



CIM-MES ECONOMIC SEMINAR

Global Trade Outlook

Is the Compass Pointing North Again?

September 27, 2017
Bay-Adelaide Center, Toronto

Peter Hall
Vice-President and Chief Economist



Realize a World of Opportunity

TOP TRADE CHALLENGES

- **General anti-trade sentiment: then, now**
- **EU: this year's election campaigns**
- **Brexit: trade, or other issues?**
- **US - TPP**
- **US – NAFTA**
- **Canada's position**

<u>Impact points</u>	<u>3.5% tariff</u>	<u>4% tariff</u>	<u>10% tariff</u>
Impact on Canadian exports	-\$8.8	-\$10.6	-\$32.1
<i>Share of exports</i>	-1.2%	-1.5%	-4.5%
Impact on Canadian investment	-\$40.8	-\$43.2	-\$72.0
Impact on Canadian GDP	-1.9%	-2.0%	-3.9%
Employment impact	-362,000	-391,000	-737,000
<i>Share of employment</i>	-2.0%	-2.1%	-4.0%

ANTI-TRADE ACTIONS: WHAT DOES LOGIC SUGGEST?



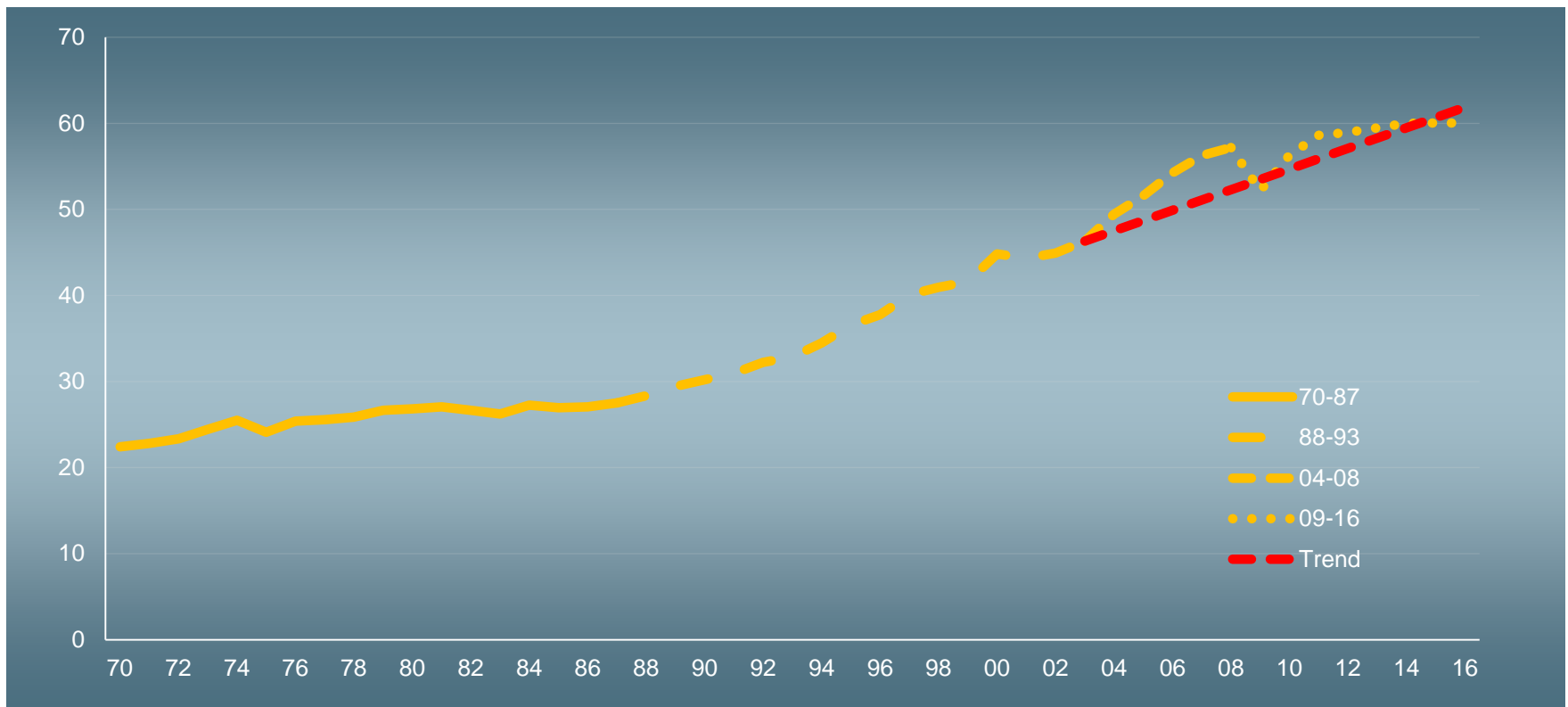
FIRM STRATEGY: A BUSINESS CASE?

Costs saved vs. incurred

- **Operating in USD**
- **Higher-cost environment**
- **Labour supply: ample?**
- **Capacity constraints**
- **Time lag**

WORLD ECONOMY: SUPER CYCLE?

Global trade intensity ($[X+M]/GDP$), %



Sources: OECD, Haver Analytics

US UNEMPLOYMENT: POSTED VS. 'EFFECTIVE'

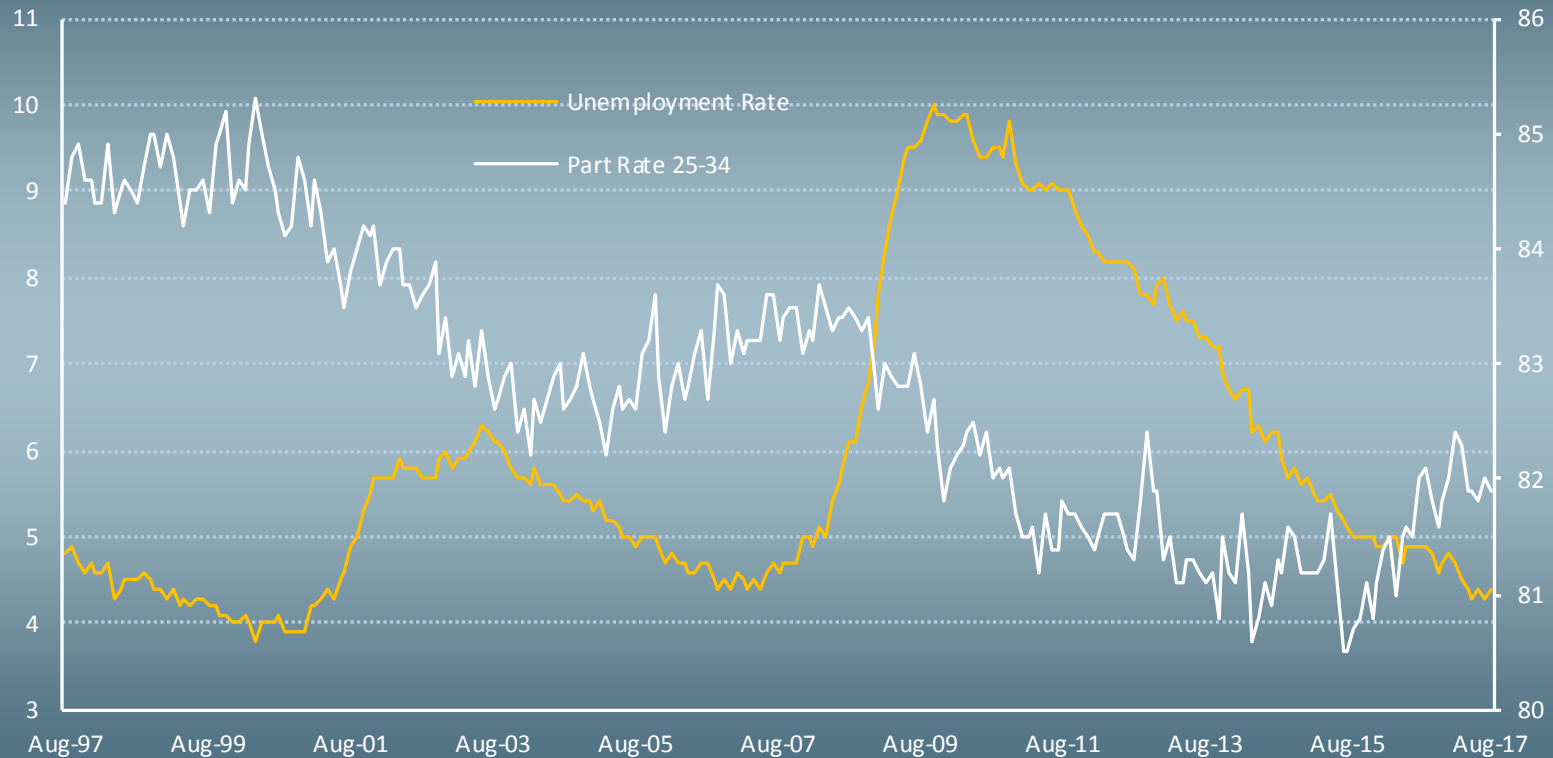
Unemployment rate, participation rate (%)



