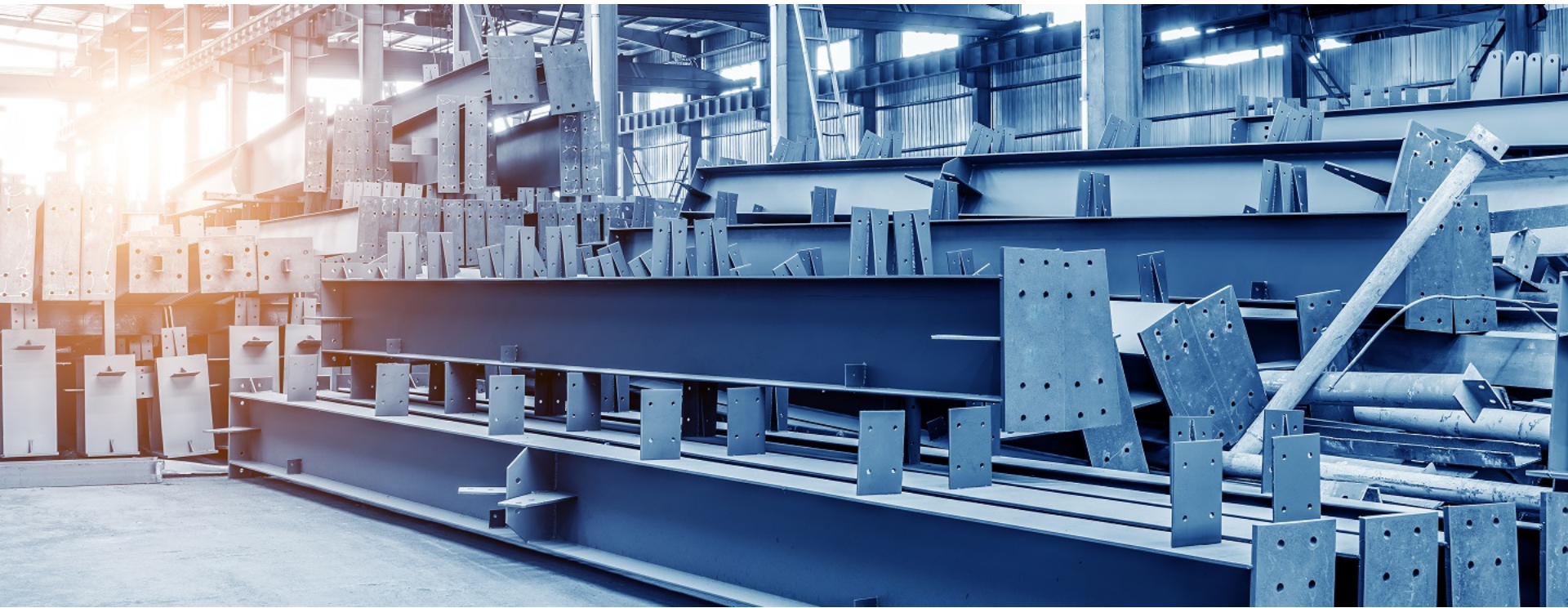


EDC's Global Economic Outlook



Stephen Tapp
Deputy Chief Economist

Canadian Institute of Mining, Metallurgy and Petroleum
September 26, 2018
Toronto, Ontario

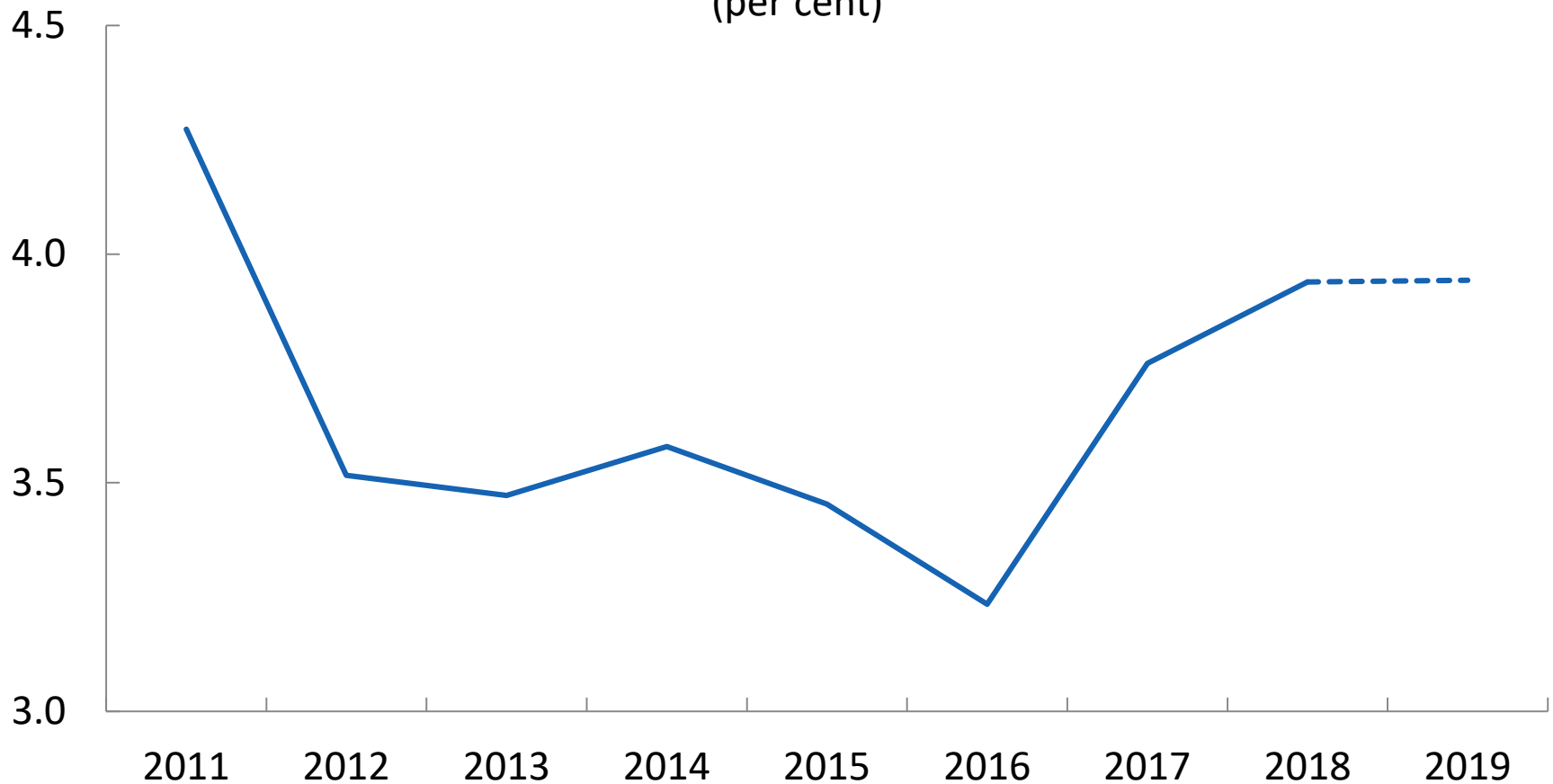
Main messages

- **Global economy and trade performing well**
- **This cycle should continue**
- **Possible spoilers:**
 1. **US protectionism**
 2. **Interest rate normalization and re-pricing risk**

