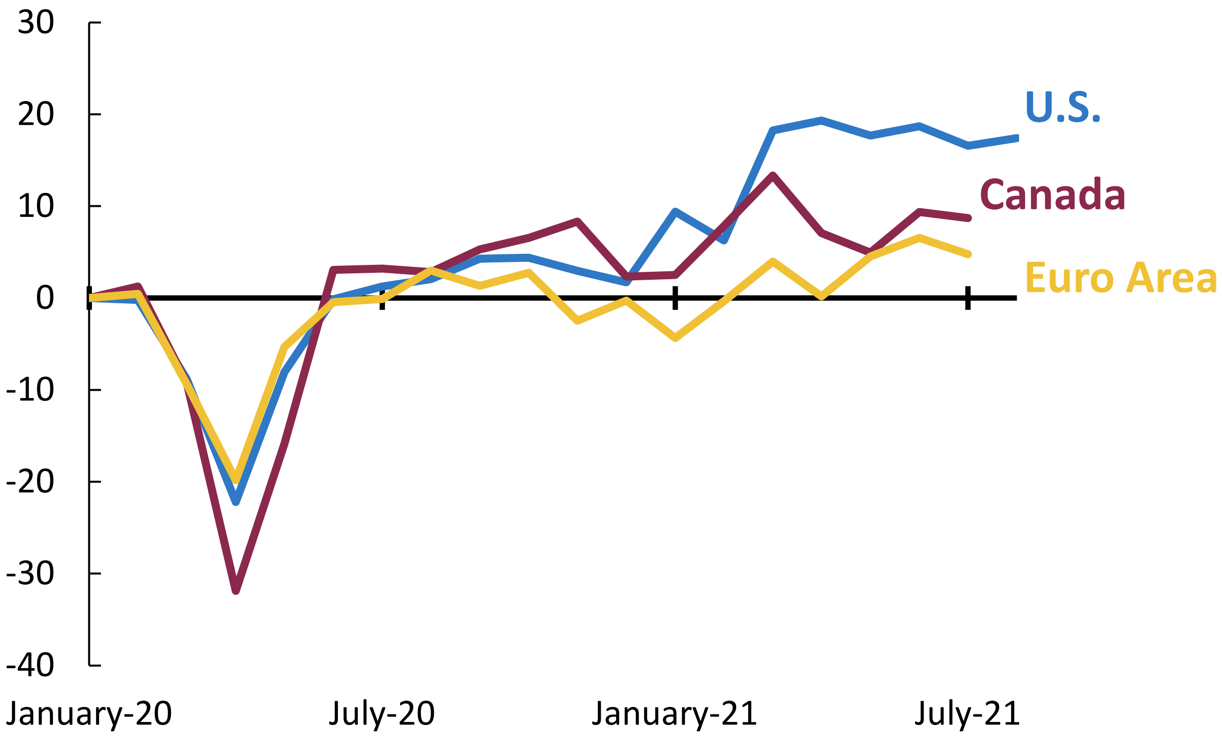
CONSUMER DYNAMICS IN ADVANCED ECONOMIES

Retail sales fell sharply in many countries during the initial lockdowns of the pandemic, but activity shifted online and spending quickly recovered. As higher-income households dip into their cash reserves, savings rates have dropped, but are still well-above pre-pandemic levels. Pent-up consumer spending will lead growth in the next year.

