

GLOBAL & CANADA ECONOMIC OUTLOOK

*Presented to the Manitoba Association
for Business Economics*

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Outline

- Global soft landing looks likely
- Canadian economy is not out of the woods yet
- Risks to the economic outlook
- Economic forecast summary

Questions?





Global soft landing looks likely

Slew of positive data suggests a soft landing for the global economy

Improved prospects for the US and China have prompted an upgrade to our global GDP growth forecasts by 0.1ppt to 2.4% in 2024 and by 0.2ppts to 2.8% in 2025.

- Recent US, China, and the eurozone data have surprised to the upside simultaneously for the first time in almost a year.
- February JP Morgan Global Composite PMI rose for a fourth consecutive month, reflecting a steady improvement in both the manufacturing and services components.

We expect other major central banks to begin to ease monetary policy in H2.

- We anticipate three 25bps cuts by the Fed this year, one cut less than markets expect.
- We expect a slightly faster pace of loosening by the ECB due to the weaker economic backdrop and the prospect of below-target headline inflation in H2.

Risks are becoming more balanced, but they are still skewed to the downside. Geopolitical tensions and sticky inflation triggering higher for longer interest rates are key concerns.

Questions: Use the question panel

Real GDP growth (% change)			
	2023	2024	2025
US	2.5	2.4	1.7
Eurozone	0.5	0.5	1.8
Japan	2.0	0.5	0.8
UK	0.1	0.5	2.0
Canada	1.1	-0.3	2.0
China	5.2	4.7	4.1
India	7.7	6.3	7.2
Brazil	2.9	0.5	2.1
World	2.7	2.4	2.8

