Global Economic Outlook

Bumpy road ahead

EDC Economics

June 23, 2022

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: Bumpy road ahead

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After two years governed by the spread of COVID-19 and associated public health restrictions, there was widespread hope that the global economy was going to bounce back at full speed to post-pandemic levels. Now, almost midway through 2022, and that dream hasn't materialized. Instead, the economy is facing a bumpy road ahead, with growth likely to slow and more challenges on the horizon.

Part of what fuelled the economic optimism was the significant amount of stimulus that governments and central banks pumped into economies to keep them functioning during COVID-19 and its mandated lockdowns. These measures allowed consumers to significantly increase their savings and personal financial reserves at a time when spending on travel, restaurant visits and other services was drastically reduced.

With economies reopened and consumers flush with cash, a wave of spending was expected to satisfy the pent-up demand. Not so.

While most of the world has reopened and adopted policies to help recover from COVID-19, China has continued to pursue its stringent, zero-COVID-19 policy. This has led to flareups of the virus being met by extensive and strict lockdowns.

During the second quarter of 2022, these policies removed Shanghai and other vital Chinese centres from global supply chains. This hampered companies' abilities to meet any increase in demand, leaving key inputs and parts stranded for weeks on end.

While China was voluntarily cutting parts of its economy off from the world, Russia's late-February invasion of Ukraine led to co-ordinated and extensive sanctions that destabilized global commodity markets. With Russia and Ukraine providing nearly 30% of global wheat exports and countless other staples, global wheat prices have more than doubled since February and countries, including India and Indonesia, have implemented targeted export bans on foodstuffs to safeguard their domestic supplies.

The surge in commodity prices, as well as the U.S. dollar strength, will negatively impact emerging market growth. In our summer *Global Economic Outlook*, EDC Economics forecasts they'll expand by a combined 3.2% in 2022 and 4.3% in 2023. At the same time, food price pressures are likely to increase the risks around political stability in several countries.

Executive summary (continued)

Global Economic Outlook: Bumpy road ahead

Uncertainty around Russia's share of global oil exports has also pushed up global energy prices. EDC Economics forecasts that West Texas Intermediate (WTI) oil prices will be US$102 per barrel in 2022 and ease slightly to US$94 per barrel in 2023. North American—and global—natural gas prices are forecast to remain strong as Europe seeks to diversify away from Russian gas supplies, competing for liquified natural gas cargos and keeping prices elevated.

All these challenges are creating significant inflationary pressures and headwinds for the global economy, especially as central banks grapple with bringing inflation under control without ending the economic recovery.

In our *Global Economic Outlook*, we forecast that key central banks will aggressively increase interest rates through the end of 2022. With the Bank of Canada and the U.S. Federal Reserve wanting to preserve their credibility and bring down inflation, there's a risk that policy rates briefly surpass terminal levels, before coming back down. Aggressive quantitative tightening cycles will also significantly reduce liquidity, further tightening financial conditions.

With monetary conditions tightening, global growth will slow. Our forecast calls for U.S. growth of 2.7% in 2022 before decelerating to 2.2% in 2023. Facing more direct impacts from the Russia-Ukraine conflict, Euro area growth will be just 2.2% in 2022 and 2% in 2023, as the continent digests supply chain disruptions and adjusts energy imports away from Russia. The Canadian economy will see modest strength over the next two years, with growth reaching 3.7% in 2022 and 2.2% in 2023.

The bottom line

The headwinds to the economy from the Russia-Ukraine war, China's zero-COVID-19 policies and the continuing supply chain issues are real. This has resulted in EDC Economics lowering our growth forecast compared to our spring outlook. But there continues to be significant strength coming from elevated levels of consumer savings. While central banks are acting aggressively to combat inflation, interest rates continue to remain low by historical comparison. Overall, our outlook calls for the global economy to grow by 2.7% in 2022 and 3.3% in 2023.

Changes to the outlook

- EDC Economics has revised down its global growth outlook for 2022 (2.7%), followed by a slight pick up in 2023 (3.3%). Our current view remains consistent with our previous forecast in March, and is adjusted to reflect recent data, ongoing supply chain disruptions, and the Russia-Ukraine conflict.
- Global economic growth was set for a more robust growth path, but the material impacts from Russia's invasion into Ukraine have spread across regions, commodities and financial markets. Additionally, China's zero-COVID-19 lockdowns have added further supply chain pressures. Rising commodity prices continue to spur global inflationary pressures.
- Faster growing emerging markets will continue to lead global growth in the near-term, but certain key developing economies, such as China, will see a downshift in growth prospects. European confidence has declined in part due to the move. Oil-importing countries are experiencing further impacts from higher prices.
- Consumers are increasingly shifting spending toward services and goods trade is slowing down. However, inflation continues to rise to high levels and is now expected to remain elevated into 2023. Key central banks have begun to raise policy interest rates at a faster pace and have signalled an end to accommodative policies.

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Russia’s invasion of Ukraine has stalled with numerous sanctions enacted and financial markets in disarray

Russia’s invasion of Ukraine has sparked one of the largest active conflicts in Europe in recent times. Russian forces continue their siege slowly gaining Ukrainian territory as the West imposes an escalating series of sanctions and bans.

Russia-Ukraine conflict key events timeline in 2022

Notable events as of May 28

Feb. 21
Russian President Vladimir Putin recognizes the “independence” of Donetsk and Luhansk in Ukraine.

Feb. 24
Putin announces a “special military operation” in Ukraine and the first round of missiles are launched.

February
U.S. President Joe Biden begins freezing assets of Russian financial institutions and launches sanctions on four Russian firms.

February
Russian banks are removed from the SWIFT interbank system. The EU bans Russian aircraft from flying over its airspace and sends weapons and equipment to Ukraine.

February
The EU, the U.S. and other allies place a ban on transactions with the Russian Central Bank.

Feb. 28
Putin announces that he’s placed Russia’s nuclear deterrent force on alert.

March 8
Putin bans Russian exports of certain commodities and raw materials.

March 8
Conflict continues, U.S./NATO pledge not to enter Ukraine.

U.S./U.K. announce phase-out of Russian oil.

March 16
Ukraine President Volodymyr Zelenskyy asks the U.S. Congress for a no-fly zone.

March 31
Massacre at Bucha uncovered. Ukraine troops on the offensive, Russia troop pull back.

April 15
Ukraine sinks Russian warship *Moskva* as war crimes evidence emerges.

April 30, 2022
Russia troops pull back from northern Ukraine and begin Black Sea coastal cities assault (Odesa, Mariupol).

May 15
Russian Victory Day parade a bust as Russian military gains lost.

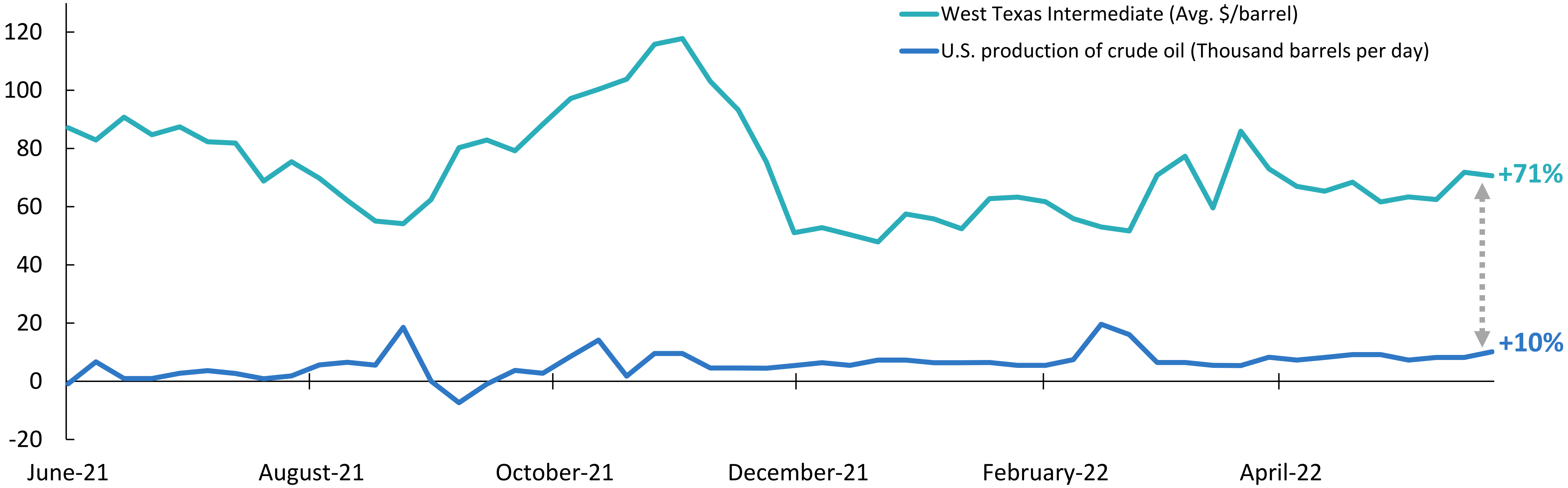
May 26
Ukraine military in Mariupol surrender and Russia makes progress along coast.

Oil prices rise but production remains flat

Price pressures caused by supply constraints and the impact of the Russia-Ukraine conflict are likely to keep oil prices high. After reaching peaks in early 2022, prices have stabilized but continue an upward trajectory. Despite this, U.S. oil production is not catching up, remaining well below pre-pandemic levels.

U.S. oil prices and production

Annual % change



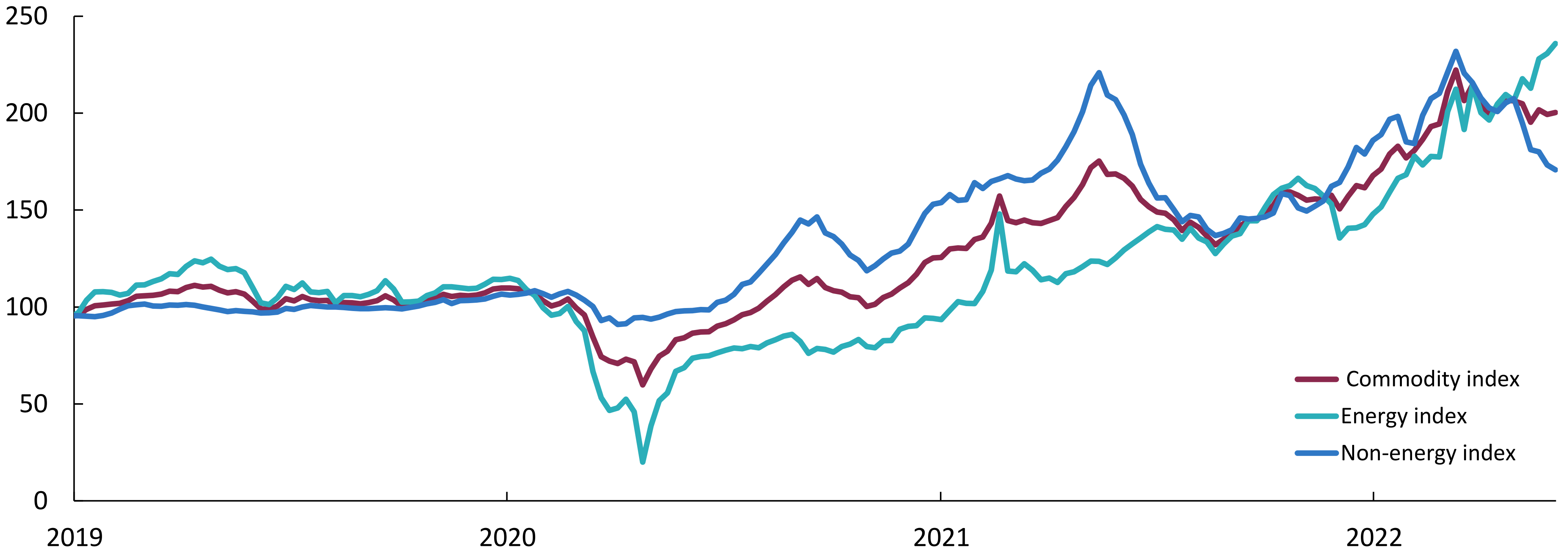
Sources: Haver Analytics, EDC Economics

Non-energy commodity prices drop after rapid ascent

Sanctions resulting from the Russia-Ukraine conflict resulted in higher prices of key commodities, especially wheat and aluminum. The conflict will exacerbate the supply shortages that were already pushing prices upwards. Limited oil production and stable demand will keep energy prices high throughout 2022.