Delayed Global Recovery Continues Despite Trade Frictions

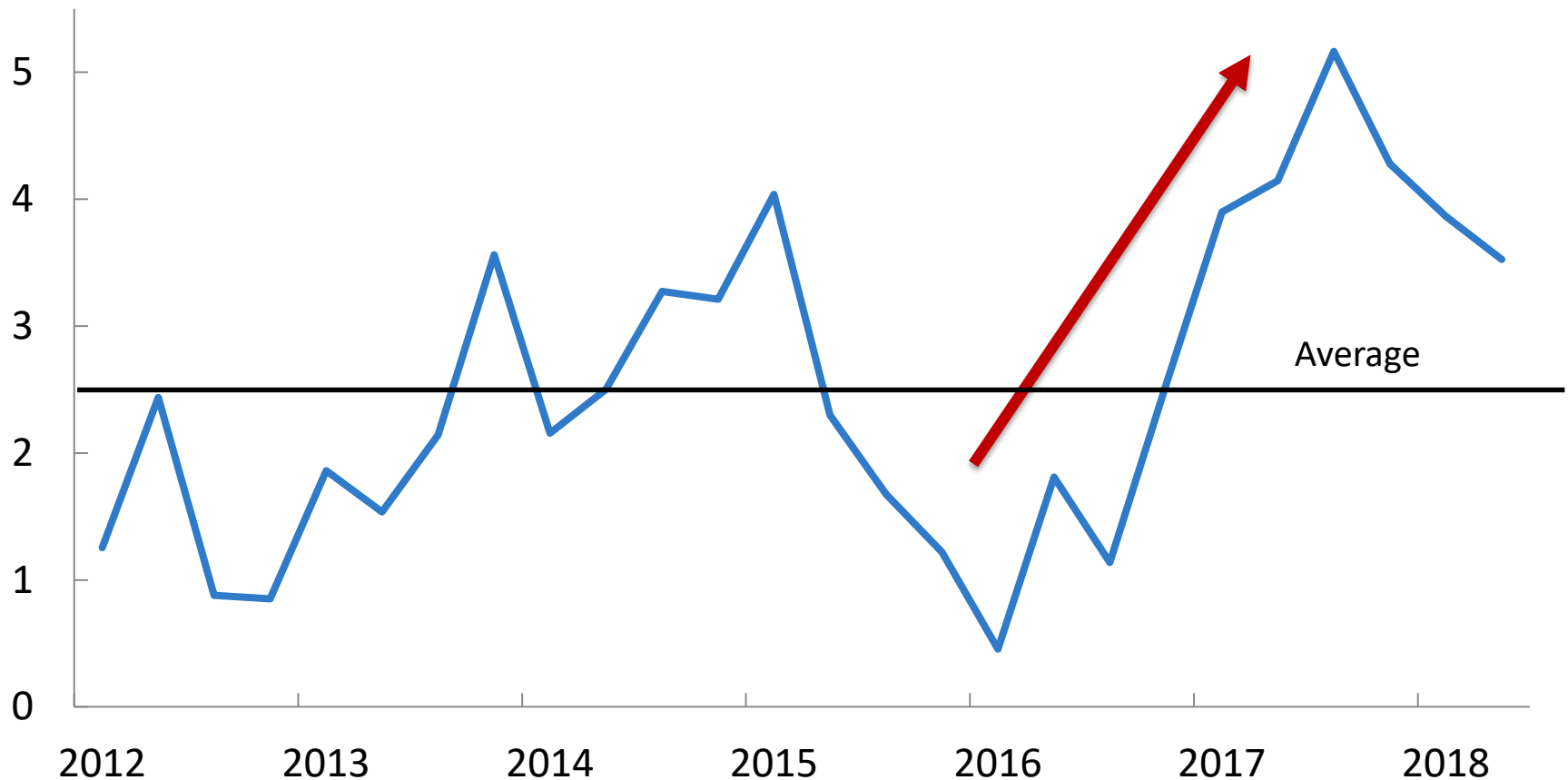
Better global growth

World real GDP growth
(per cent)



Global trade a key driver

World merchandise export volumes
(annual growth %)



Economic overview

Tighter labour
markets

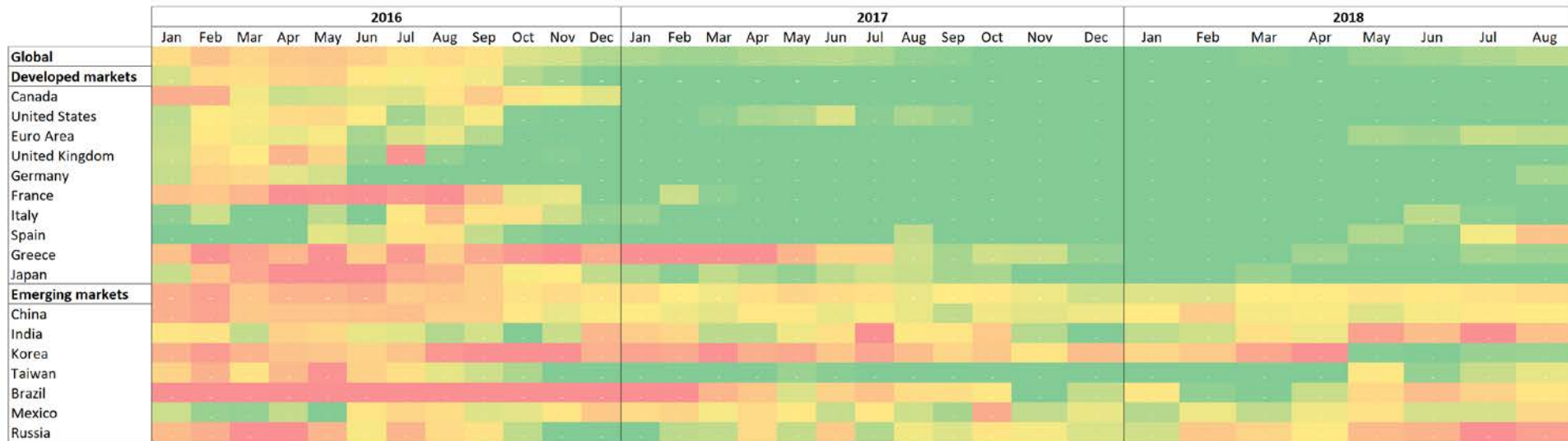
Canada-US
near capacity

Inflation
firming

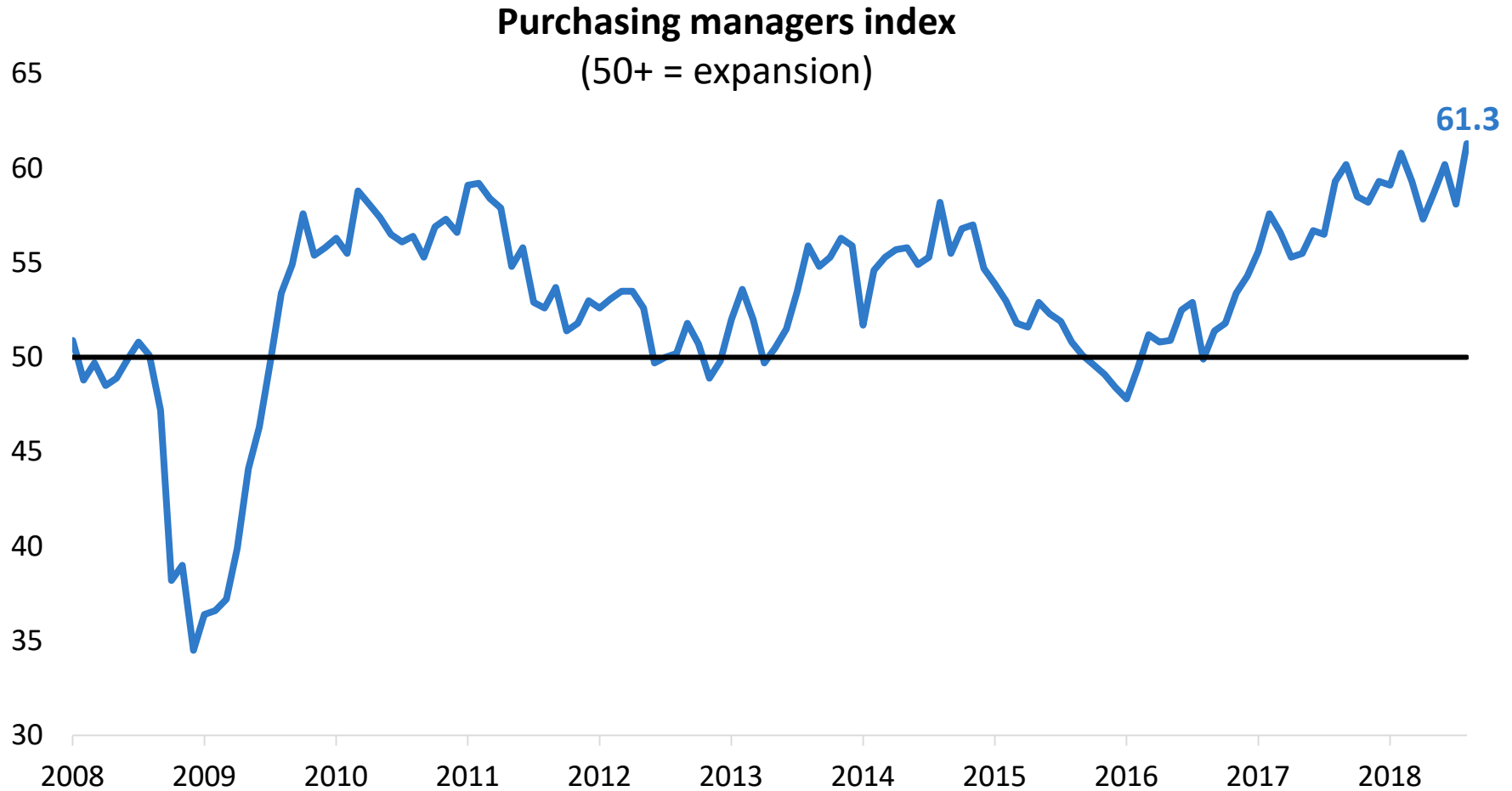
Inflation rates
normalizing

Order books green

Purchasing managers indices
(Green = expansion; red = slowdown)