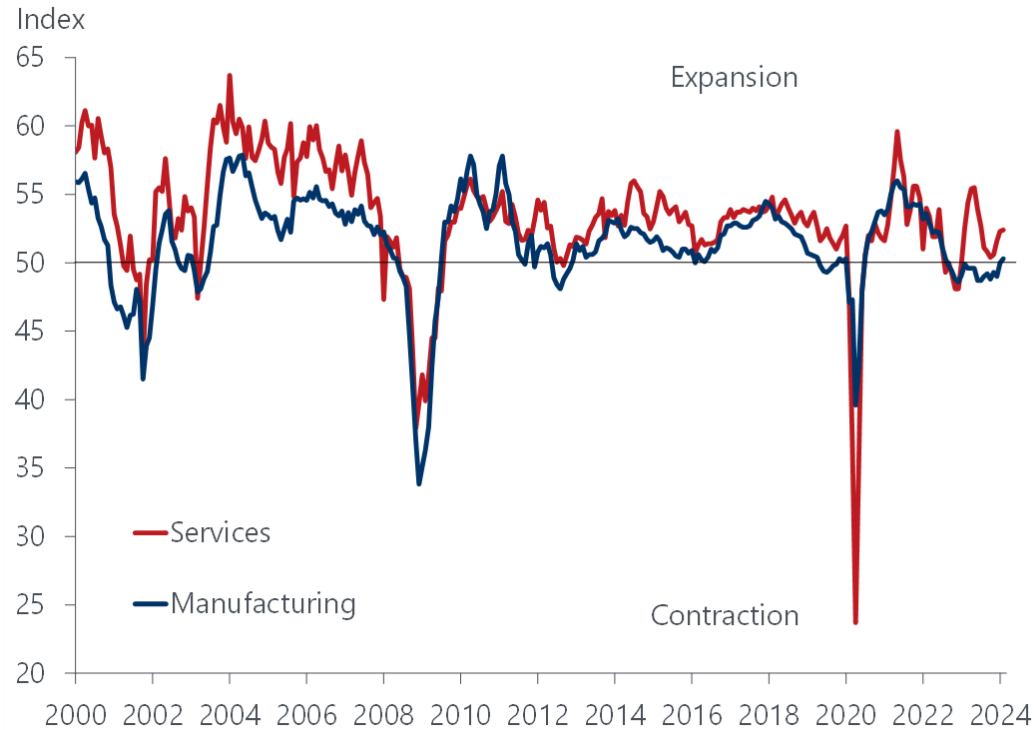
Source: Oxford Economics

Baseline global forecast key assumptions

Key themes	Baseline assumption
Inflation	<ul style="list-style-type: none">We expect CPI inflation to continue to fall back this year, but with services inflation typically slowing less sharply and wage growth remaining relatively high, there remains uncertainty over how quickly inflation will reach target. While there are good reasons to think inflation may be more volatile than in the build-up to the pandemic, we expect central banks to keep inflation close to target on average in the medium to long term.
Monetary policy outlook	<ul style="list-style-type: none">With GDP growth set to be solid but unspectacular over the coming quarters and inflation set to slow we continue to expect central banks to cut rates this year. However, given the massive overshoot of inflation, we expect central banks to tread cautiously, and the emphasis will be on bringing policy rates down slowly to less restrictive rates.
Fiscal outlook	<ul style="list-style-type: none">Although budget deficits over the coming years will remain far wider than envisaged in 2019, fiscal policy is likely to be tightened only gradually. Still, the role of fiscal demand management may be expanded post-pandemic. This increases the possibility of supportive fiscal policy if growth slows sharply, particularly in advanced economies. But a downside to more reactive fiscal policy will be that it will make it harder for central banks to calibrate the optimal path for monetary policy.
War in Ukraine	<ul style="list-style-type: none">The timing of the end to the war remains highly uncertain, but we expect tensions between the West and Russia, as well as sanctions, to persist long after any ceasefire. Still, our baseline anticipates that gas prices remain low and that rationing of energy in Europe will be avoided in the winter months.
Deglobalisation	<ul style="list-style-type: none">Our baseline view is that there will be no meaningful thawing in US/China relations. We think tariffs and other non-tariff barriers to trade that have been erected over recent years will remain in place. But our forecasts don't assume any breakup of the global trading system.

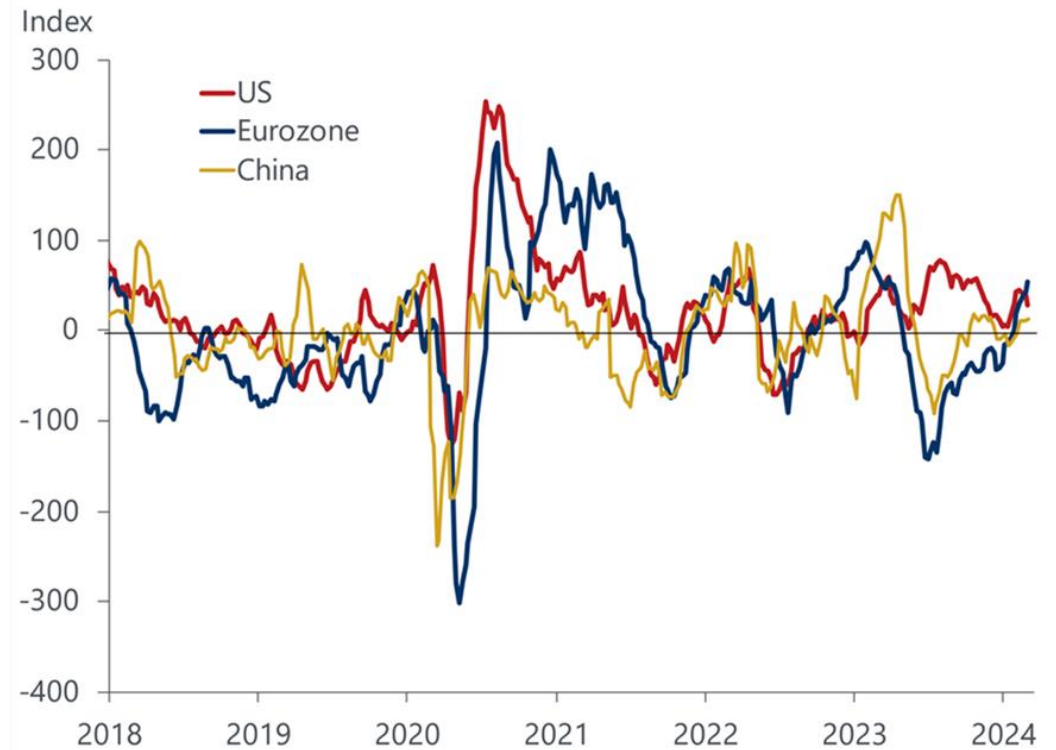
The path to a global soft landing seems to be widening