EDC commodity price indices

Index 2017 = 100



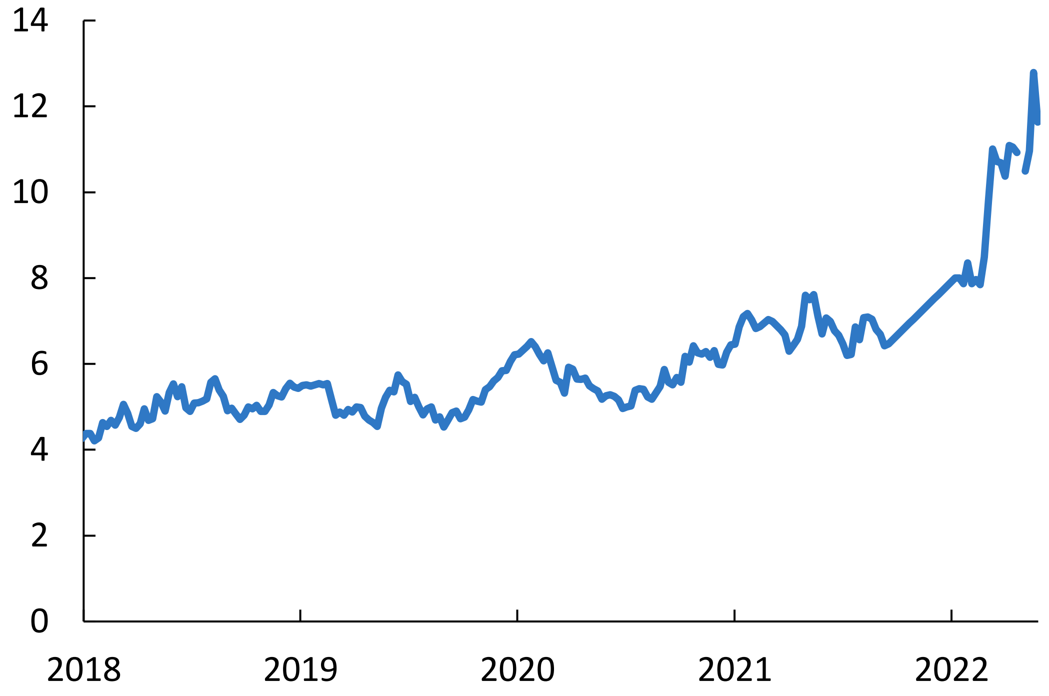
Sources: Haver Analytics, EDC Economics *The Commodity Tracker*

Key commodity prices continue to rise

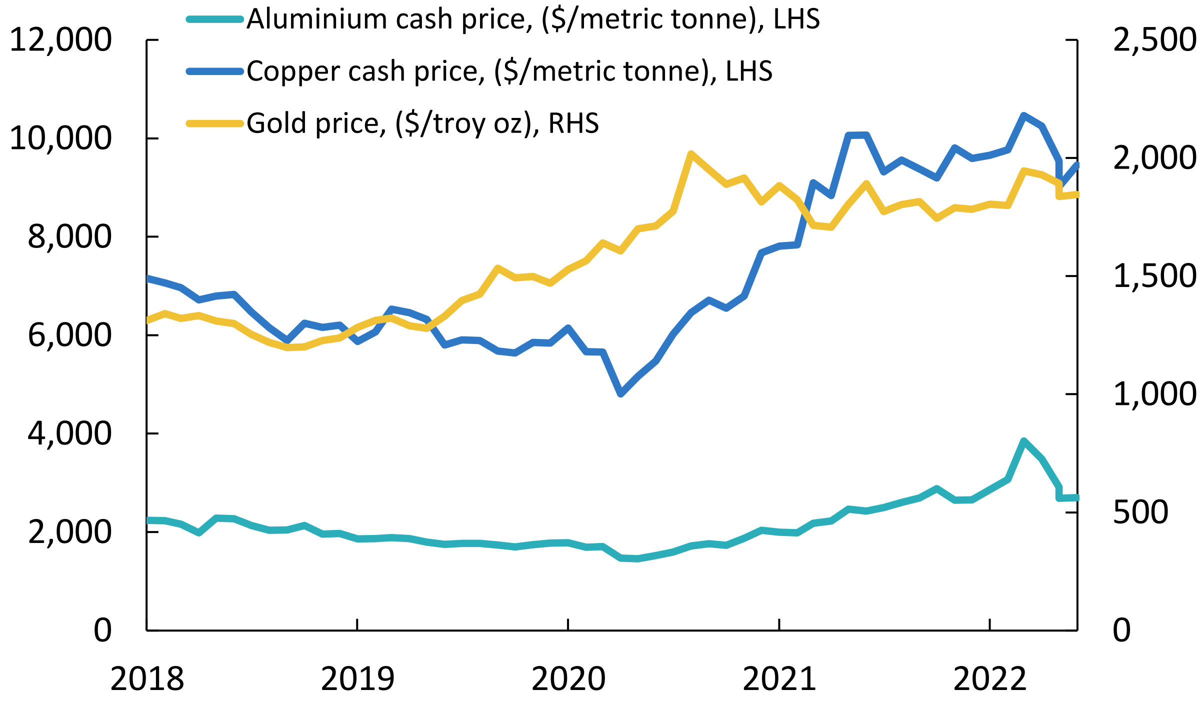
Agriculture and metal prices have risen due to global uncertainty and the Russia-Ukraine war. Global wheat prices continue to spike further exacerbated by India's recent ban on wheat exports. After reaching record highs in March, aluminum prices stabilize, but remain elevated. Despite hitting lows in March, gold prices are recovering.

Wheat cash price

$/bushel



Aluminum, copper and gold prices



Sources: Haver Analytics, EDC Economics

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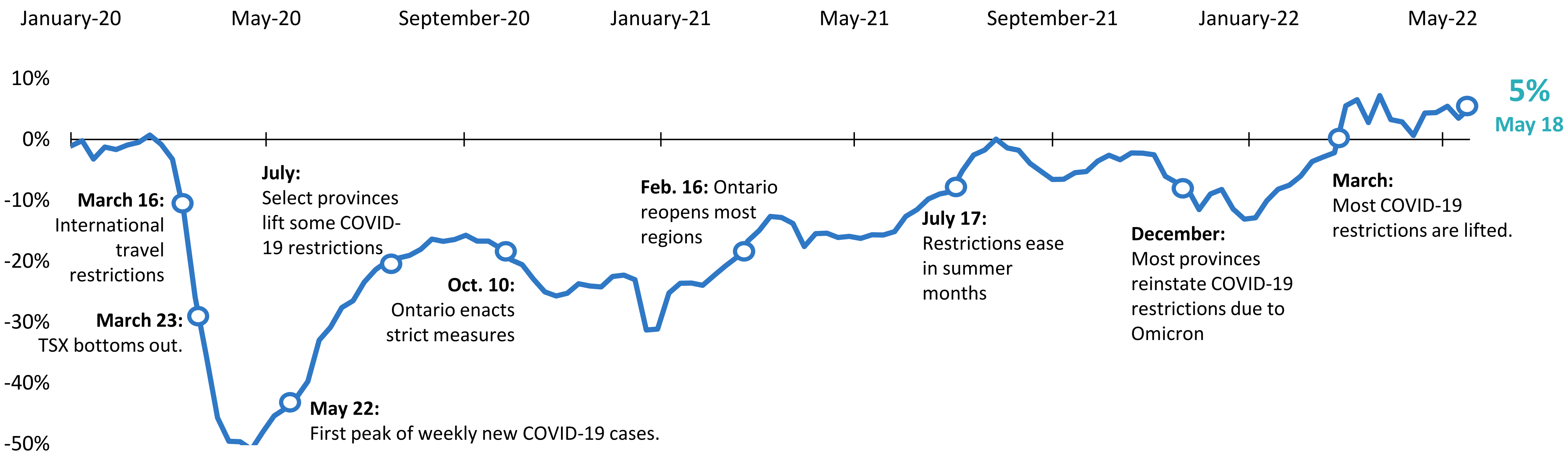
Canadian economic recovery tracker surpasses pre-pandemic levels

EDC Economics' *Canadian Economic Recovery Tracker* highlights key trends in Canada's economic performance during the recovery. Now sitting at 5% above the pre-pandemic threshold, the Canadian economy has surpassed baseline activity levels. As restrictions eased in April, services activity picked up and mobility is improving.

The Canadian Economic Recovery Tracker

Deviation from pre-COVID-19 baseline



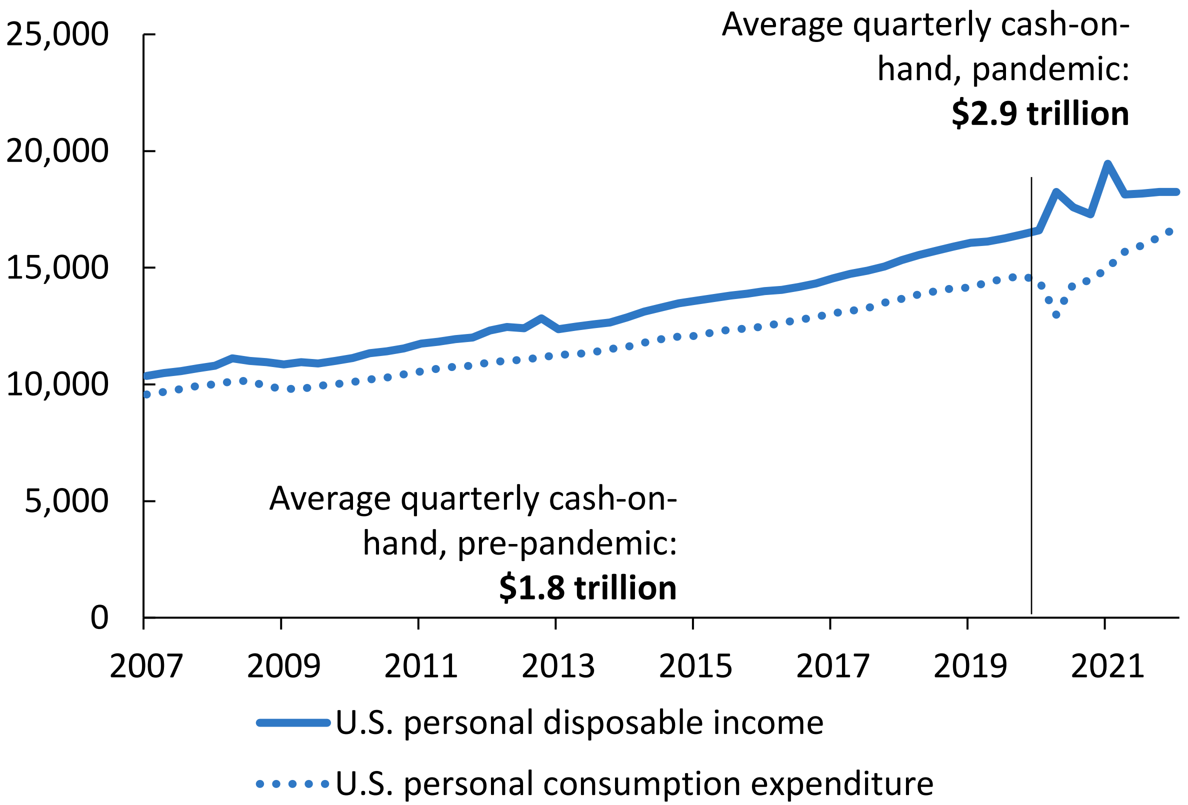
Source: EDC Economics

In advanced economies, consumers holding on to excess savings

High levels of savings acquired during the pandemic, if channelled towards fulfilling pent-up demand could support increased spending. Inflation and supply chain issues are key concerns that could erode consumer purchasing power.

