

GLOBAL ECONOMIC OUTLOOK

A BOTTOMLESS PIT?

EDC Economics

April 30, 2020

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



EXECUTIVE SUMMARY

GLOBAL ECONOMIC OUTLOOK: A BOTTOMLESS PIT?

By Peter Hall

Vice-president and chief economist, EDC



- There've never been such immediate, large and extensive revisions to the global growth outlook as have occurred in the past few weeks of April 2020. It feels like we're free-falling in a bottomless pit.
- Initial indicators clearly show the impact that the lockdown is having on economic activity. China was first to release shocking data outturns; now they're commonplace. Respected forecasters, like the Organisation for Economic Co-operation and Development (OECD), Institute of International Finance (IIF), and International Monetary Fund (IMF), have all radically changed their outlooks. Others, frustrated by the pace and severity of change, have elected to cease their forecast operations until further notice.
- EDC Economics has responded by amping-up our forecast process. We're in "permanent forecast mode" until further notice, for a few reasons: First, official indicators are only just coming to light, and their changes have been so radical, that capturing them and calibrating our forecasting model, requires immediate adjustment. Second, shock-and-awe policy announcements are almost a daily occurrence, somewhere in the world. Keeping up with new measures requires a similar cadence of monitoring and forecast adjustment. Third, COVID-19 puts us into uncharted territory for the flattening of the infection curve and return-to-work policies. Precision on exit strategies and economic consequences requires constant vigilance.
- This updated April 2020 *Global Economic Outlook*, sees global growth falling by 2.8% this year. Developed markets will be hardest hit, falling collectively by 4.2% in 2020. The U.S. will not tumble by as much as most other OECD countries, but -3.7% is still pretty awful. The United Kingdom and France take harder hits, falling 6.5% and 5.7%, respectively.
- Emerging markets have the benefit of higher potential growth, which makes their numbers look better. However, their relative economic duress is similar to that in the industrialized world. Collectively, output will drop 1.9% this year, with China sustaining an unthinkable 2.5% plunge.
- Canada isn't spared. We entered this crisis with poor fundamentals. Consumer savings were low, and debt-to-income spiked to an all-time-high 180%, helping to fund a cross-country housing bubble. Investment and trade were faltering, related to uncertainty in future global trade rules, the U.S.-China trade dispute and Brexit. Our higher trade-dependence made us especially vulnerable to the virus-related stoppage of large portions of international trade. And the ravages inflicted on the oil industry have devastated a key Canadian GDP machine.

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- As such, our outlook for Canada's 2020 growth is an OECD-outlying -9.4%. Numbers to date show a substantial drop in first-quarter output, with the worst yet to come in the April-June period. Outsized monetary and fiscal policy moves will hold things together until growth resumes, but weak commodity prices will keep our currency in the low- US-70-cent range.
- Economic recovery will be directly related to the return-to-work developments across the globe. When that happens, we can expect similarly radical *positive* numbers. While this is expected in the latter half of this year, it won't be enough to rescue the dismal annual numbers—that will have to wait until 2021, when world output rebounds to the tune of 6.2%. It's an impressive number, but today, it seems a long way off.
- Episodes like COVID-19 always end, and it's important to keep our eyes and our hopes fixed on that future state. It's much like wartime: the present is an endurance test that's going to take all we've got. But our present persistence requires a fixation on ultimate victory. History strongly suggests that better times aren't that far off. In the meantime, please stay healthy and safe...and press on!

A handwritten signature in black ink, featuring a large, stylized 'R' with a horizontal line through it and a small cross-like mark below the vertical stroke.

KEY ASSUMPTIONS

Given rapidly changing global events, there's a much higher-than-usual degree of uncertainty around this forecast, which incorporates information available as of April 21, 2020.

COVID-19

The base case forecast assumes that necessary social distancing measures currently being taken by affected countries will be effective at curtailing the spread of the virus. As such, the forecast assumes strict containment measures (including restrictions on non-essential businesses) begin to ease in most countries throughout the second half of 2020 and into the summer.

China-United States trade dispute

The forecast assumes the Phase One trade agreement signed in January 2020 remains in place over the near term. Moreover, given the accumulating negative economic impacts of the tariffs, both parties are assumed to reach a more meaningful resolution after the U.S. election, which by mid-2021, removes a significant percentage of the tariffs imposed since 2017.

Oil

Despite an unprecedented agreement on April 12 among 23 countries to restrict OPEC+ production, supply will greatly exceed global oil demand through the first half of 2020. Absent further significant production cuts or a sharp rebound in the global economy, the limits of global storage capacity will be tested in Q2 2020. This forecast incorporates a gradual rebalancing of the market, but has a lower global oil price relative to our previous forecasts due to the global oil supply glut.

Brexit

The forecast assumes the United Kingdom and European Union agree on an orderly transition, based upon a comprehensive trade agreement, which includes essentially “free trade” on most goods and services traded between the EU and U.K.

U.S. 2020 election

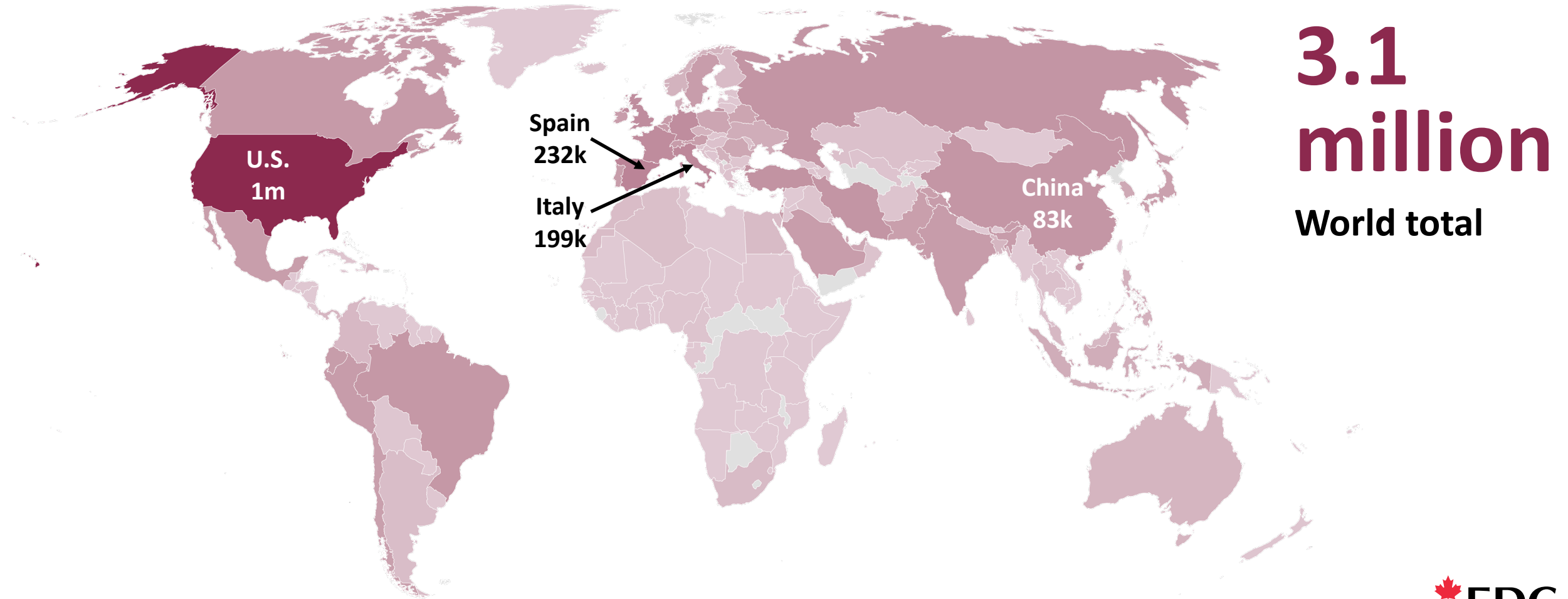
The forecast for the U.S. economy is based on long-term fundamentals and policies currently in place. Any updated policies coming from the presidential election, to be held in November 2020, will be incorporated after enacting legislation is passed.