World: PMIs



Source : Oxford Economics/IHS Markit/JP Morgan

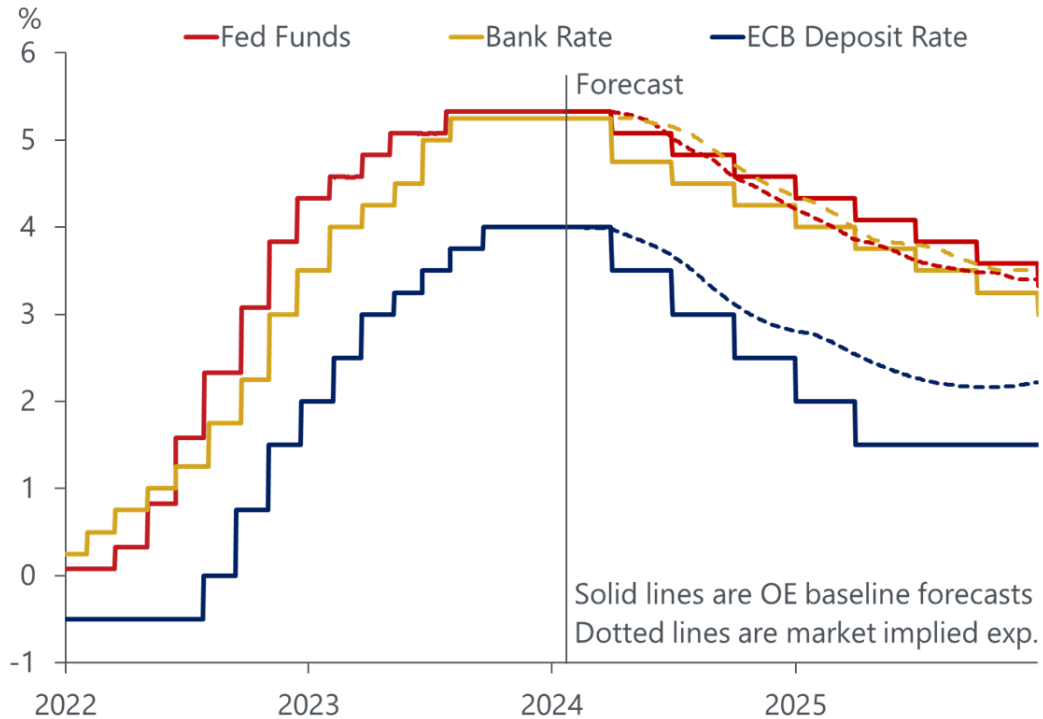
World: Economic surprise indices



Questions: Use the question panel

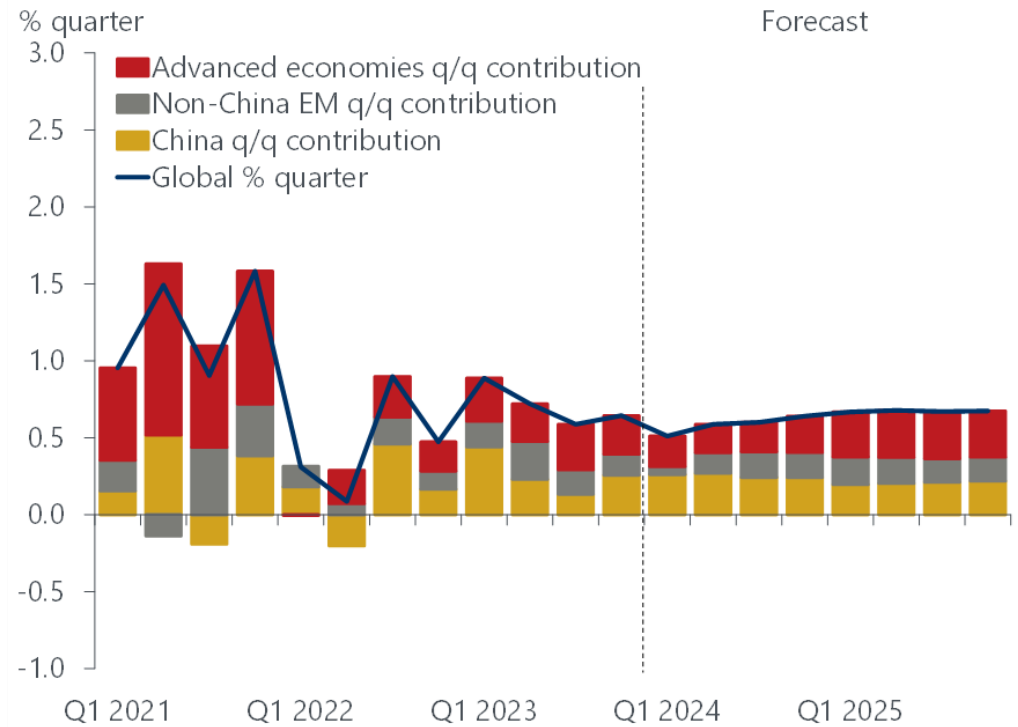
Gradual rate cuts will support continued, slow global growth

Advanced Economies: Policy rates and expectations



Source: Oxford Economics/Haver Analytics

World: real GDP growth