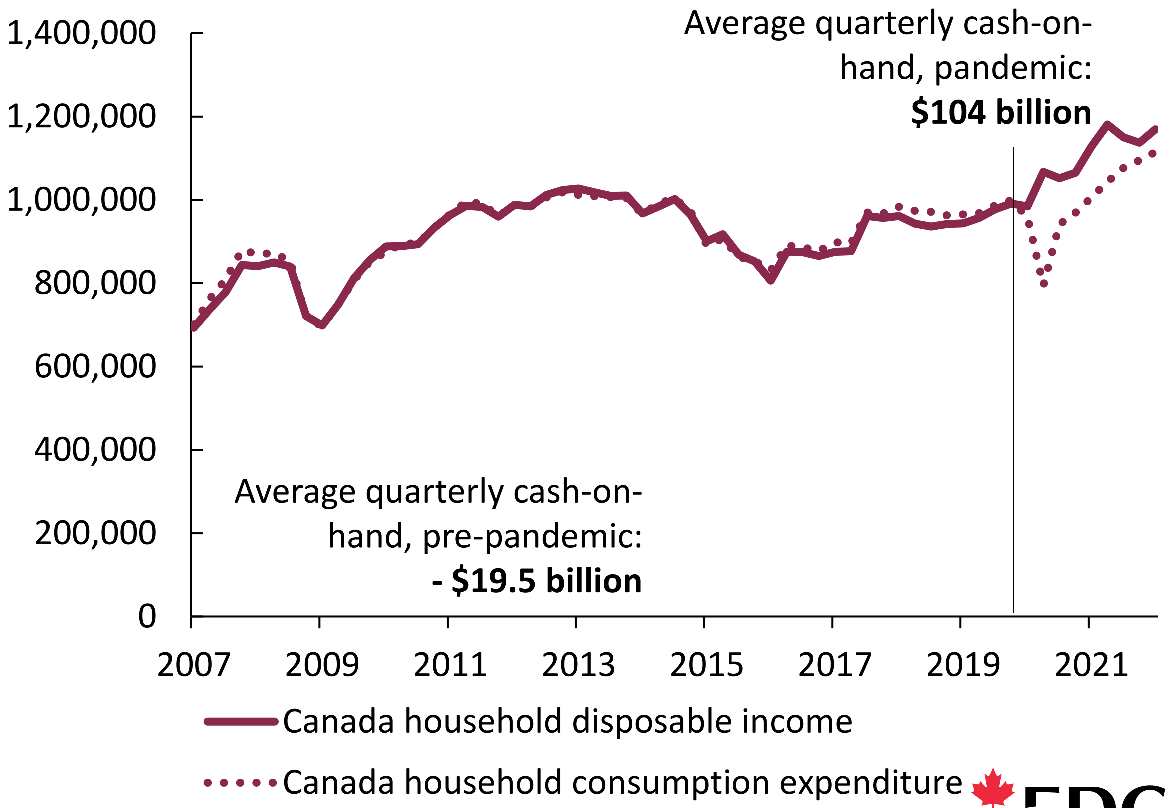
U.S. households' cash-on-hand

Personal disposable income and consumption expenditure (quarterly, USD trillions)



Canada households' cash-on-hand

Personal disposable income and consumption expenditure (quarterly, USD millions)



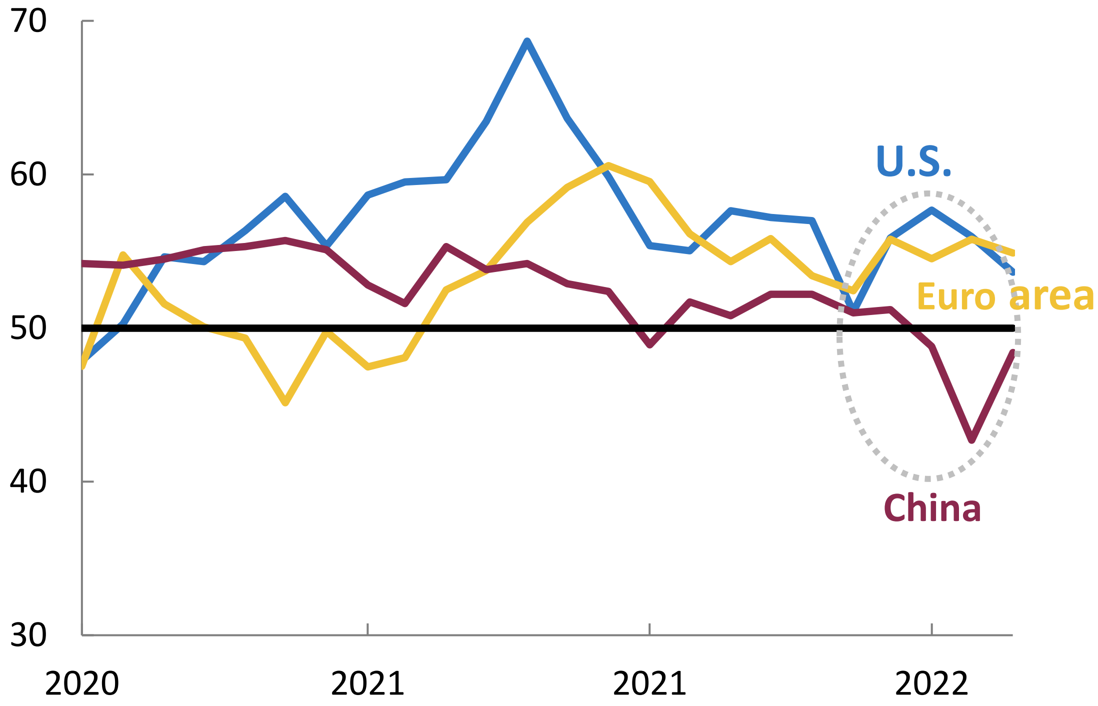
Sources: Haver Analytics, EDC Economics

Post COVID-19 rebound: growth in service trade

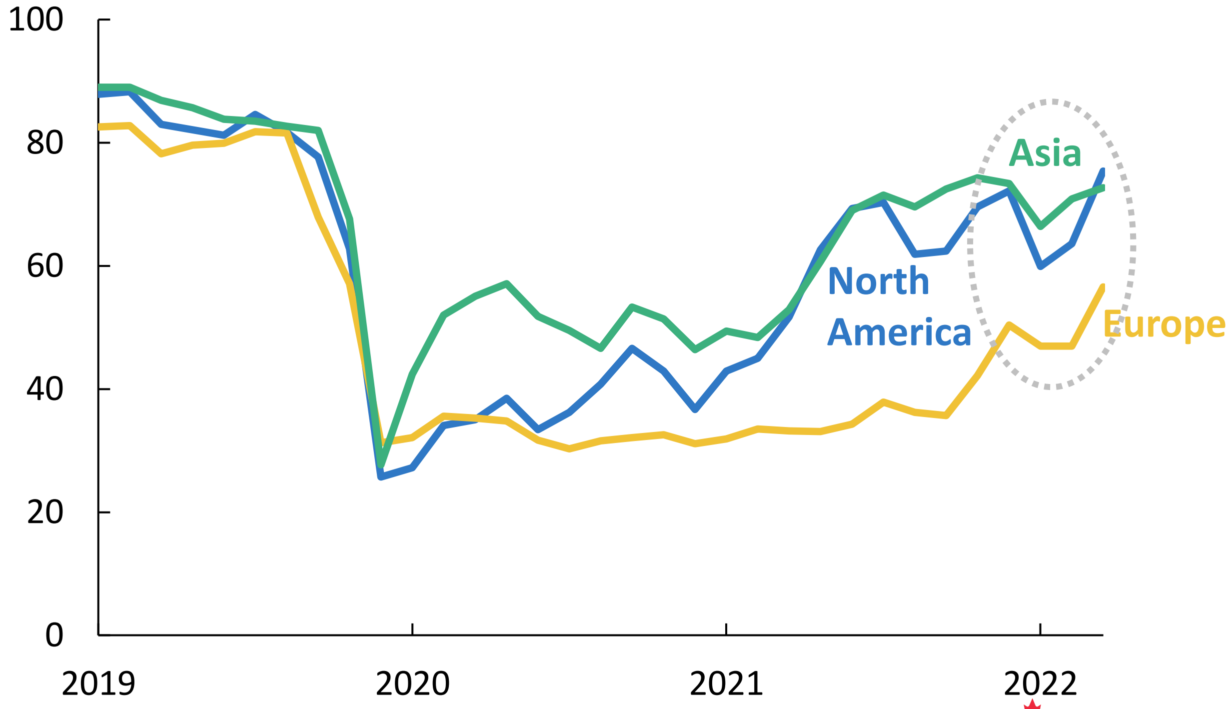
The spread of Omicron dipped the *Purchasing Managers' Index* in China, the Euro area and the U.S. in January. While U.S. and European PMI is yet to rebound, it remains in expansion territory. As COVID-19 eases and international travel resumes this summer, growth in services trade is making a healthy rebound. Technological advances make it easier to supply services across borders, creating new opportunities for economies.

Purchasing managers' indices (PMI)

50+ = expansion



International Passenger Load Factor (IATA)