RECENT DEVELOPMENTS



CONFIRMED COVID-19 CASES

As of April 28, 2020

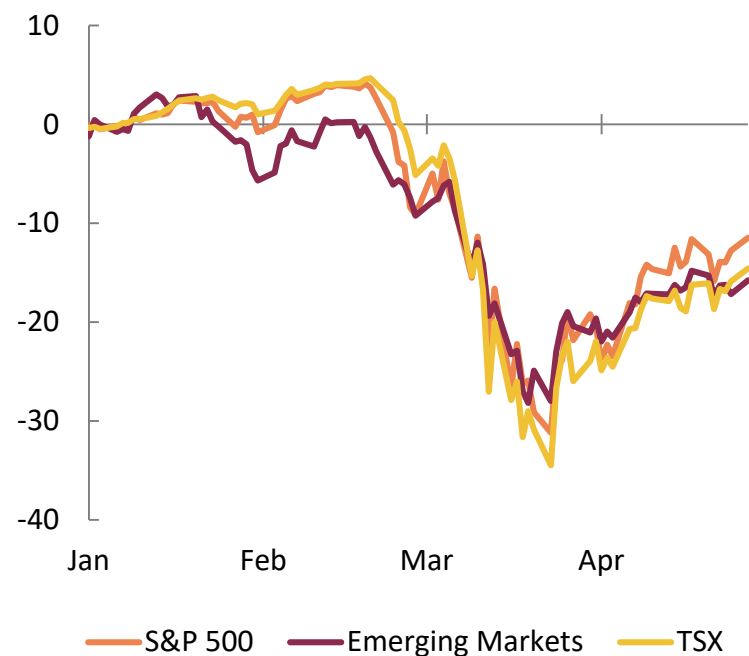


FINANCIAL MARKETS

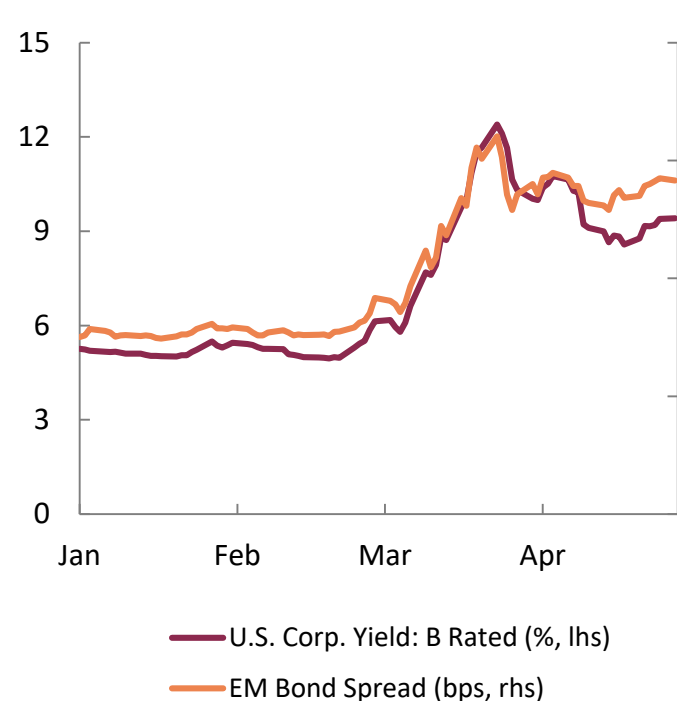
Sizeable declines in equity valuations, heightened market volatility, increased credit spreads, and outflows from emerging markets, as investors seek safer assets.