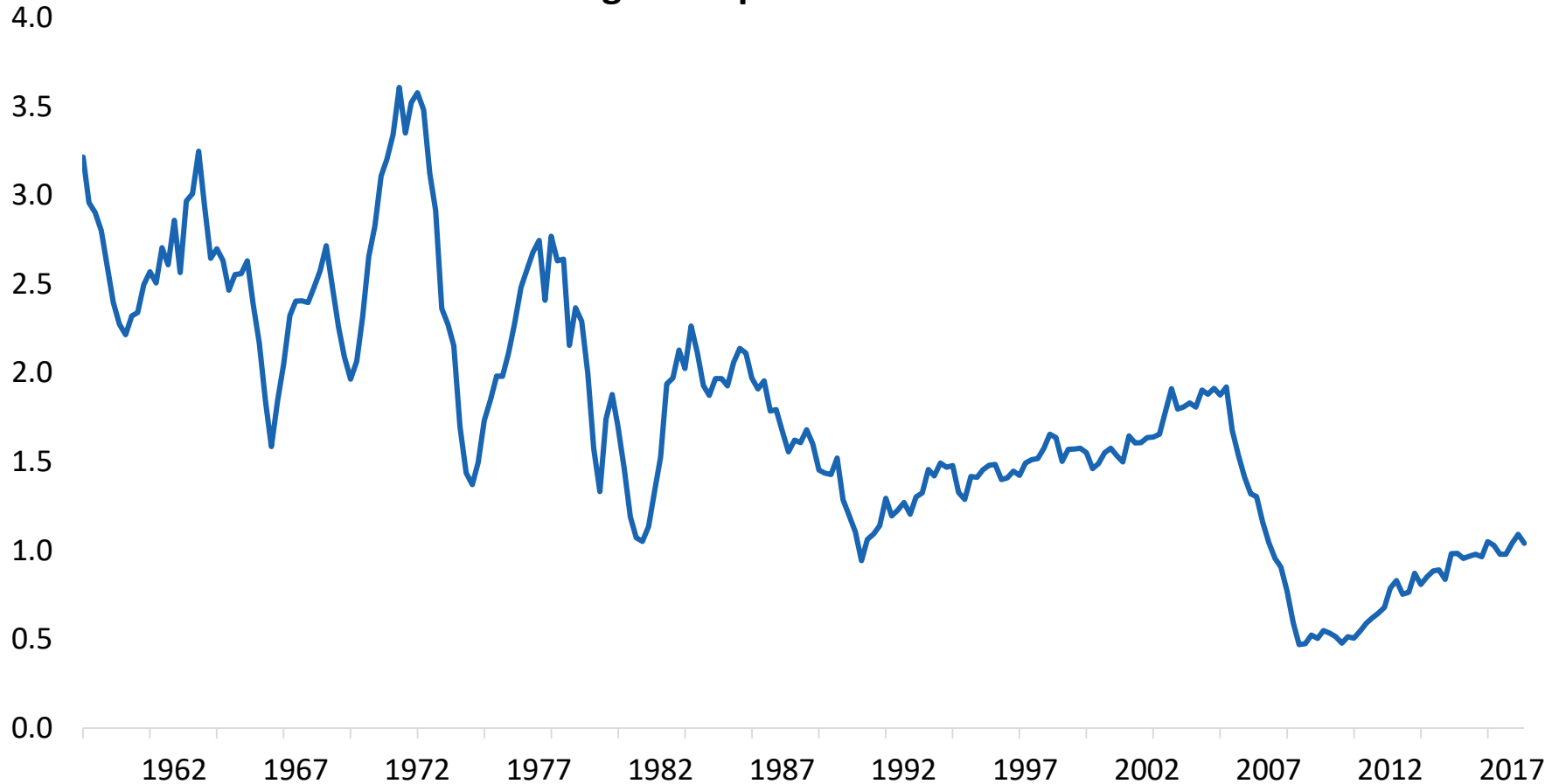


US economy very strong

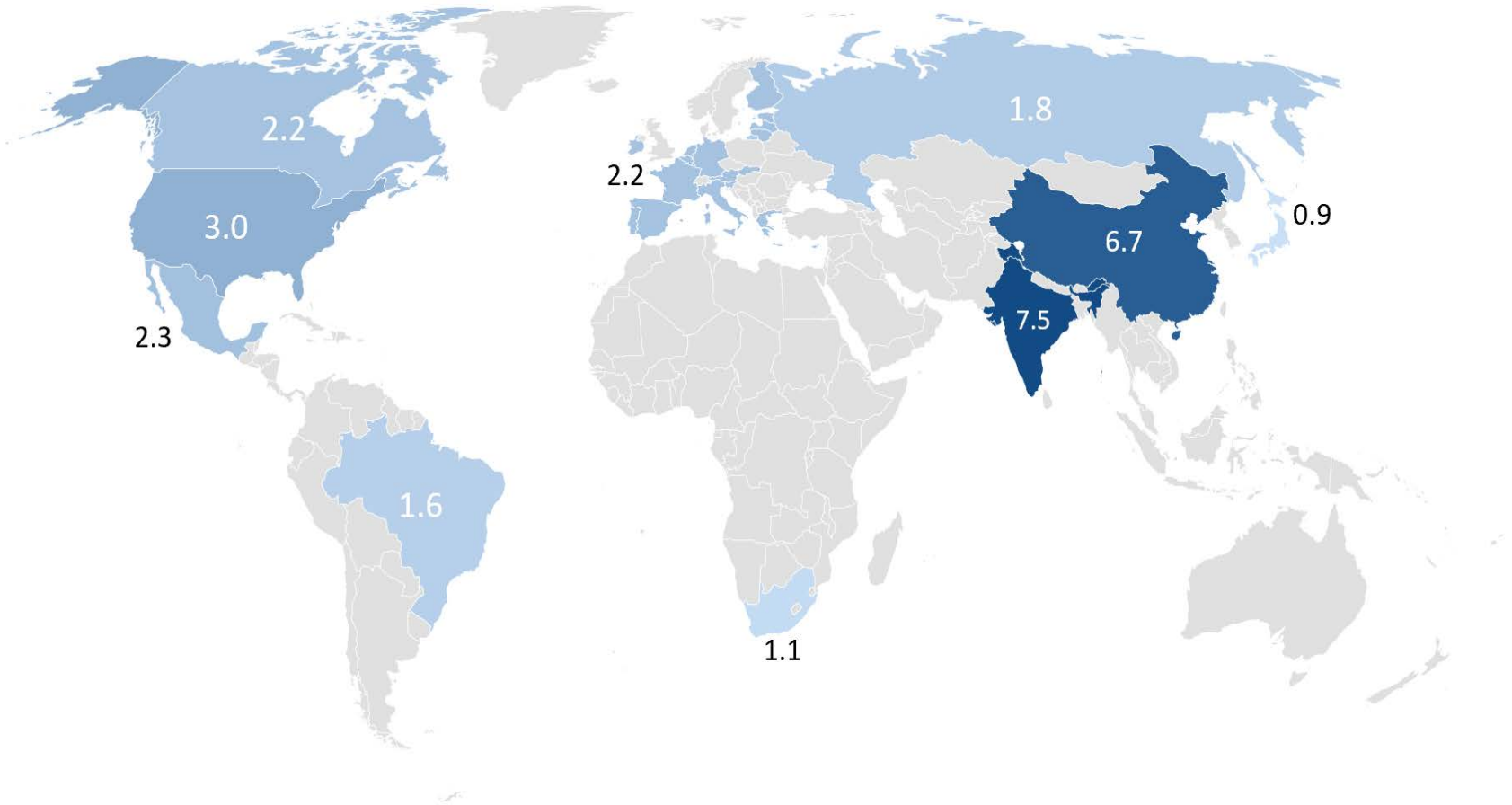


US housing has room to grow

Housing starts per 100 households



EDC's Global Economic Outlook 2018 forecasts

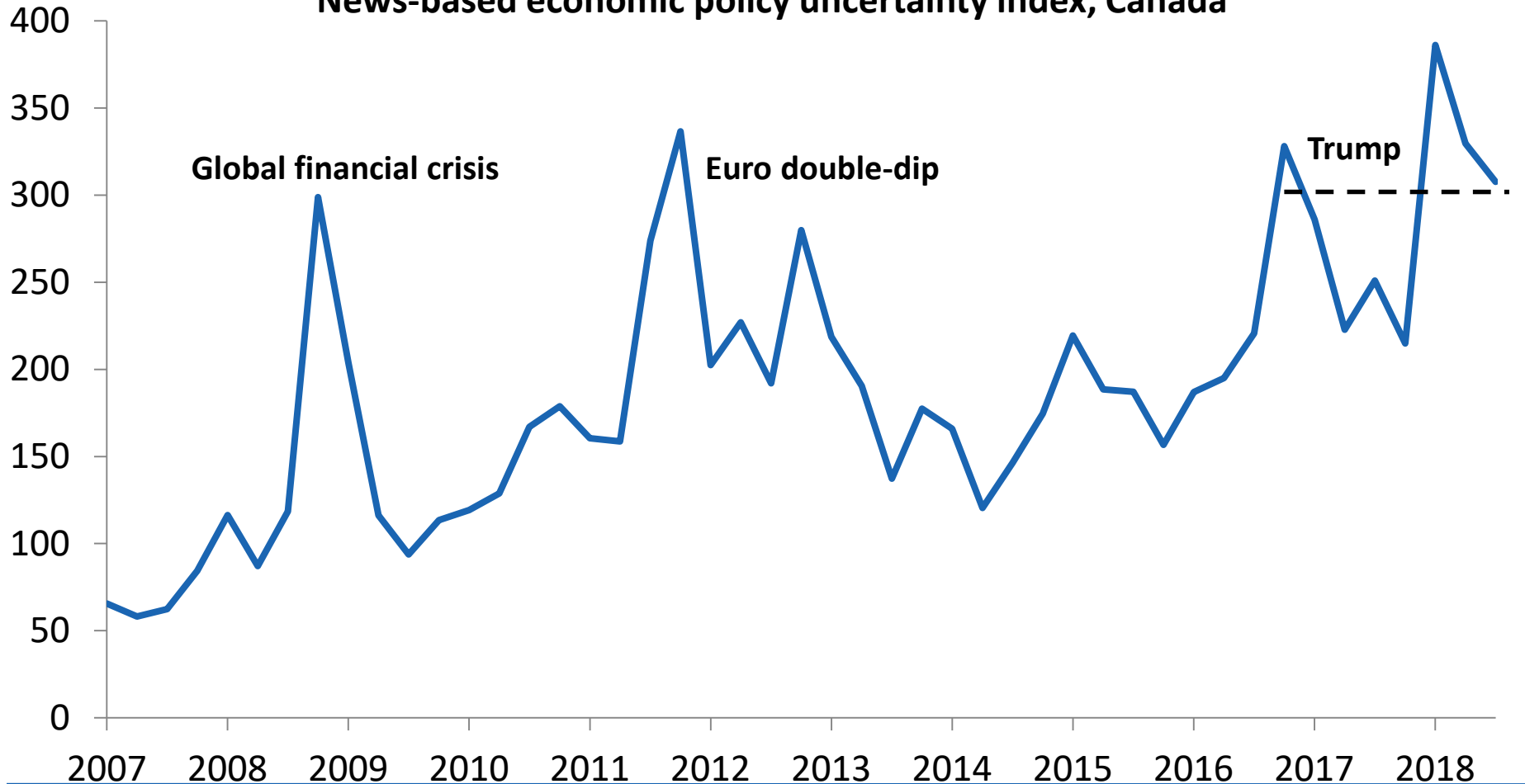


Almost half of global growth coming from China and India!