Sources: US BLS, Haver Analytics

US LABOUR FORCE: MILLENNIALS ARE COMING BACK

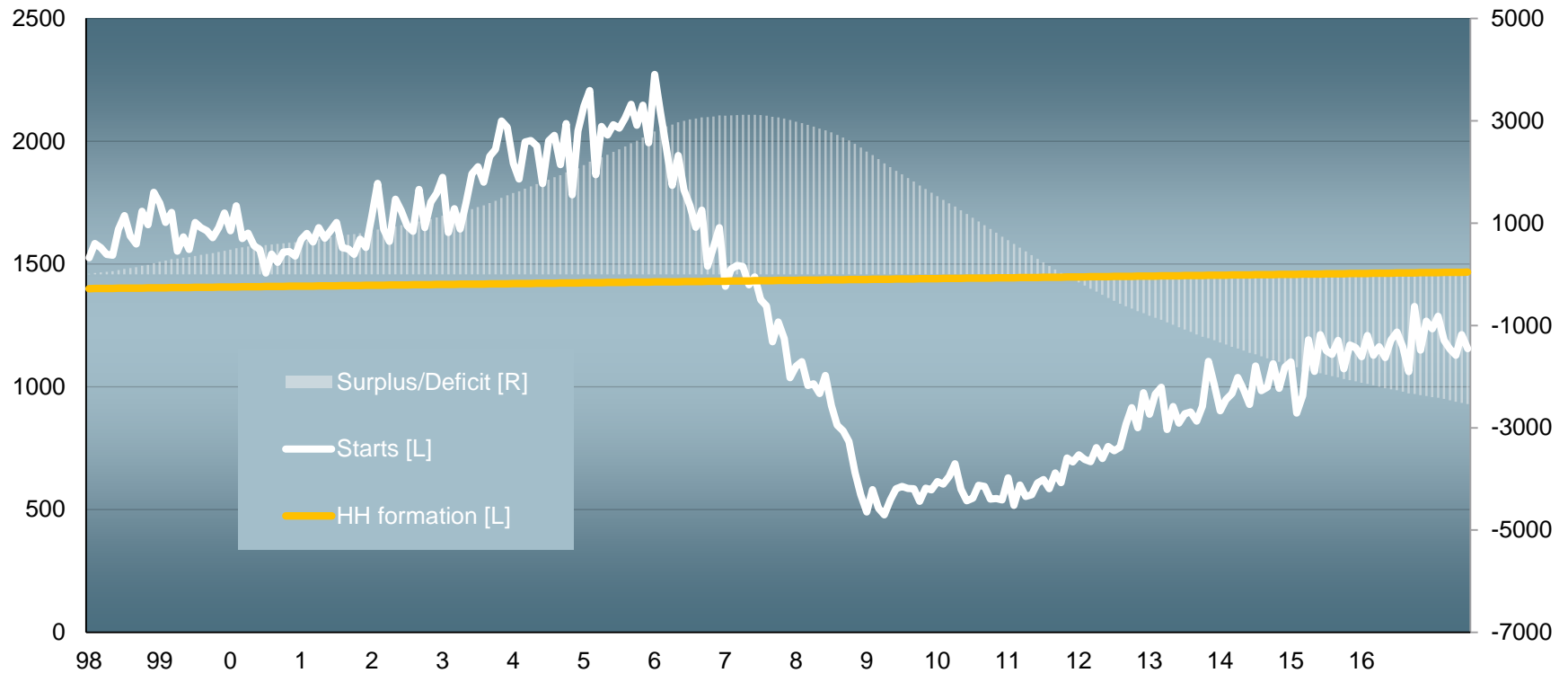
Unemployment rate, participation rate (%)



Sources: US BLS, Haver Analytics

US HOUSING: WILL MILLENNIALS BUY IN?

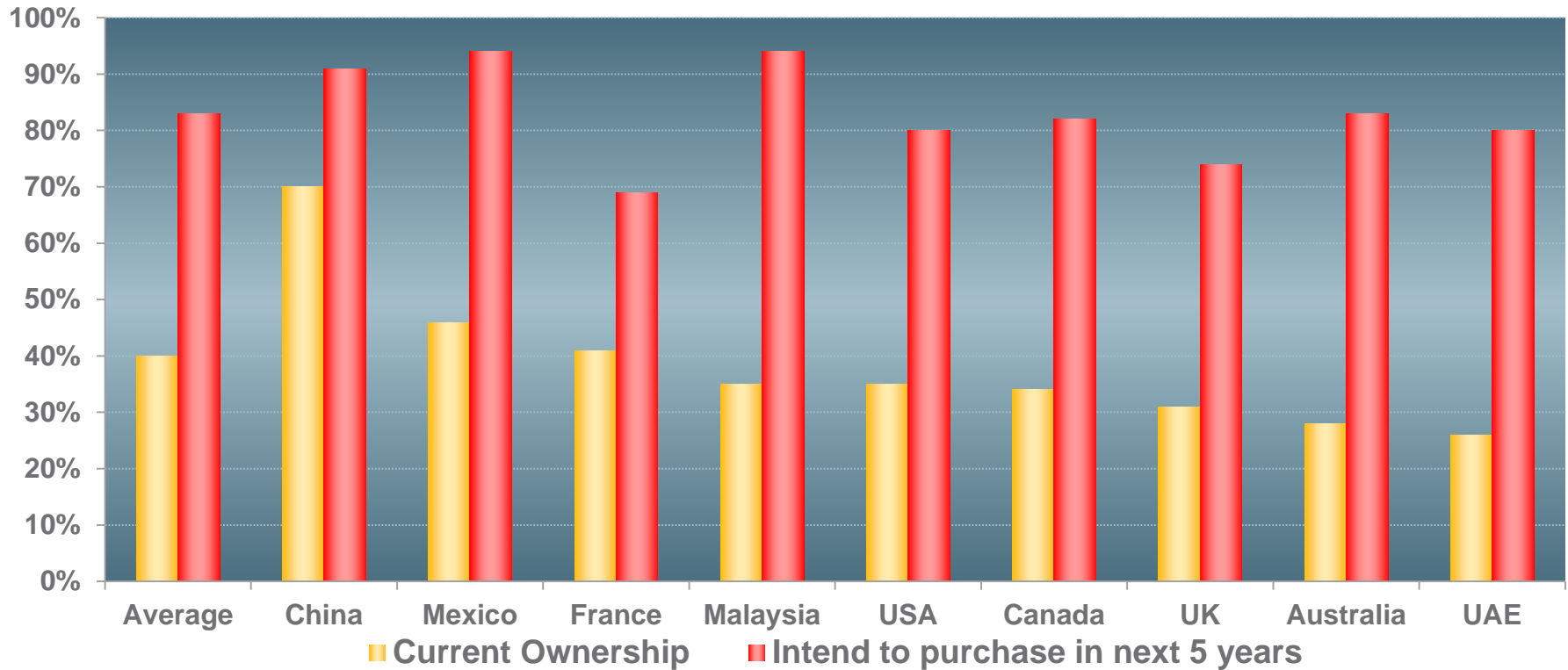
Housing starts, requirements, balance, SAAR, '000 units



Sources: US Census Bureau, NAR, Haver Analytics

MILLENNIALS NOT JUST A U.S. STORY...

Current ownership vs intentions, %



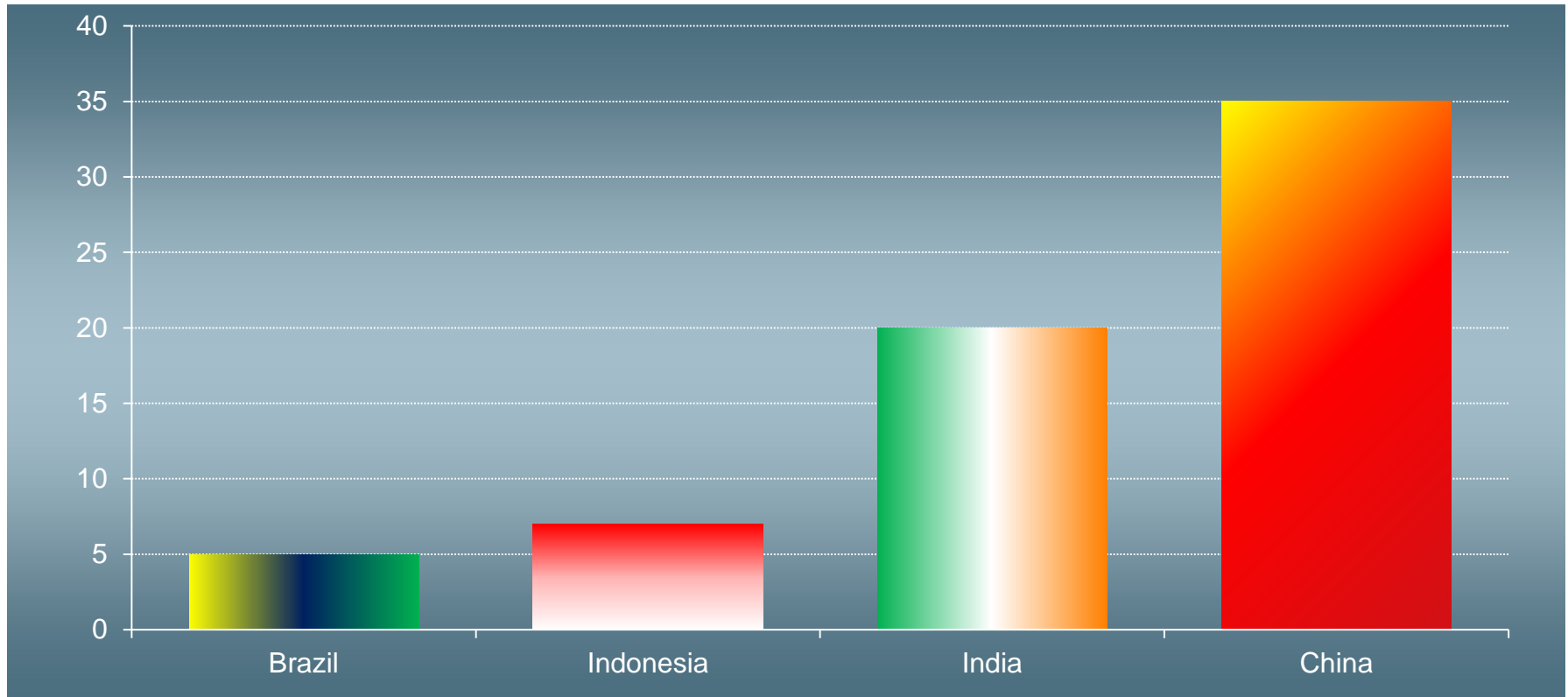
Source: HSBC

Hurricanes: the sad truth

- **Harvey costs: \$65B-\$190B**
- **Irma costs: \$50B-\$100B**
- **Maria costs: \$30B (Puerto Rico alone!)**
- **More to come???**
- **Insurers not happy, but...**