Global Stock Markets

% change since Jan. 1

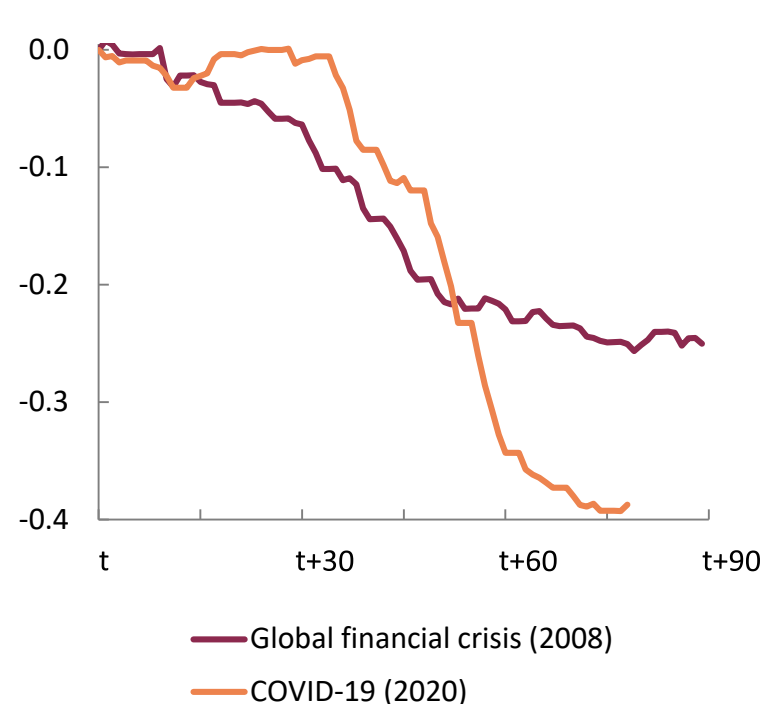


Global Debt Markets



Emerging Market Outflows

total non-resident portfolio outflows, % of GDP

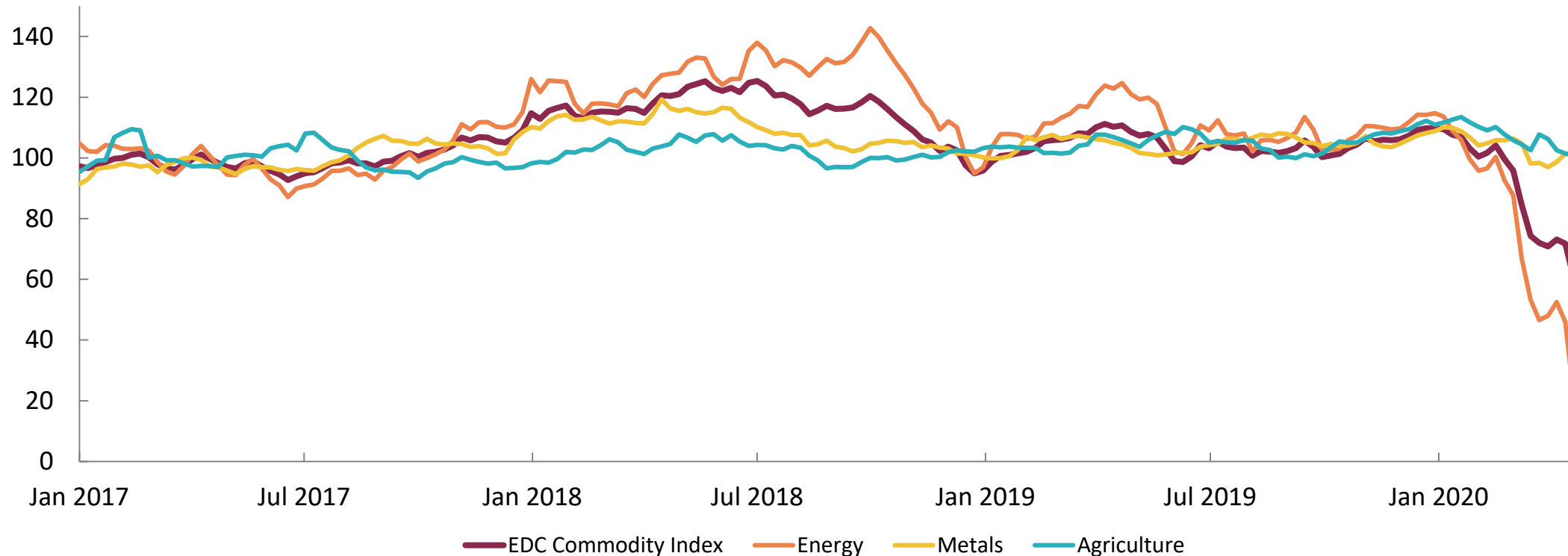


COMMODITY PRICES

Reduced global demand for commodities has resulted in dramatic declines in prices, especially for energy.

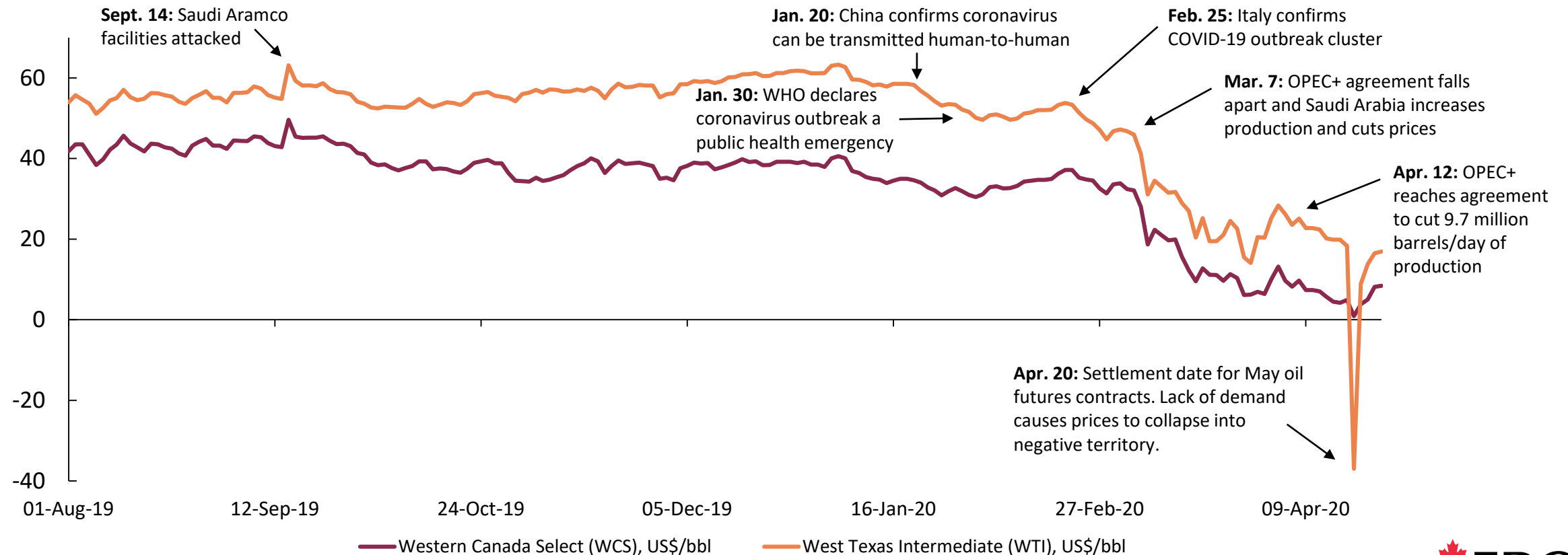
EDC Commodity Indices

2017 = 100



OIL PRICES

Oil prices have plummeted amid depressed demand, and a temporary price war that increased supply, prior to an April 12 OPEC+ agreement to restrain production.

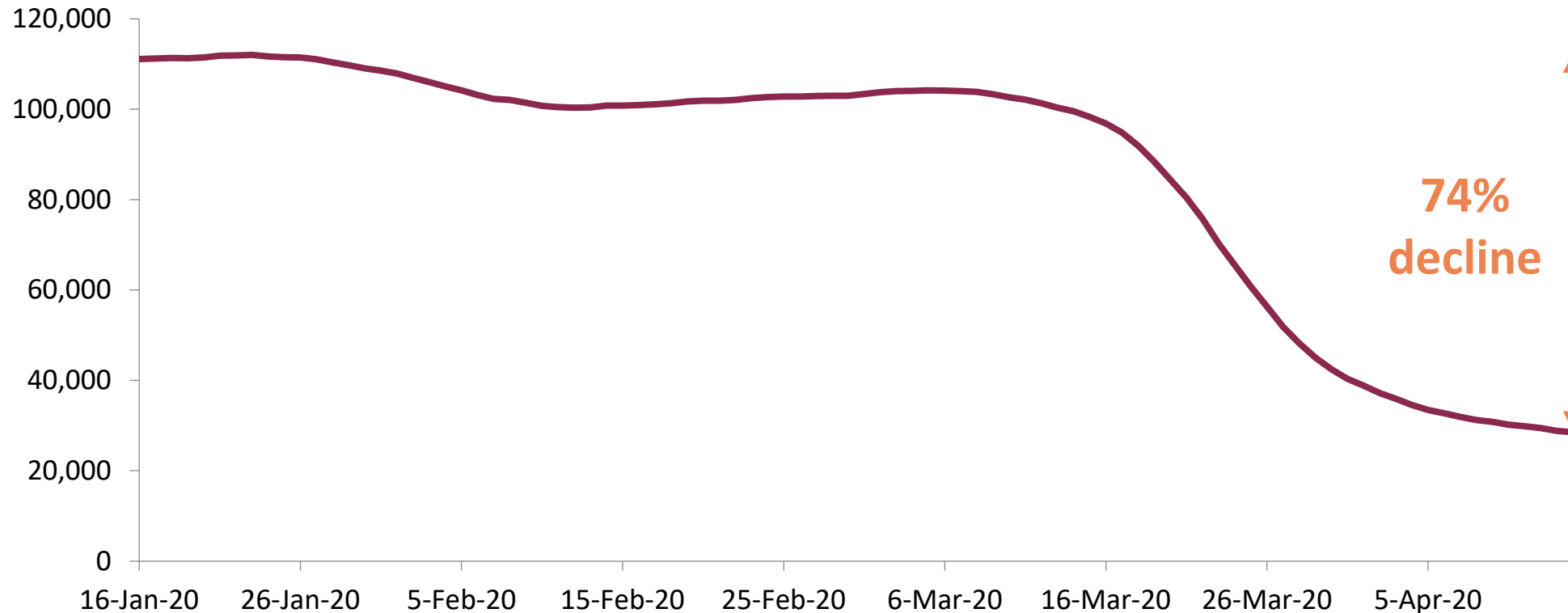


INTERNATIONAL AIR TRAVEL

Social distancing and travel restrictions have grounded most international air travel.

