GLOBAL ECONOMIC OUTLOOK

GLOBAL OUTLOOK: HOPE DEFERRED

EDC Economics

Jan. 28, 2021

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: HOPE DEFERRED

By Peter Hall
Vice-President and Chief Economist

It wasn’t supposed to be this way. 2020 began on an optimistic note with the promise that a fresh start would help. But just days later, COVID-19 hit China and within weeks became a worldwide pandemic. Deadlines for defeating the coronavirus have come and gone, dashing hopes repeatedly. One year on, infections are rising, and new restrictions have again clamped down on the economy. “Double-dip” is coming back into street-speak. With this poor start, how will the world economic outlook fare?

First and foremost, it all hangs on the pandemic. Current infection numbers are discouraging. Hopes are pinned almost squarely on the vaccination programs. With two vaccines testing at a 95% efficacy rate, and a third with impressive numbers, we’re ahead of where we thought we’d be last fall. Broad distribution is expected by mid-2021. If all goes well, the move back to normal should power growth through the second half of the year and into 2022.

How can we be so sure? First, much economic activity has already discovered how to work around COVID-19. A large majority of workers around the world kept working full time, and a large portion of those who didn’t have returned to work. This has helped to power an impressive rebound in retail sales, a sign that the consumer—a dominant force in most economies—is alive and well.

Second, there was ample evidence of pent-up demand ahead of the pandemic’s onset. Third, there has been a groundswell of mid-pandemic, pent-up demand. Without nearly the range of consumables to spend on, those with jobs have socked away trillions in savings, electing to park them in spending-ready bank accounts. Businesses have done the same. To the extent possible, stimulus cheques have likely been stashed away, too. All this points to capacity to unleash spending when conditions improve.

Fourth, with all the challenges hitting international trade, like anti-globalization, unanticipated new tariffs, fear of cross-border infection and populism—which often breeds a misguided protectionism—exports are also on the up-and-up. Globally, merchandise trade is in the throes of a V-shaped recovery.

Renewed lockdowns haven’t changed fundamental conditions, but they have delayed things, changing the shape of the overall forecast. As such, Export Development Canada’s Economics’ team’s latest Global Economic Outlook expects growth that is somewhat softer this year than initially expected, with the first half of 2021 bearing the brunt of the weakness. We have revised 2021 growth down to 5.7% to reflect this. The second-half rebound will show up more in 2022, where we have revised world growth up to 5.2%.

EXECUTIVE SUMMARY (continued)

GLOBAL ECONOMIC OUTLOOK: HOPE DEFERRED

Emerging markets will outperform the developed world, growing 6.5% this year and 6% in 2022, powered in good part by China's rapid and resilient recovery. The developed world will be held back by punishing lockdowns, which in certain cases are producing a red-ink first quarter. Incidentally, despite perceptions, the United States' economy has outperformed the developed-world average, declining by a more modest -3.4% last year and staging a decent second-half recovery, which will lift 2021 growth to 4.1%.

Canada's experience has been more turbulent, although the decline in 2020 wasn't nearly as deep as initially feared. From an estimated drop of -5.6% in 2020, Canada will rebound by 4.4% in 2021 and by 4% next year.

World prices for commodities are also faring better than initially expected, fed in part by China's nascent voracious demand. Oil and gas prices are currently almost fully back from the abyss, although supply conditions will keep things suppressed as the economy recovers. Base metal prices will be resilient over the short term, and precious metals are up due to uncertainty.

Fiscal and monetary policy are generally expected to remain in stimulative mode this year, hanging in until there's more assurance about growth. The withdrawal of public spending measures will likely begin toward year-end and into 2022, but monetary tightening is unlikely before 2023.

The Canadian dollar will drift upward slowly over the forecast horizon, averaging US0.76 cents this year and US0.77 cents in 2022.

The bottom line?

As the proverb goes, hope deferred makes the heart sick. Serial disappointment is weighing on the economy, testing patience, provoking dissent. But the proverb continues: desire fulfilled is a tree of life. Fundamentals still strongly suggest a return to growth—in time to keep hopes from getting snuffed out. It couldn't come soon enough.

KEY ASSUMPTIONS

Given rapidly changing global events, there's a higher-than-usual degree of uncertainty around this forecast, which incorporates information available as of Nov. 30, 2020.

COVID-19

EDC Economics' base case forecast assumes a significant second wave of rising COVID-19 cases in North America, Europe and other regions. However, despite the fact many governments have tightened restrictions, the forecast assumes these responses will generally be more decentralized and location-specific than the economy-wide lockdowns used previously, and that there'll be less economic disruption. In the first wave, companies were forced to adapt on the fly, changing how they do business in an environment of significant distress and uncertainty; in the second wave, many companies and households will apply these learnings to mitigate economic impacts.

Reliable vaccines are being developed, with distribution expected to ramp up in early 2021. We assume the vaccines won't become widely available and adopted until the second half of 2021.

U.S. fiscal policy

The forecast for the U.S. economy is based on long-term fundamentals and policies currently in place. Any updated policies as a result of the election will be incorporated after enacting legislation is passed.

Financial conditions

Central banks around the world are expected to continue to provide extraordinary liquidity to maintain market functioning and overall financial stability. The base case forecast doesn't include any systemic financial crises resulting from COVID-19 pandemic. However, the outlook doesn't rule out the potential for localized debt defaults in some sectors and amongst some emerging markets during the later stages of the recovery as debt overhangs are worked out.

U.S.-China trade relations

The forecast assumes the Phase One trade agreement signed in January 2020 remains in place.

Brexit

The forecast assumes a relatively orderly transition for the United Kingdom and European Union, based upon a broad trade agreement, which will include adjustment pains, but will ultimately allow essentially "free trade" to continue for most goods traded between the EU and U.K.

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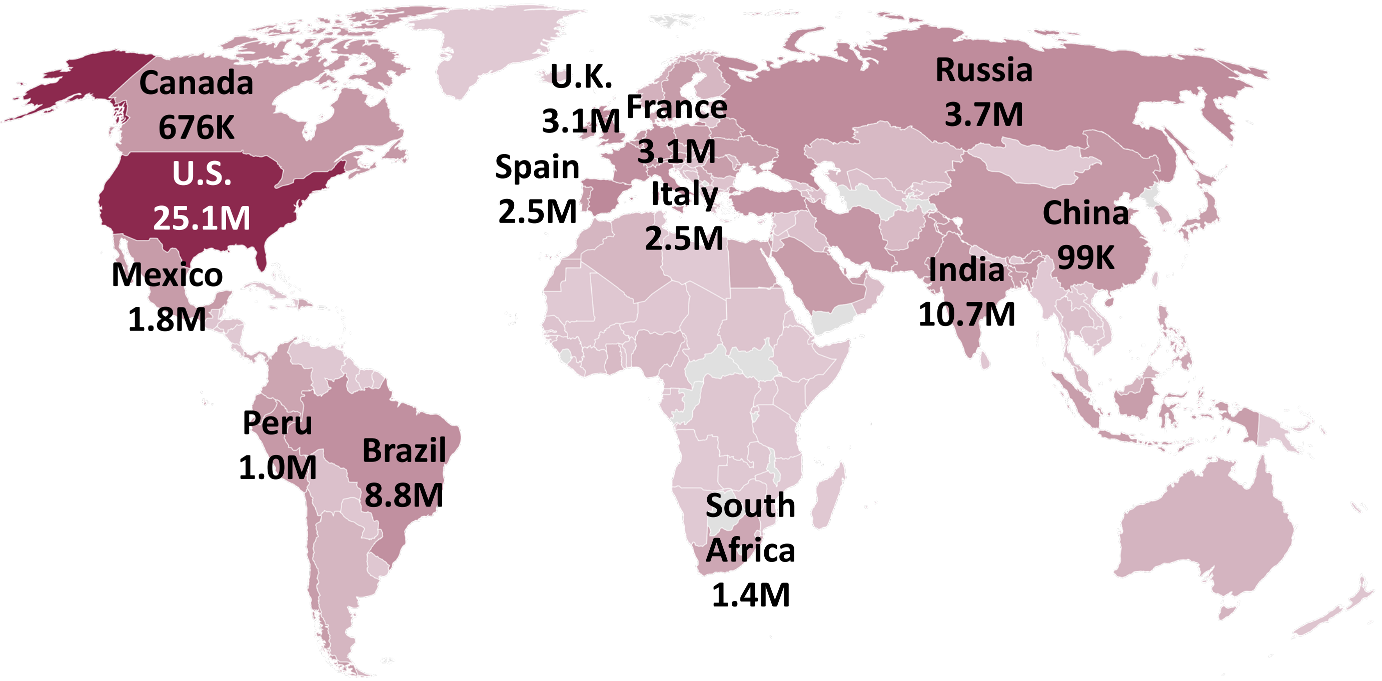
RECENT DEVELOPMENTS

CONFIRMED COVID-19 CASES

COVID-19 has spread across the globe, with the highest number of cases reported in the United States, followed by India and Brazil. In 2021, case counts continue to rise, necessitating additional containment measures.