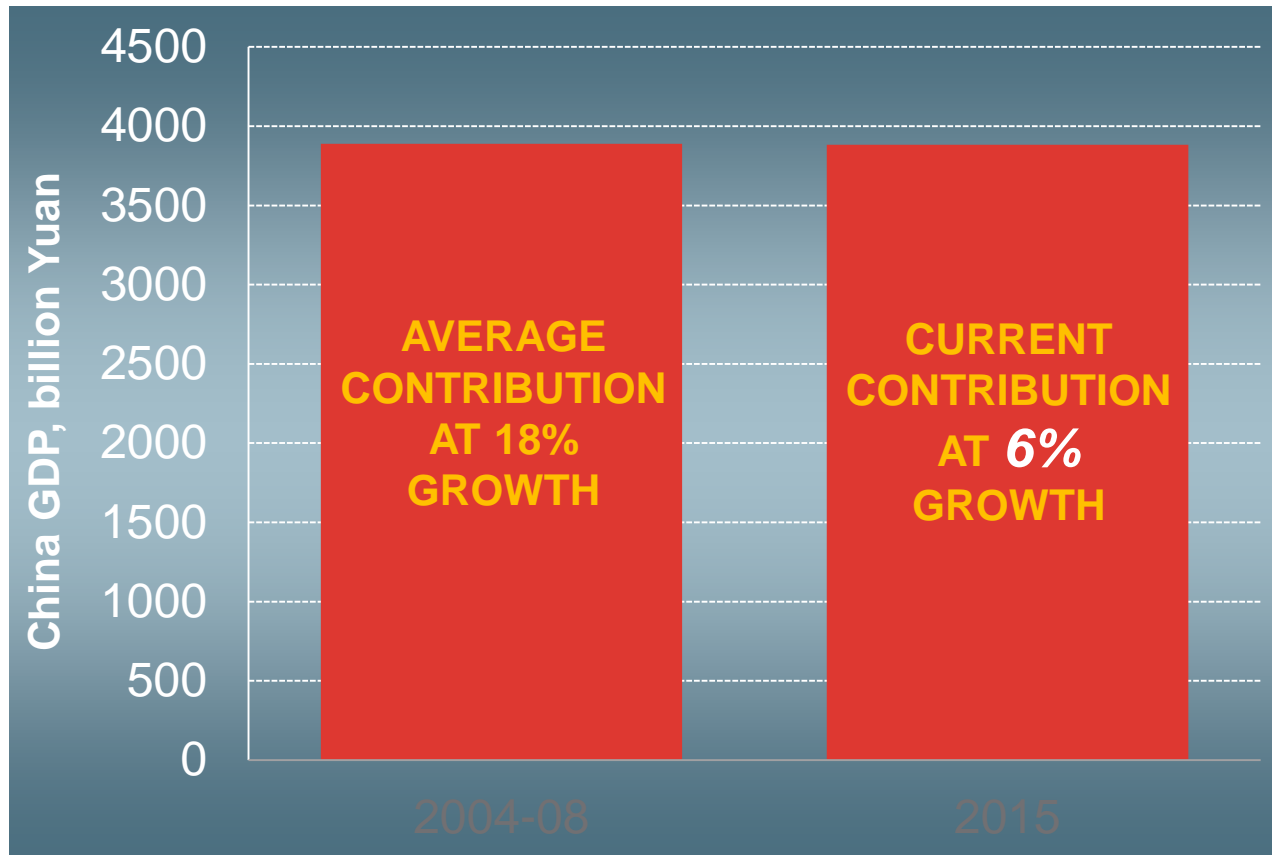
RISING WEALTH IN EMERGING MARKETS

Annual increase of the middle class



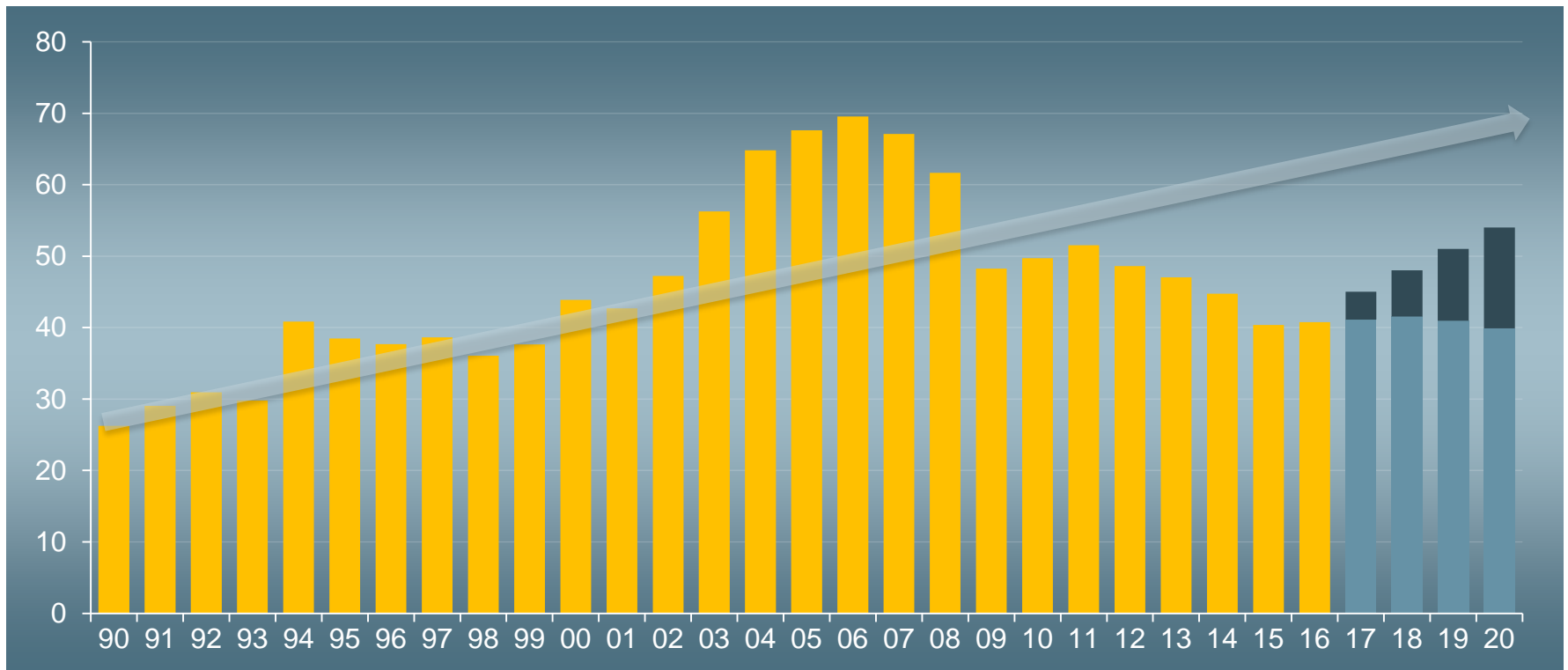
Sources: Various – national population calculations

CHINA HAS GROWN!



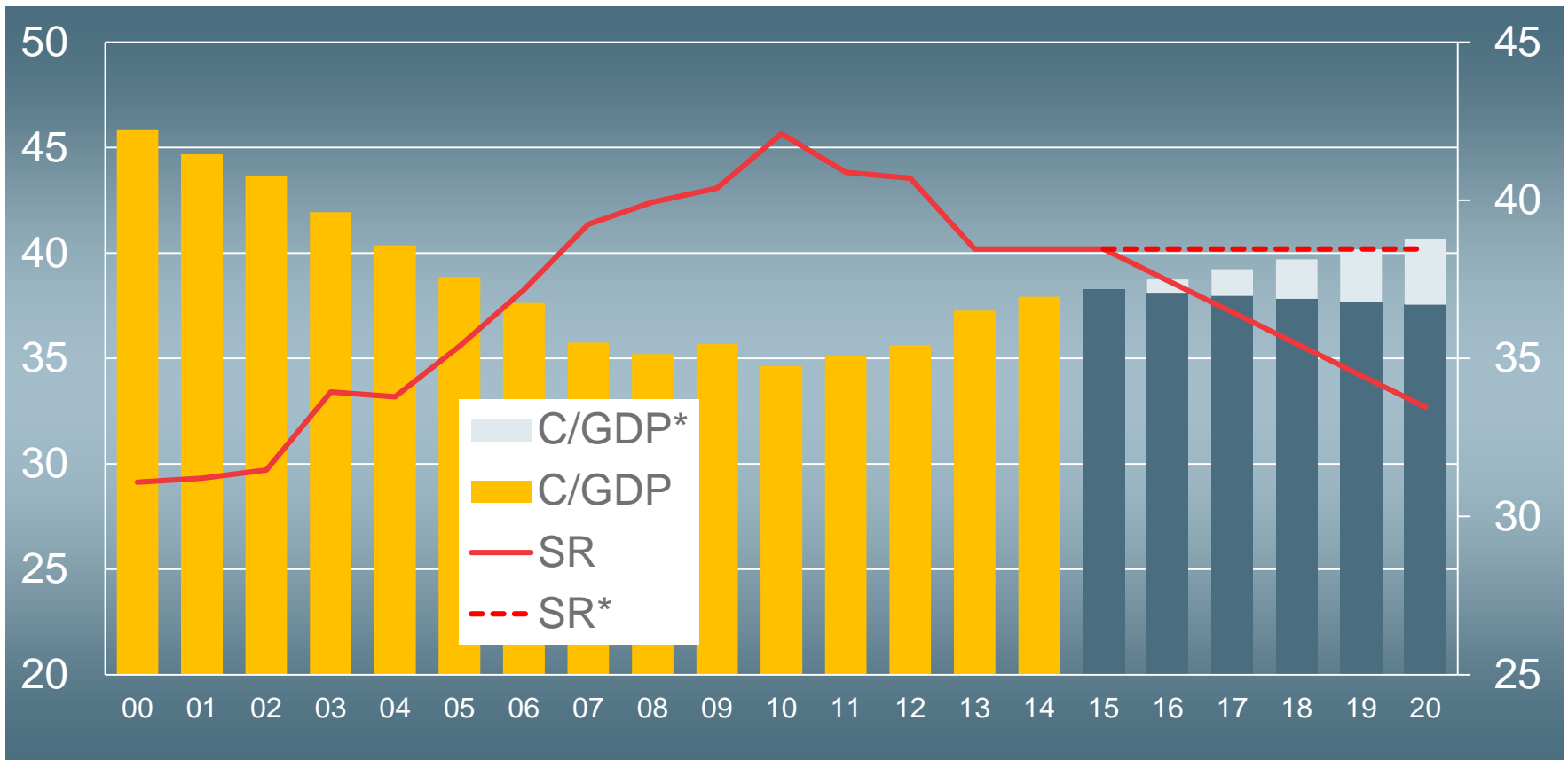
CHINA'S TRADE: END OF THE BONANZA?