Daily active commercial flights

weekly global average

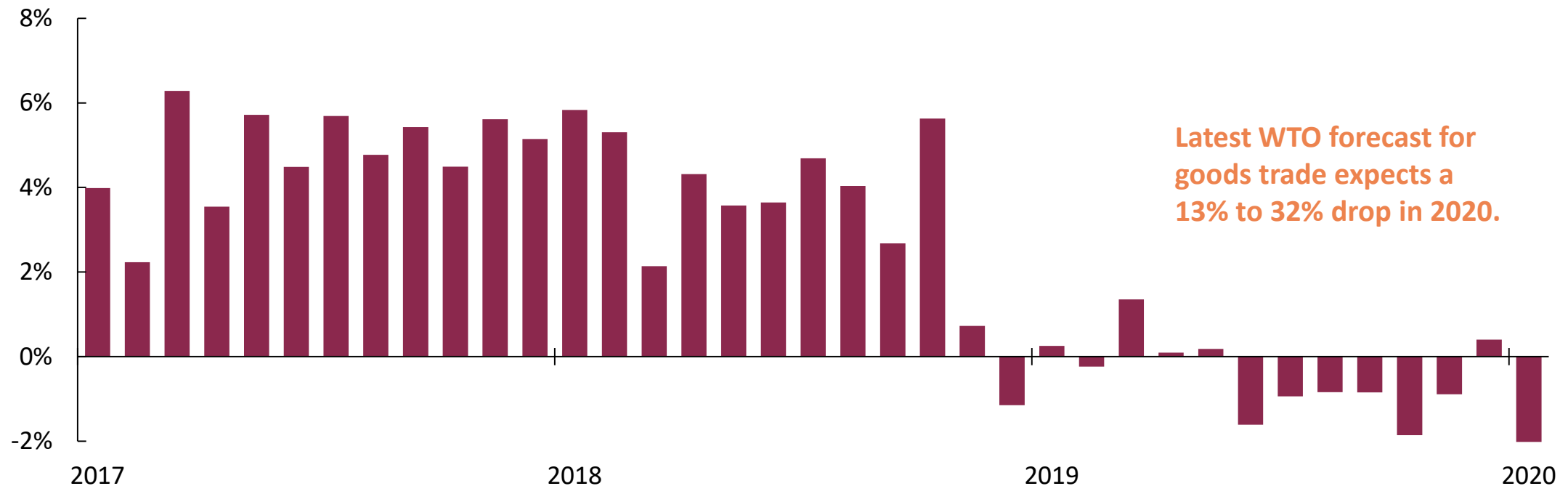


GLOBAL MERCHANDISE TRADE

Trade was already shrinking before COVID-19, as trade wars and policy uncertainty were negatively affecting activity.

Global merchandise trade volumes

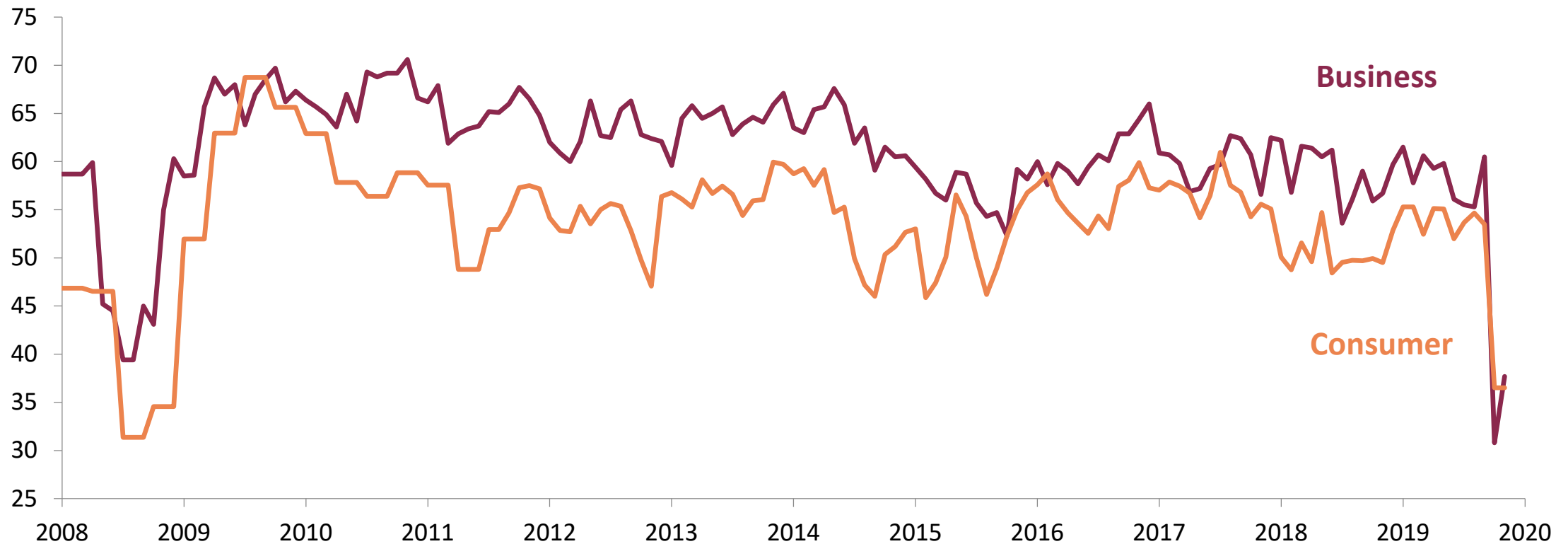
annual % change



CONFIDENCE

Canadian consumer and business confidence have recently fallen sharply.

Business and consumer confidence indices



Note: 50+ = positive consumer sentiment

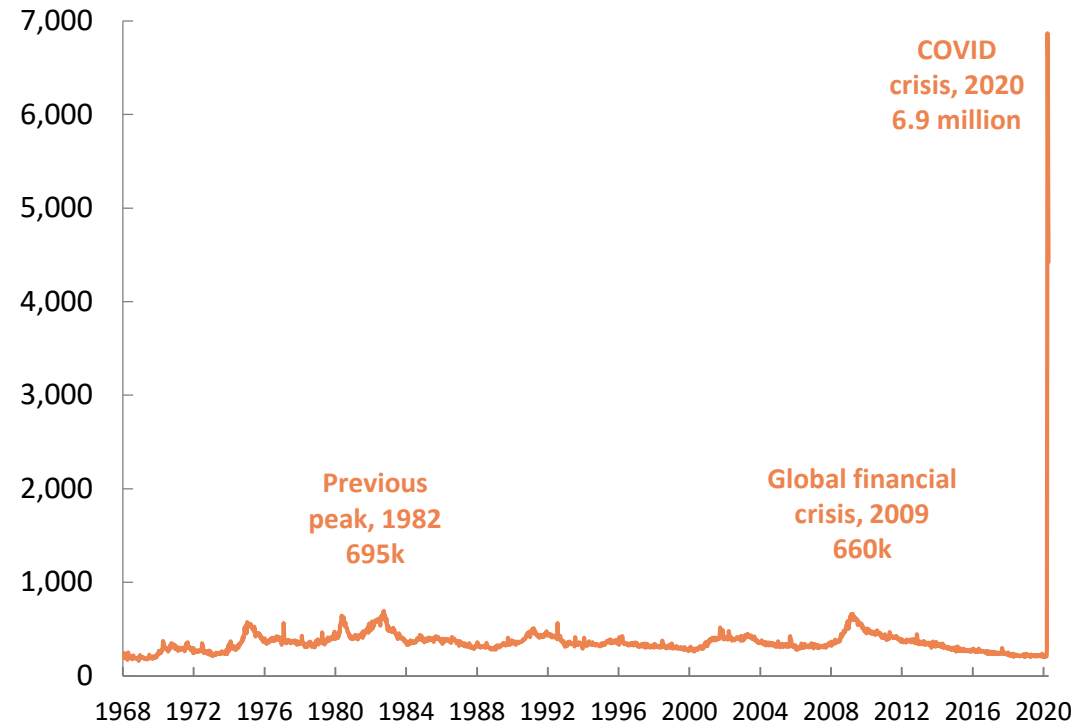
Sources: Nanos Canadian consumer sentiment index, CFIB business barometer

LABOUR MARKETS

As COVID containment measures came into force, initial indicators show historic increases in unemployment claims in the United States, and reduced hours worked in Canada.