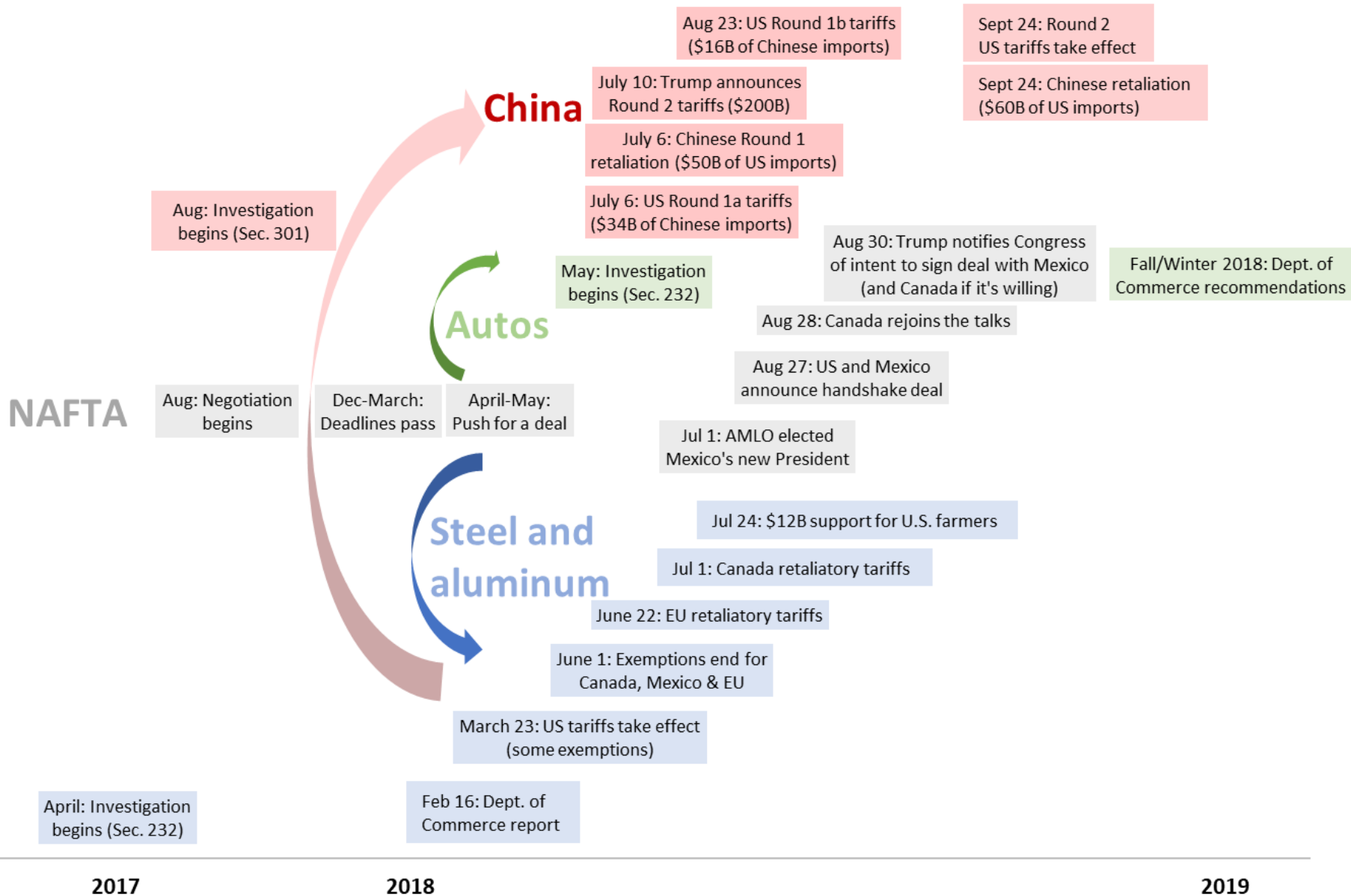
Risk 1: US Trade Policy

Weaponizing uncertainty

News-based economic policy uncertainty index, Canada

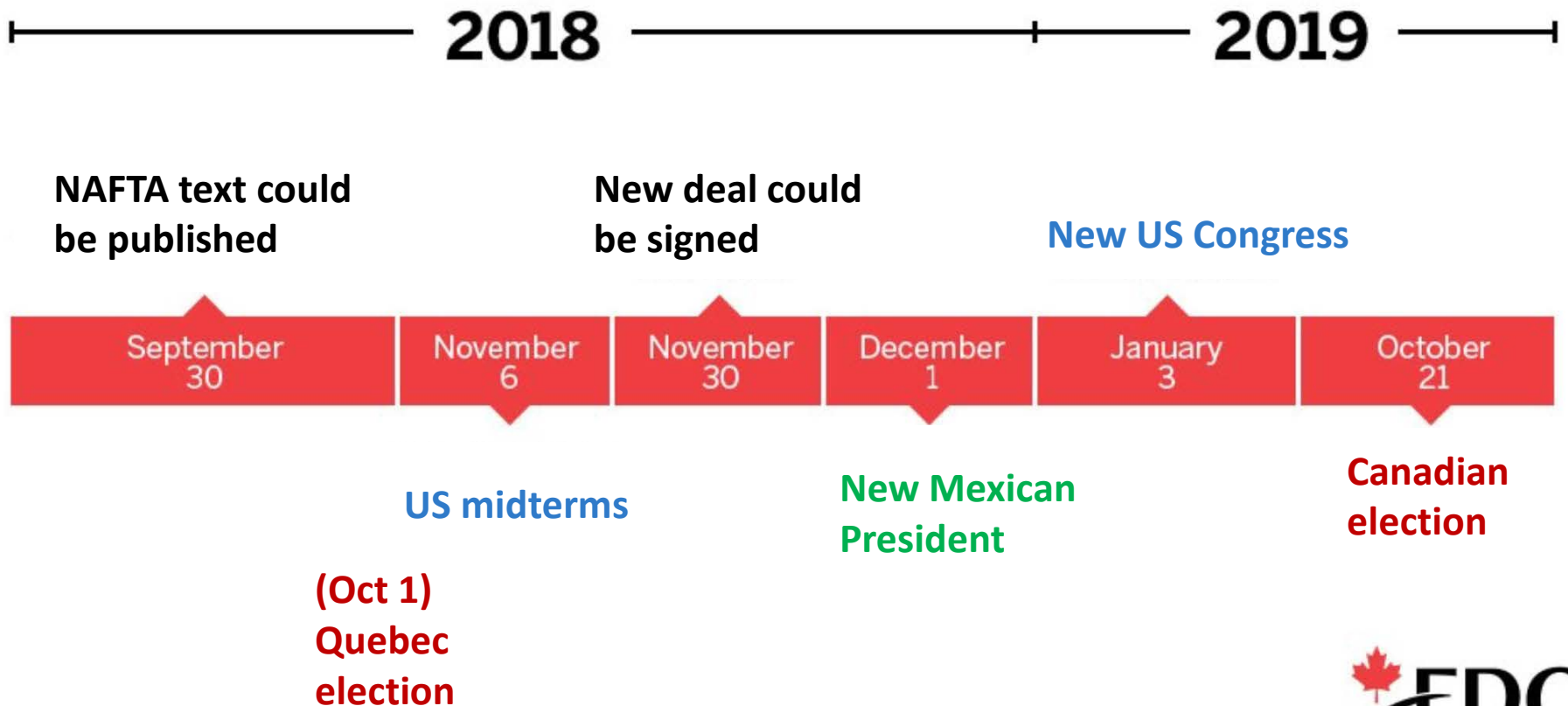


Key US trade policy developments



NAFTA dates to watch

Aug 30: Trump notified Congress US-Mexico deal, Canada may join