Trade as a share of GDP, per cent



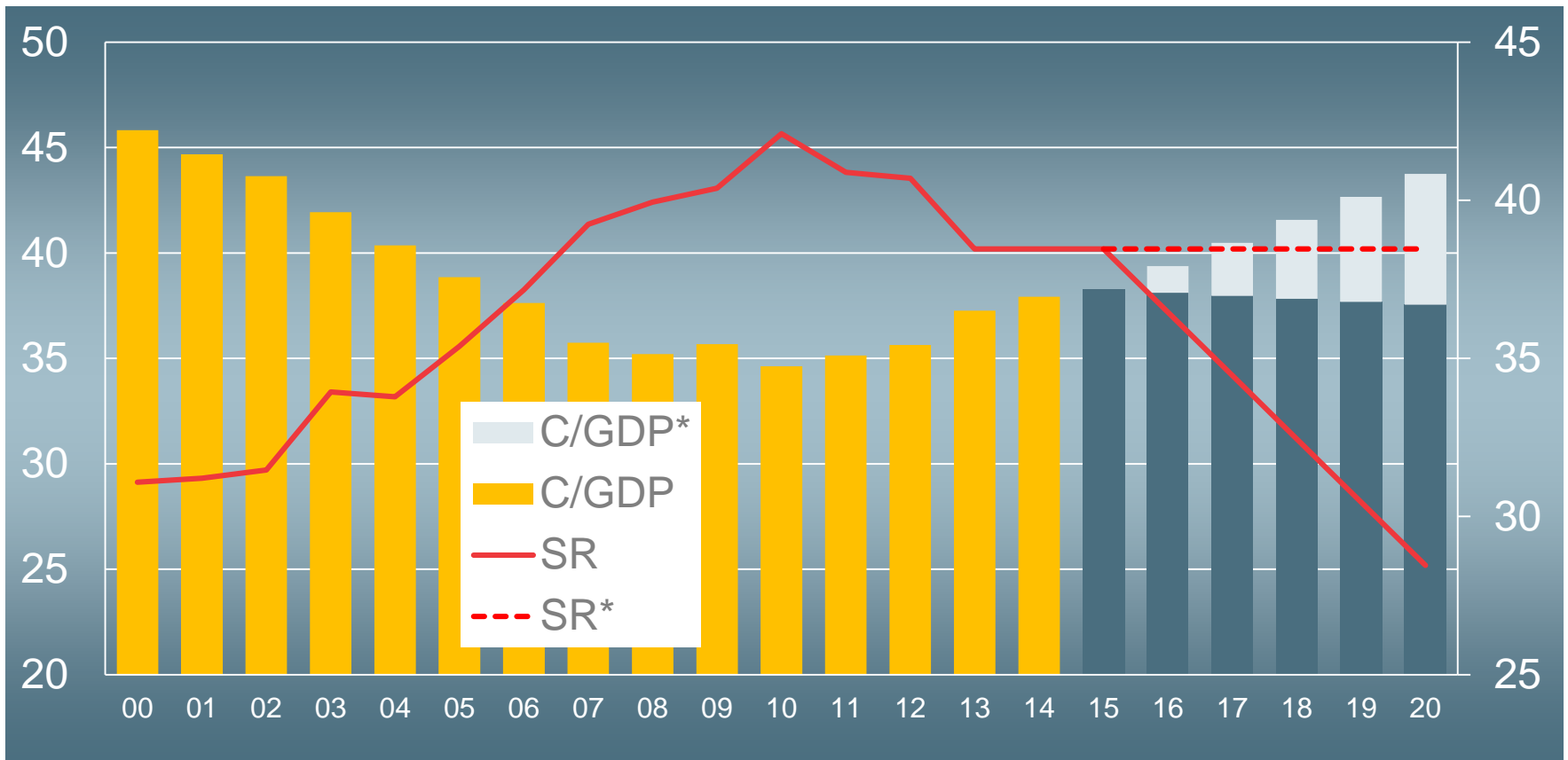
Sources: EIU Country Data, Haver Analytics

THE POWER OF SAVING LESS



Sources: China National Bureau of Statistics, Haver Analytics

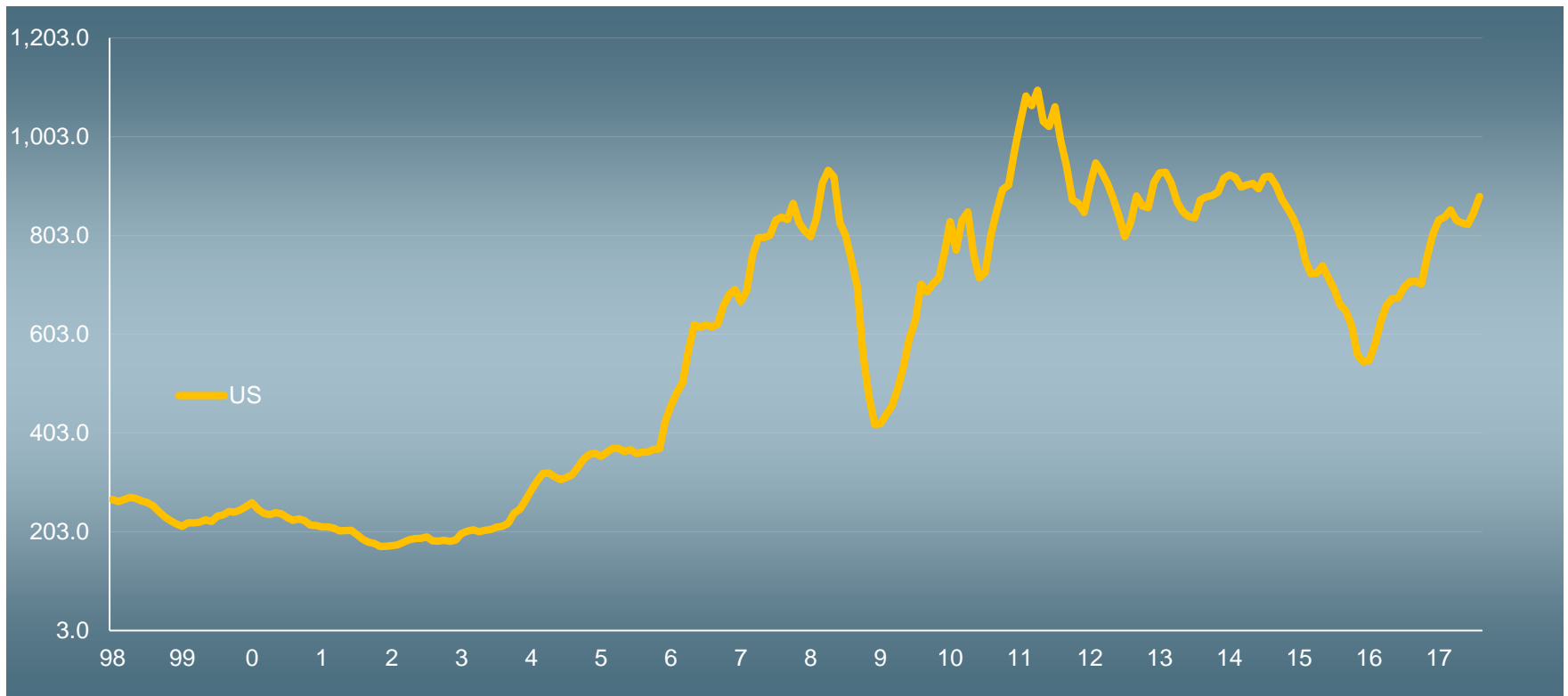
THE POWER OF SAVING *EVEN* LESS



Sources: China National Bureau of Statistics, Haver Analytics

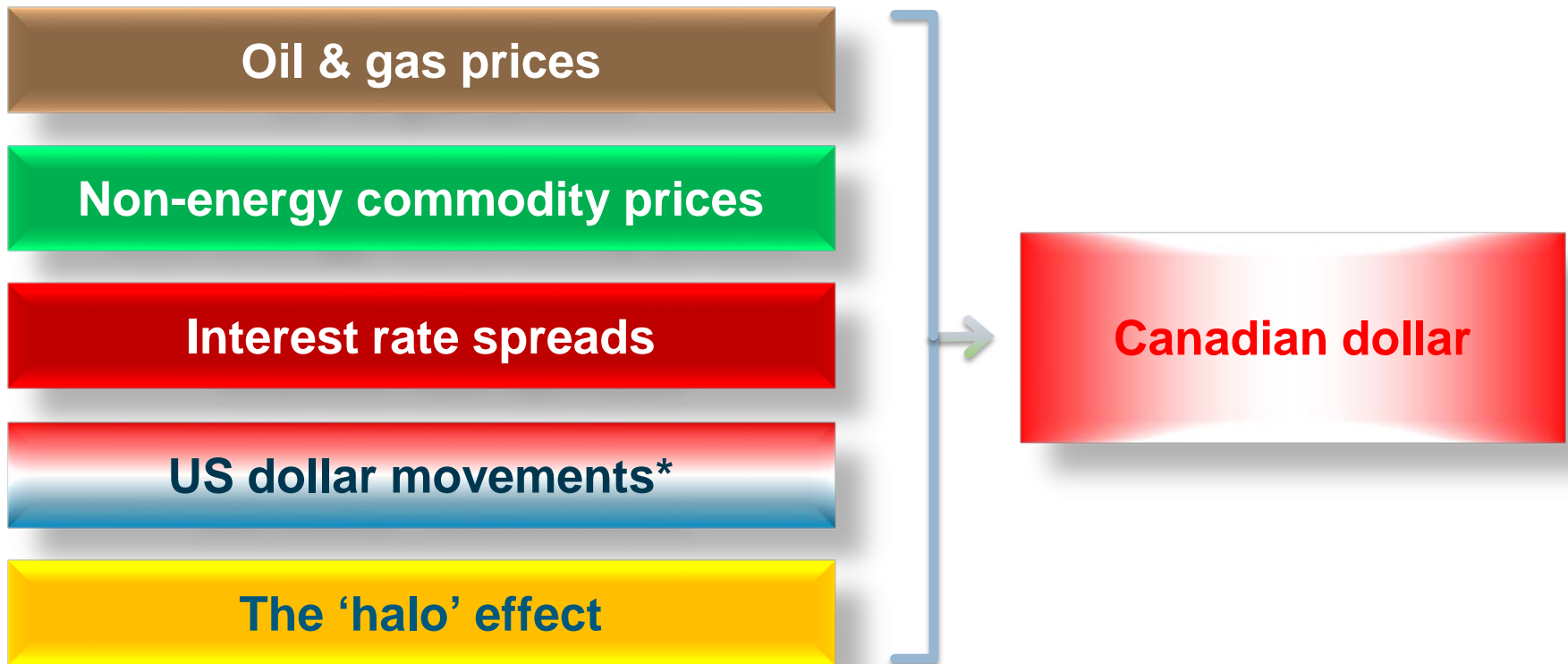
IS THIS THE COMPASS?