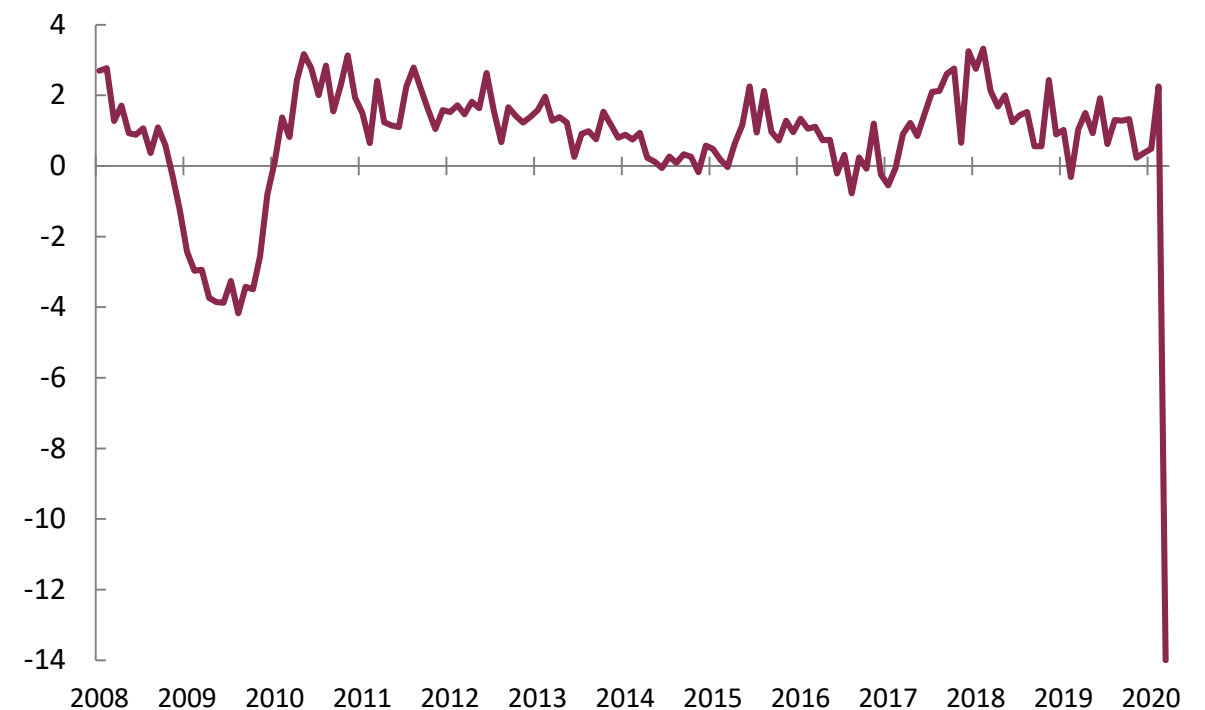
U.S.: Initial unemployment claims

Thousands of people per week



Canada: Total hours worked

year-over-year % change

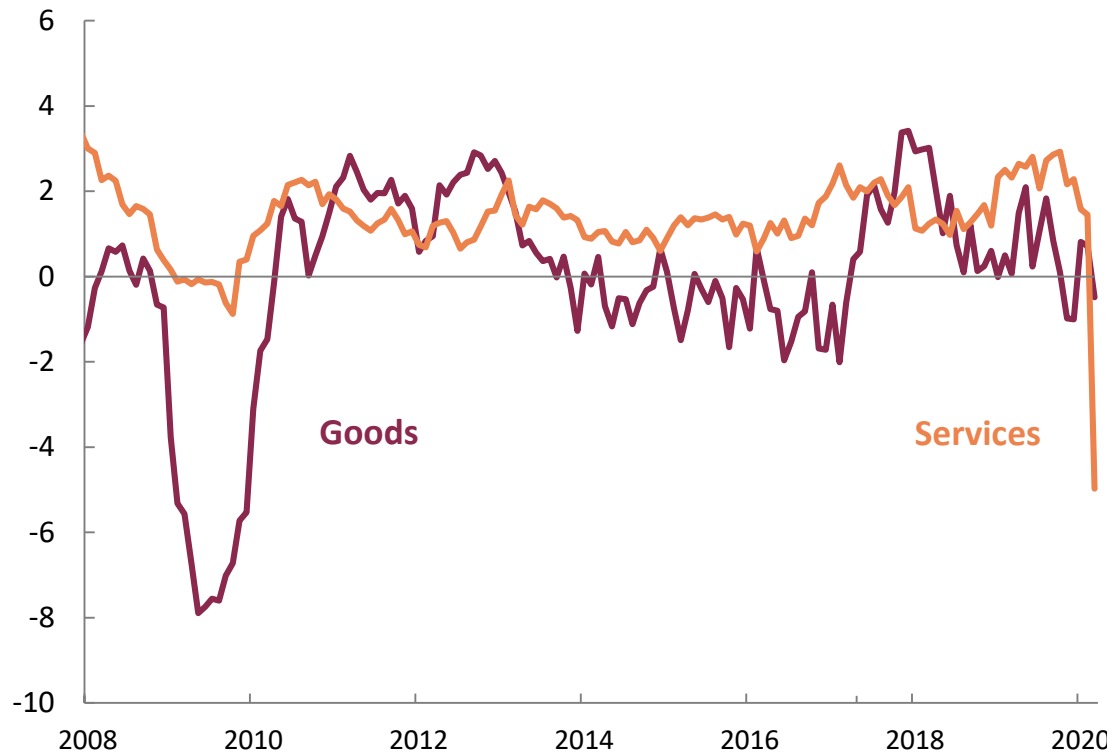


LABOUR MARKETS CONTINUED

Services sector employment, which has held up reasonably well in past Canadian recessions, is being hit particularly hard hit, in areas such as restaurants, retail and recreation.