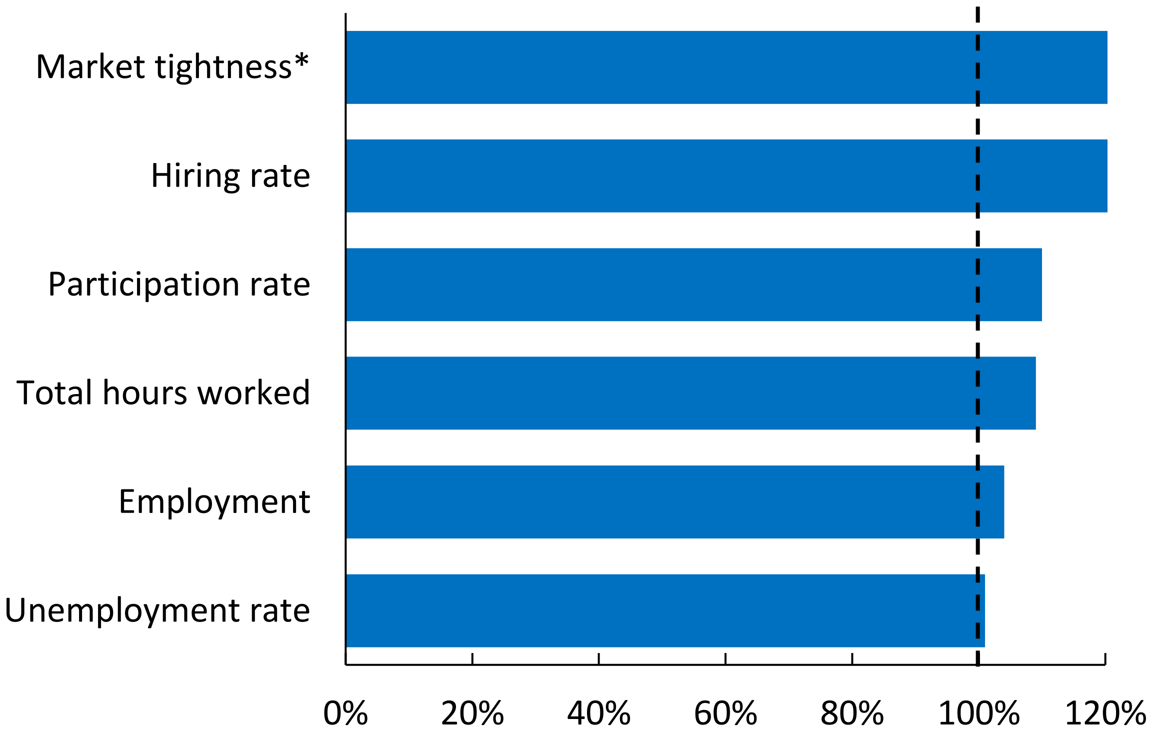


Sources: Haver Analytics, EDC Economics

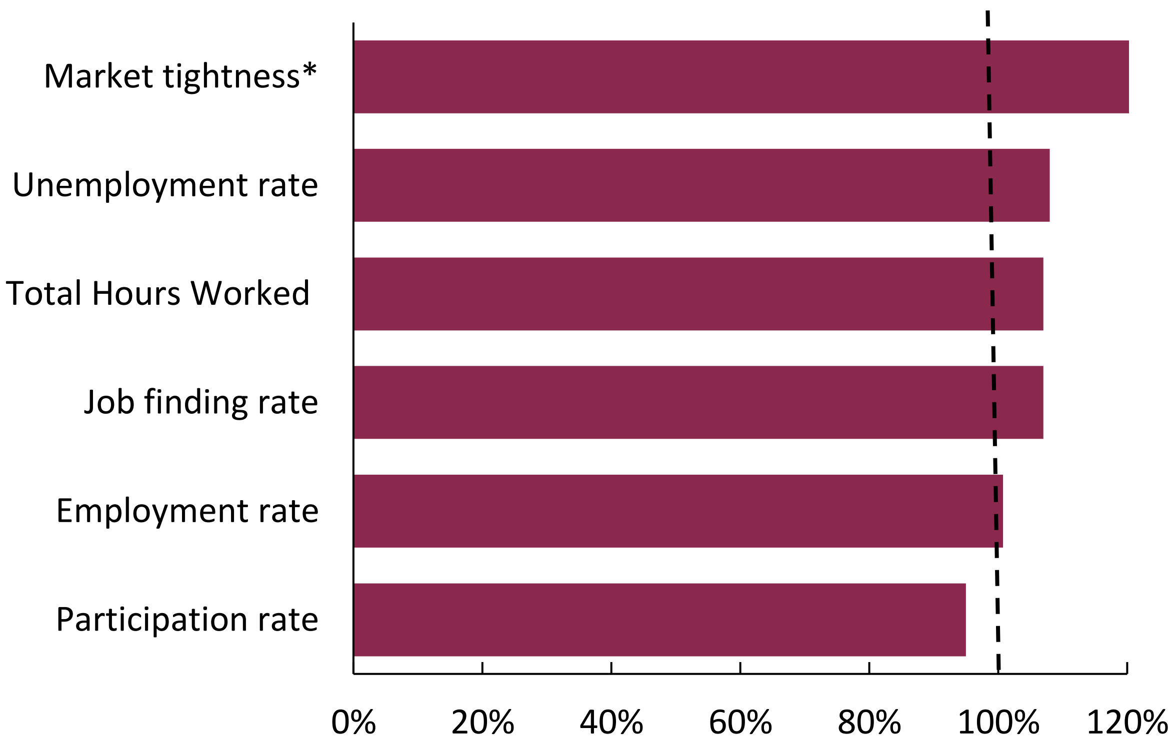
Labour markets remain tight

The U.S. labour market has fully recovered from the impact of the pandemic. Canada's labour market has progressed well with the participation rate improving since the start of the year. Labour market tightness poses a significant challenge in both countries with more job openings than there are unemployed persons.

U.S. labour market conditions



Canada labour market conditions



Note: The recovery of each indicator is depicted as progress bars, where the current value of a measure is compared with its crisis trough and a benchmark value (2019 monthly average).
*Market tightness is computed as the ratio of job openings to total unemployed.
Measures which have fully recovered, and which exceed their 2019 levels, have their percentage recovery capped at 120%.

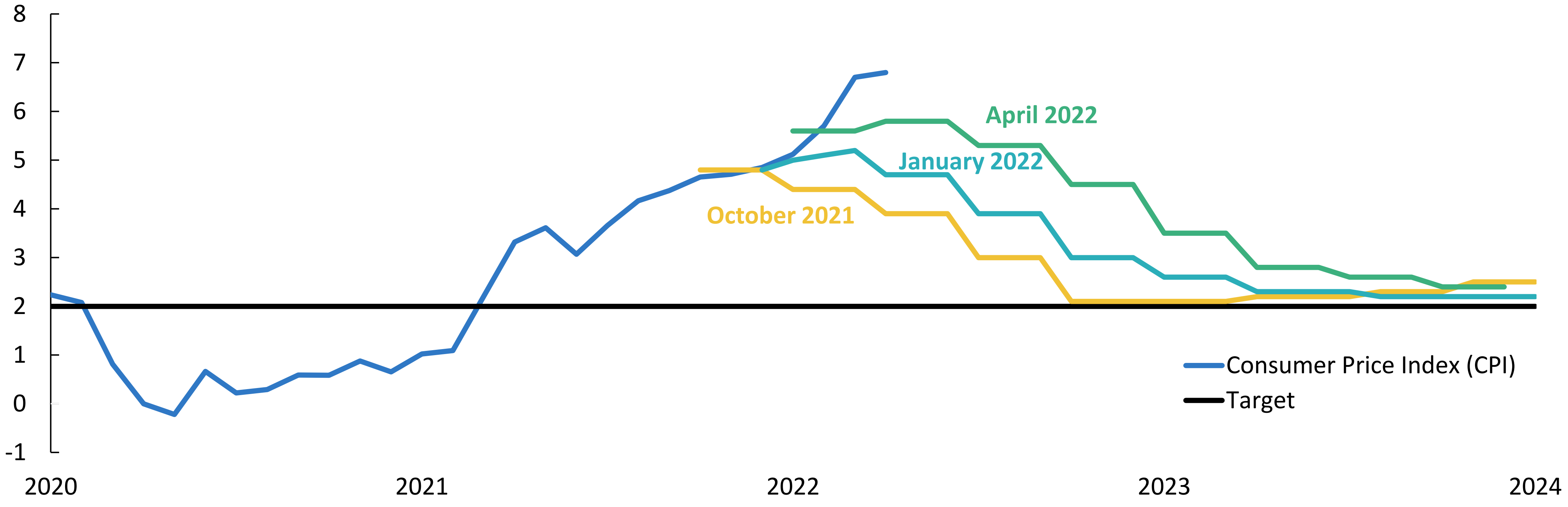
Sources: Haver Analytics, U.S. Bureau of Labor Statistics, Bank of Canada

Inflation continues to exceed forecast

Canadian inflation accelerated to a three-decade high in April and is anticipated to remain above the Bank of Canada's 2% target throughout 2023. CPI forecasts have been revised upward each quarter. Rate hikes are expected to cool inflation, but with gains fully realized by 2024 as the gloomy economic outlook trims near-term GDP growth.

Bank of Canada inflation forecasts

Monthly year-over-year % change in consumer prices

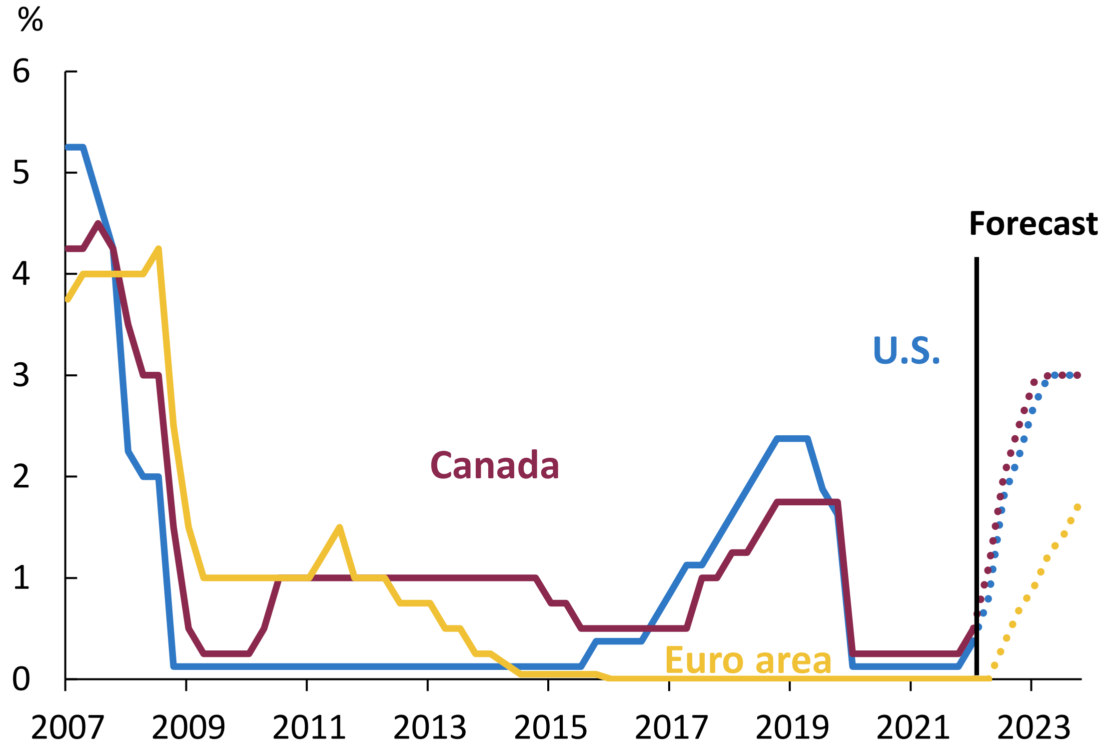


Sources: Bloomberg, Bank of Canada, Haver Analytics

Central banks tighten monetary policy in Canada & U.S.

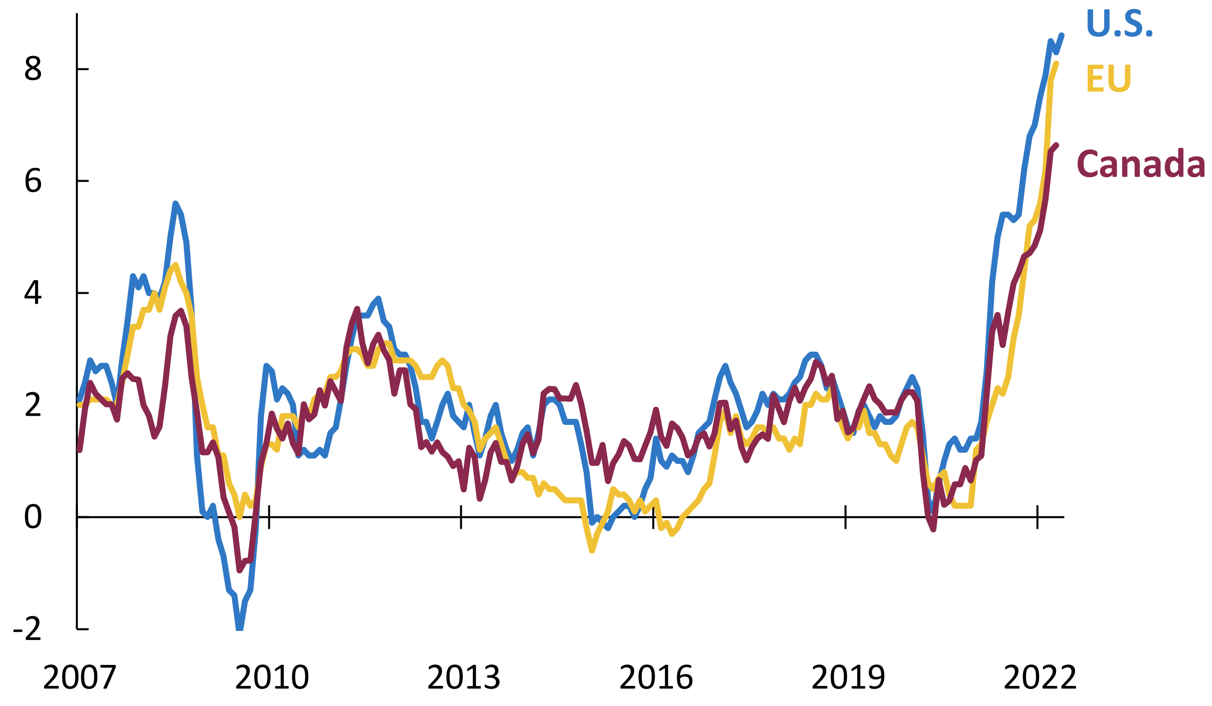
Central banks have witnessed progressively higher inflation and have committed to addressing with their various tools, including raising rates and quantitative tightening. Central banks expect inflation to be higher over the forecast period.