KR-CRB Spot Index, Metals, 1967=100



Sources: CRB, Haver Analytics

DRIVERS OF THE CANADIAN DOLLAR



Source: EDC Economics

CANADA: MERCHANDISE TRADE ON THE MOVE?

Merchandise trade , all industries, \$billions



Sources: StatCan, Haver Analytics

GLOBAL GROWTH FORECAST

Global Economic Outlook (GEO) (y/y % change)	2014	2015	2016	2017 (f)	2018 (f)
Developed countries	1.9	2.1	1.6	2.0	2.1
US	2.4	2.6	1.6	2.4	2.7
Canada	2.5	0.9	1.3	2.4	2.2
Euro Area	1.1	2.0	1.7	1.7	1.6
Japan	0.0	1.2	0.9	1.0	1.1
Emerging countries	4.6	4.1	4.1	4.6	5.0
China	7.3	6.9	6.7	6.6	6.4
India	7.2	7.6	6.6	7.4	7.6
Brazil	0.7	-3.7	-3.5	0.4	2.5
Mexico	0.1	-3.8	2.2	1.8	2.1
Russia	2.2	2.6	-0.6	1.4	1.8
South Africa	1.6	1.3	0.3	0.8	1.4
Total World	3.4	3.2	3.1	3.5	3.8

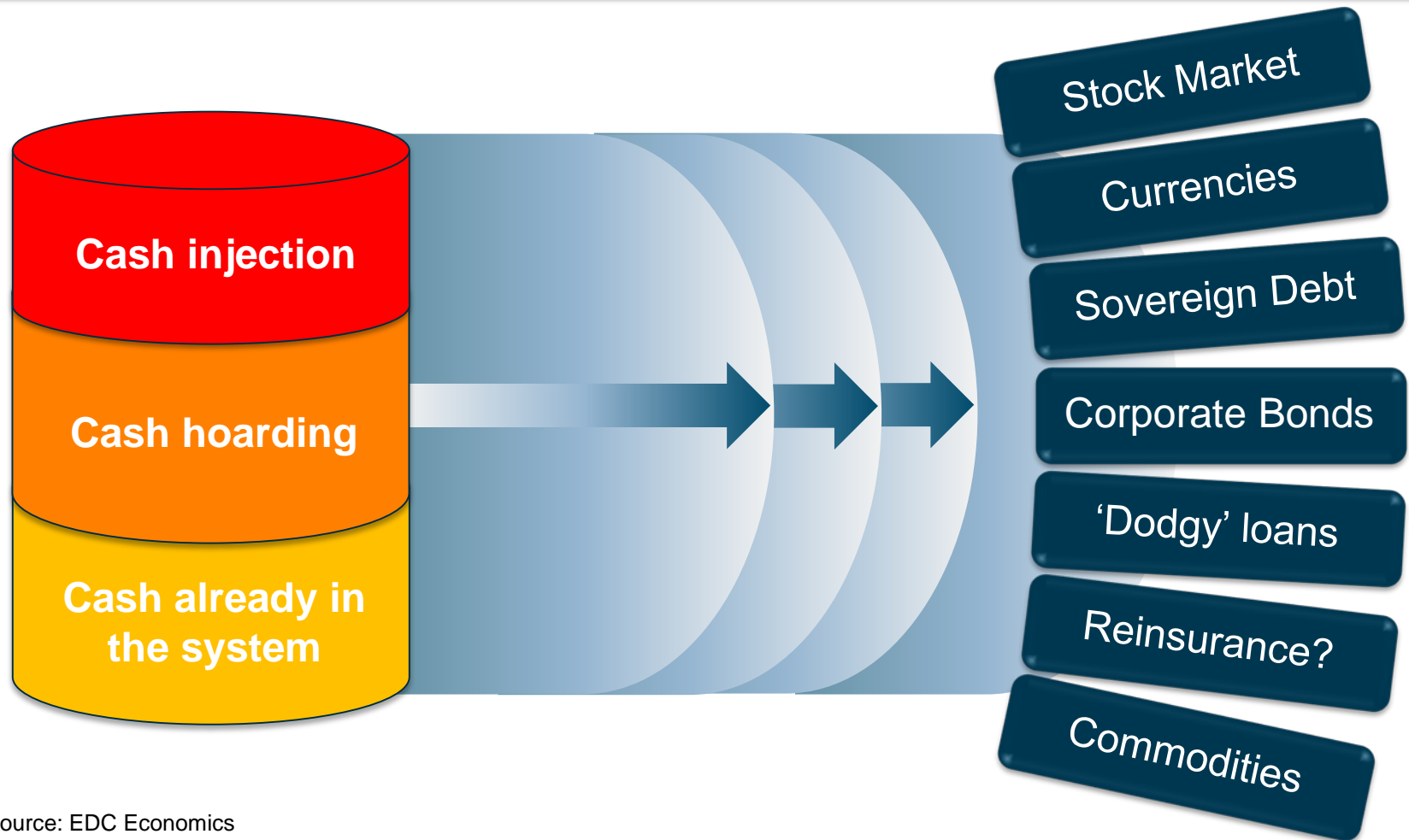
Sources: Haver Analytics, EDC Economics, 2014-2016 are actuals while 2017 and 2018 are forecast.

FREE RESOURCES ONLINE

- › www.edc.ca
 - › **Country Risk Quarterly**
 - › **Global Export Forecast**
 - › **Weekly Commentary**
 - › **Trade Confidence Index**
 - › **The Commodity Tracker**
 - › **Research reports on international trade**

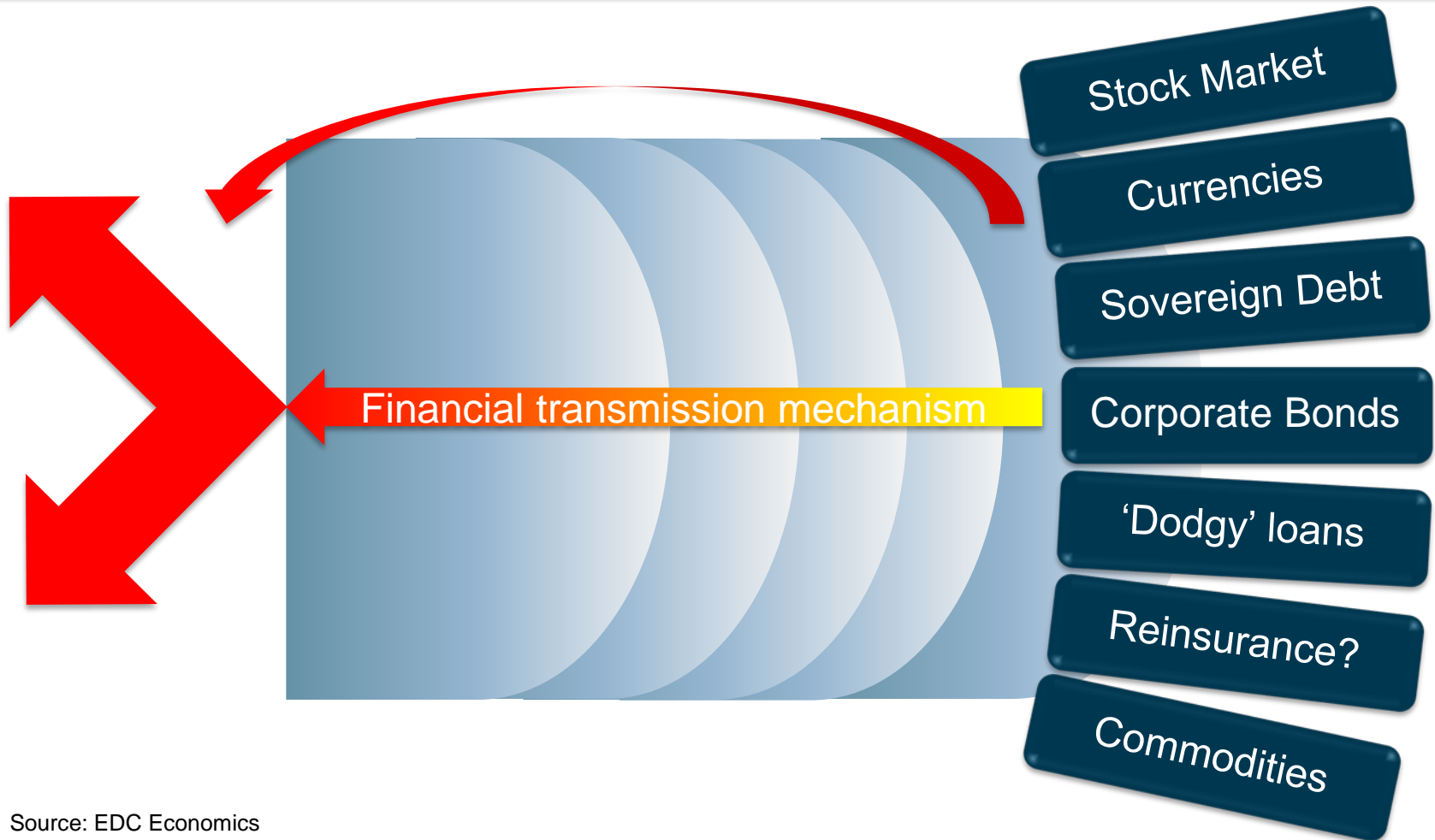
The screenshot displays the EDC Knowledge Centre website. The header includes the EDC logo, navigation links (About Exporting, Our Solutions, Country Info, Knowledge Centre, Events, About Us), and a search bar. The main content area is titled 'KNOWLEDGE CENTRE' and features a sidebar with categories like Success Stories, Economic Analysis and Research, Multimedia Centre, TradeTalk, Publications, Subscriptions, and Topical Business Issues. The main content area is titled 'Economic Analysis and Research' and includes a description of trade finance research, a list of 'Economic Reports' (The Commodity Tracker, Export Leading Indicator, Export Performance Monitor, Global Export Forecast, Trade Confidence Index, Weekly Commentary), and a list of 'Research Reports & White Papers' (Canadian Benefits and Integrative Trade, Currency Risk Management Practices of Canadian Firms, Financial Intermediation Under the new Trade Paradigm, Integrative Trade, The Future of Financial Intermediation, How Canadian Business are Adapting to a Strong Canadian Dollar, Survey BBOO, Managing Foreign Exchange Risk - White Paper, Research and Development - A Key Input for Enhancing Canadian Export Capacity, TradeWatch Survey). A sidebar on the right features a 'Let's talk about growing your business' section with a 'Register now' button and social media icons for LinkedIn, Twitter, Facebook, YouTube, and RSS. The footer contains links for Partners, Investor Relations, Communities, and Export Development Canada, along with the Canada and EDC logos.