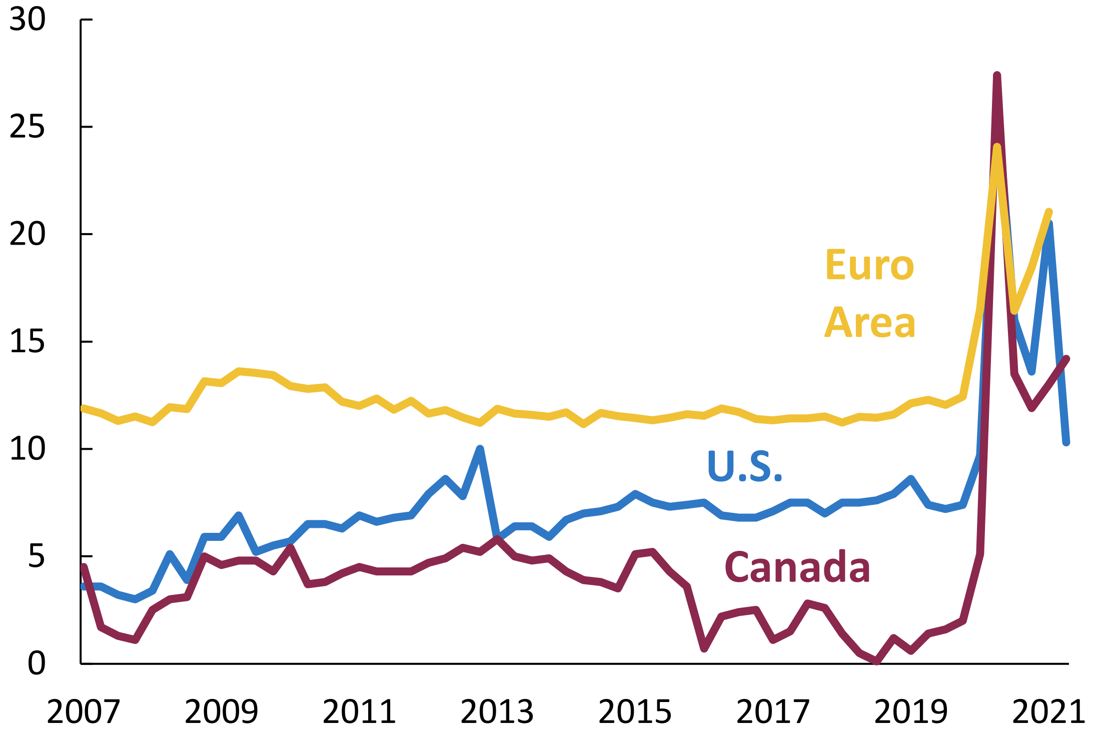
Retail sales

% change from January 2020



Savings rates

% of disposable income



Sources: Haver Analytics, EDC Economics

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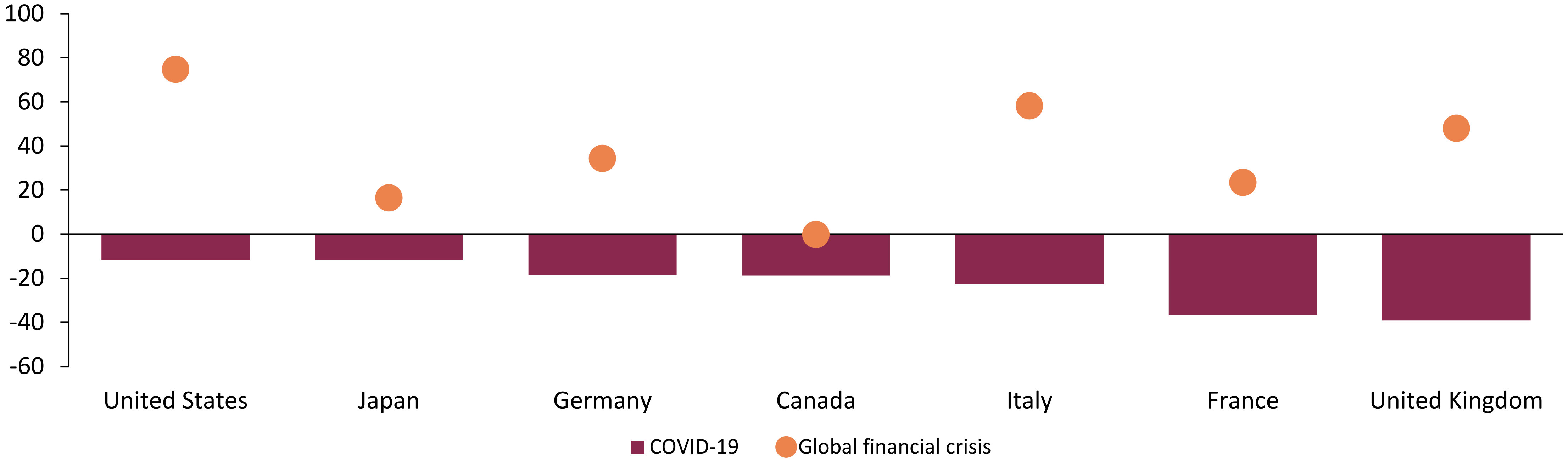
FALLING CORPORATE BANKRUPTCIES

Thanks to significant policy support during the pandemic recession, corporate bankruptcies in advanced economies didn't rise, they fell—unlike in past recessions. 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 (Q4 2019 to May 2021) and the global financial crisis (Q1 2008 to respective peaks between Q2 2008 and Q4 2009). Canada's numbers includes bankruptcies of sole proprietorships.

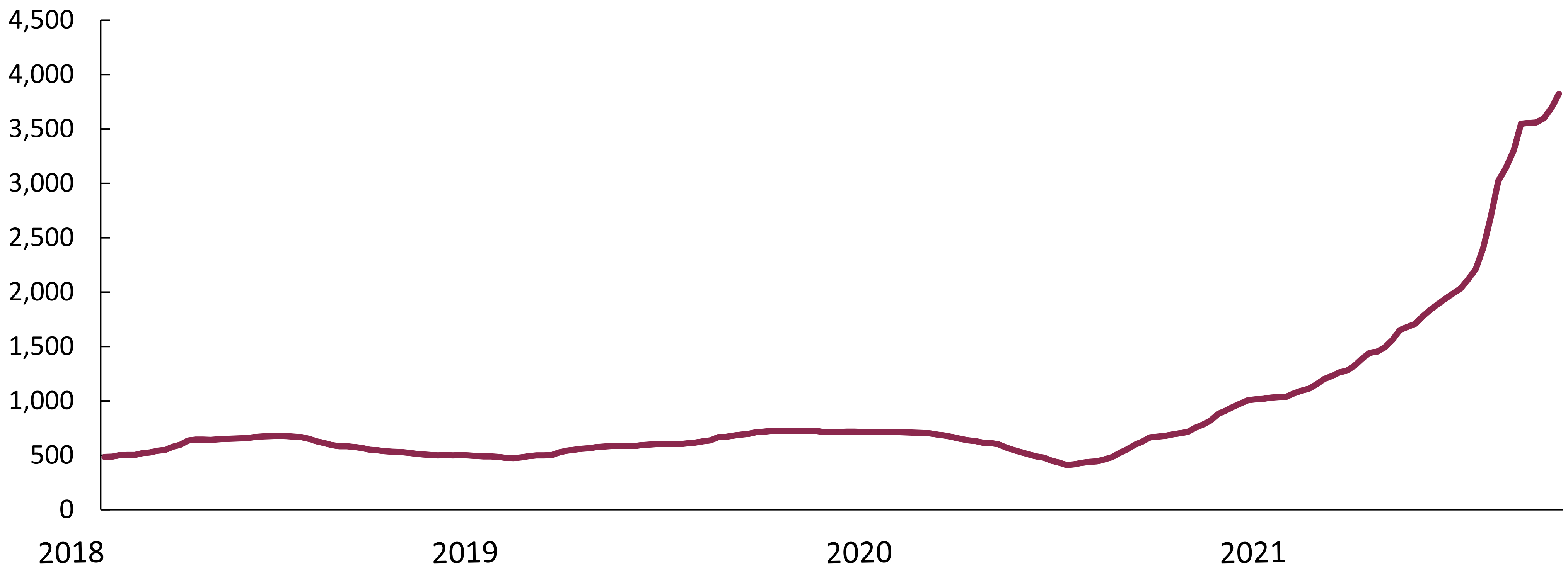
Source: OECD Economic Outlook

SHIPPING COSTS ARE SOARING

As the global economy restarts and consumer demand is unleashed, the global shipping industry has been trying to keep pace. Shipping rates have increased five-fold amid stretched port capacity and container shortages. These bottlenecks will keep pricing pressures elevated for some time.

Global shipping rate index

Indexed to Jan. 1, 2001, NSA



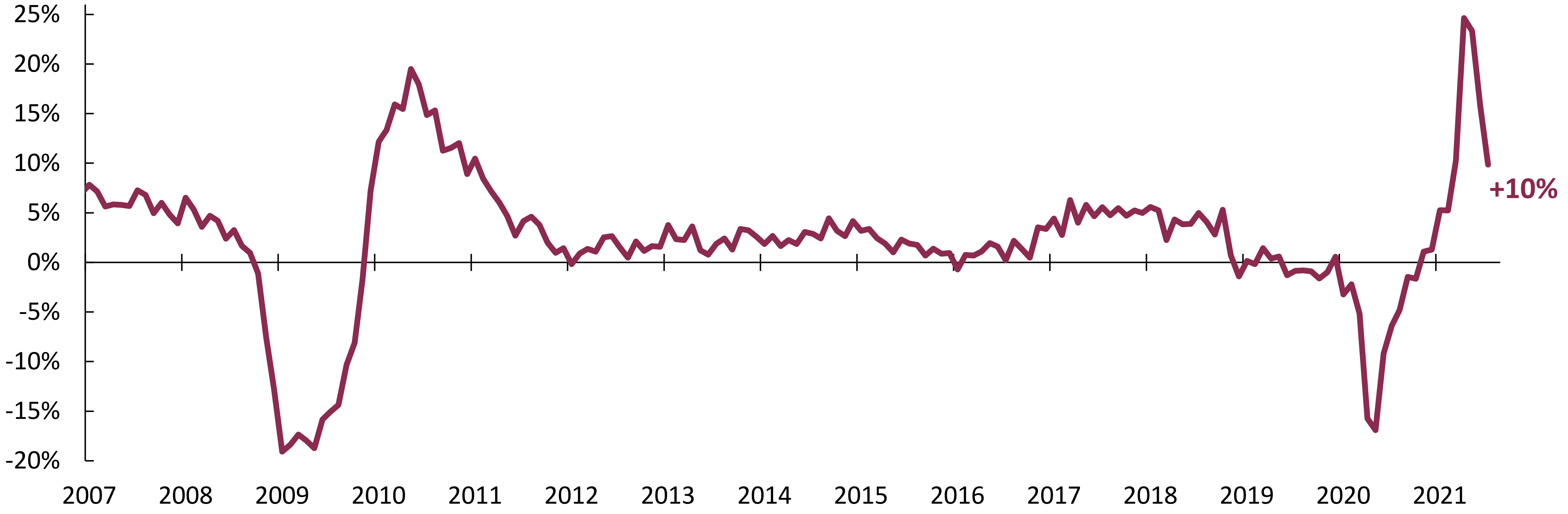
Source: Haver Analytics, Harper Petersen Holding GmbH & Co. KG.