99 million

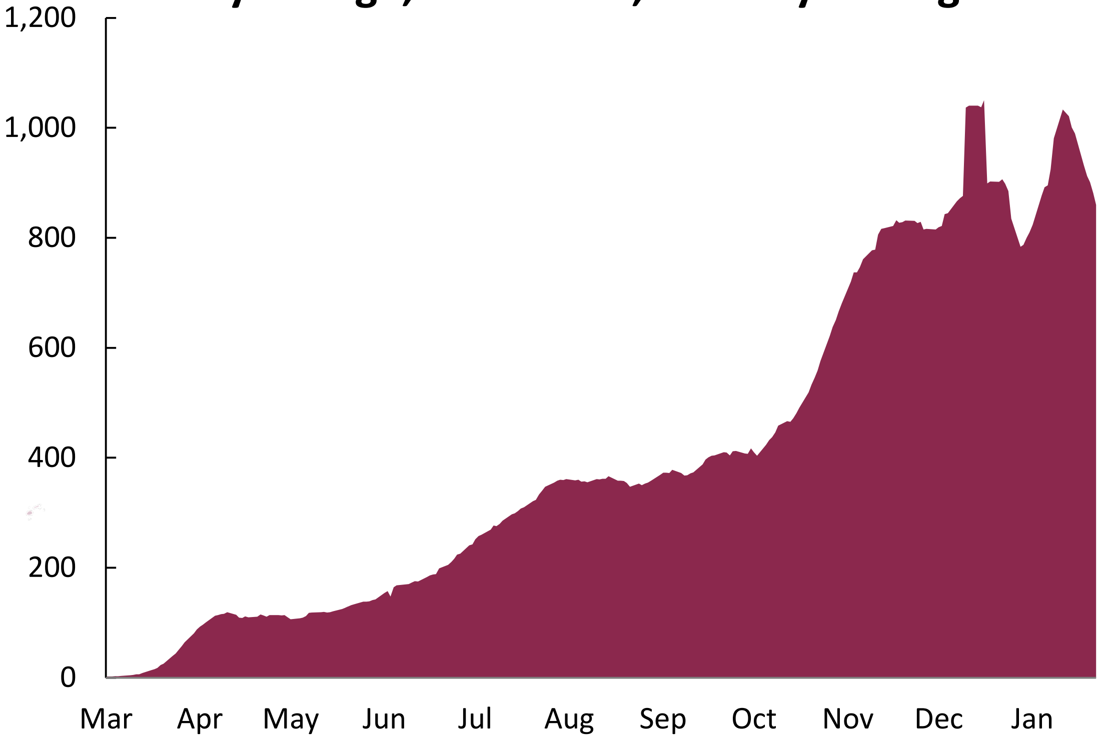
World total



As of Jan. 25, 2021

Global confirmed cases

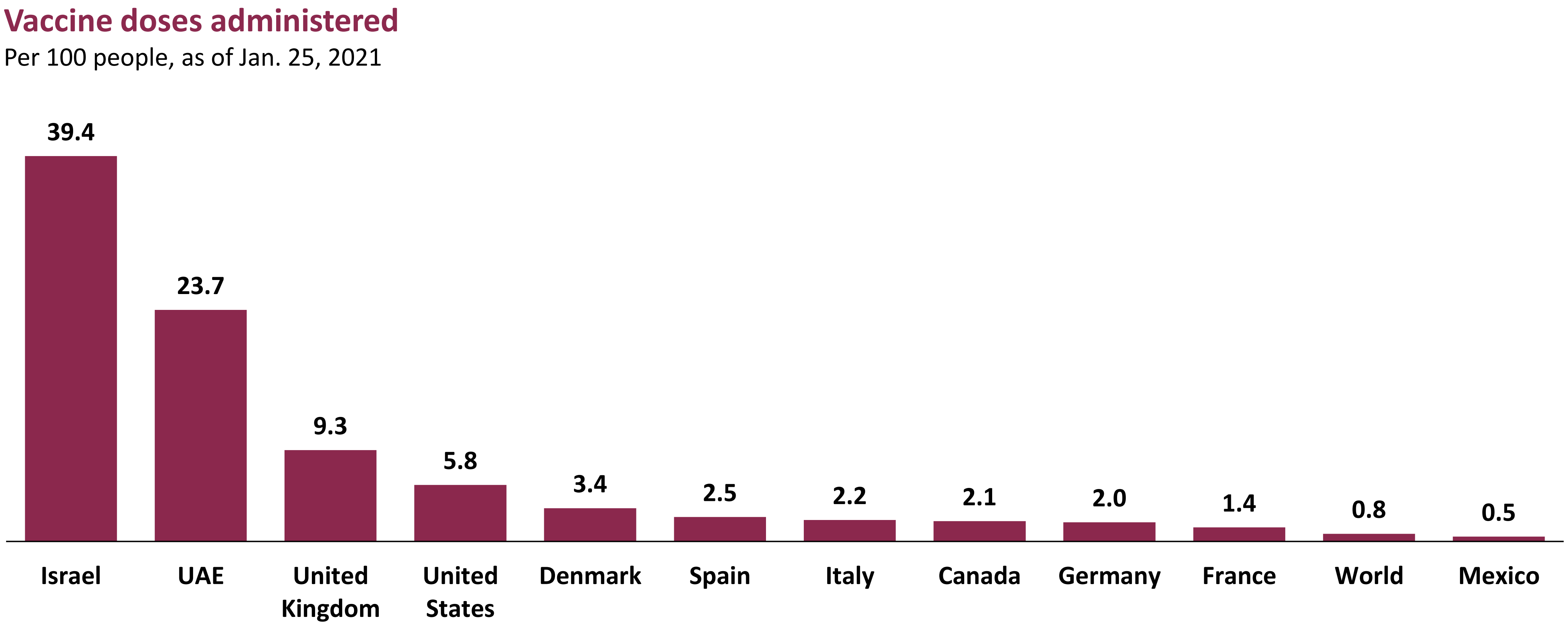
Daily change, thousands, five-day average



Sources: EDC Economics; Johns Hopkins Coronavirus Resource Center.

COVID-19 VACCINE DISTRIBUTION

Several vaccines were approved in record time and distribution began across several countries in December 2020. Despite these successes, significant production and logistics challenges remain to effectively inoculate populations.



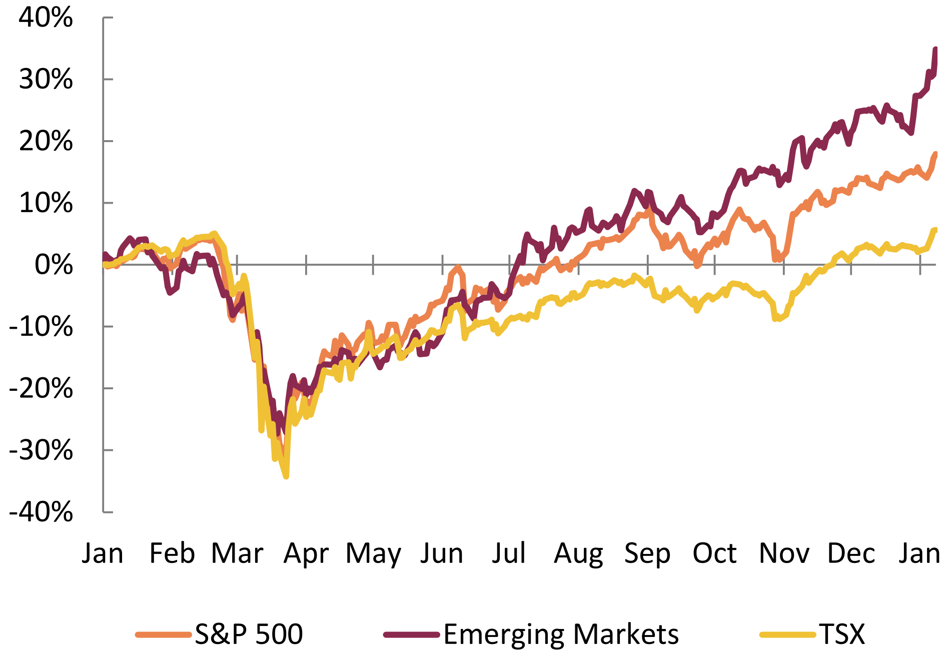
Sources: Haver Analytics, EDC Economics; Oxford University

FINANCIAL MARKETS

Aided by unprecedented policy support, equity markets have been especially buoyant, surpassing pre-COVID-19 levels—although with large variation across sectors; while corporate borrowing costs and emerging market bond spreads have fallen back from distressed levels early in the pandemic.