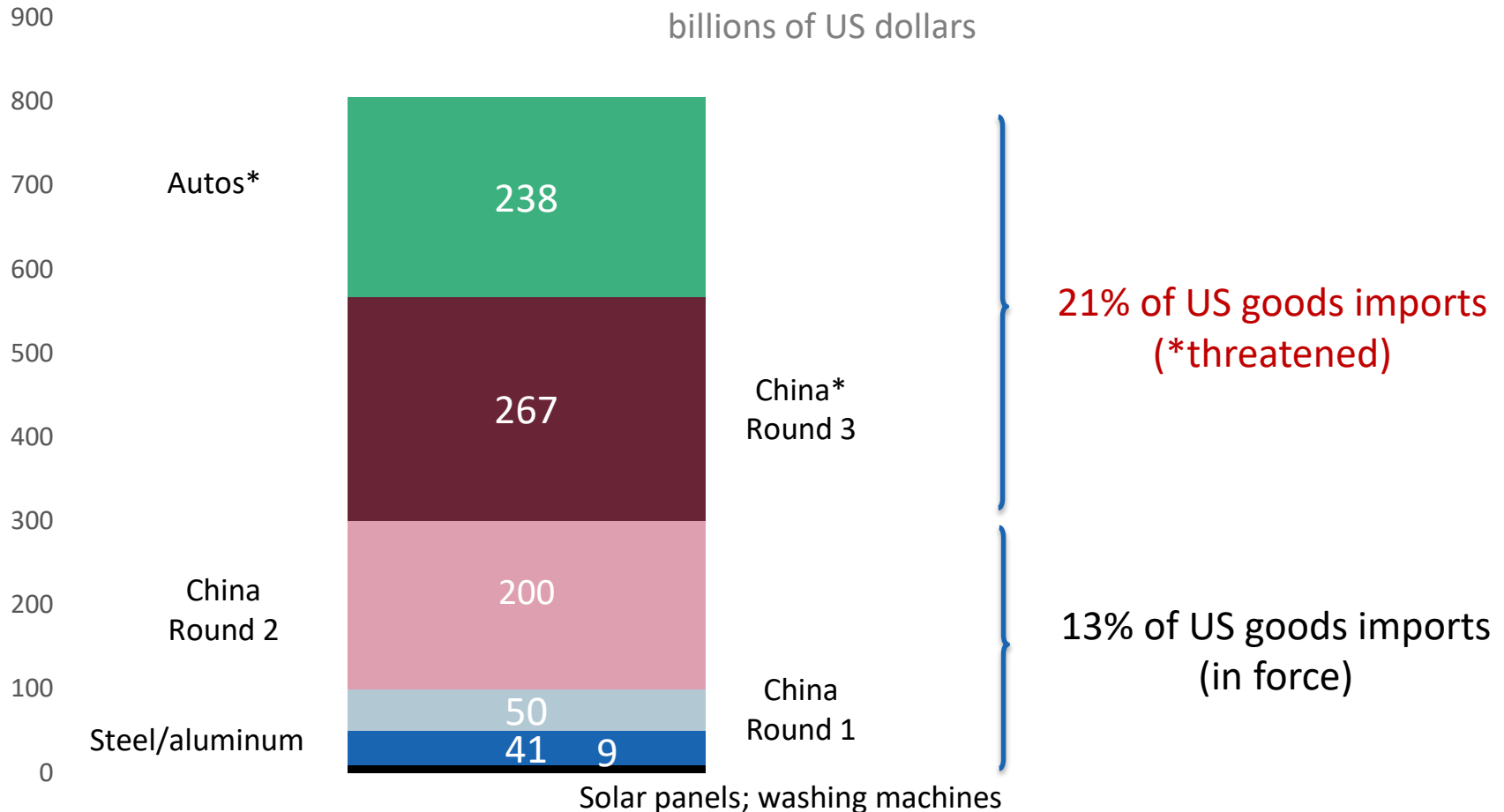
Outstanding issues

- **Dispute settlement**
- **Restraining US tariffs**
- **Supply management**
- **And more...**

Tariff-ying escalation?

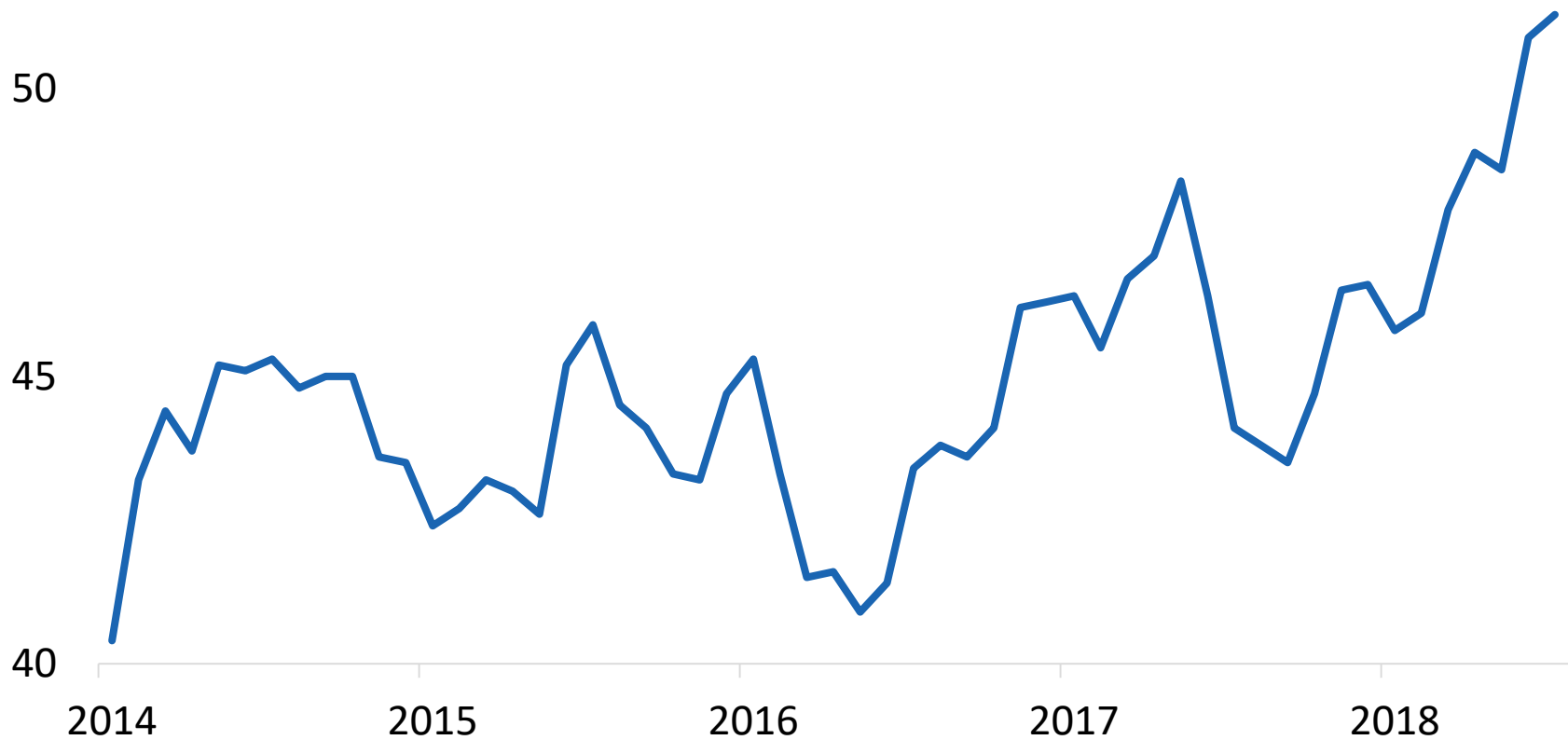
Value of US imports subject to tariffs, 2017