GLOBAL GOODS TRADE FALLS FROM PEAK

Supply-side headwinds—including a scarcity of key inputs, ongoing transport bottlenecks and tightening labour conditions—paired with recovering global demand, has placed considerable pressure on supply chains. This helped contribute to a fall in global trade activities, after peaking in April 2021.

Global merchandise trade volumes

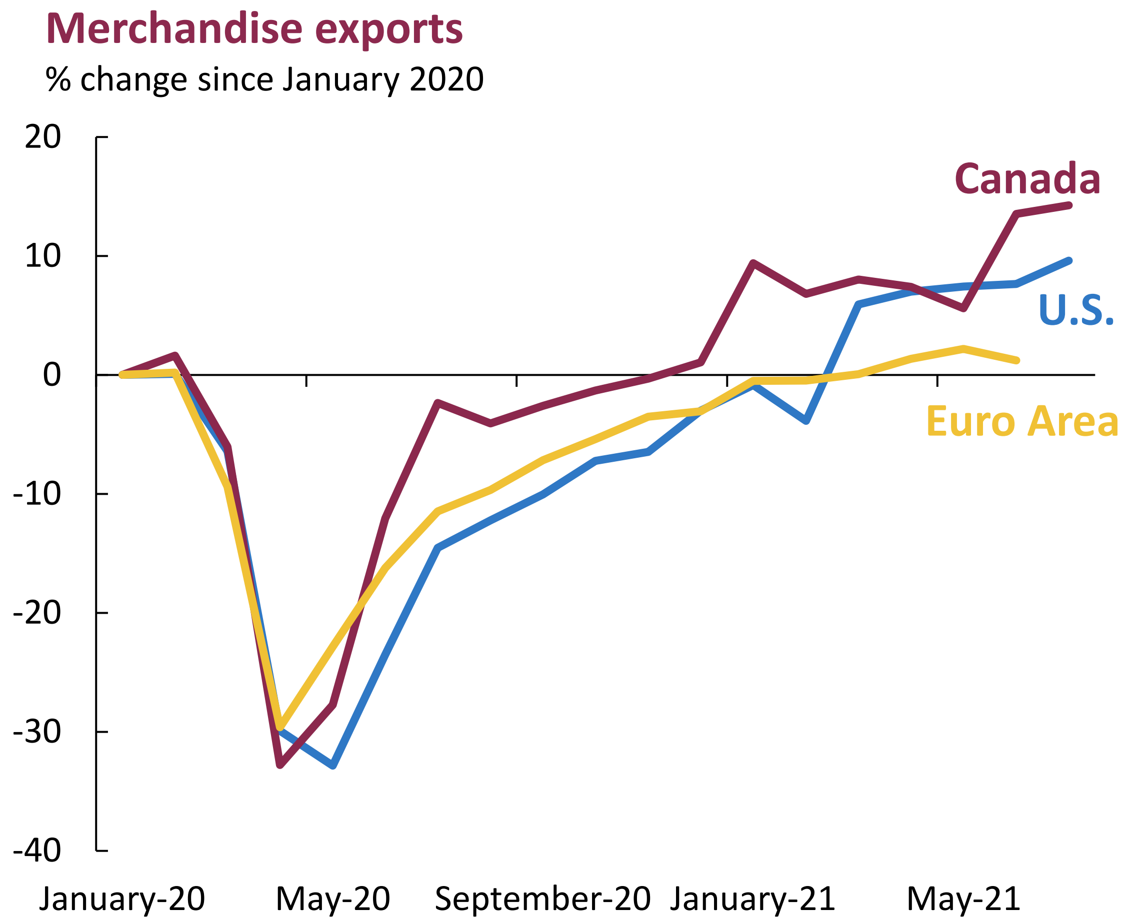
Annual % change

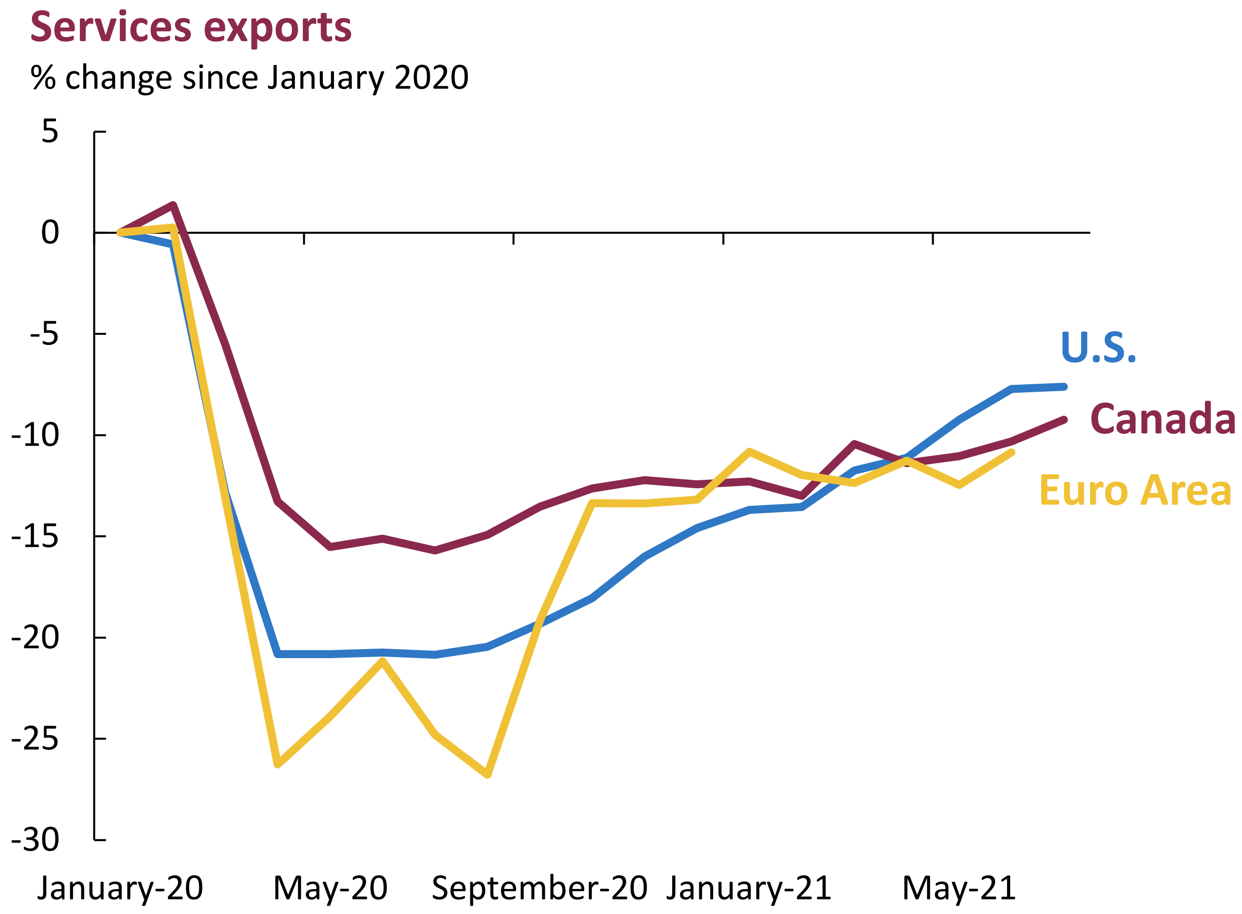


Sources: CPB Netherlands Bureau for Economic Policy Analysis, World Trade Organization.

ADVANCED ECONOMY TRADE DYNAMICS