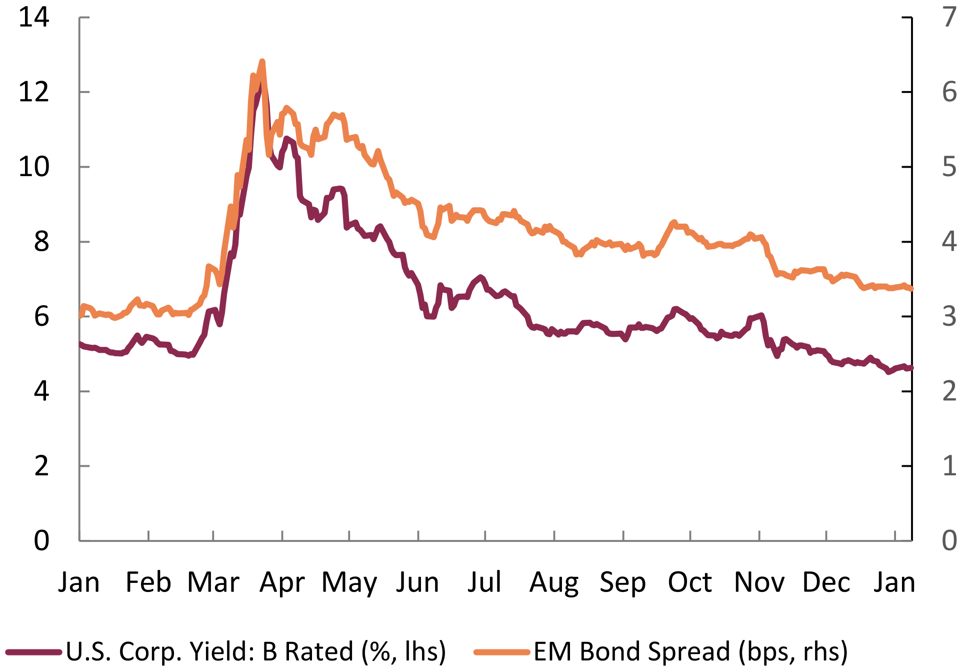
Global stock markets

% change since Jan. 1 2020



Global debt markets

%



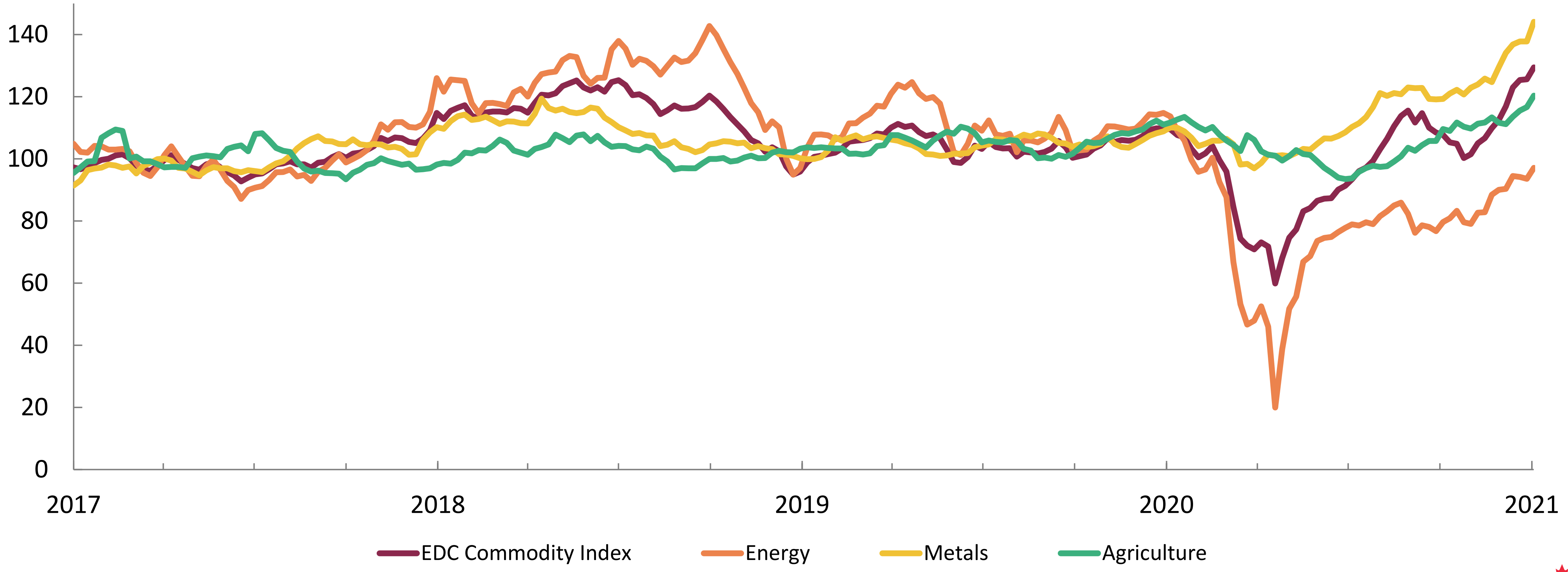
Sources: Haver Analytics, EDC Economics; EDC Global Financial Markets.

COMMODITY PRICES

Commodity prices have rebounded from early pandemic lows. Metal prices have led the way, supported by supply disruptions and global uncertainty. Agriculture demand remained resilient despite the turbulence, while energy prices have been the most volatile, and remain down the most, given subdued demand.

EDC commodity indices

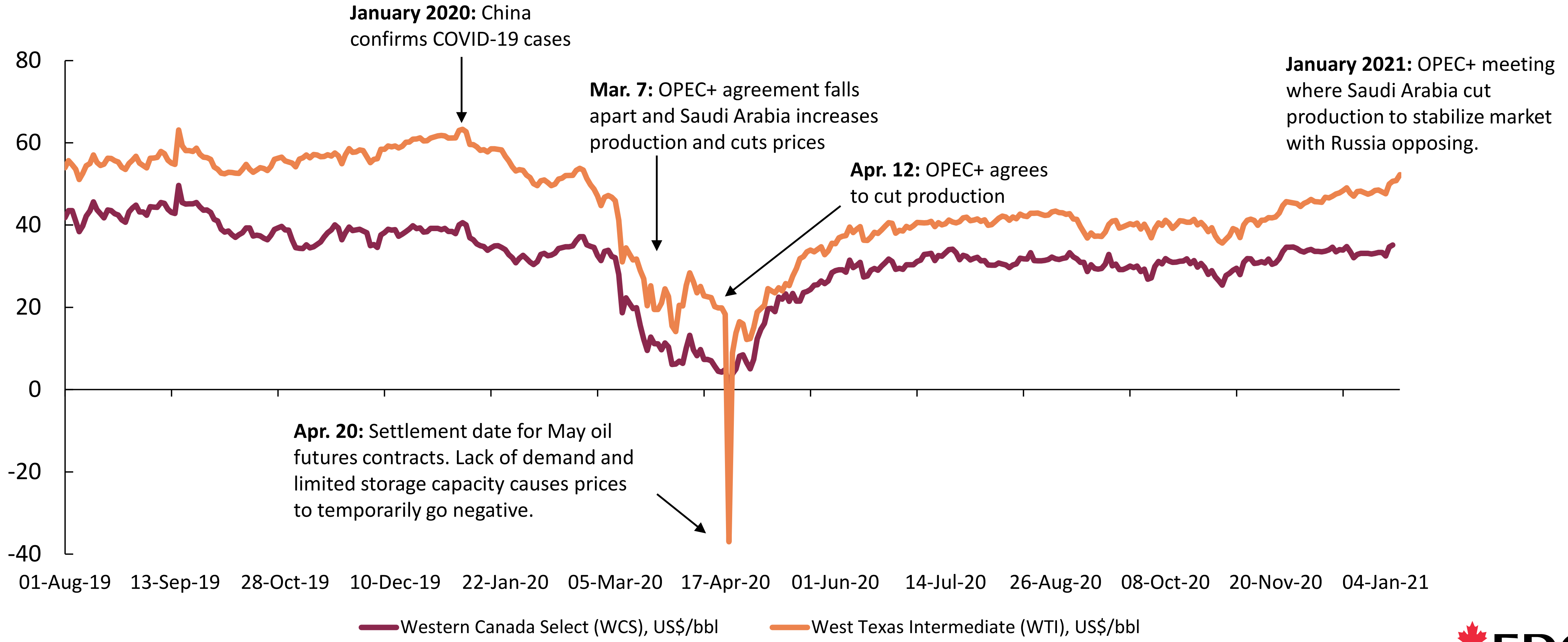
2017 = 100



Sources: Haver Analytics, EDC Economics; The Commodity Tracker

OIL PRICES

Oil prices have continued to strengthen over recent months given recovering demand, although the ability of key producers to restrain supply to support prices remains uncertain.