Source: Oxford Economics/Haver Analytics

Questions: Use the question panel



Canadian economy is not out
of the woods yet

Canadian economy is not out of the woods yet, despite Q4 uptick

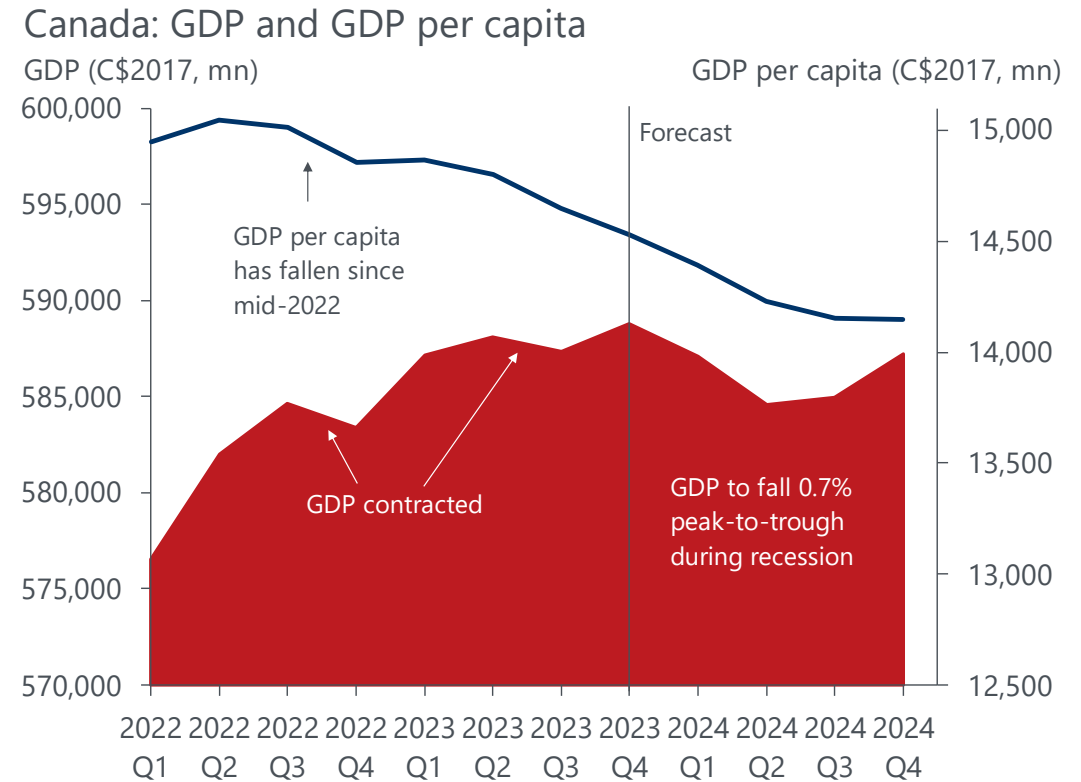
GDP edged up 0.2% q/q in Q4 2023, bettering our expectation for a small decline mainly due to stronger-than-forecast exports and continued rapid inventory accumulation.