Policy interest rates



Inflation

Consumer Price Index (CPI), year-over-year %



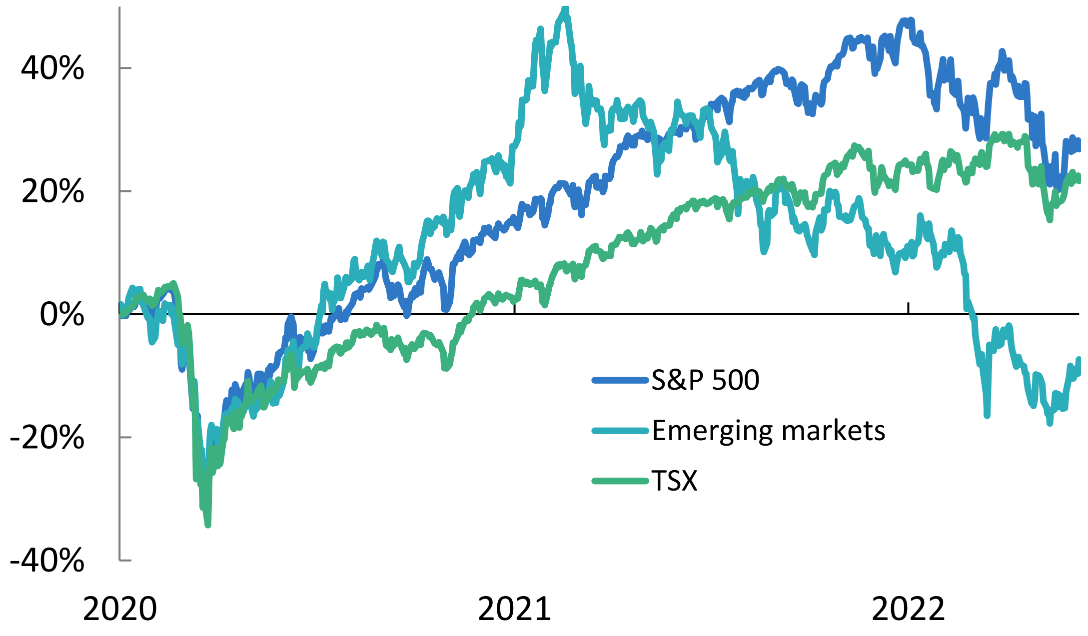
Sources: Haver Analytics, EDC Economics

Equity markets tumble amongst uncertainty

After enjoying two years of highs, equity markets remain volatile with prices dropping. Global economic conditions, Russia-Ukraine conflict and higher interest rates are sending shock waves throughout the financial system. Higher inflation expectations and tighter monetary policy have pushed up government bond yields including emerging markets. U.S. junk bonds ratings are also on an upward rise.

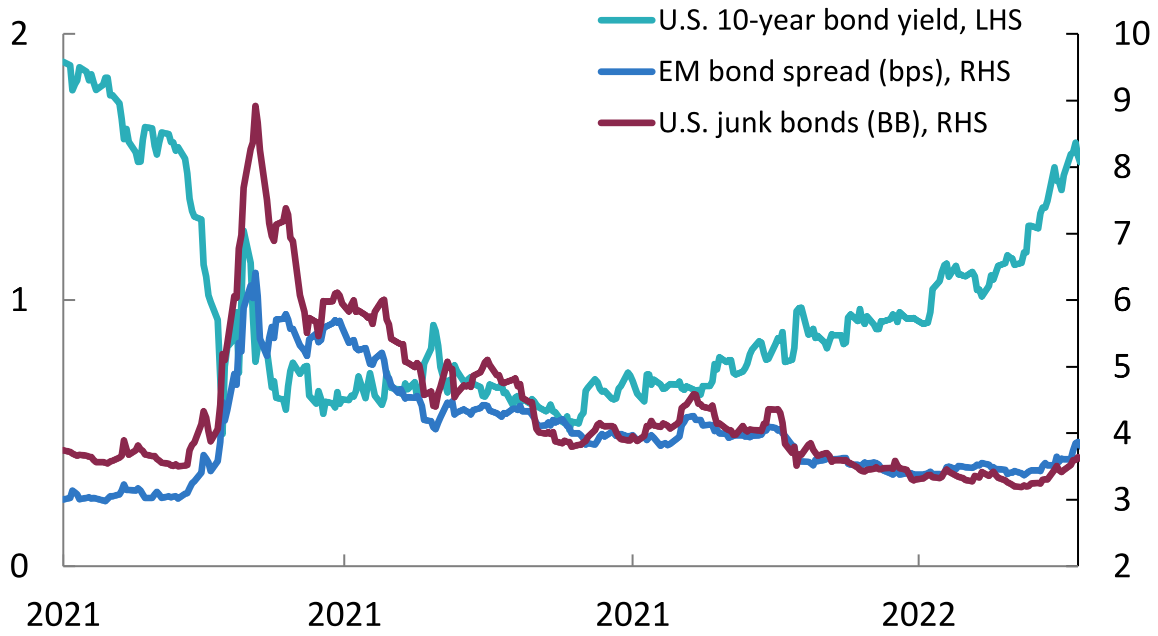
Equity markets

% change since Jan. 1, 2020



Debt markets

%



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

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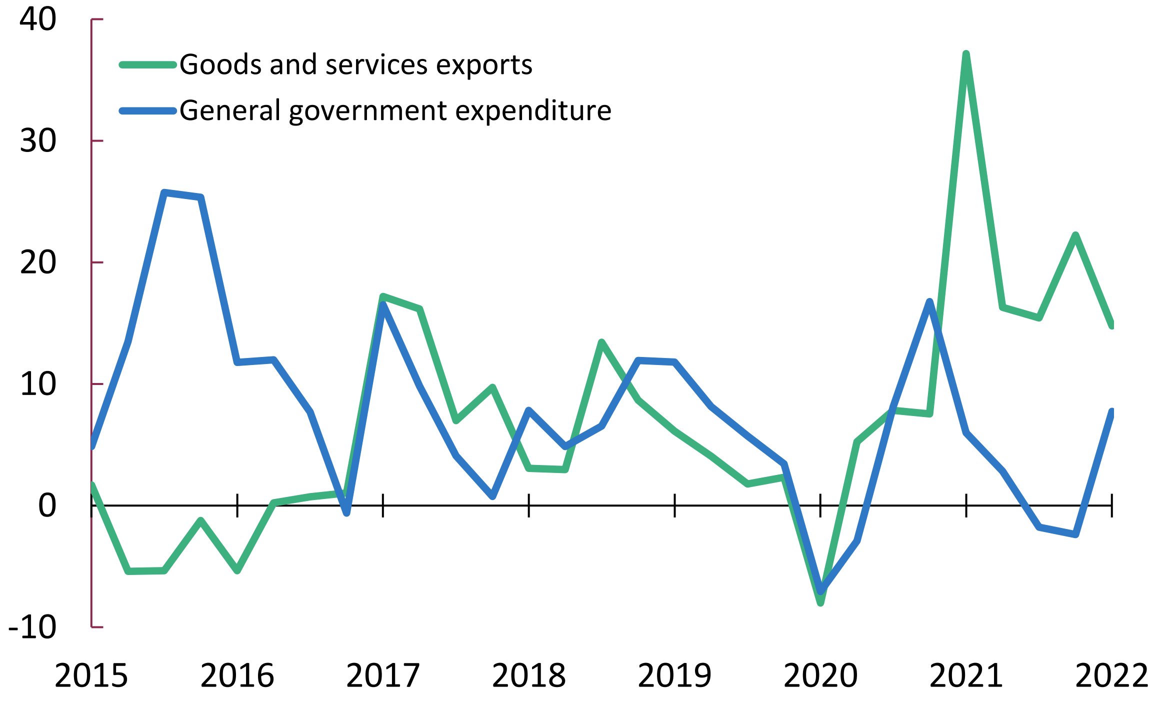
China's zero-COVID-19 policy & growth fundamentals

China's zero-COVID-19 policy and strict containment measures, further choked global supply chains as dozens of Chinese cities, including key business hub Shanghai, grappled with restrictions. Retail sales saw a sharp drop in early 2022. China's economy continues to be driven by exports with government spending on the decline.

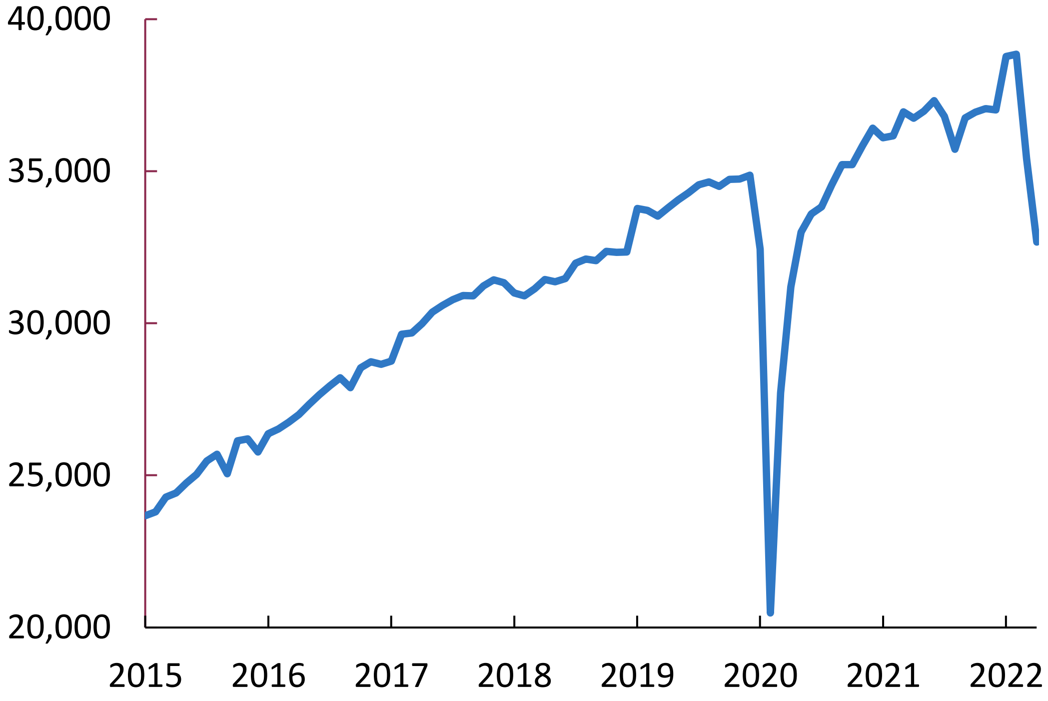
Exports outpacing government spending growth