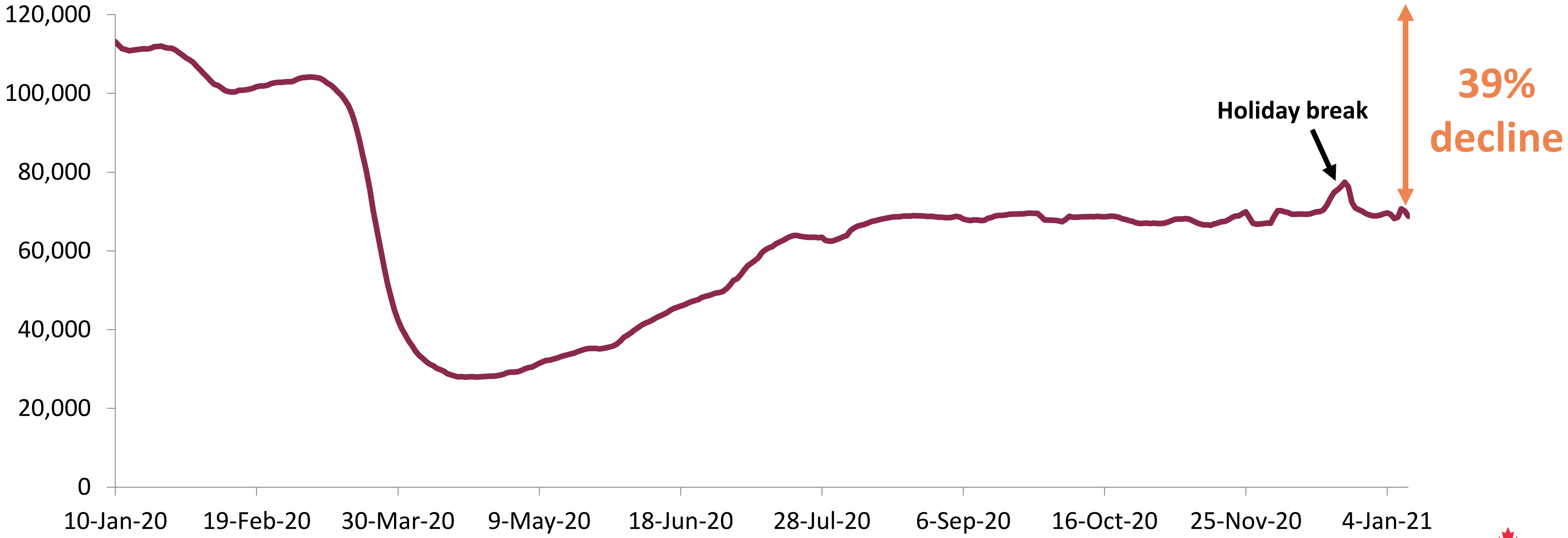
Sources: Haver Analytics, EDC Economics

INTERNATIONAL AIR TRAVEL

Travel restrictions grounded most international air travel, which has stabilized since summer to remain roughly 40% below pre-COVID-19 levels, notwithstanding a brief bump during the December holiday season.

Daily active commercial flights

Weekly global average



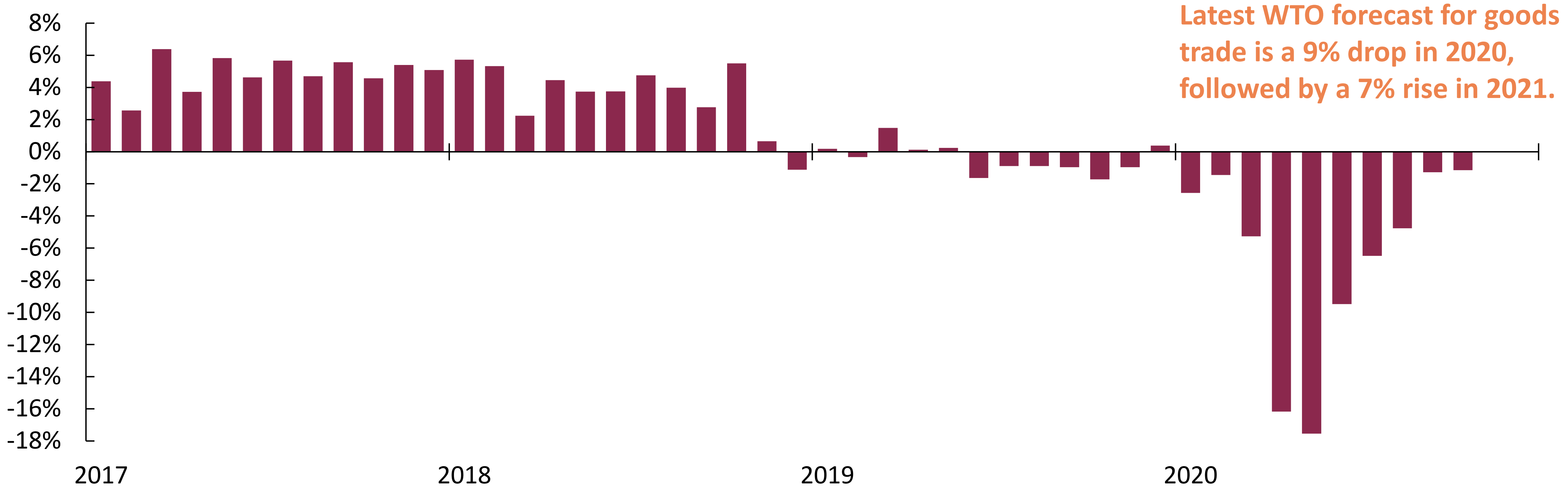
Source: Flightradar24

GLOBAL TRADE

Goods trade was hit hard during shutdowns in March through May 2020, but rebounded quickly after the initial reopening phase. Services trade has been hit harder and more persistently due to border closings and social distancing requirements.

Global merchandise trade volumes

annual % change



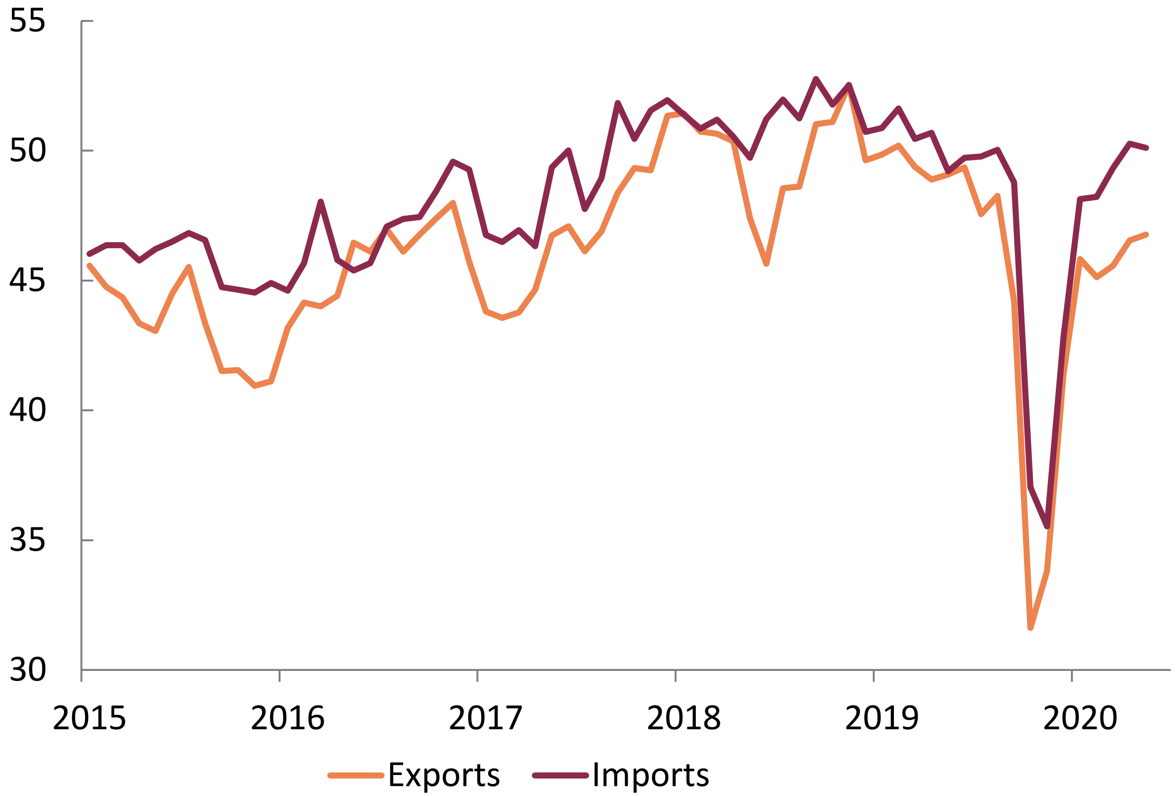
Sources: CPB Netherlands Bureau for Economic Policy Analysis, WTO October 2020 Trade Forecast

CANADIAN TRADE

Much like global trade patterns, Canadian goods trade rebounded quickly with a V-shape driven by restarting auto plants, while travel and transportation services have suffered an L-shaped setback.