billions of US dollars

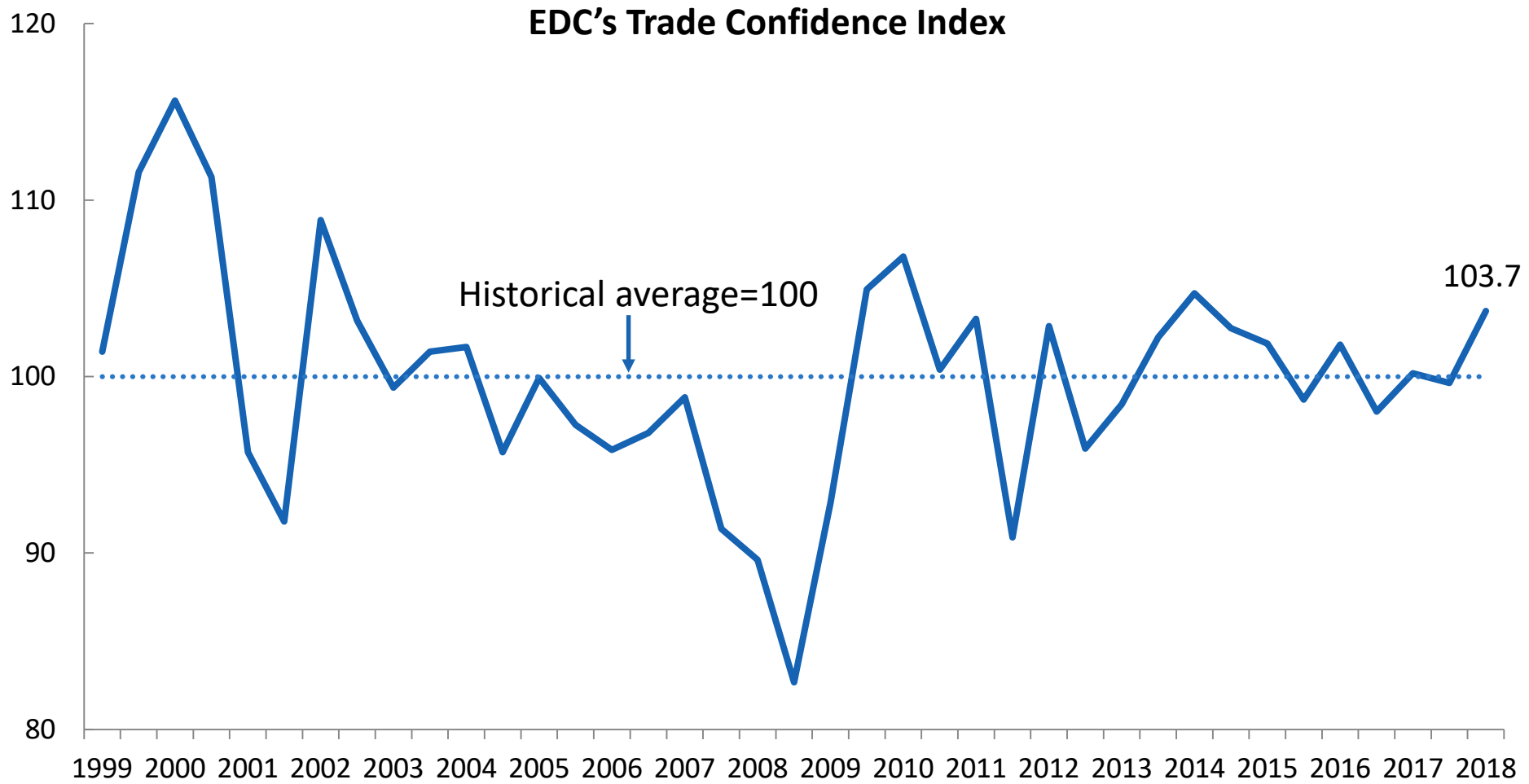


Record Canadian exports levels

Canadian exports
(billions of Canadian dollars)



Overall Canadian exporters not panicked



Current assessment

Trade:

**Resilient, but some
tariff impacts**

Investment:

**Holding up, but some
hesitation**

Mining and Commodities

Sectoral breakdown - 2017

Goods exports	Share of total exports (per cent)	Export value (\$ billion)
Energy	17%	103
Automotive	14%	85
Ores and metals	13%	78
Agri-food	10%	64
Chemicals and plastics	7%	43
Forestry products	6%	34
Industrial M&E	4%	27
Consumer goods	4%	23
Advanced technology	3%	18
Aerospace	3%	16
Fertilizers	1%	7
Total	100%	\$498

Canadian export forecast

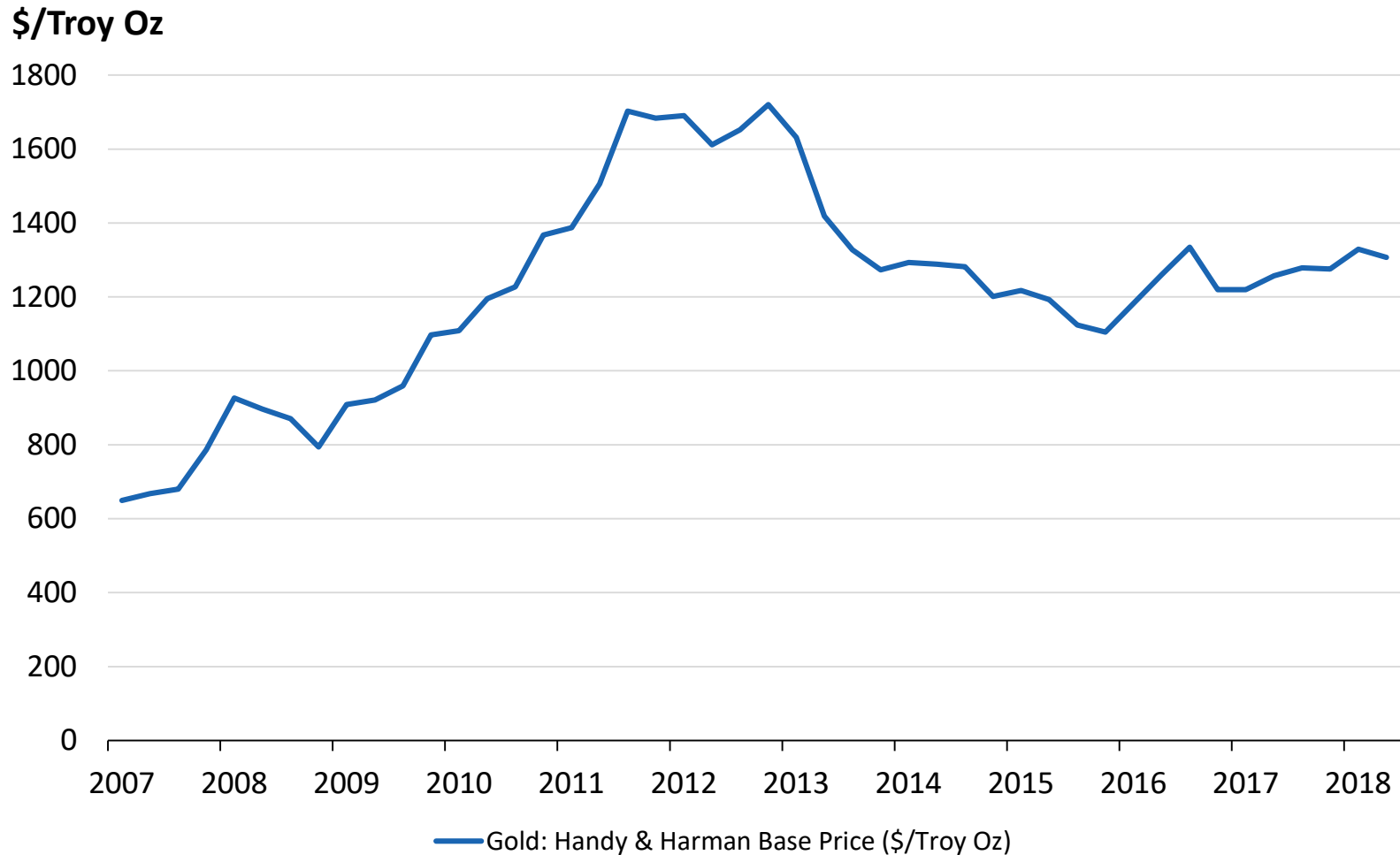
Sector	Growth, 2018(f)	Growth, 2019(f)
Advanced Technology	1%	1%
Aerospace	19%	10%
Agri-food	-1%	4%
Automotive	-2%	4%
Chemicals and plastics	12%	3%
Consumer goods	1%	3%
Energy	9%	3%
Fertilizers	13%	4%
Forestry products	12%	7%
Industrial M&E	8%	8%
Ores and metals	7%	3%
Total Goods	6%	4%