Year-over-year % change (quarterly), Seasonally adjusted Yuan



Retail sales

100 million Yuan, seasonally adjusted



Source: Haver Analytics

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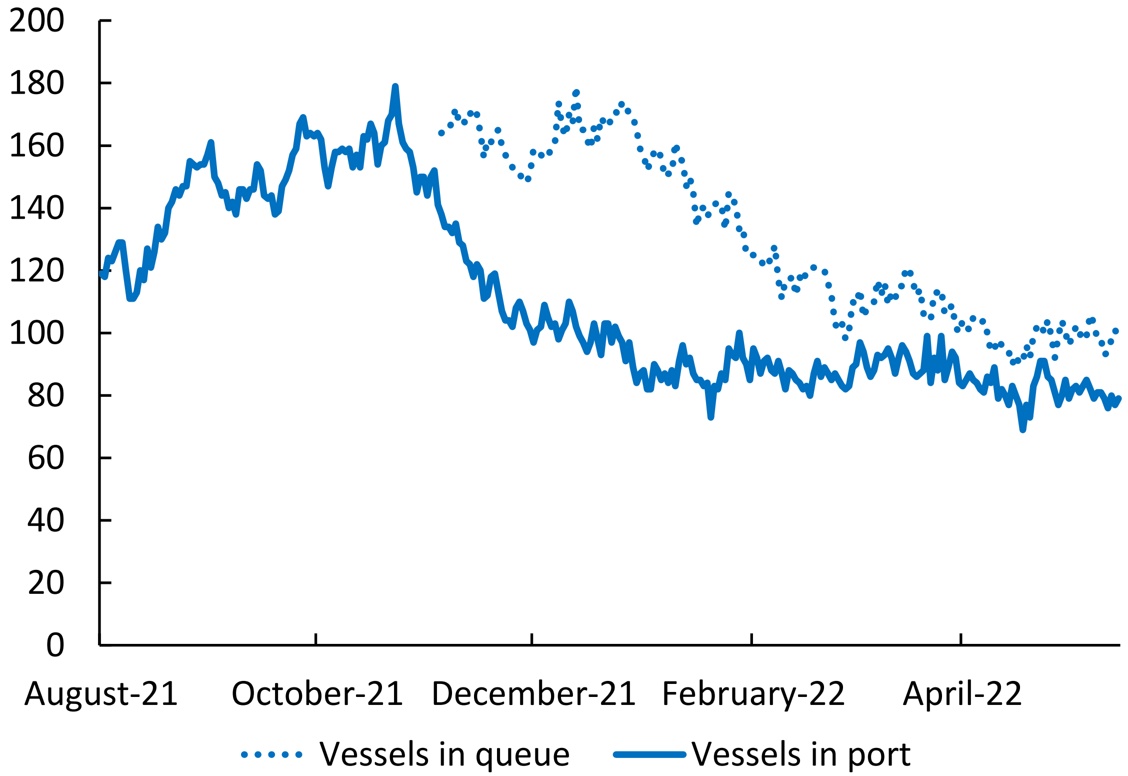
Supply chain congestion starting to ease

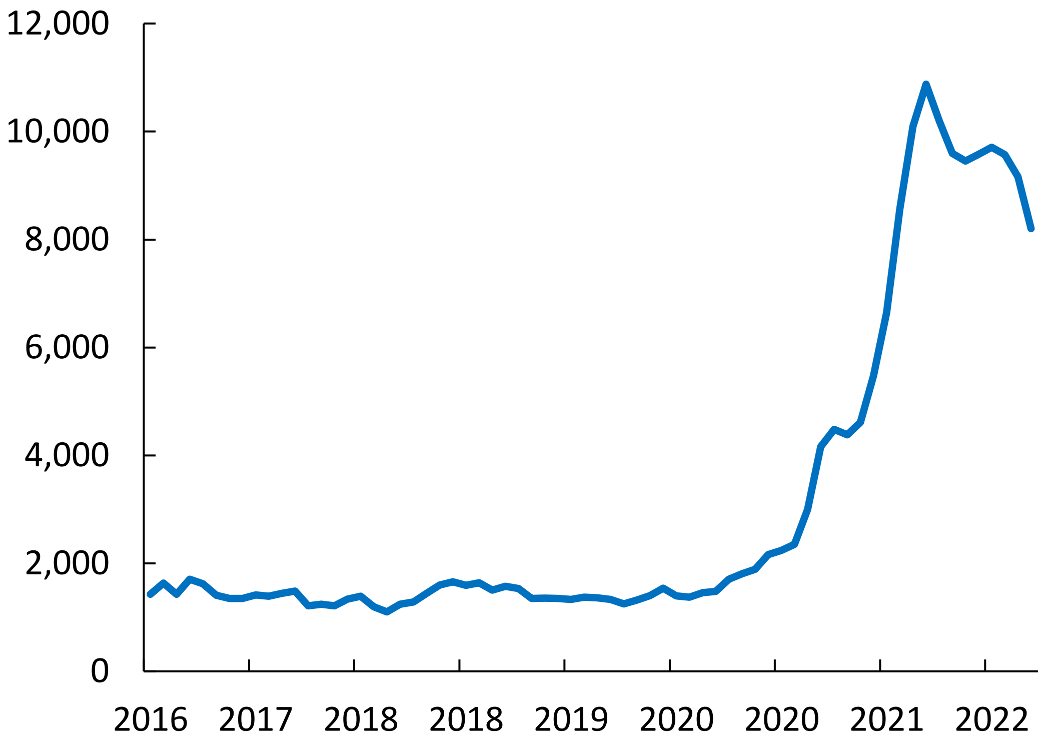
The global shipping industry has been trying to keep pace with the restart of the global economy. Supply chains are still under immense stress. However, major ports are experiencing less delays and shipping prices are noticeably falling.

Los Angeles/Long Beach vessel traffic*

Number of vessels in port and queue, daily



Baltic Exchange Freight Container Index



*Note: This chart data only reflects vessels that are docked within 25 miles of the port. Recent projections by Los Angeles and Long Beach ports forecast a spike in vessel traffic following the end of Lunar New Year holidays in China, which could add further pressure to supply chains.

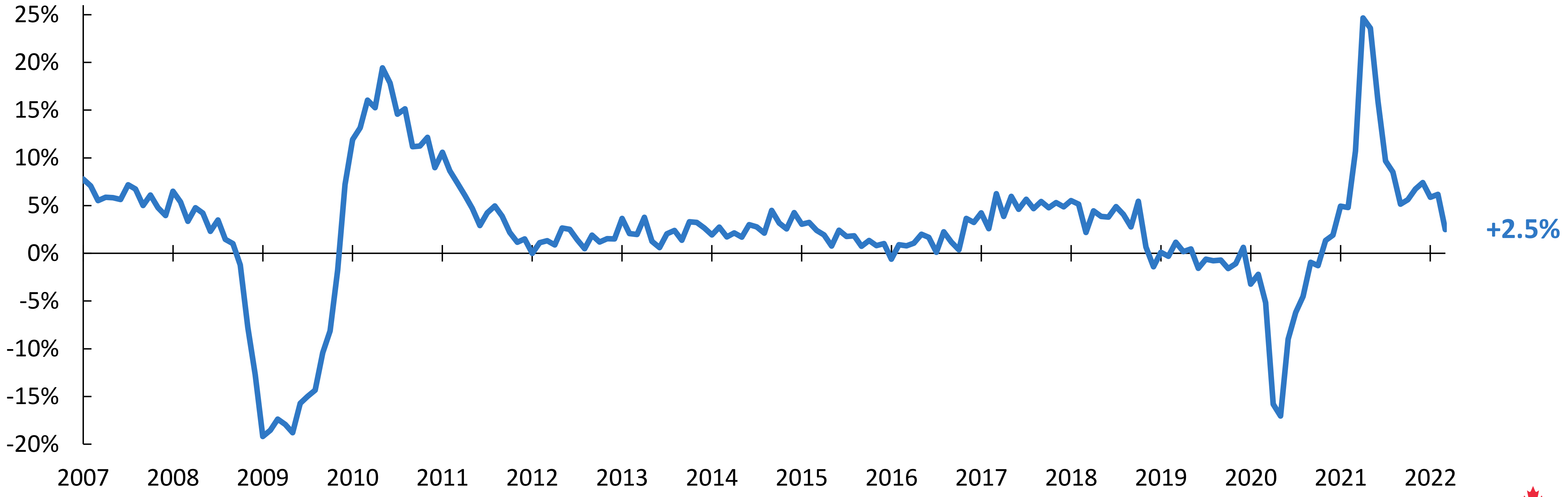
Sources: Haver Analytics, EDC Economics

Global goods trade returning to normal levels

Global merchandise trade volumes continue to rise, but growth is starting to slow. Due to ongoing logistic disruptions and rising energy prices, companies are undertaking efforts to shorten supply chains and diversify suppliers. These are expected to affect long-term global trade patterns with the volume of trade rising, but at a slower pace.