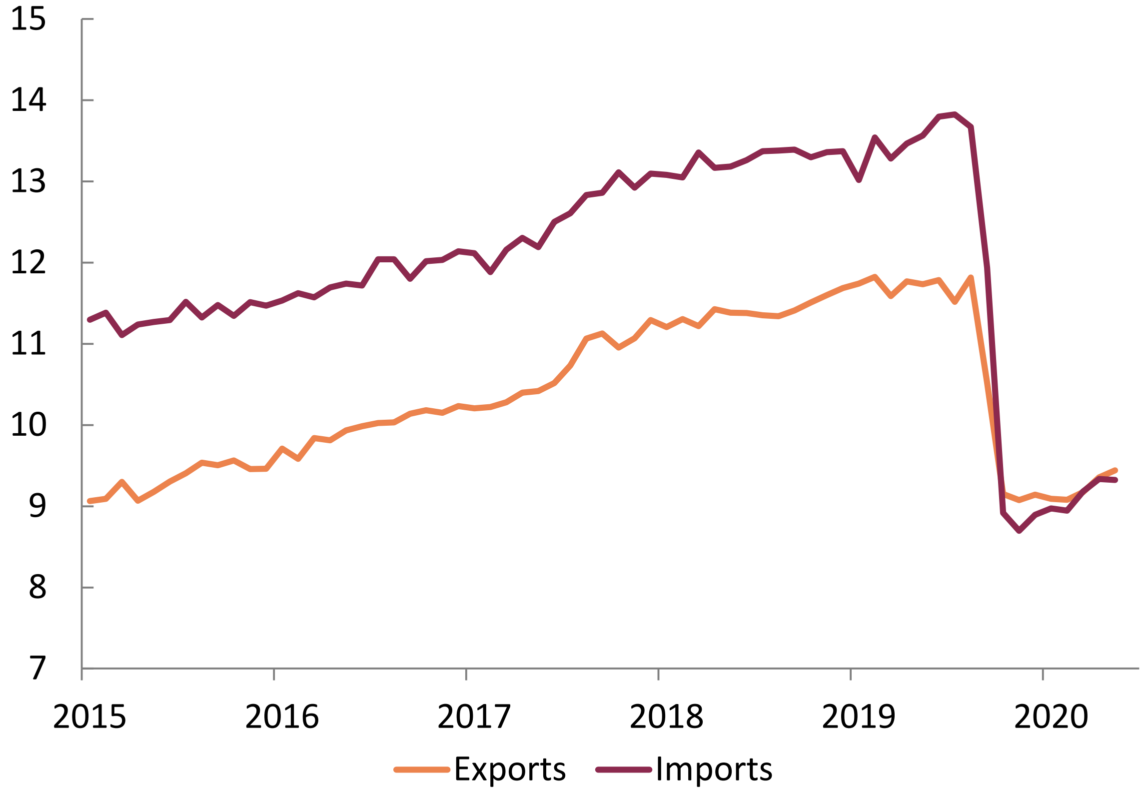
Merchandise trade

Billions of dollars



Services trade

Billions of dollars

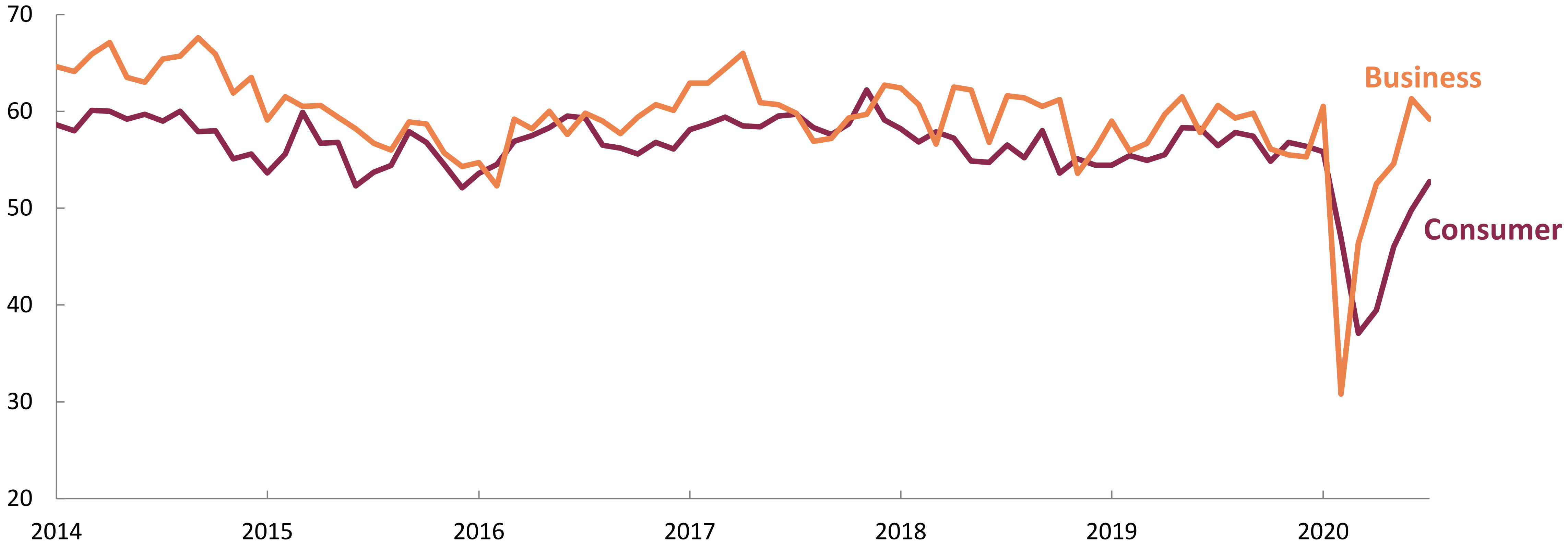


Source: Statistics Canada

CONFIDENCE

Canadian confidence has improved notably from the depths of the initial shutdown, with confidence for businesses rebounding faster than for consumers.

Business and consumer confidence indices, monthly



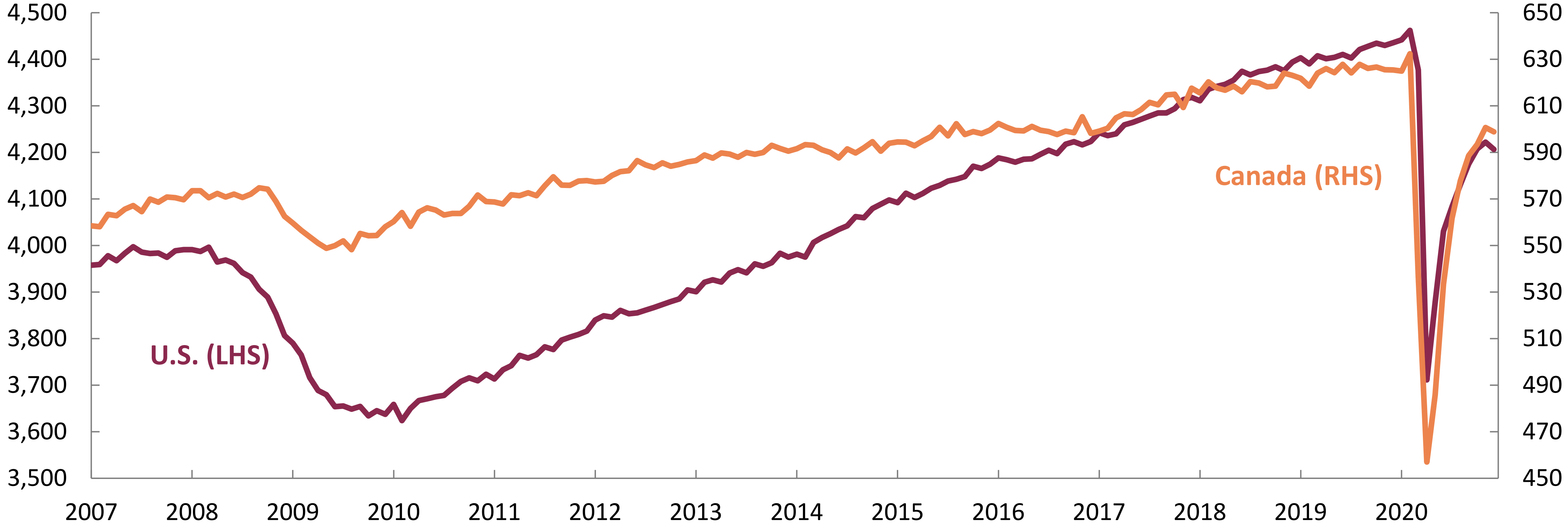
Sources: Nanos Canadian consumer sentiment index, CFIB business barometer

LABOUR MARKET

The stronger-than-expected rebound in mid-2020 has slowed in recent months–reversing progress in December–as rising COVID-19 cases led to further restrictions in hard-hit service sectors.