While goods exports continue to exceed pre-pandemic levels, services trade edged toward recovery, but remains below pre-pandemic levels due to ongoing restrictions.





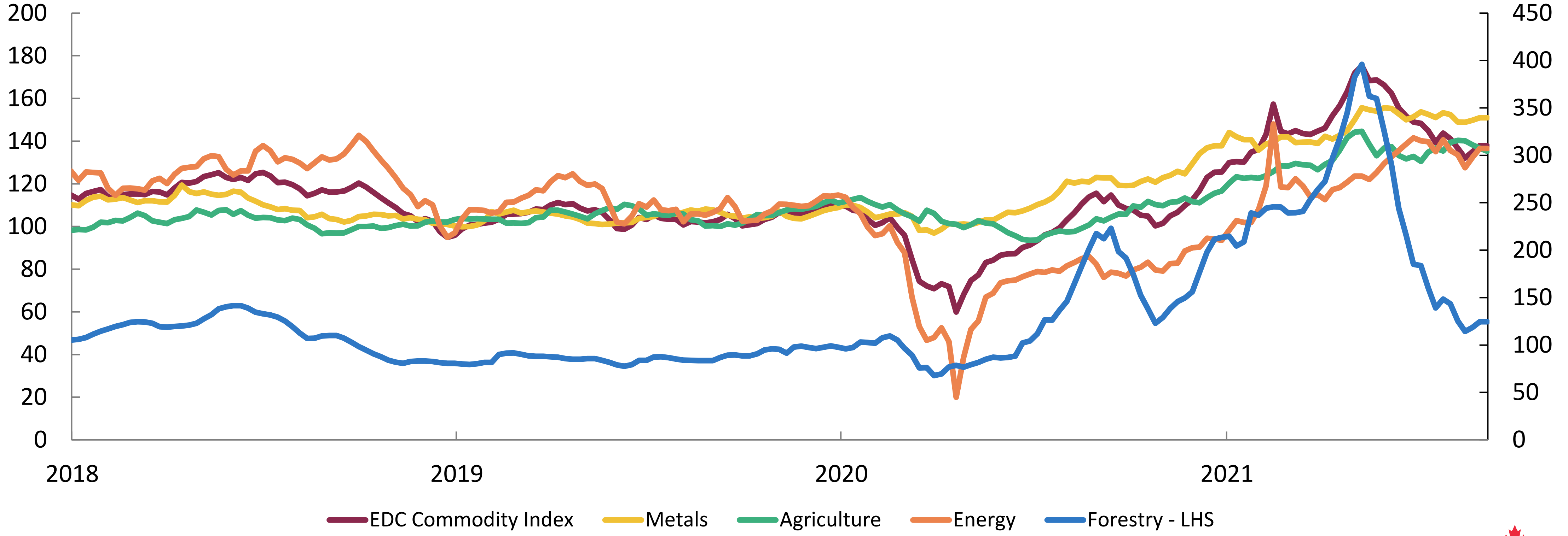
Sources: Haver Analytics, EDC Economics

COMMODITY PRICES RISE WITH GLOBAL DEMAND

Lumber prices have settled from their record highs earlier in the year. Overall, commodity prices rose as the global recovery boosted demand. Agriculture demand remains resilient.

EDC commodity price indices

Index 2017 = 100



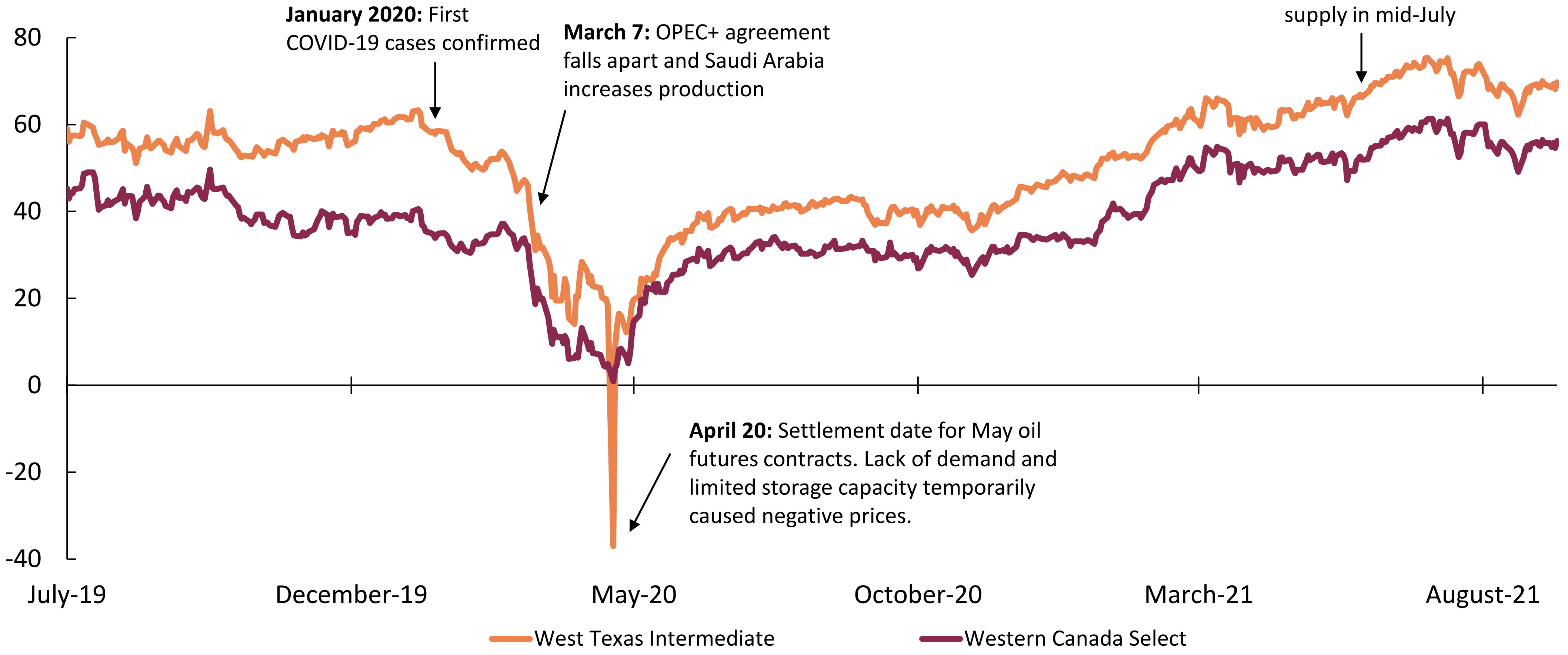
Sources: Haver Analytics, EDC Economics *The Commodity Tracker*