Global merchandise trade volumes

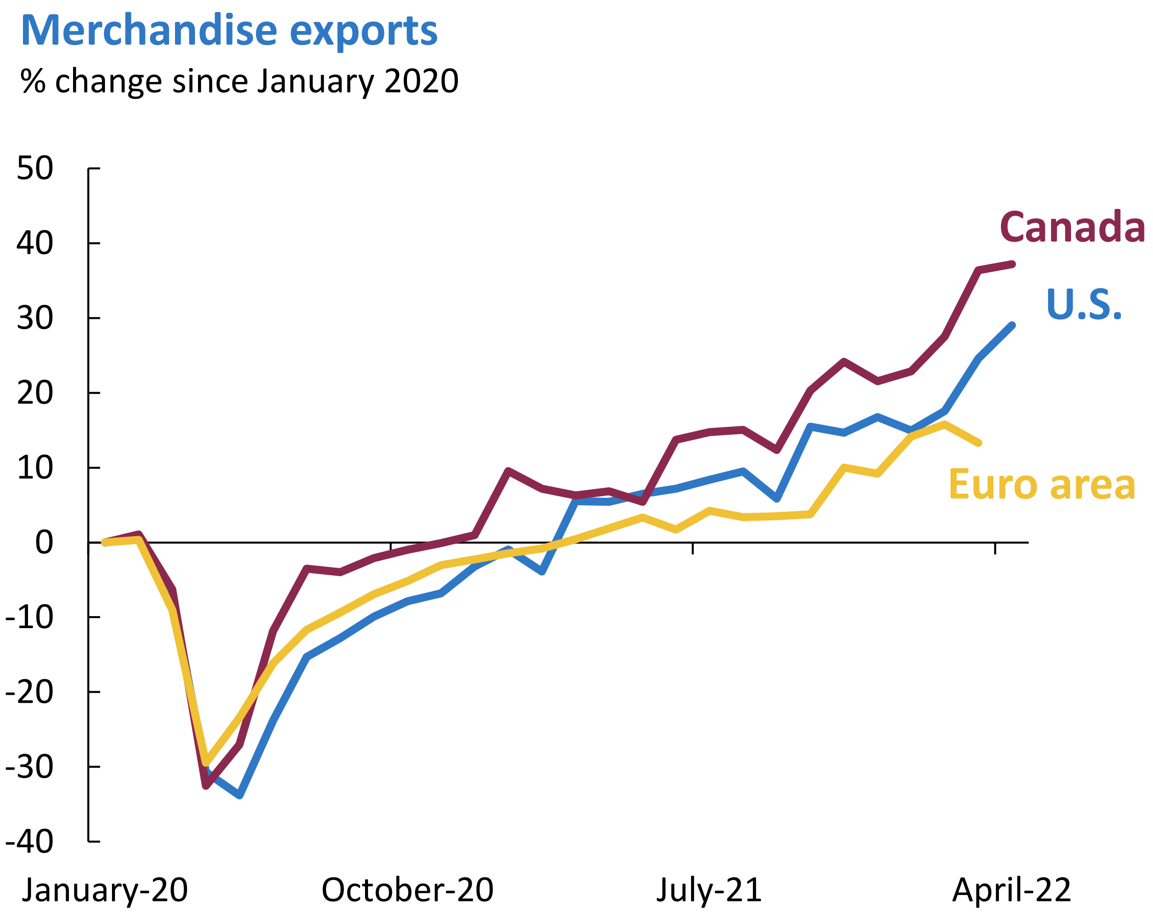
Annual % change

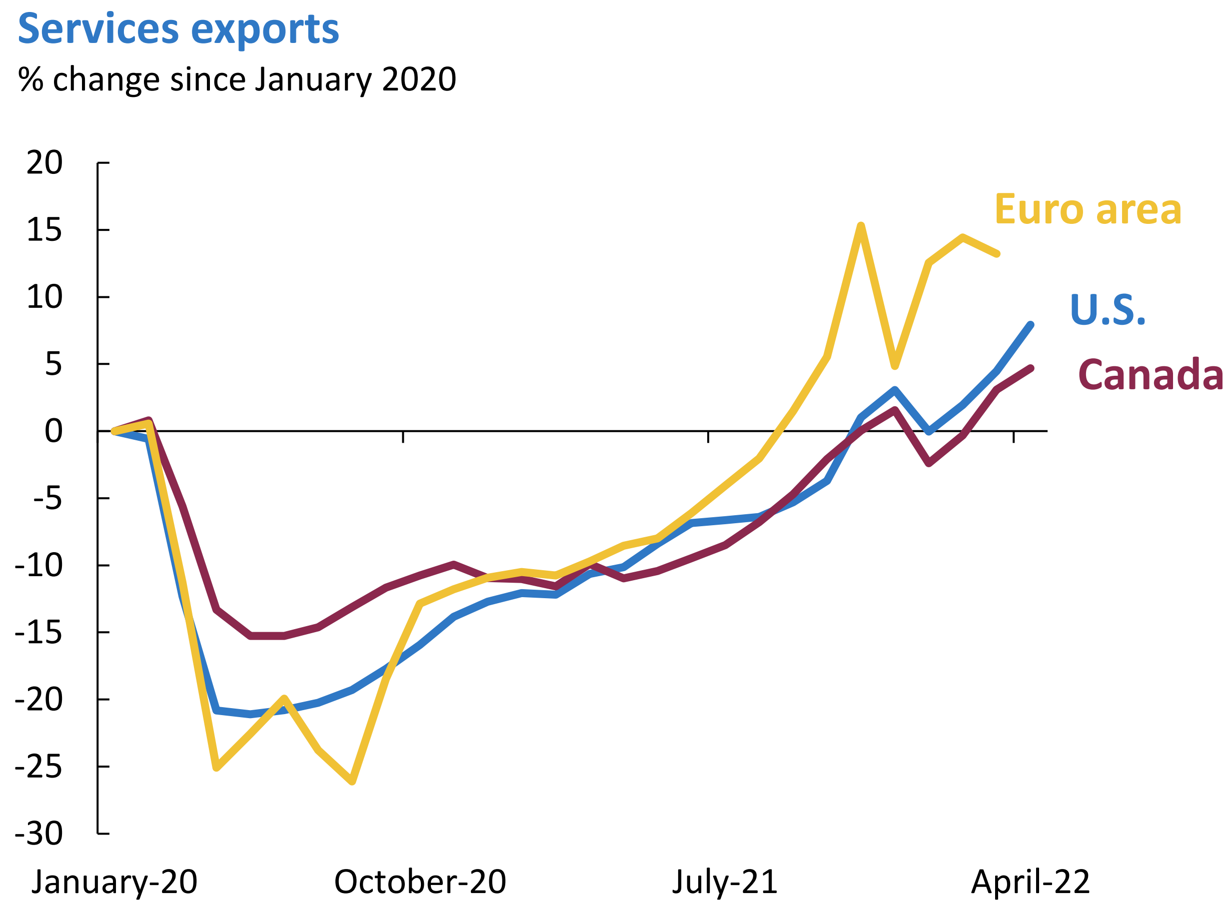


Sources: CPB Netherlands Bureau for Economic Policy Analysis, World Trade Organization.

Services exports catch up to goods trade

Goods exports are normalizing after exceeding pre-pandemic levels. U.S. goods exports still showing upward trend. Services trade has fully recovered as restrictions ease and travel resumes.



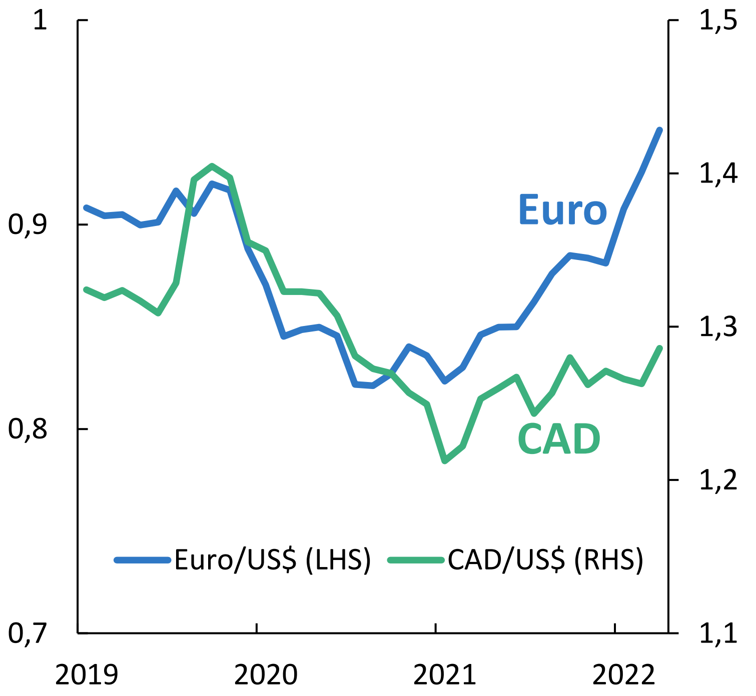


Sources: Haver Analytics, EDC Economics

A strong dollar is bearish for commodities

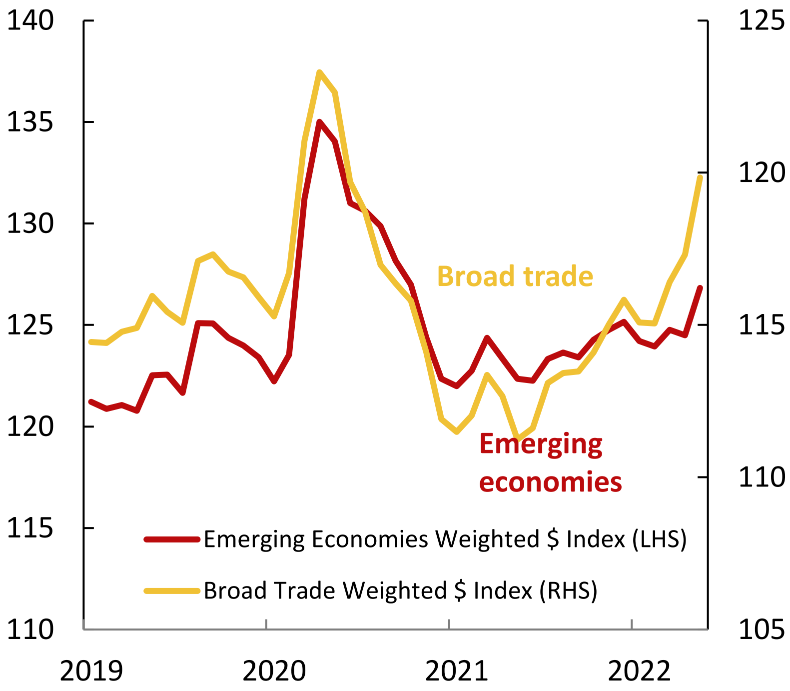
The Canadian dollar has been relatively stable against the U.S. dollar despite rising commodity prices, remaining relatively unchanged since the start of the Russia-Ukraine conflict. However, as the USD strengthens against other global currencies and commodity prices continue to rise, inflationary impacts will have wider economy-wide consequences than anticipated.

Global exchange rates



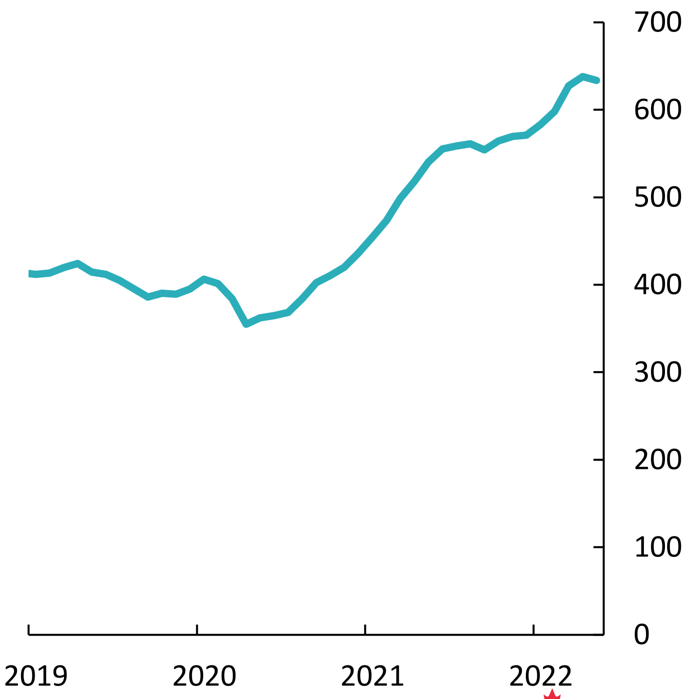
Weighted Dollar Index (Nominal)

January 2006=100



CRB Spot Commodity Price Index

1967=100



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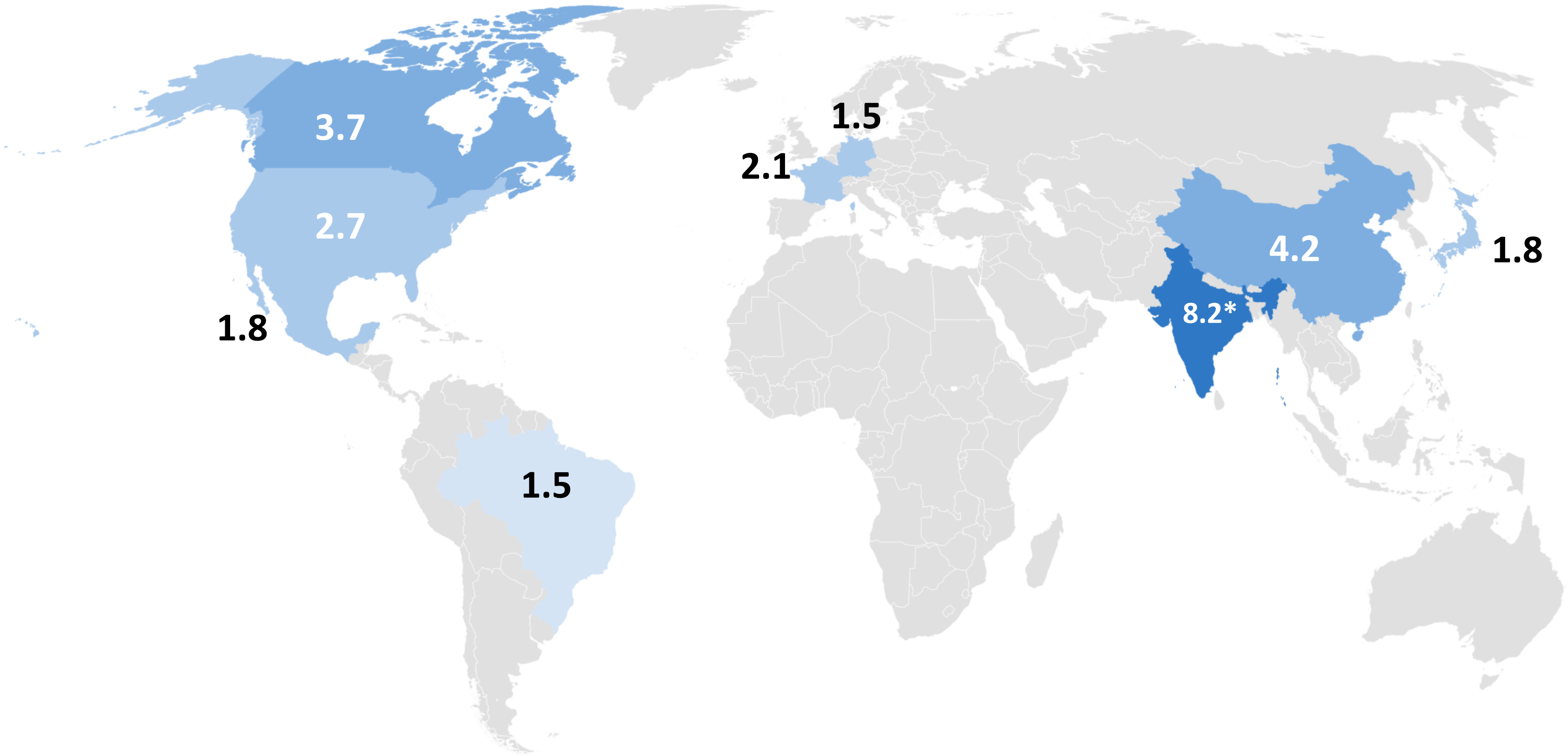
Sources: Haver Analytics, EDC Economics