Neither is likely to be sustained. We still expect GDP to fall in H1 2024, but by less than previously, as the full impact of higher interest rates hits.

We forecast GDP to fall 0.7% peak-to-trough from Q4 2023 to Q2 2024, much shallower than past recessions, before a recovery emerges in H2.

On an annual average basis, we forecast GDP will contract 0.3% in 2024 and grow 2% in 2025.

GDP on a per capita basis has been declining since mid-2022, and we expect it will continue falling until 2025.



Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

Economy likely to contract modestly in H1 before recovery emerges

Despite the Q4 uptick, we continue to predict economic activity will contract in H1. Resilient consumers and higher US imports will only partially offset the impact of higher interest rates on household spending, housing activity, and business investment. A slowdown in the recent rapid rate of inventory accumulation, in part likely unintended, will also drag on growth.

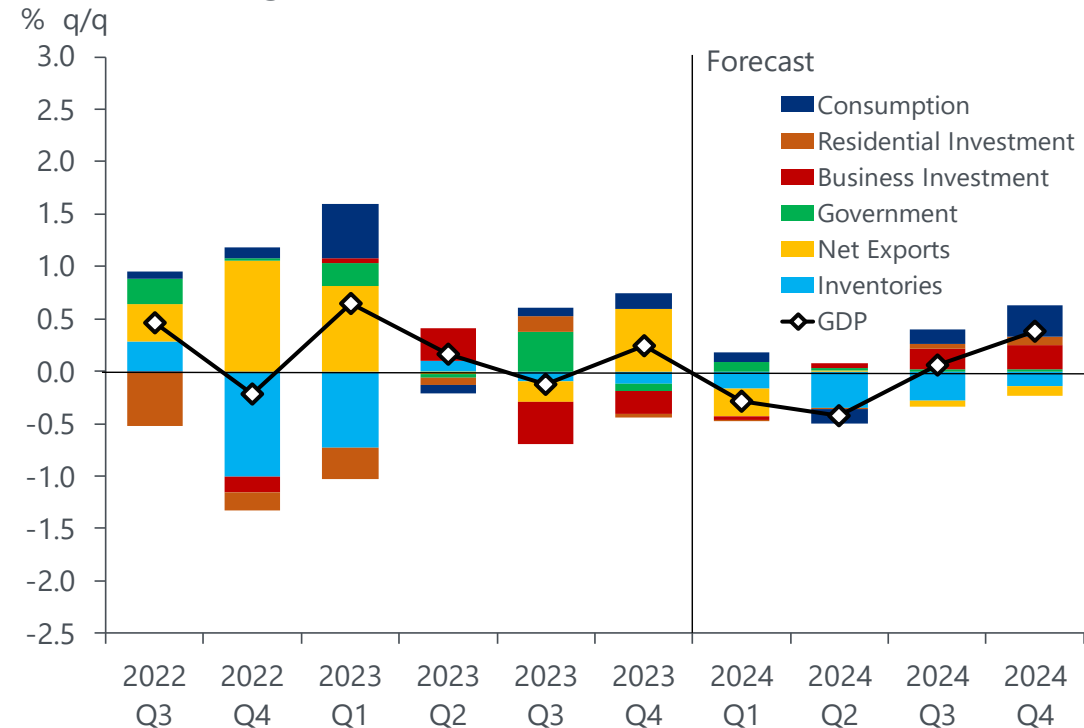
- After another modest pick-up in Q1 spending – mainly on motor vehicles reflecting improved supply – consumers, squeezed from mortgage renewals at higher interest rates and still-high prices, will pull back in Q2.
- High financing costs, weaker profits and muted sales prospects will cause businesses to postpone some investments in early 2024.
- Alongside weaker housing investment through mid-year and a drag from slower inventory building, we forecast GDP will decline 0.7% during H1.