OIL PRICES HAVE RISEN SIGNIFICANTLY

Oil prices are enjoying a period of sustained growth in 2021, as a result of an increase in demand and some restraints to date on supply from key producers.

Oil prices

$USD per barrel



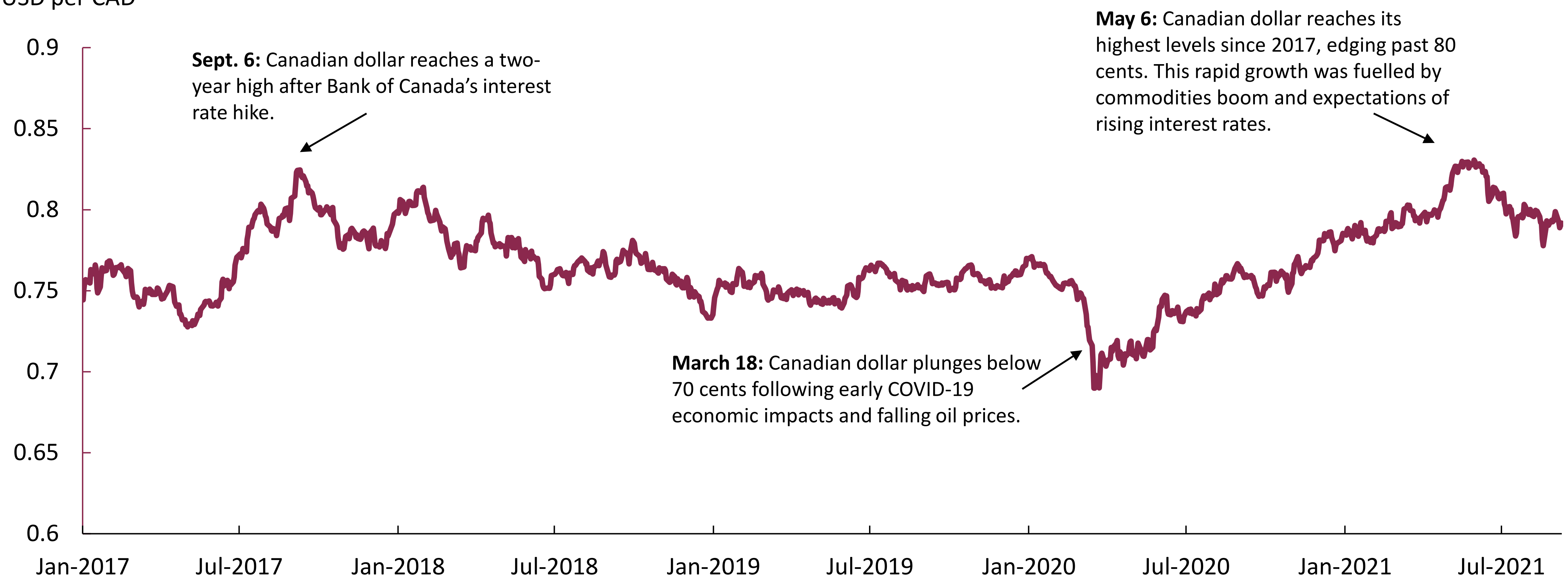
Sources: Haver Analytics, EDC Economics

CANADIAN DOLLAR STAYS STRONG

Rapidly rising demand for commodities earlier in the year sent the Canadian dollar to its highest levels since 2017. As the global economy continues to open, the loonie remains high at around 79 cents.

Daily exchange rate

USD per CAD



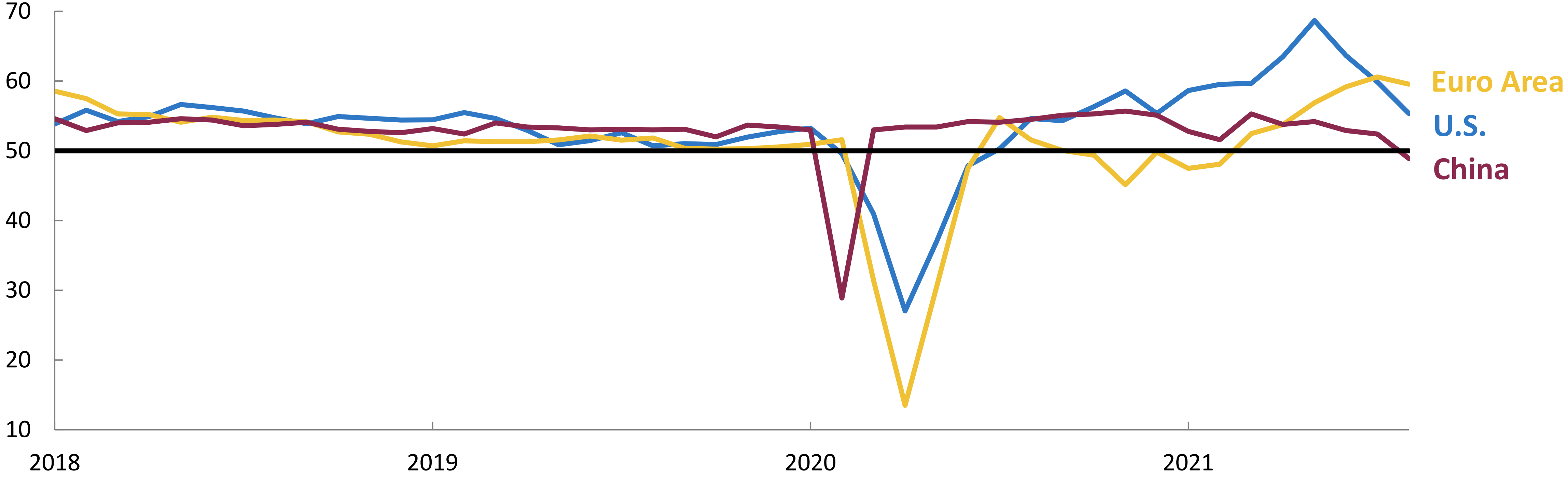
Sources: Bank of Canada, EDC Economics

PURCHASING MANAGERS' INDICES

For the first time since the initial outbreak, China's purchasing managers' index has entered the contractionary zone. This is due to the rise in COVID-19 cases in the region requiring lockdown measures. The fourth wave has also caused purchasing manager's indices for the U.S. and Euro Area to edge down.