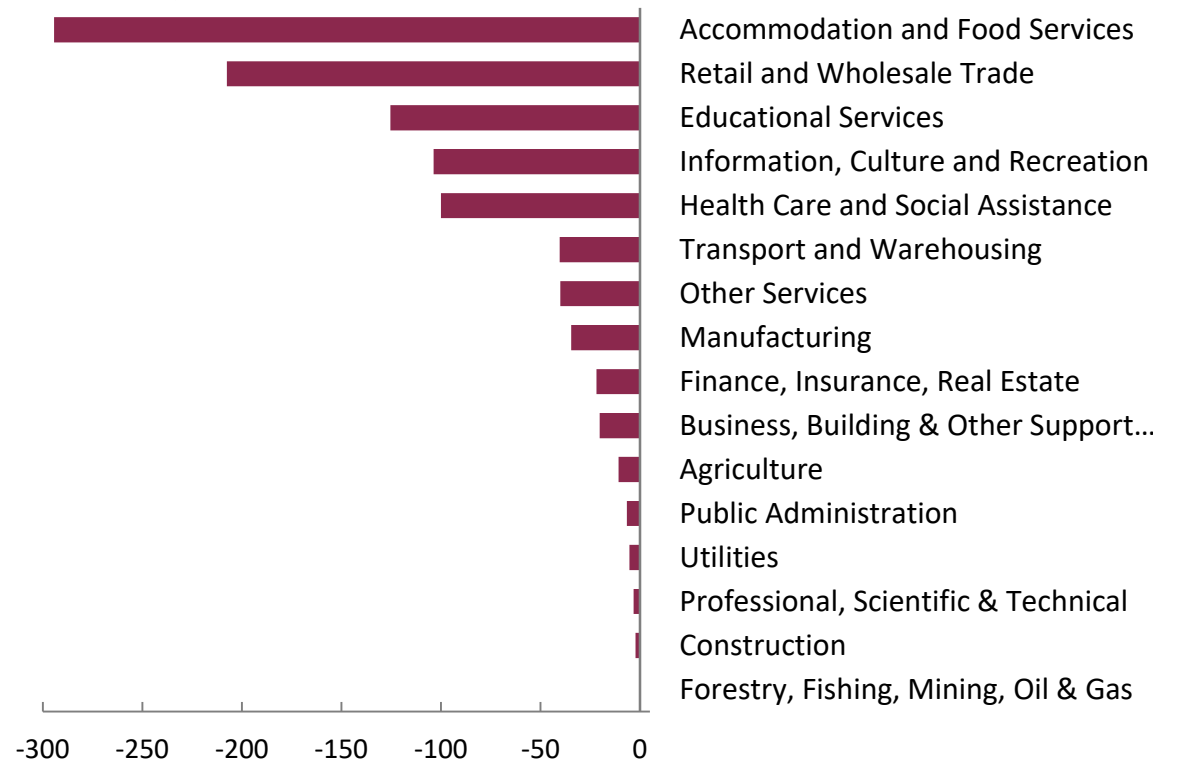
Goods and services employment

year-over-year % change



Employment Changes, by Sector

February to March 2020, Thousands

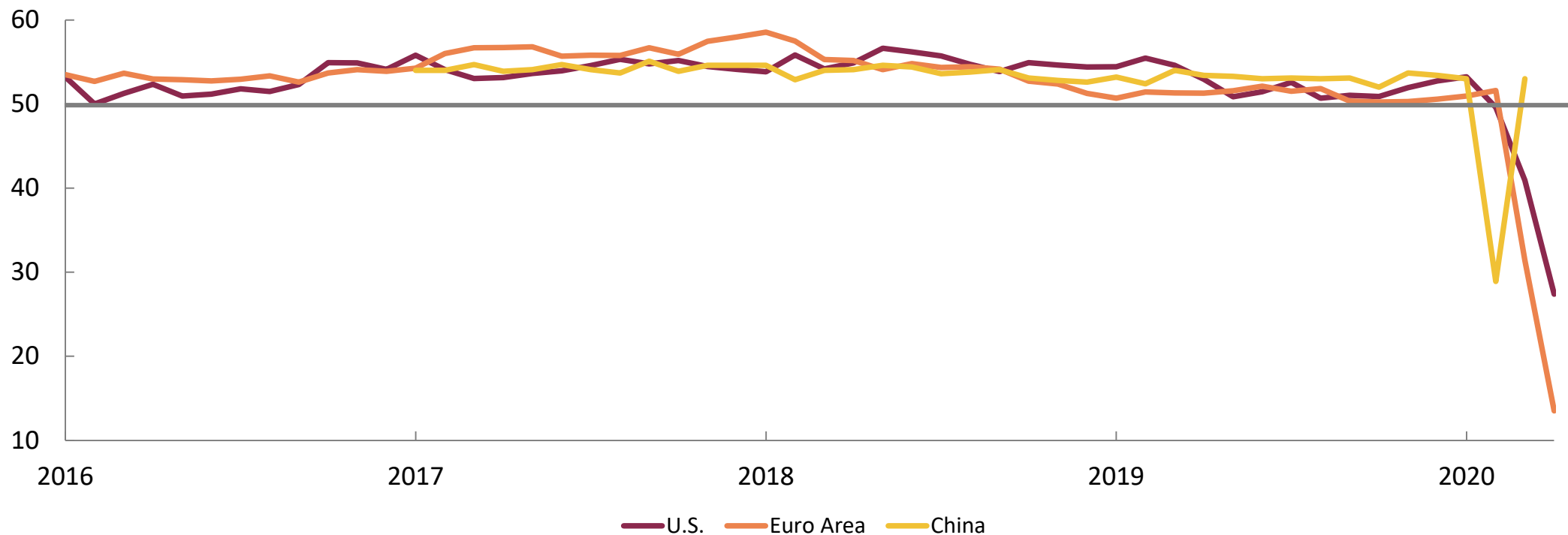


PURCHASING MANAGERS' INDICES

Beginning in February 2020, orders plummeted first in China during their lockdowns, followed by even more dramatic declines in subsequent months in Europe and North America.

Purchasing managers' indices

50+ = expansion



UNPRECEDENTED GLOBAL POLICY RESPONSE

Central bank interest rates cuts and various large-scale assets purchase programs, followed by massive expansions in direct support for households and businesses in order to maintain liquidity.

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%

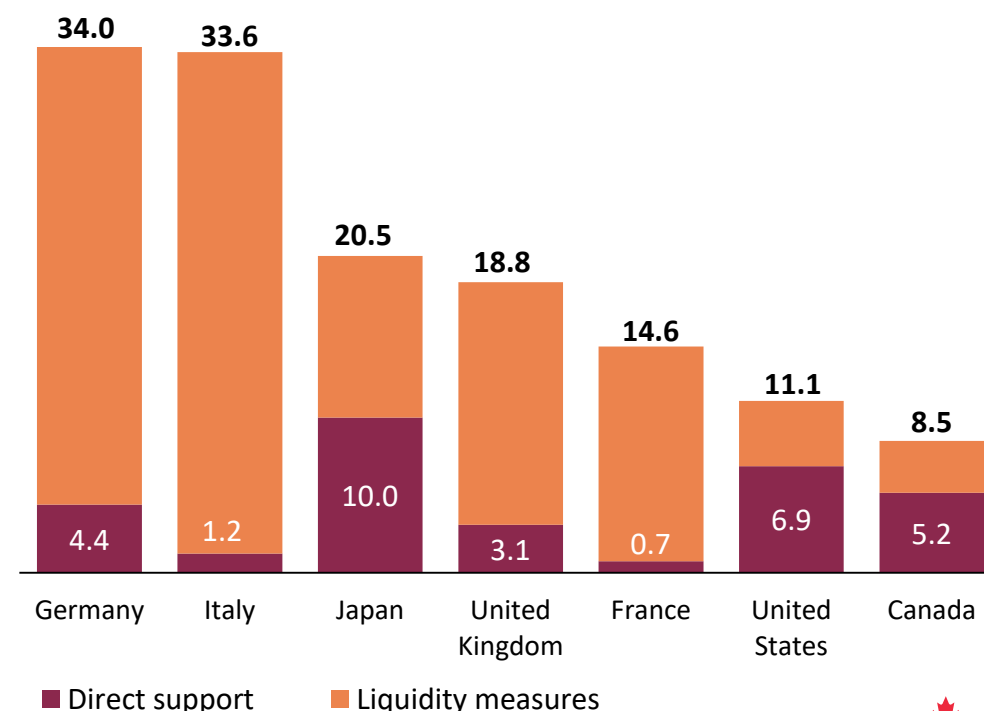
People's Bank of China

Various term lending rates cut to ease financial conditions

Central bank asset purchases is approaching US\$6 trillion globally—double their scale during the 2008 global financial crisis.