We expect a modest economic recovery will emerge in the latter half of 2024 as ample evidence of sustained disinflation prompts the BoC and other central banks to begin lowering its policy rate around mid-year.

- A loosening of financial conditions alongside renewed job growth and growing real incomes will lift confidence and boost household spending and business investment.
- Housing activity will improve in H2 2024 as mortgage rates continue easing and government measures to boost housing supply take hold.

Questions: Use the question panel

Canada: GDP growth

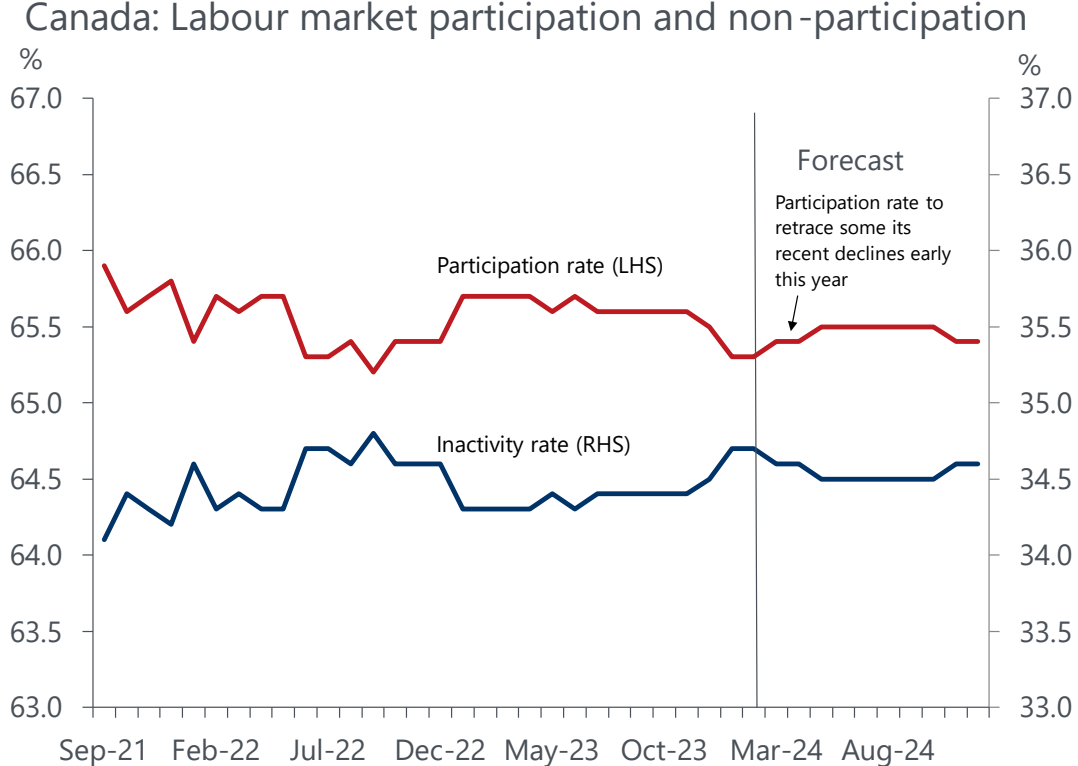


Source: Oxford Economics

Immigration-led population growth and an uptick in participation will boost Canada's labour supply