Purchasing managers' indices

50+ = expansion

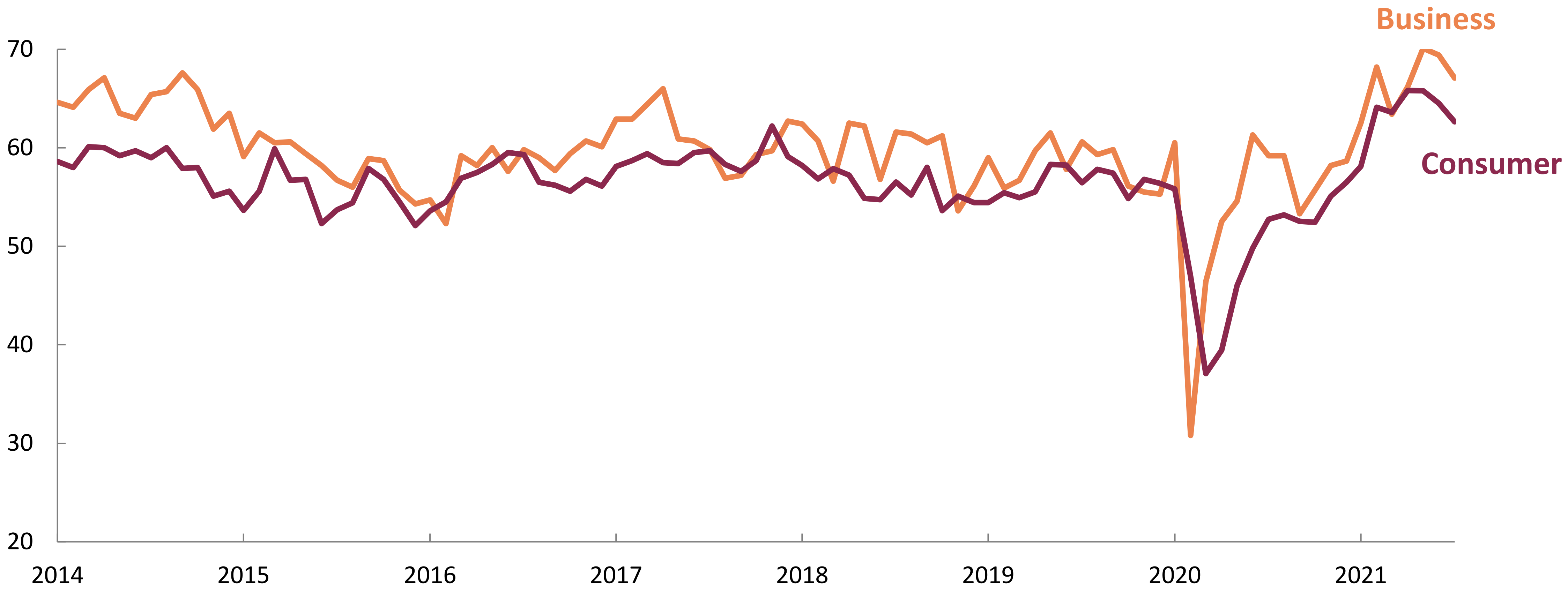


Sources: Haver Analytics, EDC Economics

CONFIDENCE REMAINS HIGH

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

Business and consumer confidence indices



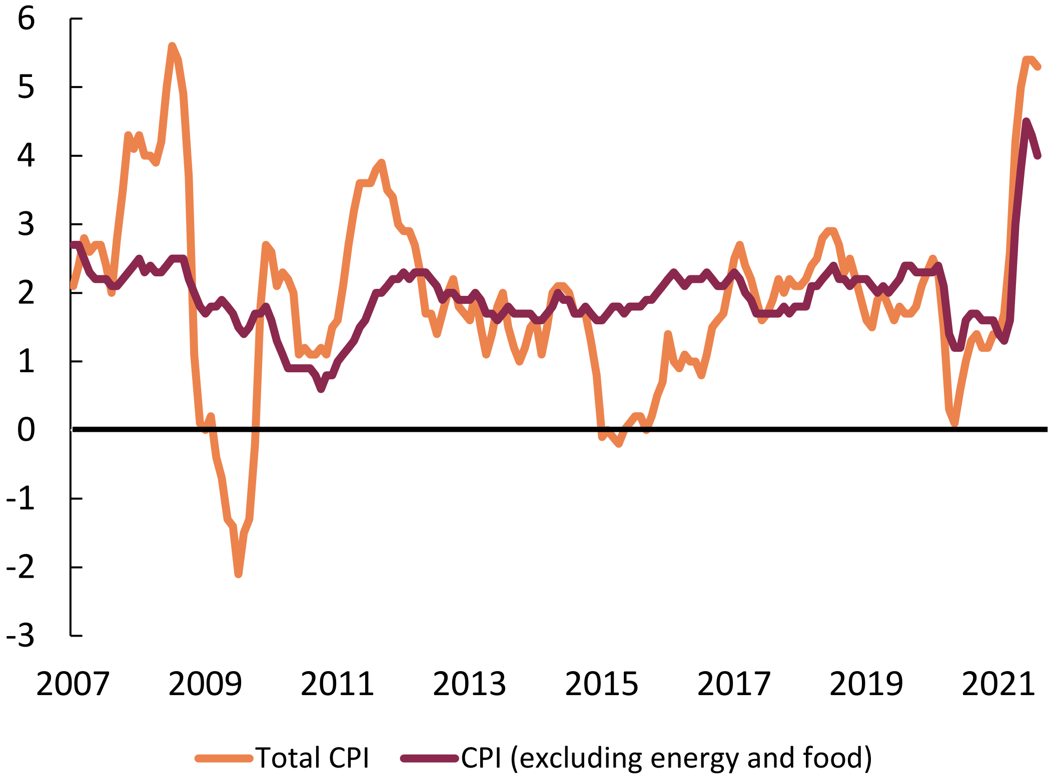
Sources: Nanos Canadian consumer sentiment index, CFIB Business Barometer

FEDERAL RESERVE POLICY

The Fed has a dual mandate of both stable prices and maximum employment. Progress has been made on both fronts, especially with stronger than expected increases in both inflation and employment during the summer. This has brought forth discussions on reducing the size of the quantitative easing program later this year.