Total weekly hours worked

Millions, monthly



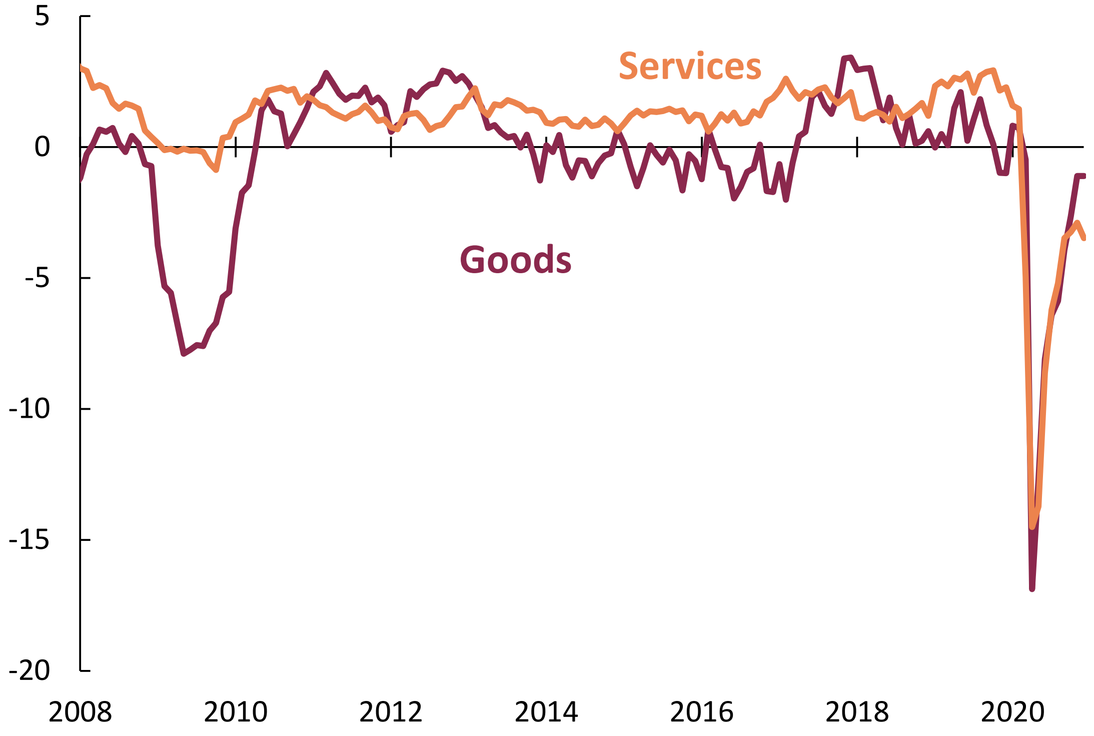
Sources: Haver Analytics, EDC Economics.

LABOUR MARKETS CONTINUED

In-person services jobs have been hit hardest in areas such as restaurants, recreation and construction. Alternatively, jobs have increased in some sectors where work can be done online, such as professional and educational services.

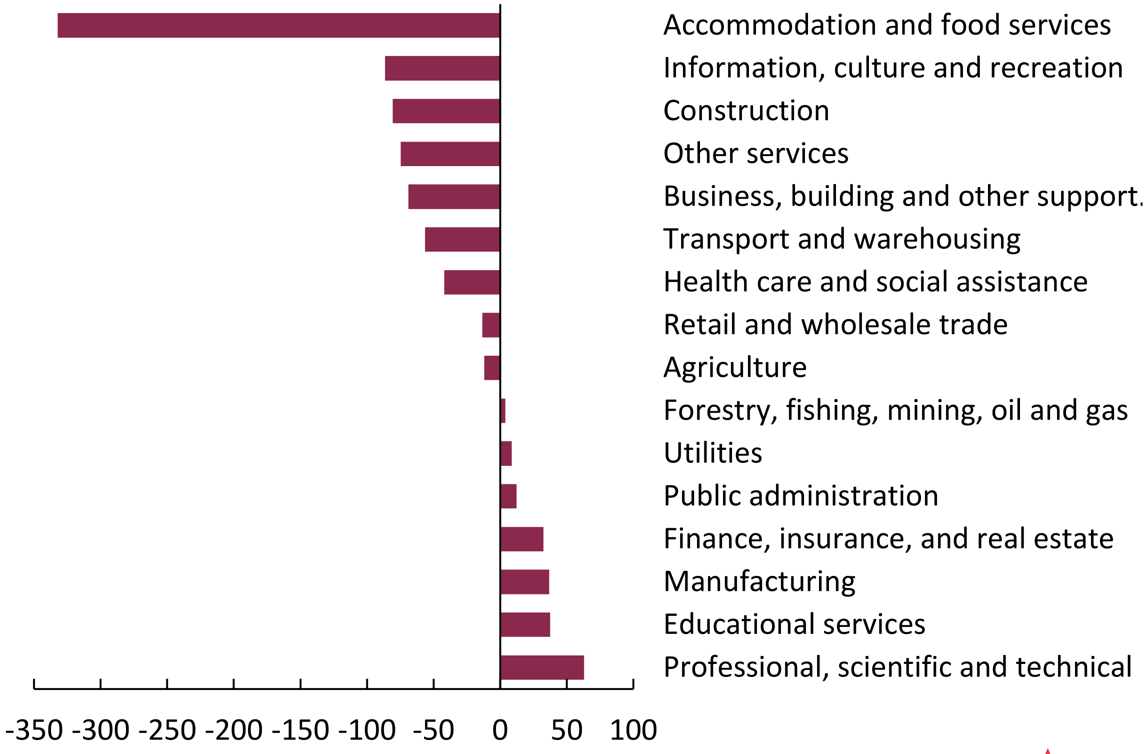
Goods and services employment

year-over-year % change



Canadian employment changes, by sector

December 2020, thousands of jobs year-over-year change



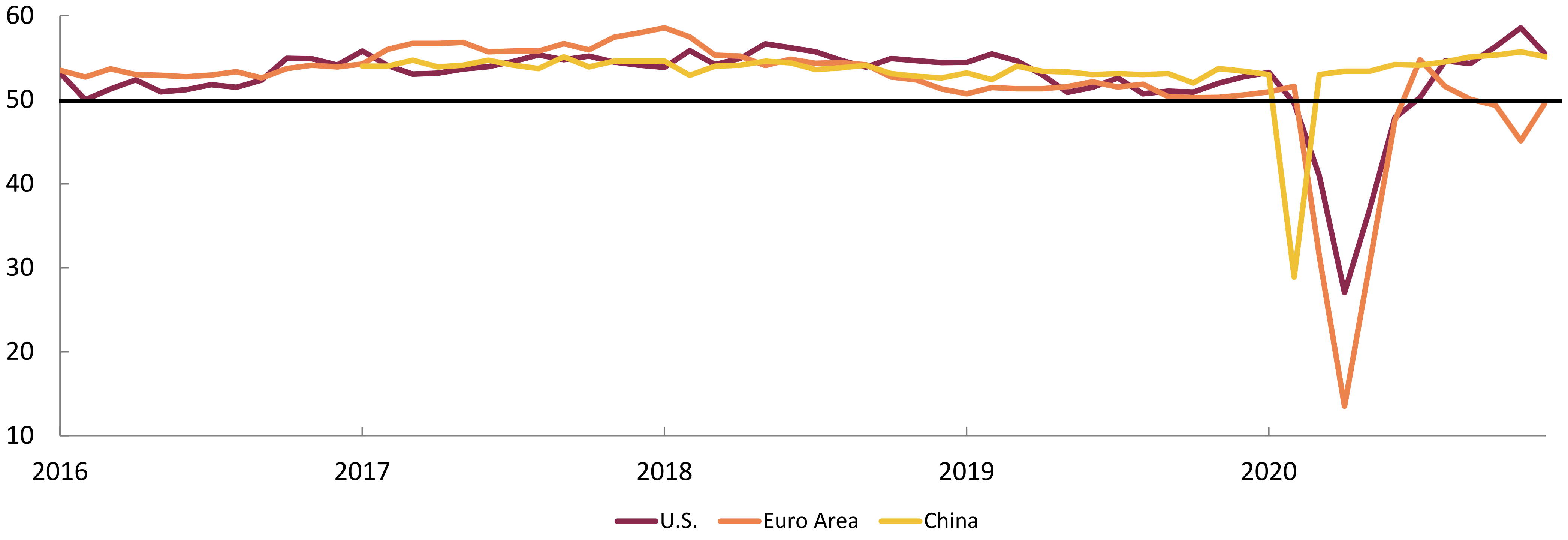
Sources: Haver Analytics, EDC Economics

PURCHASING MANAGERS' INDICES

Manufacturing orders fell first in China, but bounced back once the virus came under control in China. The rebound in Asia was followed by the U.S. and Europe, but unfortunately the latter has stalled out in recent months.