G7 Fiscal Policy Responses to COVID-19

% of GDP, US\$ PPP

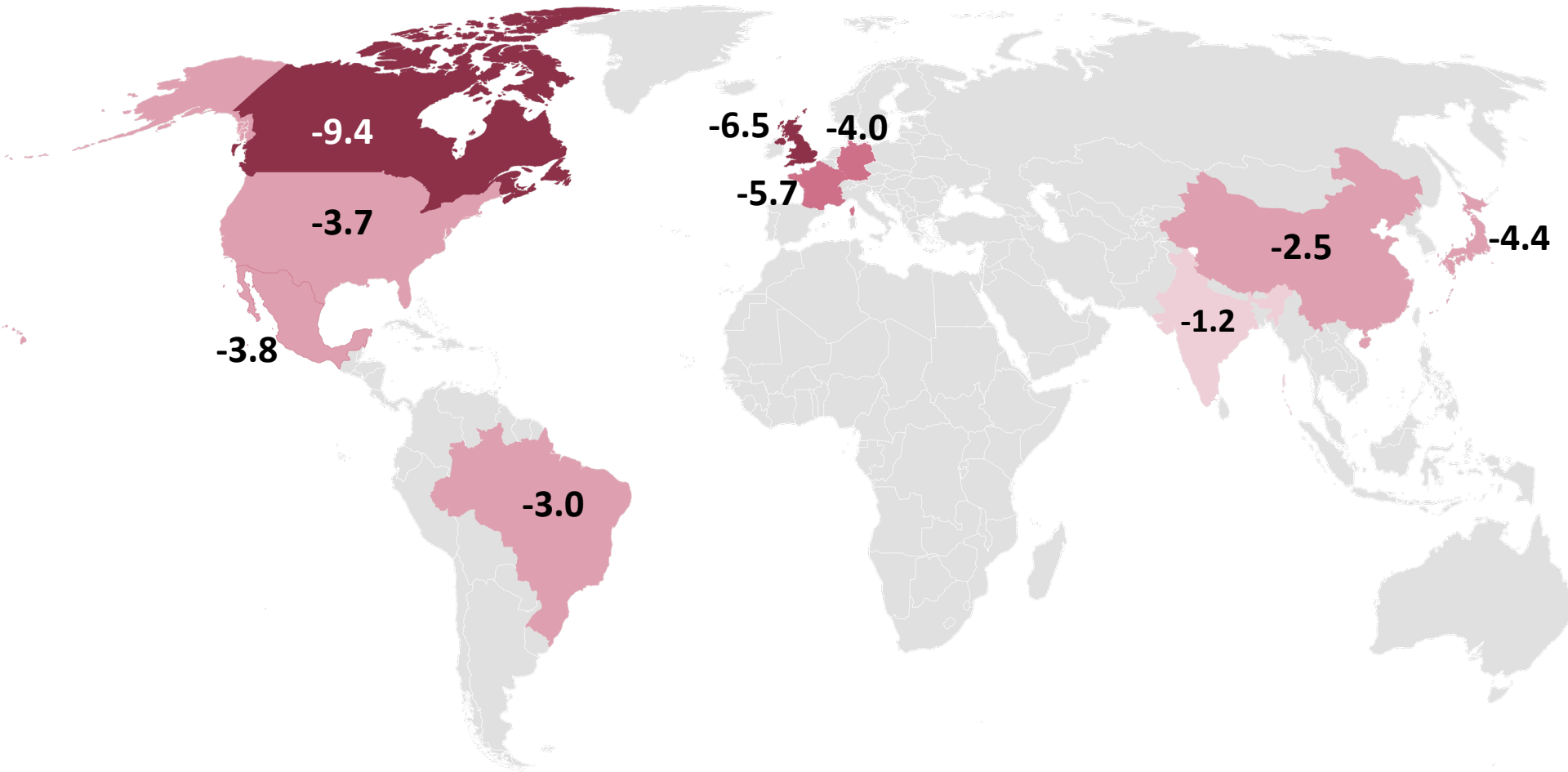


GLOBAL ECONOMIC OUTLOOK



2020 GROWTH OUTLOOK

Real GDP growth, %



-2.8%

World

-4.2%

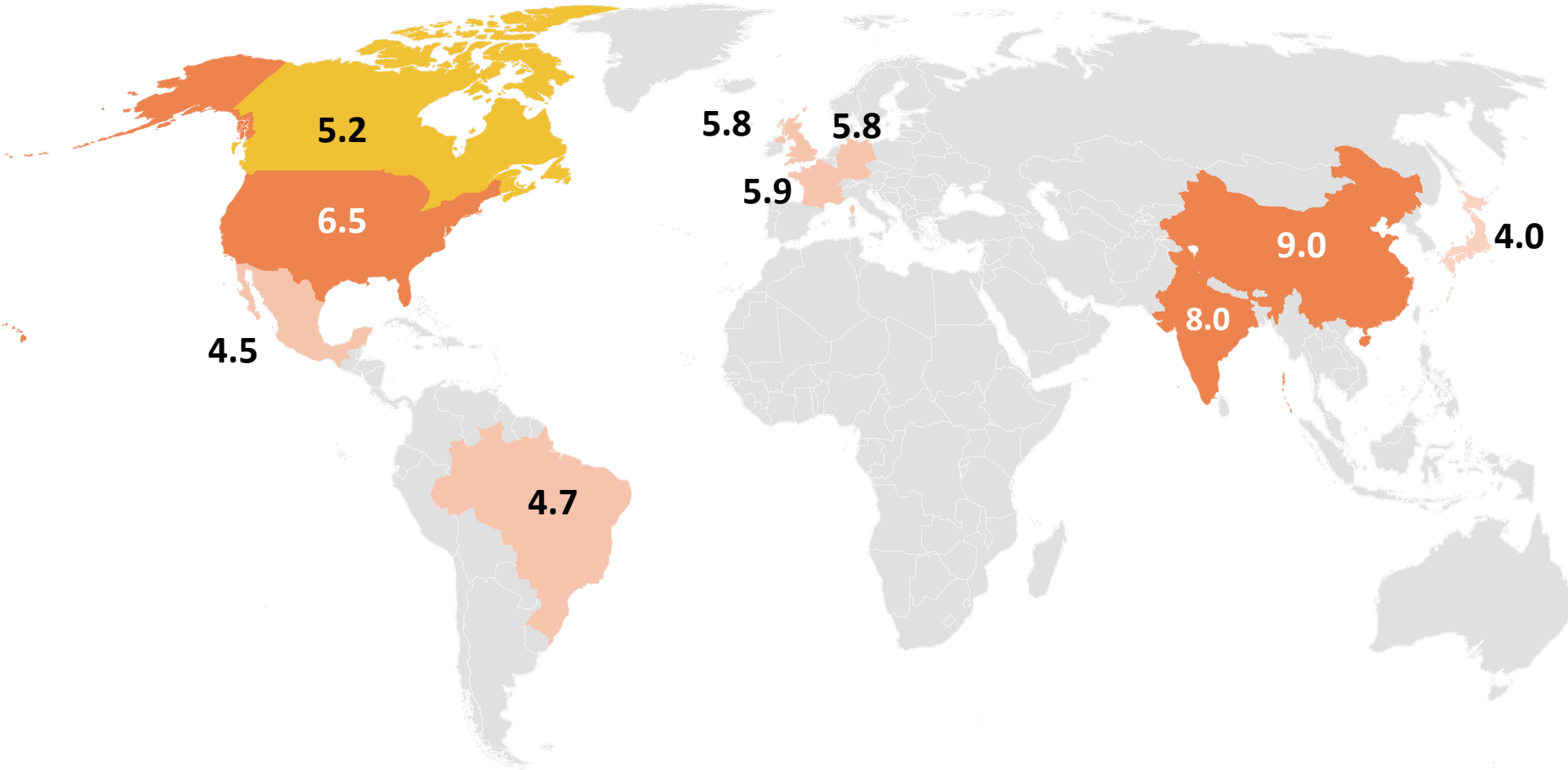
Advanced

-1.9%

Emerging

2021 GROWTH OUTLOOK

Real GDP growth, %



6.1%

World

5.6%

Advanced

6.4%

Emerging

REAL GDP GROWTH

Global Economic Outlook (Annual % change)	2019	2020*	2021*
Developed countries	1.7	-4.2	5.6
Canada	1.6	-9.4	5.2
United States	2.3	-3.7	6.5
Eurozone	1.2	-4.4	4.6
Germany	0.6	-4.0	5.8
France	1.3	-5.7	5.9
United Kingdom	1.4	-6.5	5.8
Japan	0.7	-4.4	4.0
Emerging countries	3.6	-1.9	6.4
China	6.1	-2.5	9.0
India	4.1	-1.2	8.0
Brazil	1.1	-3.0	4.7
Mexico	-0.1	-3.8	4.5
Total World	2.9	-2.8	6.1

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, April 2020

CHANGES FROM PREVIOUS FORECAST

Global Economic Outlook Real GDP Growth (percentage point change)	2020*	2021*
Developed countries	-4.4	1.9
Canada	-9.8	1.4
United States	-4.6	1.9
Eurozone	-4.0	1.8
Germany	-3.5	3.7
France	-5.3	3.4
United Kingdom	-6.7	2.9
Japan	-2.2	1.1
Emerging countries	-4.4	0.1
China	-5.9	0.2
India	-7.0	-0.8
Brazil	-4.5	1.3
Mexico	-3.4	1.8
Total World	-4.4	0.8

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, April 2020 relative to March 2020

CURRENCIES AND INTEREST RATES

Global Economic Outlook		2019	2020*	2021*
Currency	Exchange Rate			
U.S. dollar	USD per CAD	0.75	0.72	0.74
Euro	CAD per EUR	1.49	1.49	1.45
Euro	USD per EUR	1.12	1.08	1.08
U.K pound	USD per GBP	1.28	1.26	1.27
Interest Rates, annual average				
Bank of Canada, <i>Overnight Target Rate</i>		1.75	0.44	0.69