U.S. Inflation

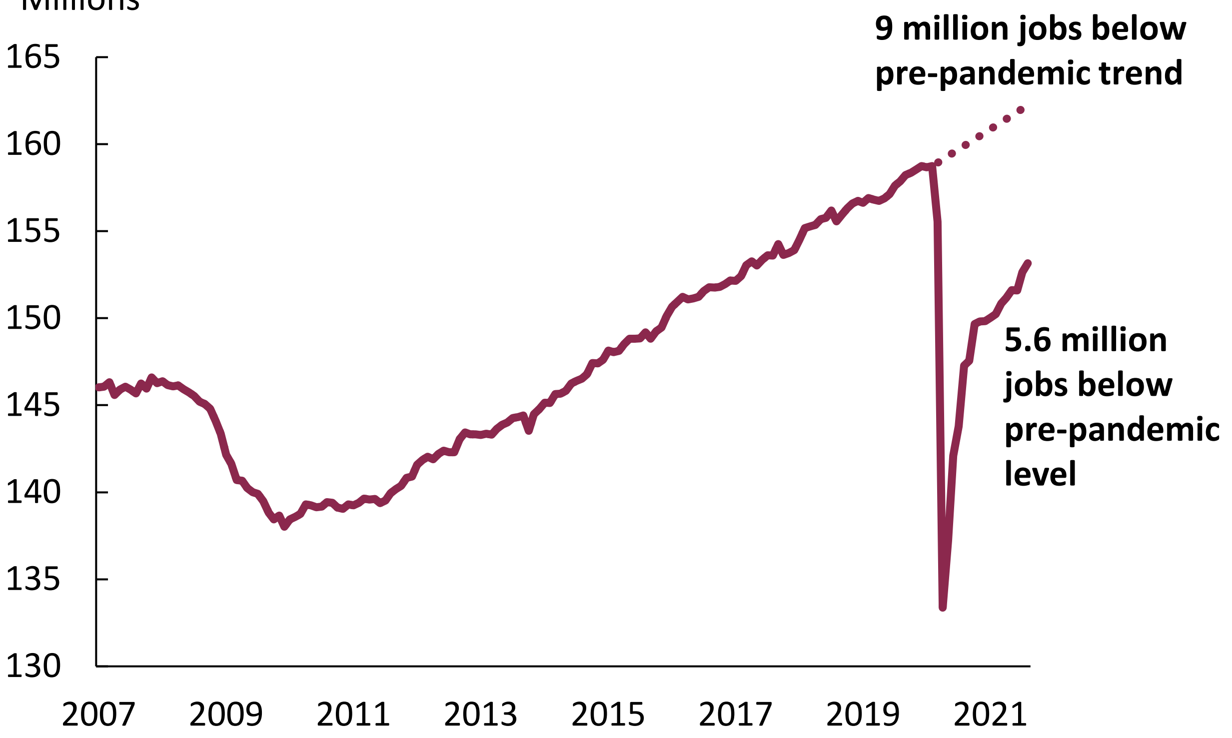
Year-over-year % change in consumer prices



Note: CPI = Consumer Price Index

U.S. employment

Millions



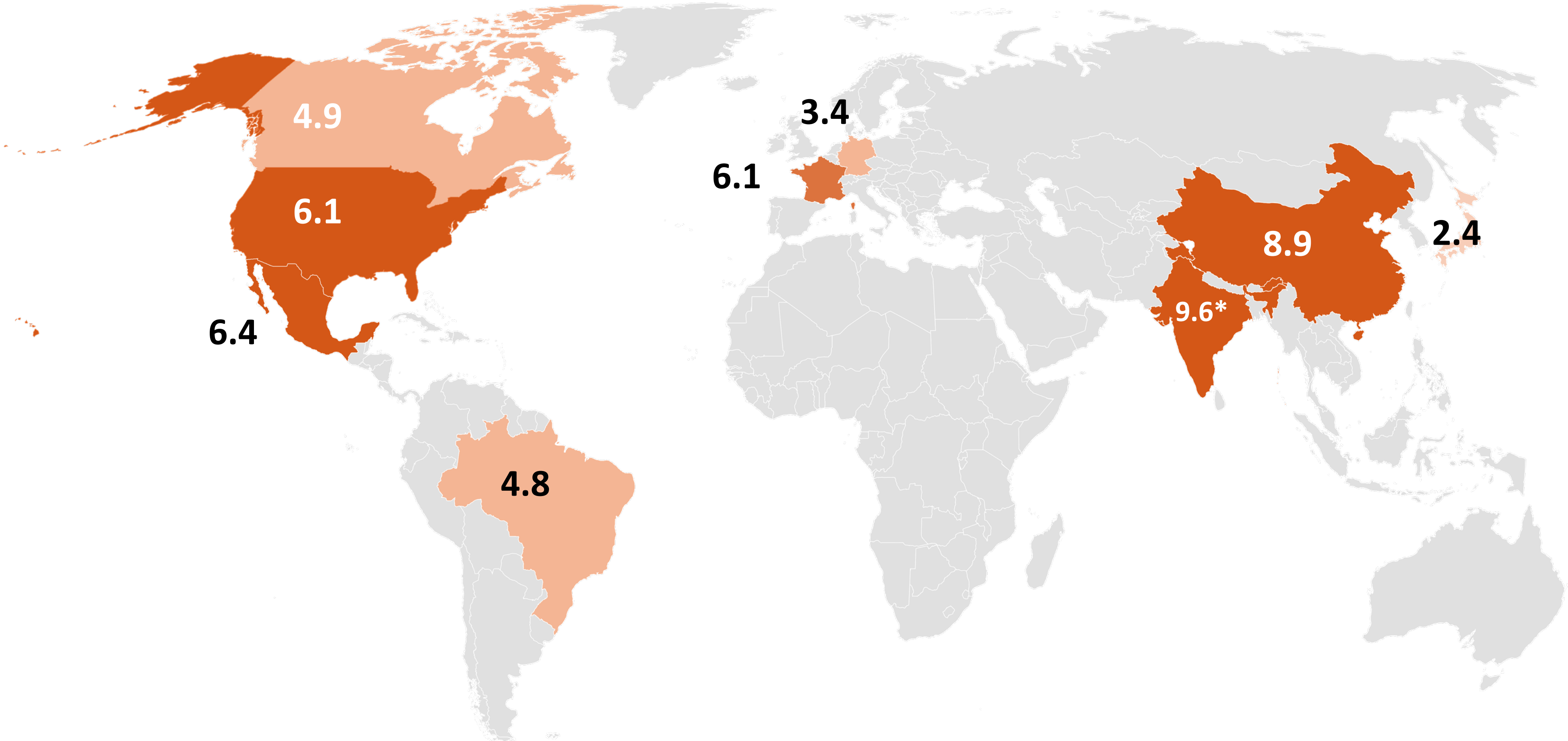
Note: Relative to the five-year pre-pandemic averages.