EXCESS LIQUIDITY: DISTORTIONS?



Source: EDC Economics

ADD A LITTLE GROWTH, AND...



Source: EDC Economics

AN AMERICAN SOLUTION?

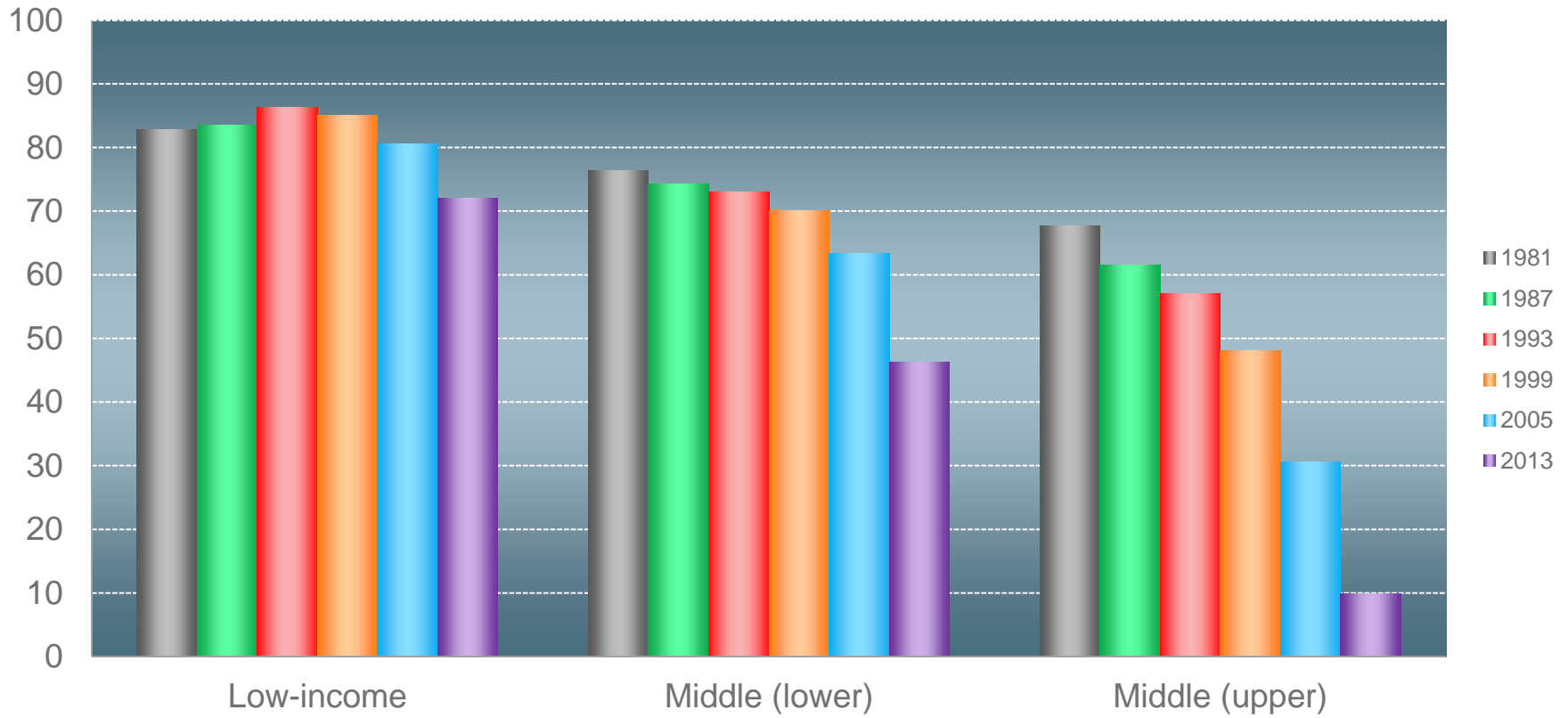
Our best advocates...

- US consumers? Not likely
- Retailers!
- Employers!
- Shareholders!

“Made in America” is not the fix; but the *fix* *is* made in America

BENEFITS OF GLOBALIZATION: LESS POVERTY

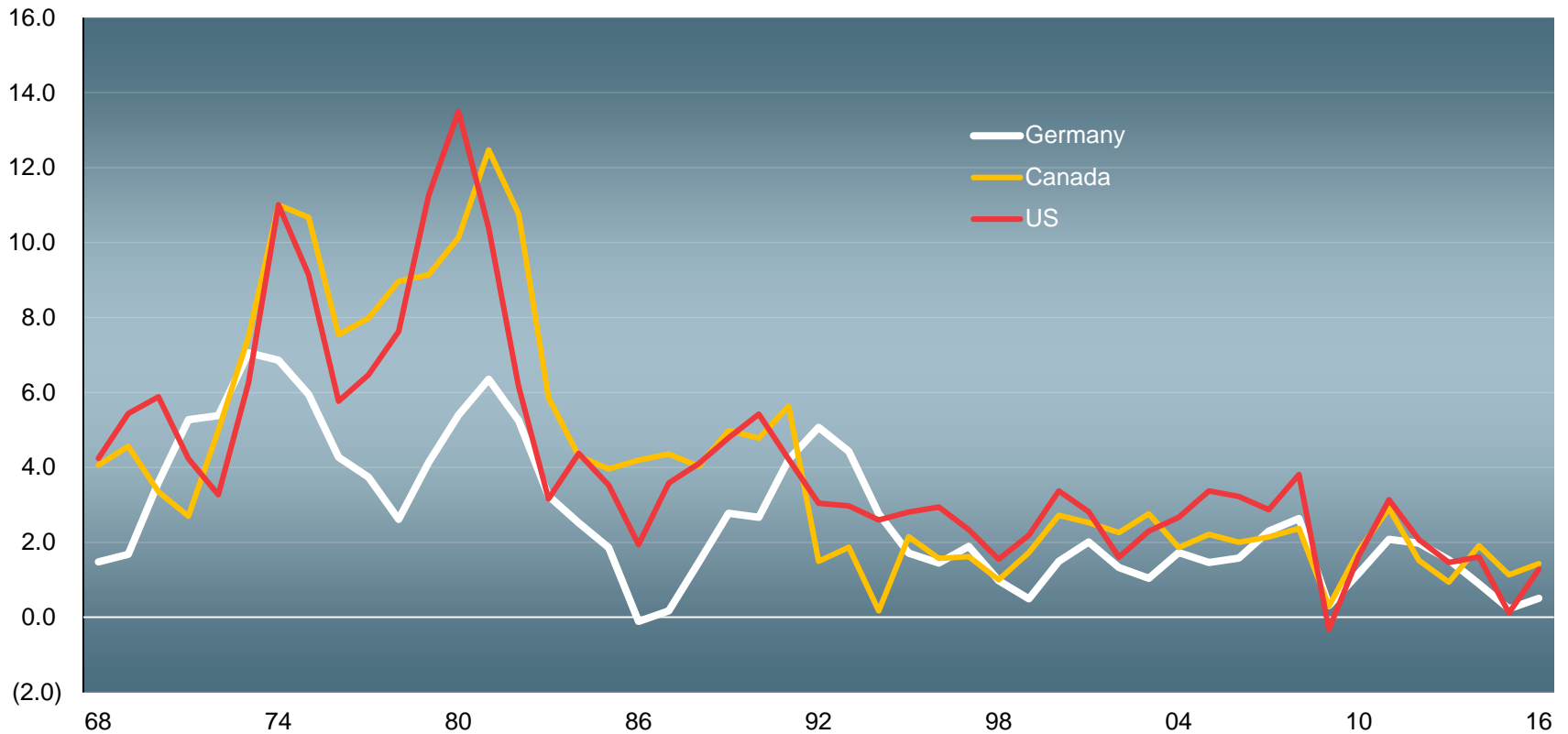
Poverty rates by country, classed by income levels