Oil and Canadian dollar outlook

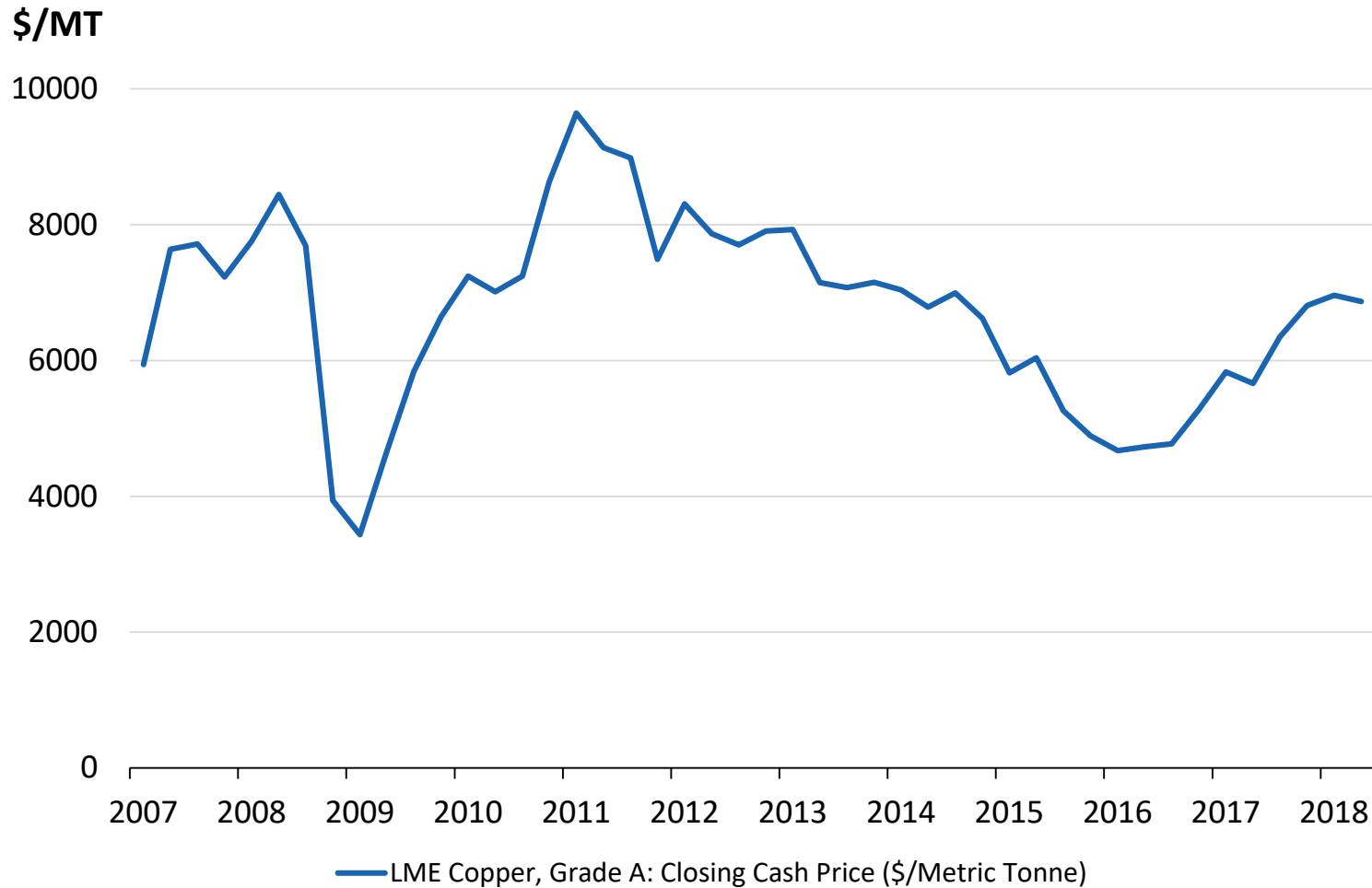
(percent change)

	2016	2017	2018(f)	2019(f)
West Texas Intermediate	43.22	50.91	66.30	63.40
CAD/US	0.75	0.77	0.78	0.79

Gold price



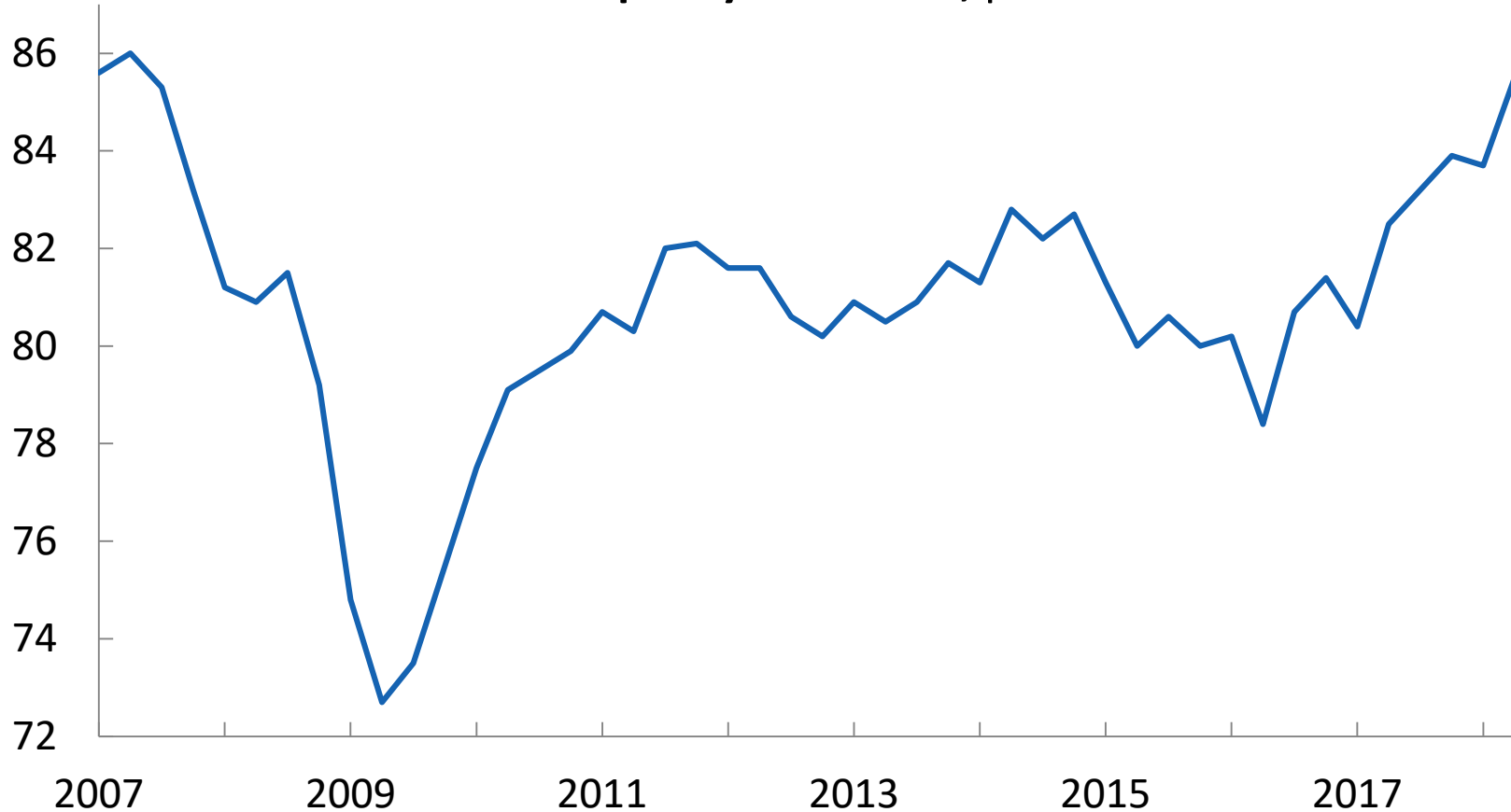
Copper price



Risk 2: Re-Pricing Risk

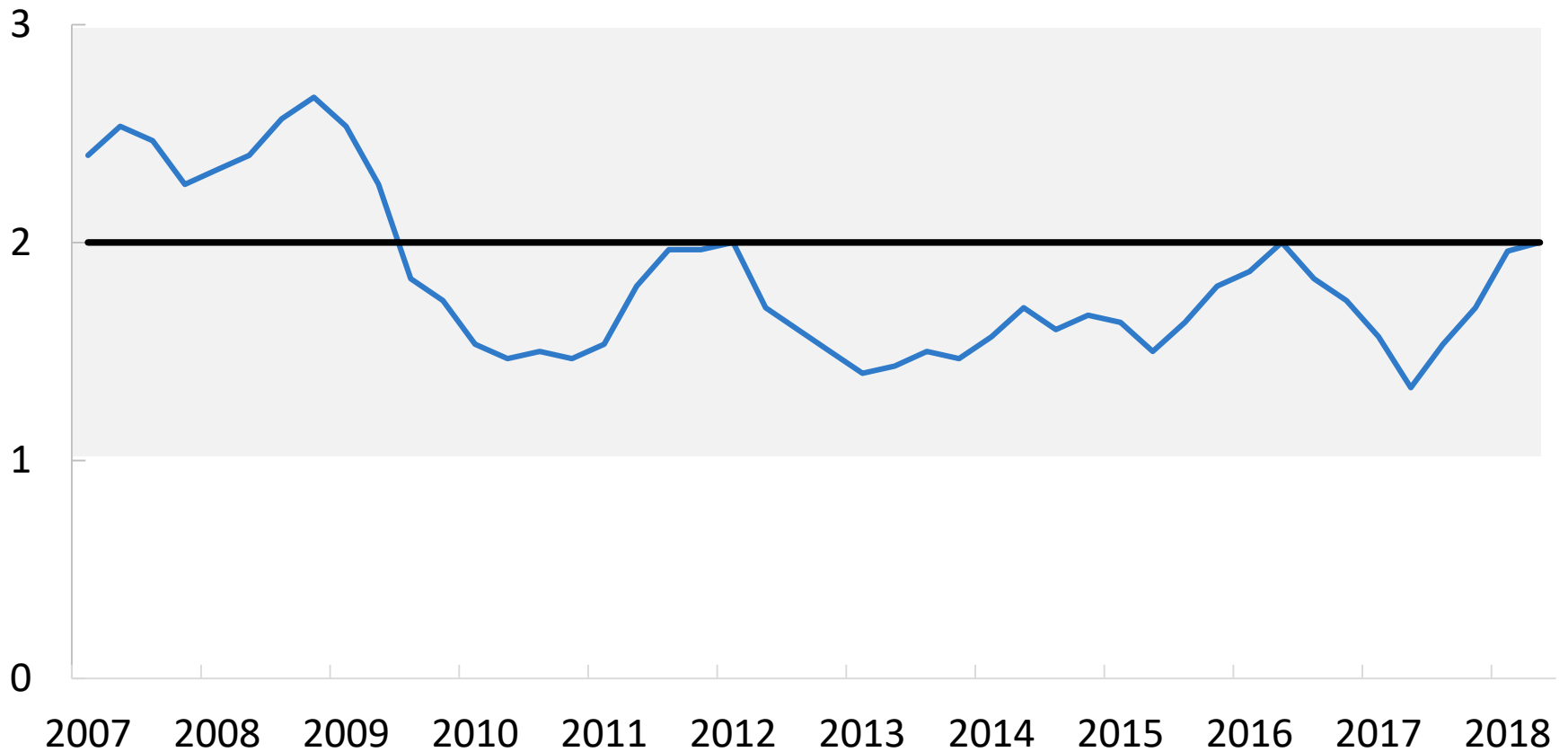
Canada's capacity use: highest in a decade