Source: Oxford Economics/Haver Analytics

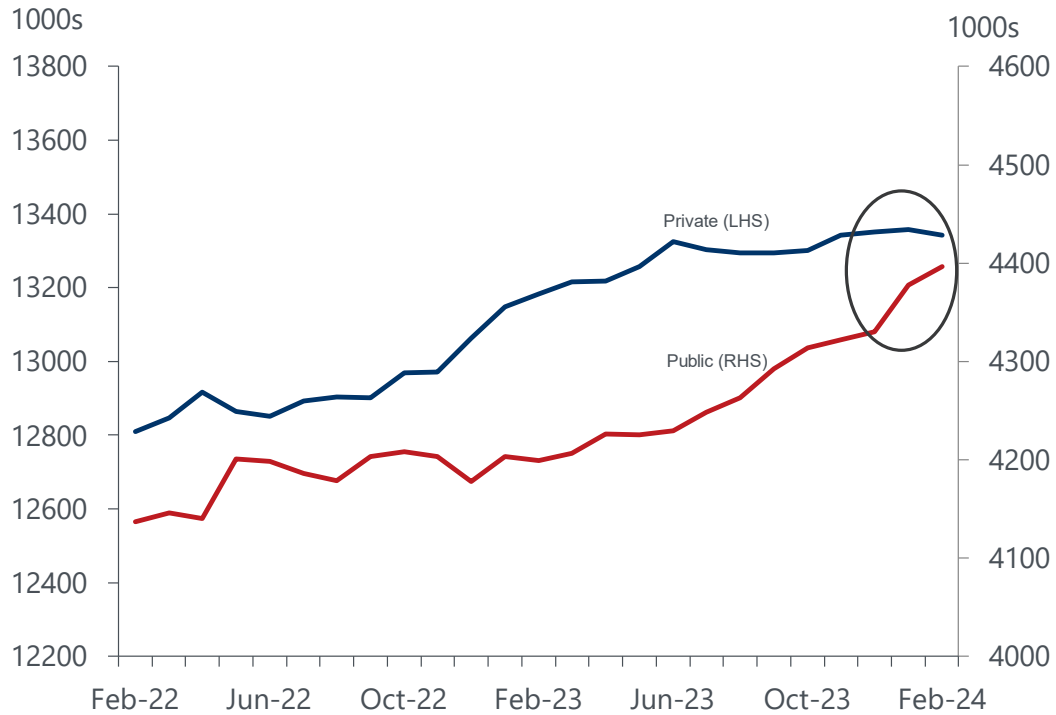


Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

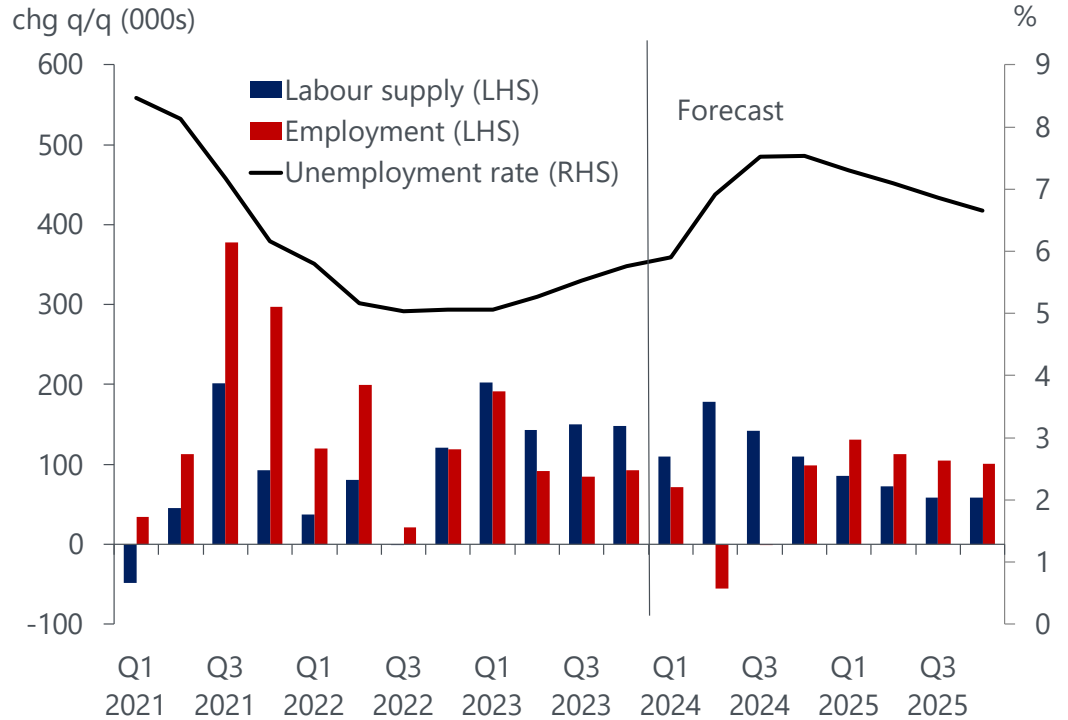
Moderate job losses with strong labour supply growth will lift the unemployment rate