Purchasing managers' indices

50+ = expansion



Sources: Haver Analytics, EDC Economics

UNPRECEDENTED GLOBAL POLICY RESPONSE

To address COVID-19, rapid central bank interest rate cuts and various large-scale asset purchase programs were 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%

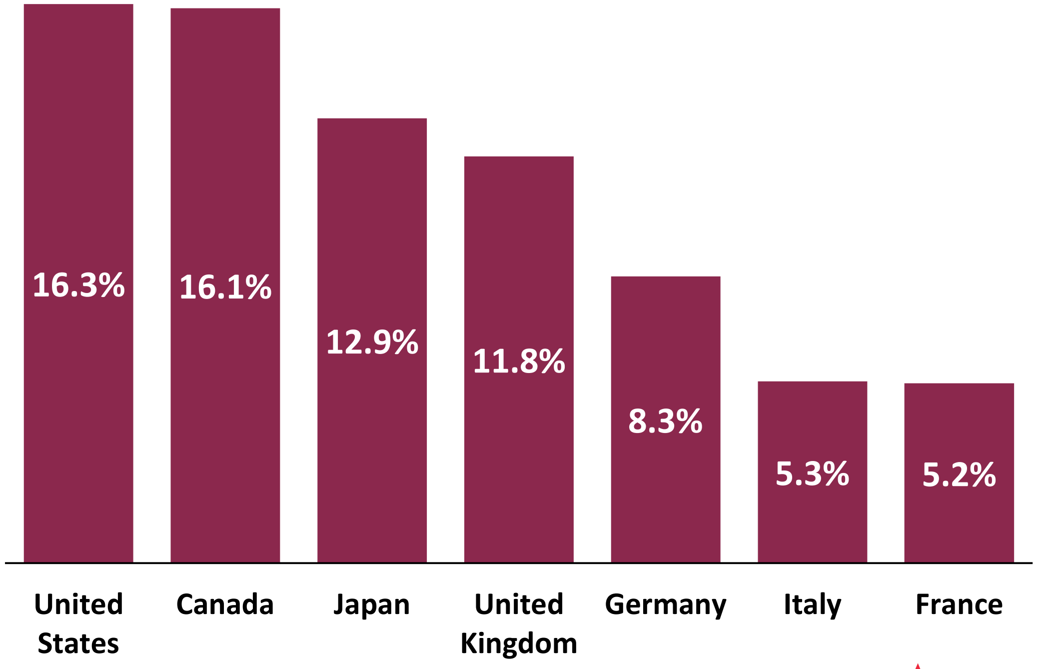
Bank of Japan
Already operating at ELB at -0.1%

People's Bank of China
Various term lending rates cut to ease financial conditions

Central bank asset purchases have grown rapidly, and in G7 countries has been more than three times larger than the 2008-2009 global financial crisis.

G7 Direct Fiscal Measures to COVID-19

As of Jan. 12, 2021, % of GDP

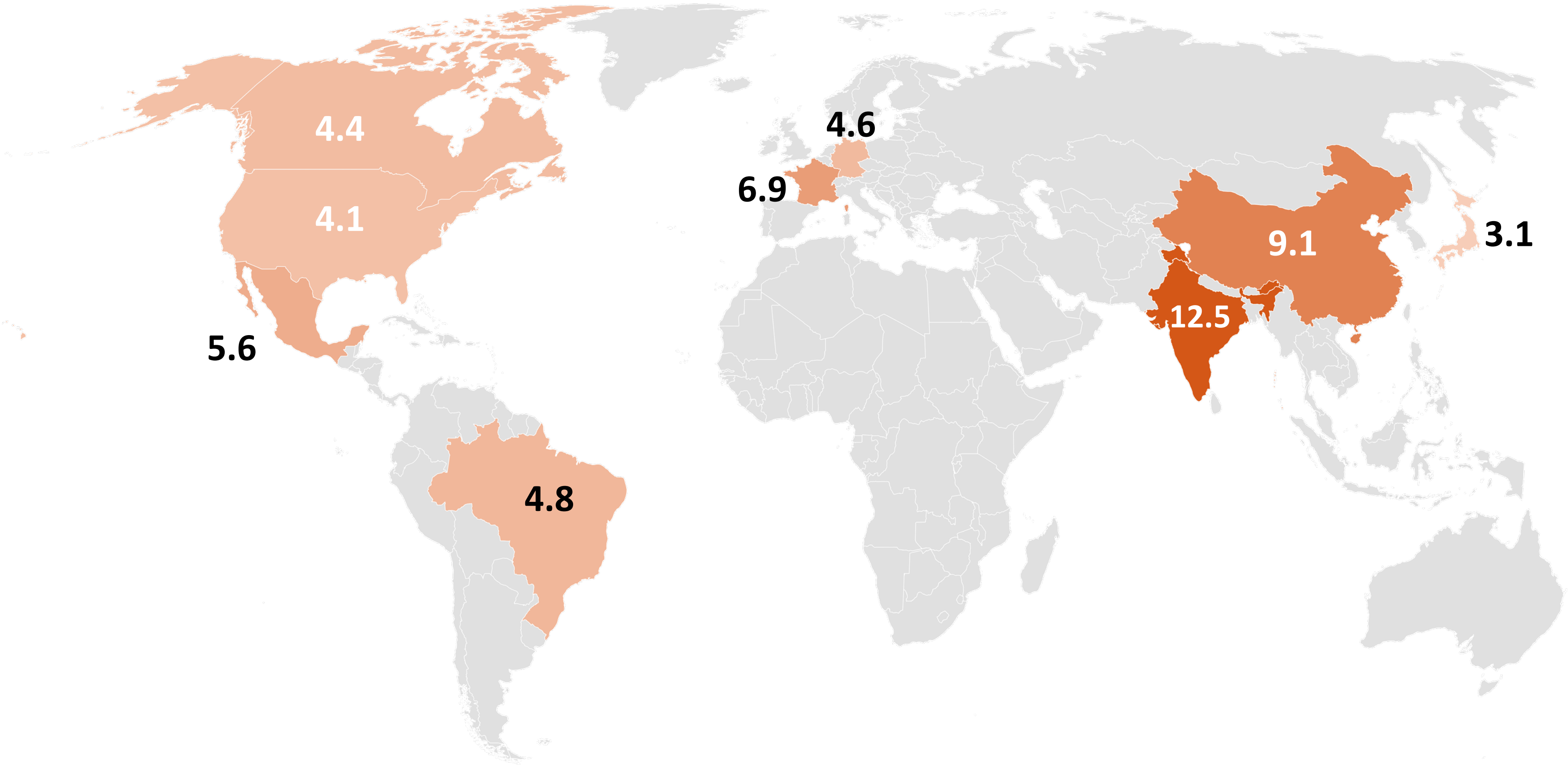


Sources: EDC Economics; IMF COVID-19 policy tracker.