Global Economic Outlook

2022 growth outlook

Real GDP growth, %



2.7%
World

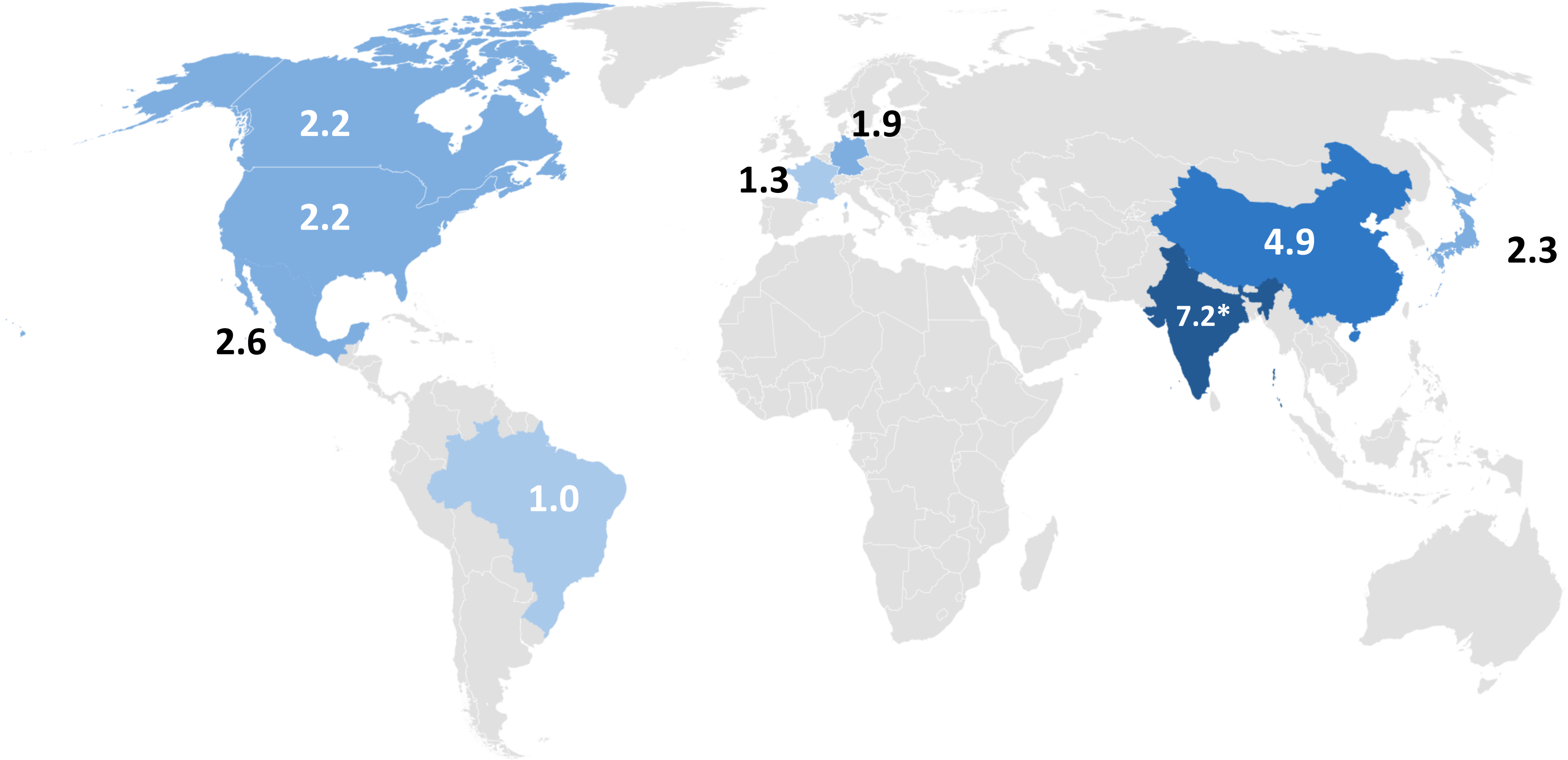
2.2%
Developed

3.2%
Emerging

* India's 2023 FY = Q2 2022 – Q1 2023
Source: EDC Global Economic Outlook, June 2022

2023 growth outlook

Real GDP growth, %



3.3%
World

2.1%
Developed

4.3%
Emerging

* India's 2024 FY = Q2 2023 – Q1 2024
Source: EDC Global Economic Outlook, June 2022

Real GDP growth

Global Economic Outlook (Annual % change)	2021	2022*	2023*
Developed countries	**5.2**	**2.2**	**2.1**
Canada	4.5	3.7	2.2
United States	5.7	2.7	2.2
Eurozone	5.4	2.2	2.0
Germany	2.9	1.5	1.9
France	6.8	2.1	1.3
Japan	1.7	1.8	2.3
Emerging countries	**6.8**	**3.2**	**4.3**
China	8.4	4.2	4.9
India	8.8	8.2	7.2
Brazil	4.9	1.5	1.0
Mexico	5.0	1.8	2.6
World	**6.1**	**2.7**	**3.3**

Note: * denotes the forecast period. India's forecast based on fiscal year (2023 FY = Q2 2022 – Q1 2023, 2024 FY = Q2 2023 – Q1 2024)
Source: EDC Global Economic Outlook, June 2022

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Changes from previous forecast

Global Economic Outlook Real GDP growth (percentage point change)	**2022***	**2023***
Developed countries	**-1.1**	**-0.7**
Canada	-0.4	-0.4
United States	-1.3	-0.9
Eurozone	**-0.7**	**-0.5**
Germany	-0.6	-0.1
France	-1.0	-0.2
Japan	-0.6	0.6
Emerging countries	**-1.3**	**-0.3**
China	-1.0	-0.2
India	-1.1	-0.6
Brazil	1.2	-0.8
Mexico	-	-0.4
World	**-1.4**	**-0.6**

Note: * denotes the forecast period. Green shading denotes upward adjustments; red shading denotes downward adjustments.
Source: EDC Global Economic Outlook, June 2022 relative to March 2022.

Currencies and interest rates

Global Economic Outlook		2021	2022*	2023*
Currencies	**Exchange Rate**			
U.S. dollar	**USD per CAD**	0.80	0.79	0.80
Euro	**USD per EUR**	1.18	1.09	1.16
Euro	**CAD per EUR**	1.48	1.37	1.45
Interest Rates, annual average				
Bank of Canada, *Overnight Target Rate*		0.25	1.48	2.98
U.S. Federal Reserve, *Fed Funds Target Rate (Upper limit)*		0.13	1.25	2.92
European Central Bank, *Policy Interest Rate*		0.0	0.25	1.33

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, June 2022

Commodity prices

Global Economic Outlook	2021	2022*	2023*
Brent Crude Spot, *USD / bbl*	70.68	105.35	96.22
West Texas Intermediate, *USD / bbl*	67.98	101.84	94.03
Western Canada Select, *USD / bbl*	54.55	83.41	73.05
Natural Gas, *USD / MMBtu*	3.85	6.66	5.52
Gold, *USD / troy ounce*	1,800	1,872	1,675
Copper, *USD / tonne*	9,318	9,493	8,594

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, June 2022

Key forecast assumptions

Global fiscal policy

EDC Economics expects that fiscal policy will be a drag on economic growth going forward. The release of household savings amassed during the pandemic has been a significant driver of growth so far, but may struggle to offset the decline of fiscal spending. Restoring public finances will likely continue to be a priority for countries with deteriorated public finances due to the pandemic. Increased government spending and lower tax revenues have dramatically increased debt and budget deficits. Emerging markets with limited fiscal flexibility may need to take austerity measures in order to reduce fiscal deficits at the expense of growth as the bulk of their populations remain unvaccinated. Developed countries will move away from pandemic relief and focus on public investment projects.

Monetary policy

Supply chain disruptions, elevated energy costs, labour shortages, pandemic stimulus spending combined with strong demand have sent inflation rates soaring to multi-decade highs on an annualized basis. Inflation will be higher for longer and will likely remain elevated until 2023. Central banks have begun monetary policy normalization with interest rates rising at a faster pace than previously expected. It's expected that central banks will need to overshoot their "neutral rate" in order to control inflation.

Financial conditions

Financial market turbulence will continue as repricing of assets causes. Higher interest rates, geopolitical risks and slower economic growth could trigger a significant repricing of global asset prices. The base case forecast doesn't include any systemic financial crisis resulting from the COVID-19 pandemic.

The U.S. corporate debt levels trading at distressed levels is concerning and emerging market bonds will be at most risk to elevated interest rates.

Supply chain disruptions

Shipping prices eased in the first few months of 2022, but remain quite elevated due to China's strict lockdowns and the Russia-Ukraine conflict. Bottlenecks at ports, shortages of ships and containers, which combined with labour shortages, have made it difficult to source raw materials, certain key intermediate goods, most notably semiconductors, as well as finished products. EDC Economics' base case outlook expects supply chain disruptions to last until early 2023, potentially extending beyond for sensitive markets and types of goods.

China

China's zero-COVID-19 policy is contending with the immense impacts of the pandemic on the outlook for the Chinese economy. China is looking to ease most economic policies in the near term. China's future growth prospects face downside risks, which include deleveraging, an aging population, U.S. competition, and shifting from an investment-focused to consumer-led growth.

Russia-Ukraine

Russia's invasion of Ukraine, which began Feb. 24, will have far-reaching consequences on the global economy. The baseline forecast assumes the conflict is at a stalemate. Western sanctions imposed on Russia are expected to remain in pace for the foreseeable future.

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 May 25, 2022.

Key upside risks

- Unprecedented government support provided across advanced economies, alongside a reduced ability to spend on some services, has led to a large accumulation of household savings in many countries. Stronger drawdown of consumer savings and slow removal of macro-policy supports could result in a stronger-than-expected recovery, releasing pent-up demand into the economy.
- Stronger-than-expected consumer demand and business investment enables governments to reduce their spending programs more rapidly than in the base case. Increased consumer spending would more than offset the impacts of reduced fiscal stimulus.
- Inflation rises but is contained by the rise in business investment and digitization, which boosts productive capacity of the economy, preventing the economy from overheating. Additionally, monetary policy moves would be well-communicated, balanced and gradual to prevent systemic risks, like a broad financial crisis or significant asset price corrections.

Key downside risks

- Weakness starting in late 2022 due to faster-than-anticipated U.S. monetary policy tightening. A combination of too fast or too much tightening, and poor alignment of this tightening with market expectations, has a significant negative impact on financial markets, which impacts real economic activity.
- Monetary tightening comes from both higher interest rate and quantitative tightening that's faster and greater than in the base case.
- Higher debt is an increasingly significant issue for the corporate sector, emerging markets and households. The sudden tightening of financial conditions increases default risk. This contrasts with remarkably low bankruptcy rates throughout the pandemic.
- The Russia-Ukraine crisis has presented significantly higher commodities prices, stock market volatility and flight to quality. Emerging market risks have risen. Erosion of purchasing power and financial risks spilling over into real economic activity are a key risk to the forecast.

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Disclosure

Ce document est également disponible en français.

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