U.S. Federal Reserve, <i>Fed Funds Target Rate (Upper limit)</i>		2.14	0.46	0.63
Bank of England, <i>Policy Interest Rate</i>		0.75	0.68	0.54
European Central Bank, <i>Policy Interest Rate</i>		0.00	-0.01	0.14

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, April 2020

COMMODITY PRICES

Global Economic Outlook	2019	2020*	2021*
Brent Crude Spot , <i>USD / bbl</i>	64.36	36.91	38.47
West Texas Intermediate , <i>USD / bbl</i>	56.99	32.20	33.73
Western Canada Select , <i>USD / bbl</i>	43.30	19.24	21.34
Natural Gas , <i>USD / MMBtu</i>	2.57	1.79	2.21
Gold , <i>USD / troy ounce</i>	1,392	1,554	1,482

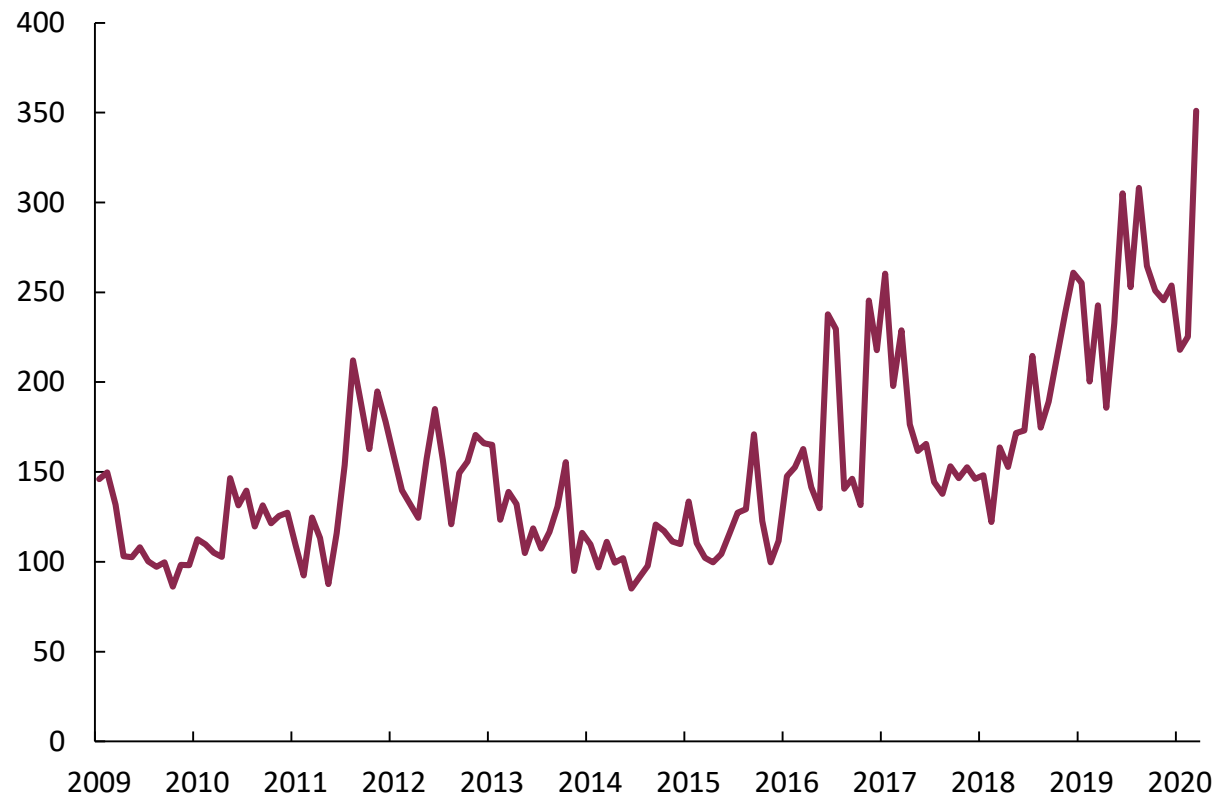
Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, April 2020

UNCERTAINTY AND RISKS

Economic Policy Uncertainty Index

Mean = 100



Measures of global economic uncertainty have reached all-time highs during the COVID-19 pandemic.

- There's an exceptionally-high degree of uncertainty around this forecast, due to the severity and spread of the pandemic, its interdependence on containment efforts (which have had sudden, widespread economic impacts), as well as the scale and efficacy of unprecedented policy responses.
- This report represents EDC's base case economic forecast, as of April 21, 2020, and is based on assumptions described above. There are significant risks to this base case, both to the upside and the downside. Future forecast updates will present alternative plausible scenarios.

DISCLOSURE

Ce document est également disponible en français.

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