



Bennett  
Jones

# Global Economic Outlook

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Presented by  
David A. Dodge  
Jane Bird

Vancouver Board of Trade

# Recent Economic Developments

- › The Global Economy has strengthened since last fall.
- › Much of the considerable slack that existed in advanced economies in early 2016 has been absorbed.
- › China continues to grow strongly.
- › Emerging market economies have strengthened.
- › Global Growth now at notional speed limit of 3½%.
- › Canadian growth in 2017 far above potential.

# Recent Global Policy Developments

- › Central Banks are raising policy rates slowly but monetary conditions will remain accommodative over most of the next two years.
- › Now expect only modest U.S. fiscal stimulation to growth.
- › European policies less “austere” and mildly stimulative.
- › Chinese fiscal and monetary policy remains expansionary.
- › U.S. trade policy unsettling.

# Outlook

## Short-term Prospects for Output Growth (%)

	<b>Share (%)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Canada</b>	1.5	3.1 (2.4)	2.1	1.6
<b>United States</b>	16.4	2.2 (2.3)	2.3	2.0
<b>Euro area</b>	12.3	2.2 (1.5)	1.9	1.6
<b>Japan</b>	4.6	1.5 (0.6)	1.0	0.8
<b>Advanced economies<sup>1</sup></b>	34.8	2.1 (1.8)	2.0	1.7
<b>China</b>	17	6.7 (5.7)	6.5	6.3
<b>Rest of World</b>	48.2	3.3 (3.2)	3.6	3.6
<b>World</b>	100	3.5 (3.1)	3.5	3.4

<sup>1</sup> Weighted average of Canada, United States, Euro area and Japan. Figures in brackets from Fall 2016 Outlook.



# Global Issues with Implications for Canada

- › Lack of progress on NAFTA negotiations.
- › Uncertainty re monetary and fiscal policy.
- › Chinese economic policy after the 19<sup>th</sup> Congress.
- › U.S. debate on tax cuts.

# NAFTA (Status)

- › Negotiations going very badly on main issues.
- › American position totally unacceptable.
- › American objective to discourage investment in Mexico and Canada.
- › U.S. negotiators have no desire or authority to make a deal now.
- › U.S. business just waking up.

# NAFTA (Implications for Business)

- › Do not panic; stay cool; rag the puck.
- › Support “team Canada” offensive in U.S.
- › Prepare for long period of uncertainty before some sort of arrangement will be reached.
- › Prepare for U.S. withdrawal; prepare a “Plan B”.

# Monetary Policy Conundrum

- › Why do central banks say policy is “data dependent”?
- › Unemployment is low and falling indicating strong demand and little slack in the U.S. and Canadian economy.
- › But prices and wages in North America are not yet accelerating.
- › Inflation is still stubbornly below target.



# Implication for Interest Rates

- › Federal Reserve favours slow removal of accommodation.
- › Federal Reserve likely to raise policy rate to about 2% by end 2018.
- › Bank of Canada likely to raise policy rate to about 1¾% by end 2018.
- › Bank of Canada and Federal Reserve policy rates “should” be nearer to 3% at the end of 2019.
- › And 10 year government bonds 3½ to 4%.

# Chinese Policy after the 19<sup>th</sup> Congress

- › Change in emphasis from growth at any price to transformation and “modernized economy”.
- › “Quality instead of Speed”.
- › In short run, still aim for 6½% growth with little effective change in fiscal or monetary policy.
- › **Belt and Road Initiative** reinforced at the Congress.

<b>Key Planning Parameters for 2017-2019</b>			
	<b>2017</b>	<b>2018</b>	<b>2019</b>
US GDP growth (%)	2.2	2.3	2
Canadian growth (%)			
Real GDP	3.1	2.1	1.6
Household consumption	3.5	2.2	1.8
Business non-res. investment	1.9	3.8	2.9

<b>Key Planning Parameters for 2017-2019</b>			
	<b>2017</b>	<b>2018</b>	<b>2019</b>
Interest rates (year-end) (%)			
BOC target overnight rate	1	1.75	2.5-3.0
10-year GOC	2.1	2.75-3.0	3.25-3.75
10-year US Treasuries	2.4	3	3.50-4.0
US Fed funds rate	1.5	2-2.25	2.5-3.0
Exchange rate US\$/CAN\$ (year-end)	0.79	0.8	0.82
WTI oil price (US\$/bbl, annual average)	51	55	60

# Federal Fiscal Policy


- › Federal deficit projected (not inappropriately) to remain at about \$20B for next two years.
- › Spending is supportive of “inclusiveness” and current employment:
  - consumption (CTB, WITB, housing);
  - indigenous issues and social infrastructure.
- › But plans for investment in productivity enhancing infrastructure less clear.

# Federal Infrastructure Program

- › No clear federal plan for “national” projects.
- › Lack of emphasis on productivity enhancing investment.
- › Focus is on “integrated Bilateral Agreements” with provincial, municipal and indigenous partners.
- › Focus on public transit, social infrastructure.
- › Not all “new” money.

# Canada Infrastructure Bank

- › \$35 B over 11 years allocated.
- › Very slow start.
- › Politicians not supportive of user pay.



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<http://www.bennettjones.com/DodgeDavid/>

<http://www.bennettjones.com/JaneBird/>