Industrial capacity utilization, percent



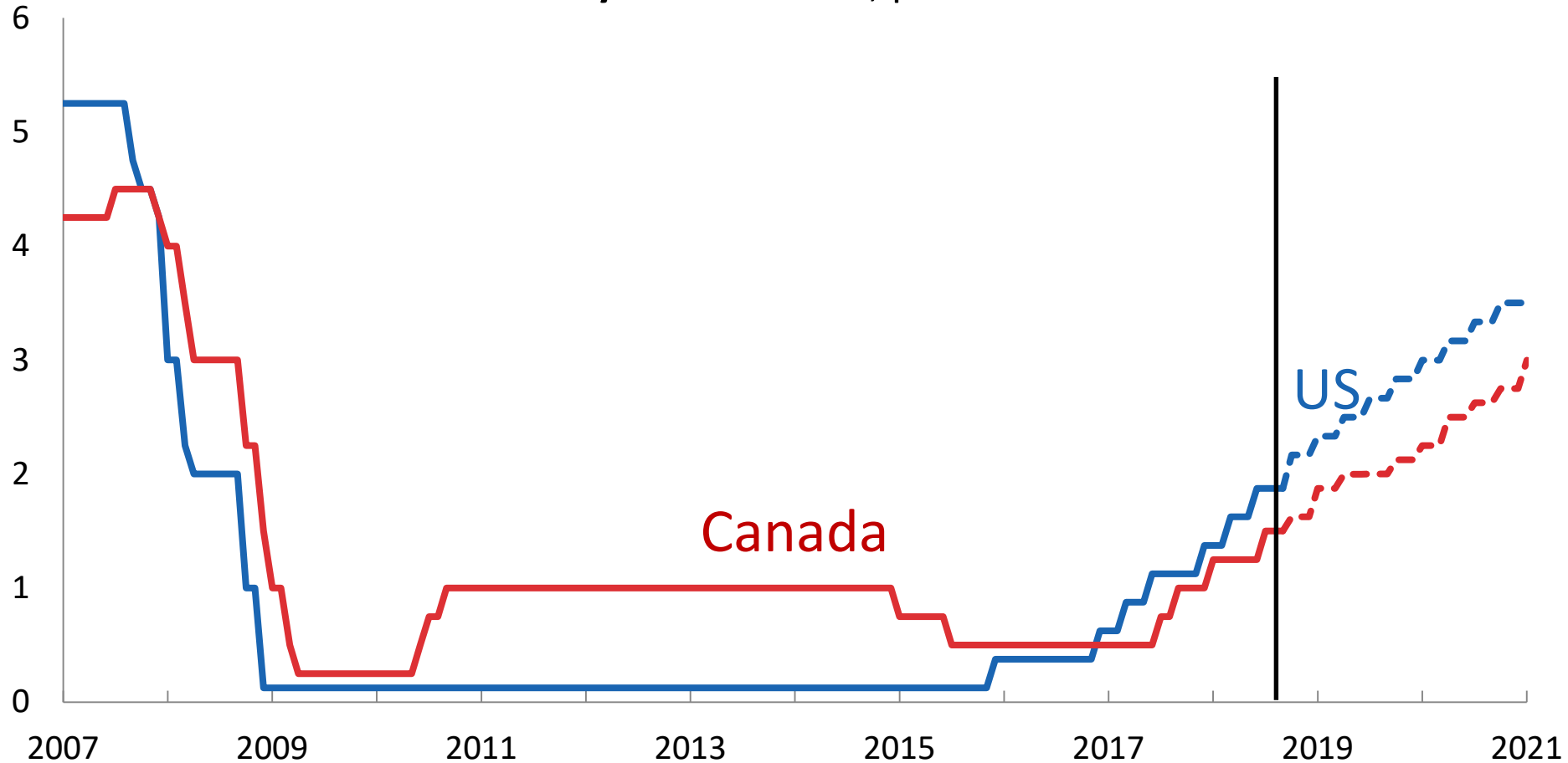
Core inflation on target

Average Bank of Canada core inflation measures, annual growth, percent



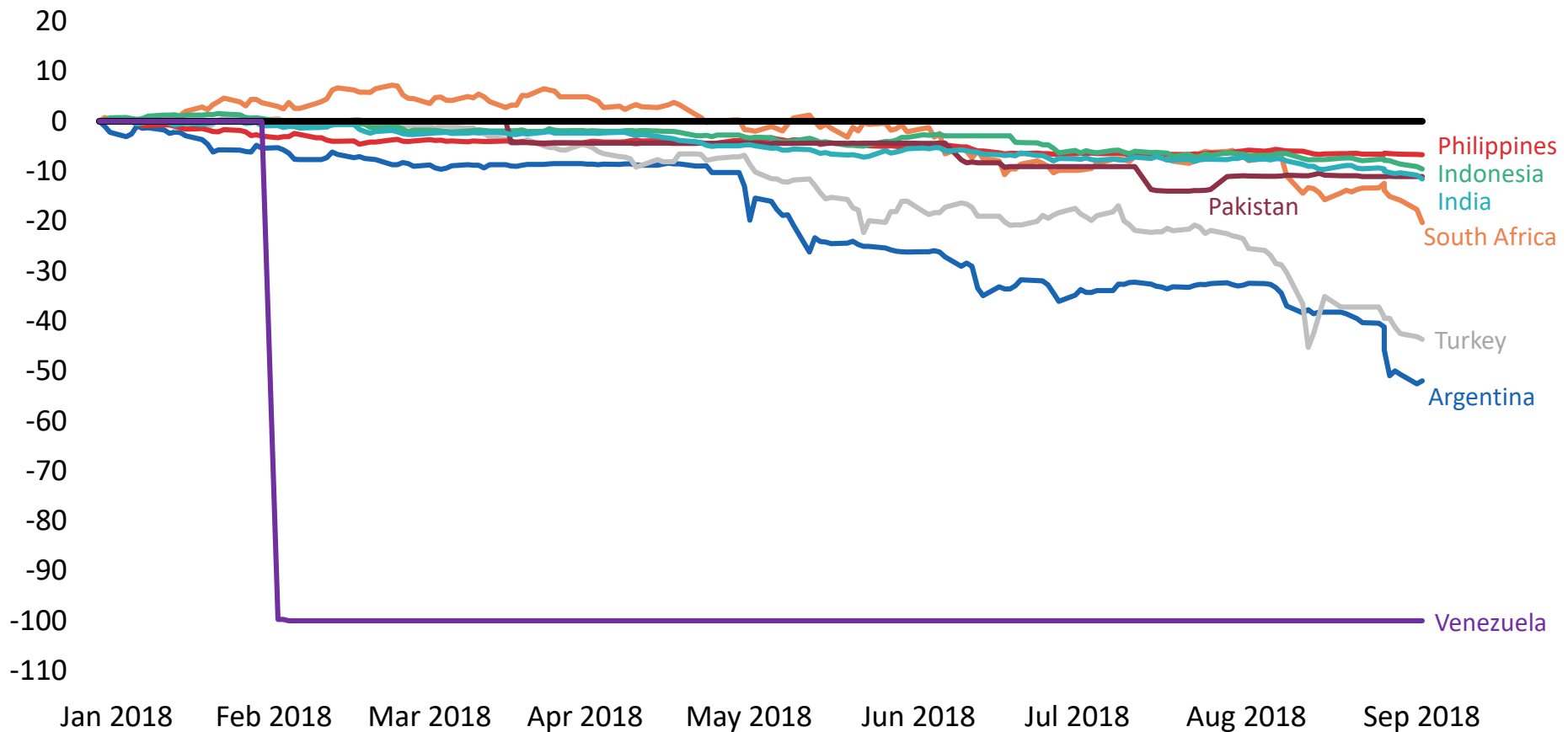
Slowly normalizing rates

Policy interest rates, percent



Some emerging market jitters

Currencies, percent change vs USD, since January 2018



5 Markets We're Watching

1. **Turkey:** significant current account deficit; heavy borrowing in USD/Euros by banks and corporates.
2. **Argentina:** currency under pressure and high inflation, even though fiscal policies and potential early IMF disbursement have stabilized the currency.
3. **South Africa:** significant short-term debt-to-international reserves and currency depreciation stemming from rising risk aversion towards emerging markets.
4. **Pakistan:** high levels of short-term external debt to reserves; ongoing currency depreciation and political uncertainty.
5. **Egypt:** high interest-to-revenue ratio; relies on IMF program expiring in 2019.

Conclusions

- **Global economy and trade performing well**
- **Expected to continue if downside risks contained**
 - ***Short term:* Don't rule out drama
US-China escalation or auto tariffs**
 - ***Long term:* Trilateral NAFTA**

Contact

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Fall 2018

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