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics

GLOBAL ECONOMIC OUTLOOK

2021 GROWTH OUTLOOK

Real GDP growth, %



6%
World

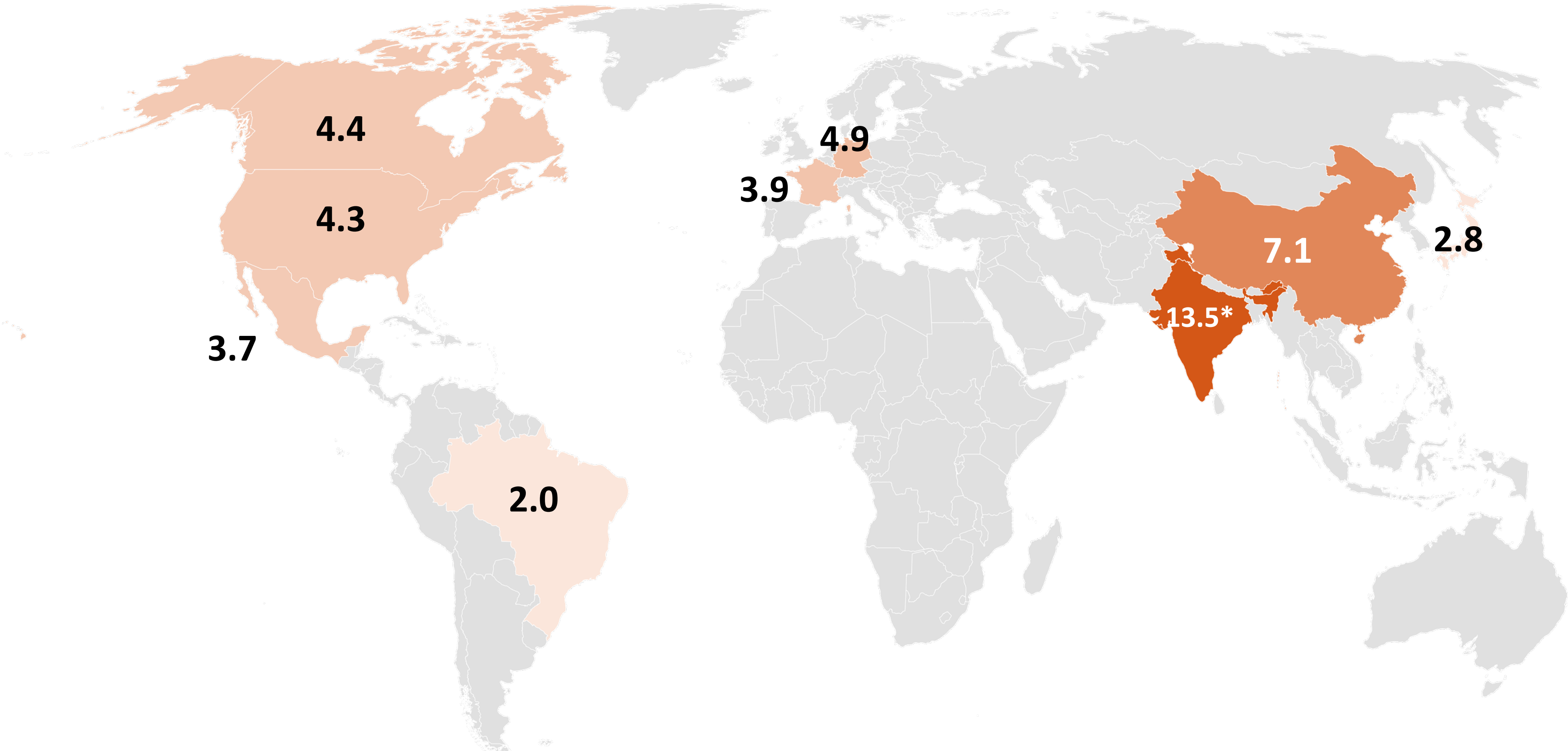
5.5%
Developed

6.3%
Emerging

* India's 2021 FY = Q2 2020 – Q1 2021
Source: EDC Global Economic Outlook, September 2021

2022 GROWTH OUTLOOK

Real GDP growth, %



5.5%
World

4.2%
Developed

6.4%
Emerging

* India's 2022 FY = Q2 2021 – Q1 2022
Source: EDC Global Economic Outlook, September 2021

REAL GDP GROWTH

Global Economic Outlook (Annual % change)	2020	2021*	2022*
Developed countries	**-4.7**	**5.5**	**4.2**
Canada	-5.3	4.9	4.4
United States	-3.4	6.1	4.3
Eurozone	-6.5	4.9	4.2
Germany	-4.9	3.4	4.9
France	-8.0	6.1	3.9
Japan	-4.7	2.4	2.8
Emerging countries	**-2.2**	**6.3**	**6.4**
China	2.0	8.9	7.1
India	-7.4	9.6	13.5
Brazil	-4.4	4.8	2.0
Mexico	-8.5	6.4	3.7
Total World	**-3.3**	**6.0**	**5.5**

Note: * denotes the forecast period. India's forecast based on fiscal year (2021 FY = Q2 2020 – Q1 2021, 2022 FY = Q2 2021 – Q1 2022)
Source: EDC Global Economic Outlook, September 2021

CHANGES FROM PREVIOUS FORECAST

Global Economic Outlook Real GDP Growth (percentage point change)	2021*	2022*
Developed countries	**-0.3**	**0.2**
Canada	-1.2	0.4
United States	-1.0	0.3
Eurozone	**0.3**	**-0.4**
Germany	-0.3	0.1
France	0.7	-0.4
Japan	-0.2	0.4
Emerging countries	**-0.2**	**-0.4**
China	-0.7	-0.7
India	-1.0	0.2
Brazil	-0.2	-0.3
Mexico	-	-0.2
Total World	**-0.2**	**-0.2**

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

CURRENCIES AND INTEREST RATES

Global Economic Outlook		2020	2021*	2022*
Currencies	**Exchange Rate**			
U.S. dollar	**USD per CAD**	0.75	0.80	0.78
Euro	**USD per EUR**	1.14	1.19	1.20
Euro	**CAD per EUR**	1.53	1.50	1.53
Interest Rates, annual average				
Bank of Canada, *Overnight Target Rate*		0.56	0.25	0.29
U.S. Federal Reserve, *Fed Funds Target Rate (Upper limit)*		0.39	0.13	0.15
European Central Bank, *Policy Interest Rate*		0.0	0.0	0.0

Note: * denotes the forecast period. The first interest rate hike forecasted for the Bank of Canada is October 2022; the Federal Reserve is January 2023; and the European Central Bank is Q1 2024.
Source: EDC Global Economic Outlook, September 2021

COMMODITY PRICES

Global Economic Outlook	2020	2021*	2022*
Brent Crude Spot, *USD / bbl*	41.76	68.09	65.37
West Texas Intermediate, *USD / bbl*	39.27	64.98	62.25
Western Canada Select, *USD / bbl*	27.82	52.45	49.74
Natural Gas, *USD / MMBtu*	2.02	3.46	3.11
Gold, *USD / troy ounce*	1,770	1,797	1,737
Copper, *USD / tonne*	6,170	9,230	8,653

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, September 2021

KEY FORECAST ASSUMPTIONS

COVID-19

Vaccines distribution has made significant progress 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 2022. However, we don't 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 support their economies, maintain market functioning and overall financial stability. The tightening of policy interest rates is expected to proceed relatively gradually 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 Sept. 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 reopen, the drawing down of these savings and slow removal of macro policy supports could result in a stronger-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 spread of COVID variants—particularly those against which current vaccines aren't as effective and/or may require booster shots—could lead to further spikes in hospitalizations and the re-enactment of government restrictions. This is a risk to the baseline forecast.

- 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	60%
Downside	20%

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DISCLOSURE

Ce document est également disponible en français.

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