GLOBAL ECONOMIC OUTLOOK

2021 GROWTH OUTLOOK

Real GDP growth, %



5.7%
World

4.2%
Developed

6.5%
Emerging

Source: EDC Global Economic Outlook, January 2021

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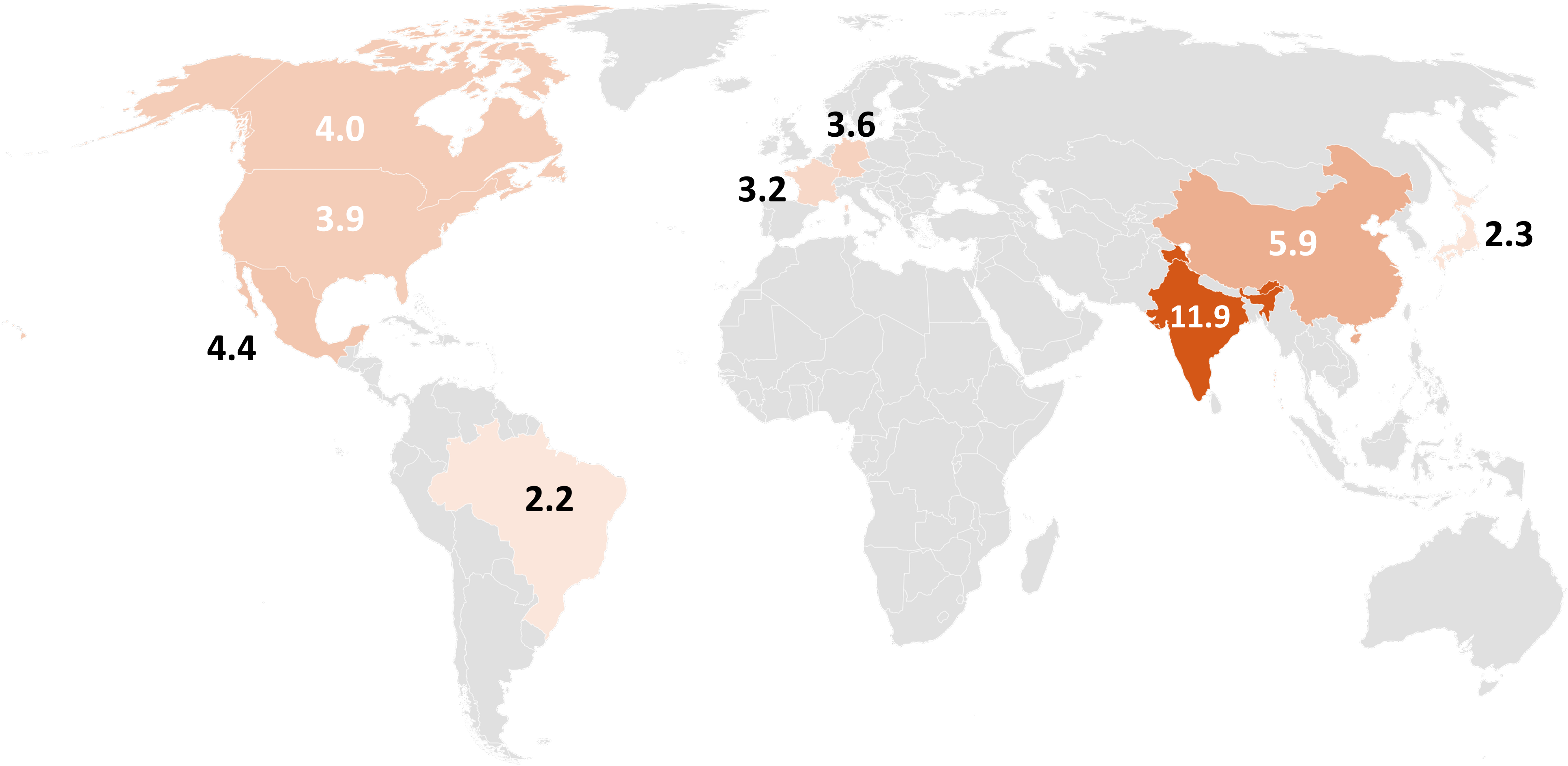
2022 GROWTH OUTLOOK

Real GDP growth, %



5.2%
World

3.9%
Developed

6%
Emerging

Source: EDC Global Economic Outlook, January 2021

REAL GDP GROWTH

Global Economic Outlook (Annual % change)	2020	2021*	2022*
Developed countries	**-5.2**	**4.2**	**5.2**
Canada	-5.6	4.4	4.0
United States	-3.4	4.1	3.9
Eurozone	-7.0	4.9	3.9
Germany	-5.2	4.6	3.6
France	-8.3	6.9	3.2
Japan	-5.3	3.1	2.3
Emerging countries	**-3.4**	**6.5**	**6.0**
China	1.7	9.1	5.9
India	-10.4	12.5	11.9
Brazil	-4.2	4.8	2.2
Mexico	-8.9	5.6	4.4
Total World	**-4.1**	**5.7**	**5.2**

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, January 2021

CHANGES FROM PREVIOUS FORECAST

Global Economic Outlook Real GDP Growth (percentage point change)	**2021***	**2022***
Developed countries	**-1.5**	**0.6**
Canada	-1.3	0.6
United States	-0.8	0.1
Eurozone	-2.1	1.3
Germany	-1.7	1.9
France	-2.0	0.7
Japan	-1.5	0.8
Emerging countries	**-0.5**	**0.2**
China	0.1	0.1
India	-3.6	2.7
Brazil	0.8	-0.2
Mexico	-0.3	1.1
Total World	**-0.9**	**0.3**

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, January 2021 relative to October 2020.

CURRENCIES AND INTEREST RATES

Global Economic Outlook		2020	2021*	2022*
Currency	**Exchange Rate**			
U.S. dollar	**USD per CAD**	0.75	0.76	0.77
Euro	**CAD per EUR**	1.53	1.55	1.53
Euro	**USD per EUR**	1.14	1.18	1.19
Interest Rates, annual average				
Bank of Canada, *Overnight Target Rate*		0.56	0.25	0.24
U.S. Federal Reserve, *Fed Funds Target Rate (Upper limit)*		0.39	0.10	0.10
European Central Bank, *Policy Interest Rate*		0.00	0.00	0.00

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, January 2021

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COMMODITY PRICES

Global Economic Outlook	2020	2021*	2022*
Brent Crude Spot, *USD / bbl*	41.72	48.71	51.58
West Texas Intermediate, *USD / bbl*	39.36	44.82	47.69
Western Canada Select, *USD / bbl*	27.85	29.66	32.53
Natural Gas, *USD / MMBtu*	2.06	2.37	2.25
Gold, *USD / troy ounce*	1,770	1,819	1,737
Copper, *USD / tonne*	6,128	7,050	6,550

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, January 2021

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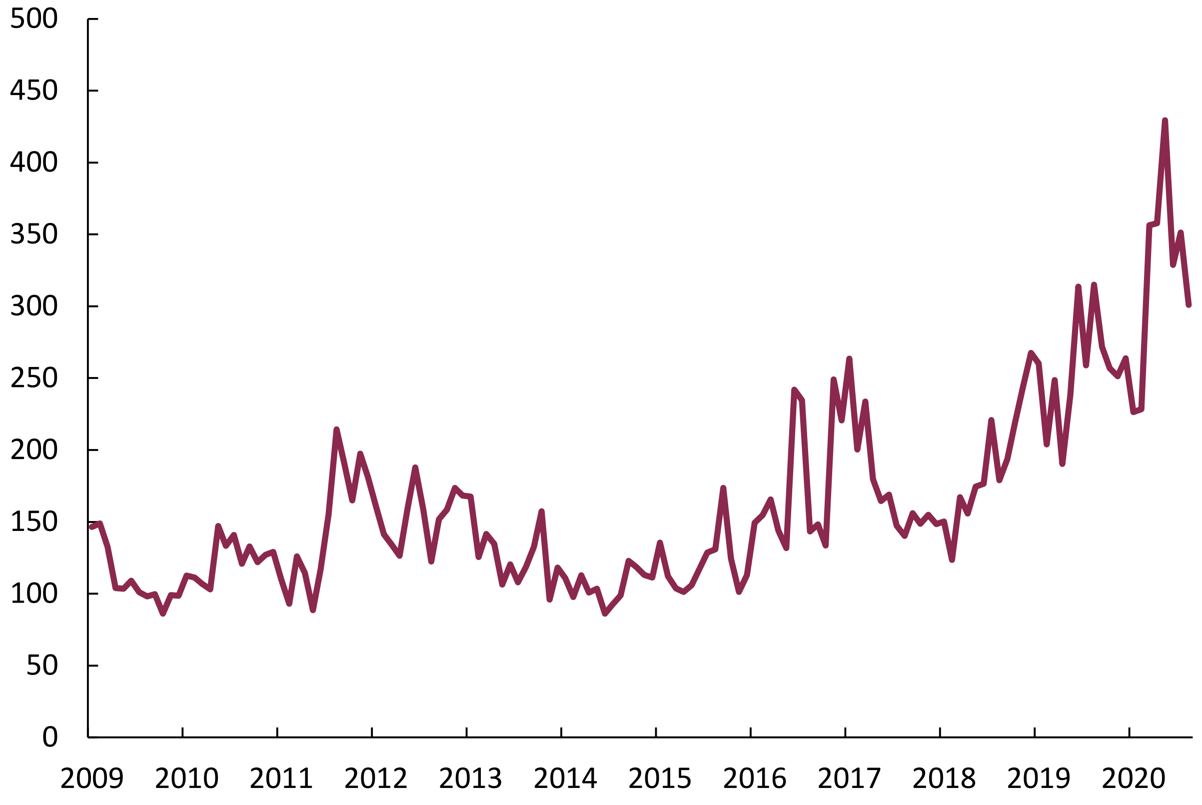
UNCERTAINTY AND RISKS

Economic Policy Uncertainty Index

Mean = 100



Source: PolicyUncertainty.com

Measures of global economic uncertainty have started to decline after peaking in May 2020, but remain elevated.

- There still remains an exceptionally high degree of uncertainty around this forecast, due to the severity and spread of the pandemic, its interdependence on containment efforts, as well as the scale and efficacy of unprecedented policy responses.
- This report represents EDC's base case economic forecast, as of Nov. 30, 2020, and is based on assumptions described above. There are significant risks to this base case, both to the upside and the downside.

DISCLOSURE

Ce document est également disponible en français.

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