Sources: World Bank, Haver Analytics

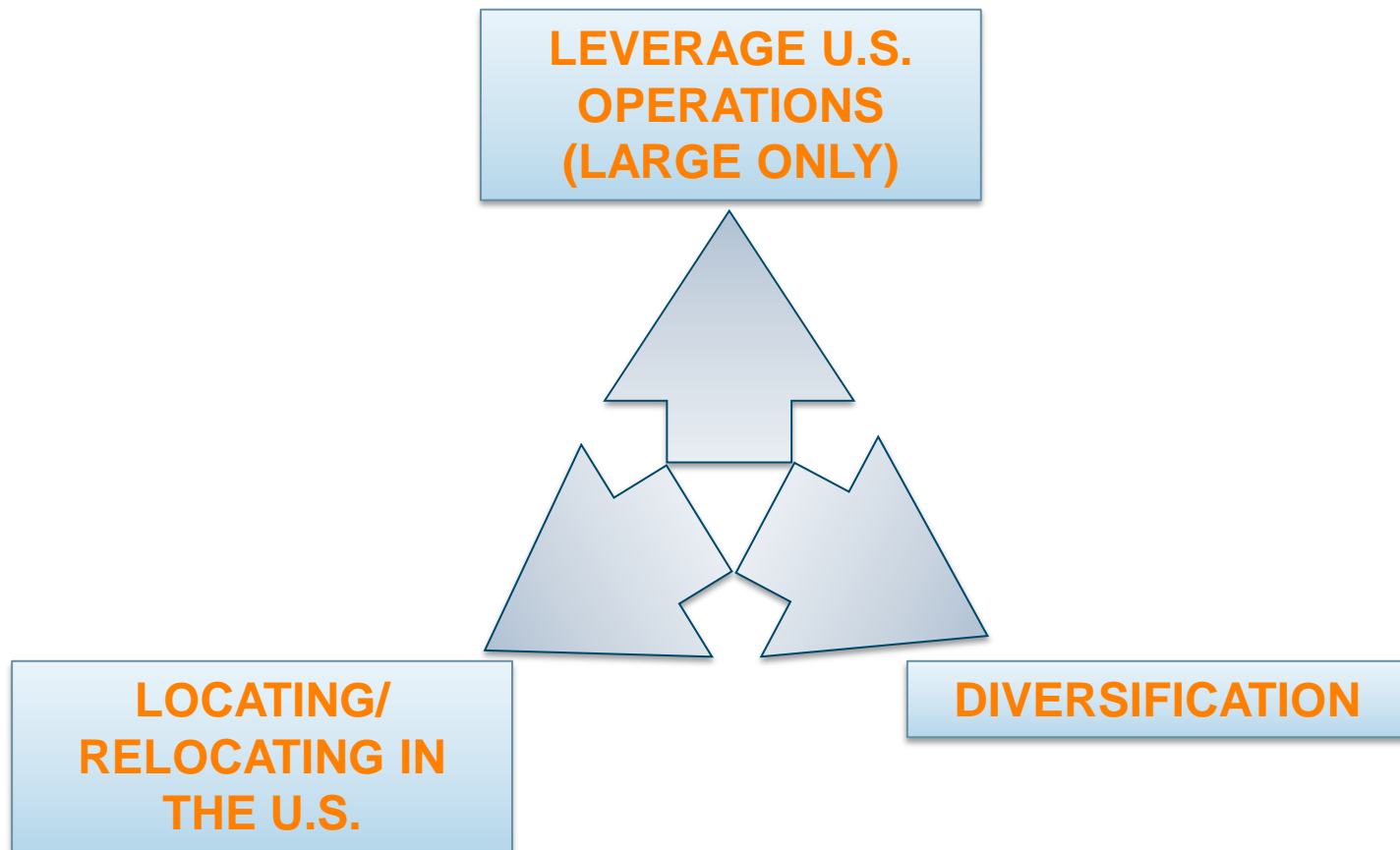
BENEFITS OF GLOBALIZATION: STABLE PRICES

Consumer price indexes, year-to-year growth, %



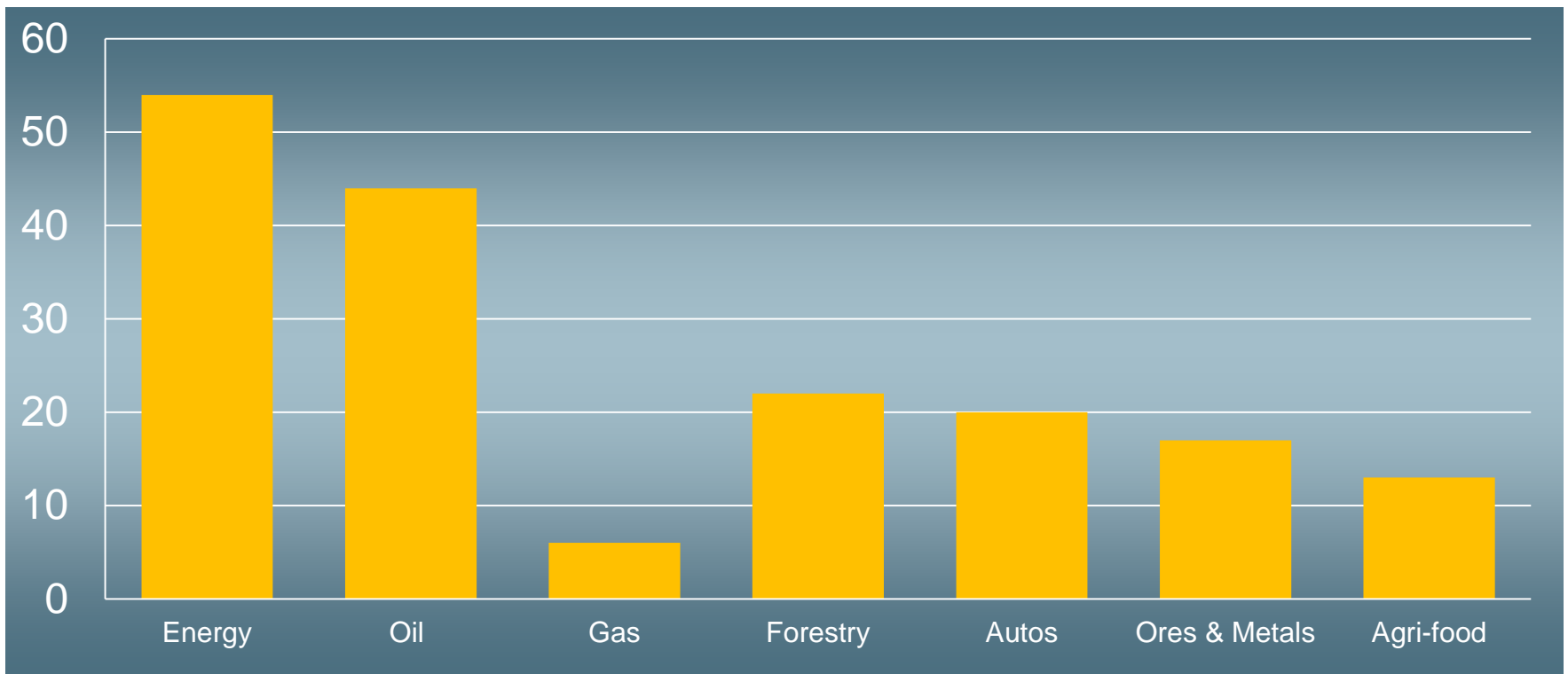
Sources: Bbk, StatCan, BLS, Haver Analytics

REACTIONS: UNNERVING



INDUSTRIES AT RISK?

Canada's surplus in trade with the US, by industry, \$B



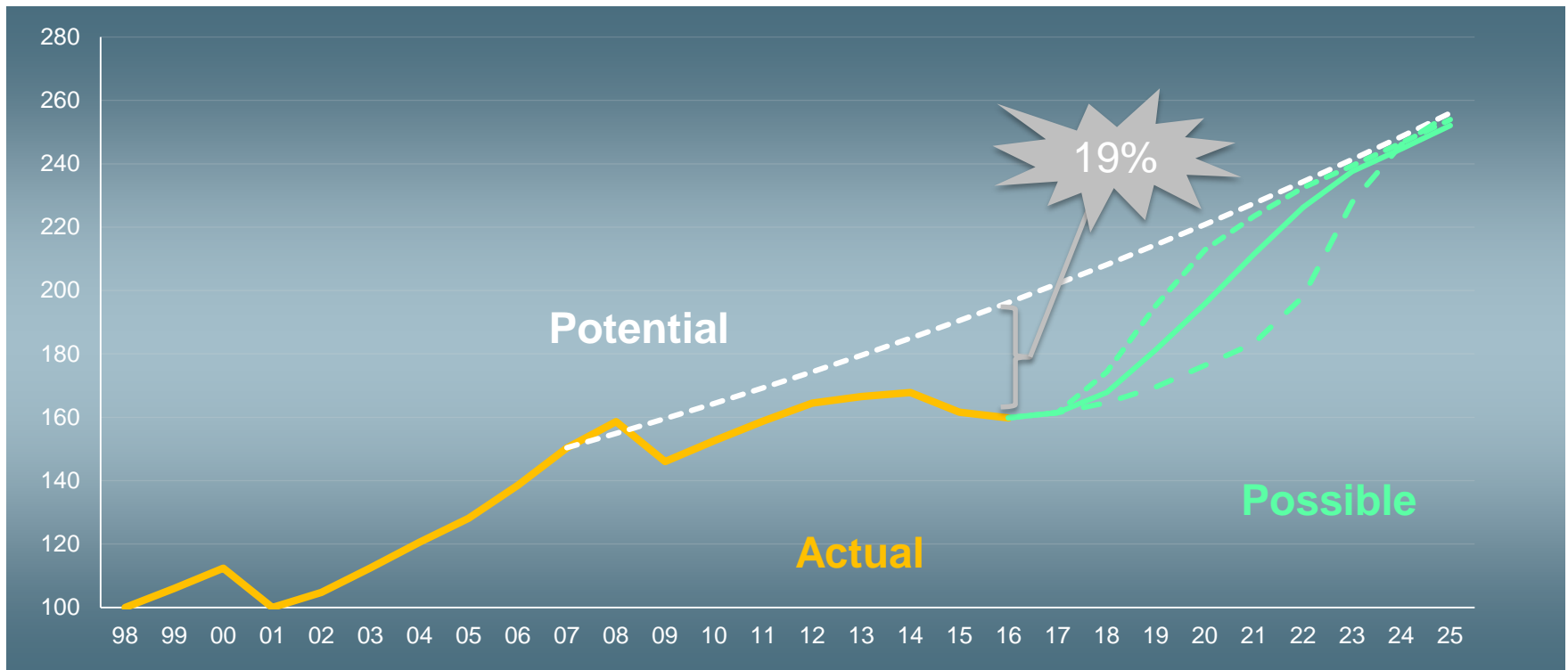
Sources: Statistics Canada, Haver Analytics

Production shifts: easy, right?

- Supply chains: dependence
- “Domestic-only” production: costly
 - *Consumers/producers/shareholders*
- Capacity constraints in OECD
- Labour supply: ample?
- Technology: too advanced to go back?

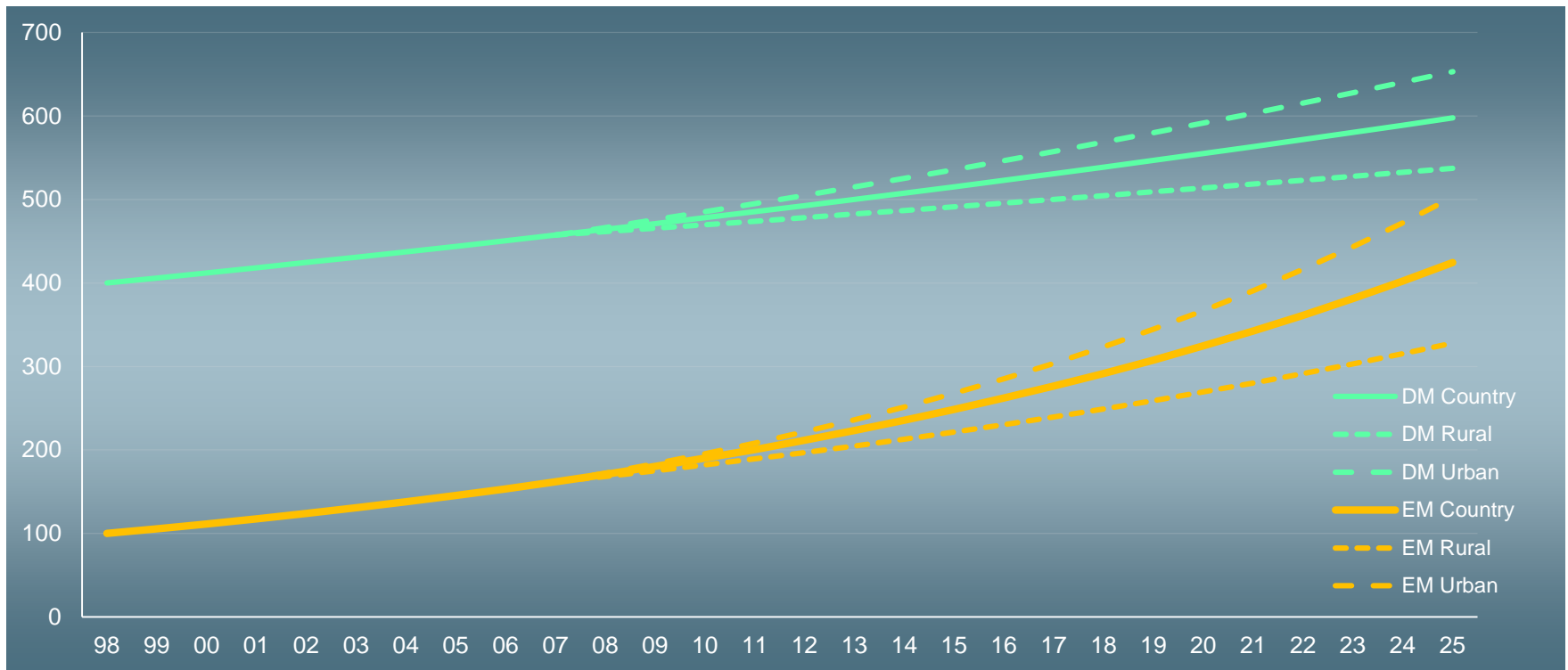
RECOVERING MARKET GROWTH DYNAMICS: E.G. RUSSIA

GDP growth, actual and potential



URBAN VS. RURAL GROWTH: A GROWING WEDGE?

Potential economic growth, urban vs. rural



CANADA-EU CETA: TOP 10 GROSS IMPACTS

Canadian exports by industry, % and dollar-valued gains

CHANGE IN BILATERAL EXPORTS, 2014 BASELINE		
	Cdn exports to EU	
	% gain	\$C gain
Processed foods	141.7	1,365
Textiles	73.6	115
Petroleum, coal products	60.2	605
Wearing apparel	60.0	95
<i>Construction</i>	45.7	30
Primary agriculture	41.8	791
Chemical products	34.5	555
Leather products	33.3	5
Metals	29.3	861
Motor vehicles & parts	28.8	255
Metal products	26.7	61

Source: Canada-EU joint study, 2008

CANADA-EU CETA NET IMPACTS: RISKS, OPPORTUNITIES

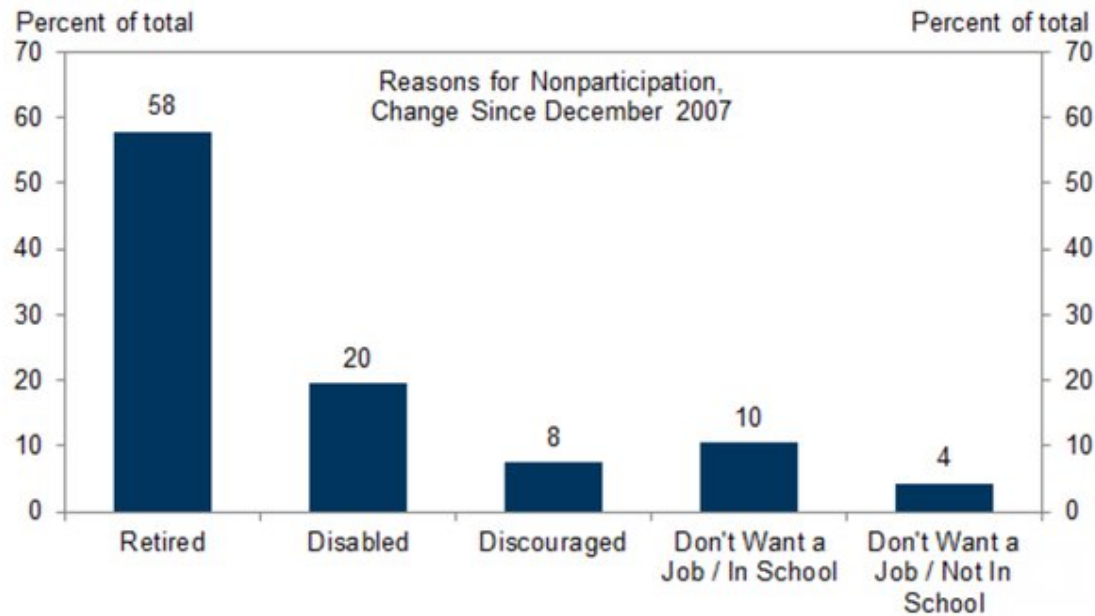
By industry, % and dollar-valued net gains

CHANGE IN BILATERAL EXPORTS, 2014 BASELINE				
	Cdn exports to EU		EU exports to Cda	
	% gain	\$C gain	% gain	\$C gain
Processed foods	141.7	1,365	326.2	5,571
Wood products	16.7	72	30.7	235
Petroleum, coal products	60.2	605	73.8	359
Metals	29.3	861	19.4	56
Motor vehicles & parts	28.8	255	18.3	631
Transport equipment	23.1	592	7.9	183
Primary agriculture	41.8	791	6.3	23

Source: Canada-EU joint study, 2008

REASONS FOR LOW PARTICIPATION

Most of Decline Since 2007 Reflects Retirement and Disability



Source: Department of Labor, Goldman Sachs Global Investment Research

IMPACT OF OIL PRICES ON THE CANADIAN ECONOMY

Oil Price Impact by Economic Sector, % of GDP

Category	Oil Price, WTI Crude, \$US			
	\$75	\$60	\$40	\$25
Oil price scenario:				
O&G direct	-1.6%	-2.6%	-3.8%	-4.8%
Indirect investment	-0.2%	-0.3%	-0.4%	-0.5%
Manufacturing (cost)	0.6%	1.0%	1.5%	1.8%
Manufacturing (effect of \$)	0.7%	1.2%	1.8%	2.2%
Consumer	0.4%	0.6%	0.9%	1.2%
Fiscal	-0.1%	-0.2%	-0.3%	-0.4%
Net impact, % of GDP	-0.16%	-0.26%	-0.39%	-0.48%

Source: EDC Economics

PROVINCIAL EXPORT OVERVIEW

	CAD bn	% Share of Total Exports	Export Outlook (% growth)		
	2015	2015	2015	2016 (f)	2017 (f)
Newfoundland and Labrador*	9.1	1.9	-30	-11	18
Prince Edward Island	1.2	0.3	16	7	6
Nova Scotia	5.3	1.1	1	6	4
New Brunswick	12.2	2.5	-6	-6	9
Quebec	79.7	16.6	7	5	5
Ontario	195.9	40.8	10	7	3
Manitoba	13.9	2.9	3	4	5
Saskatchewan	32.4	6.8	-8	-3	8
Alberta	92.2	19.2	-24	-10	14
British Columbia	35.9	7.5	0	2	5
Total	479.6	100.0	-3	2	6

Sources: Statistics Canada, EDC Economics, 2015 is actual data while 2016 and 2017 are forecast