Employment in the private and public sector



Source: Statistics Canada

Canada: Labour supply, employment and unemployment rate



Source: Oxford Economics

Questions: Use the question panel

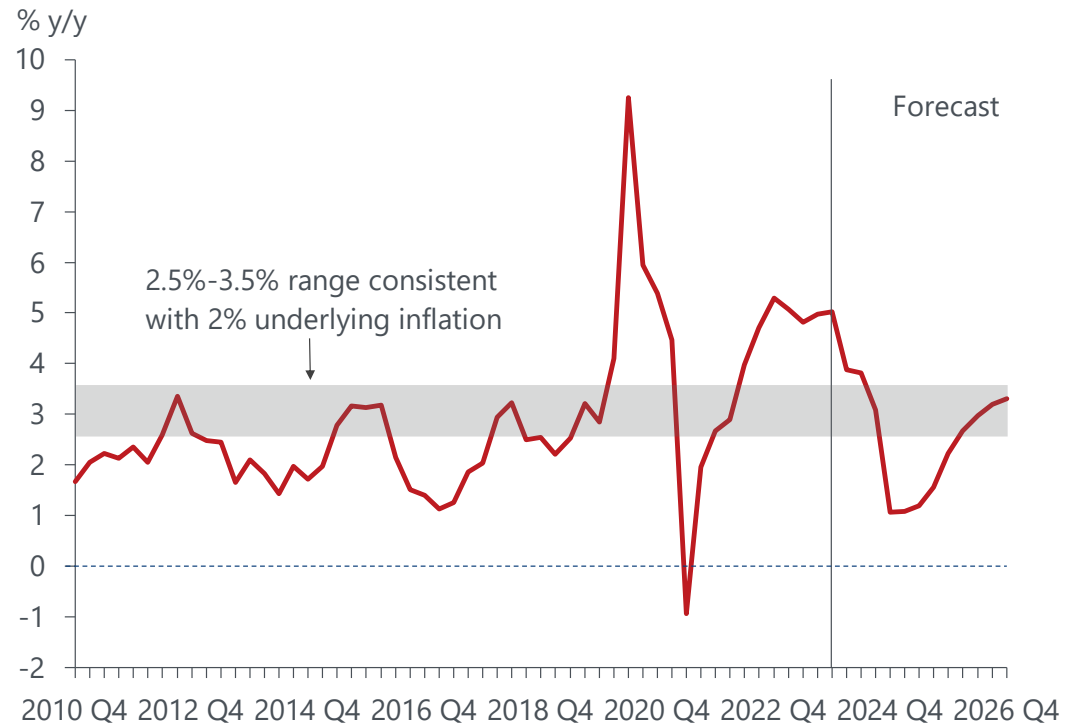
Wage growth to slow as labour market slack builds

Canada: Average hourly wage rate growth



Source: Oxford Economics/Haver Analytics

Canada: Average hourly wage rate growth

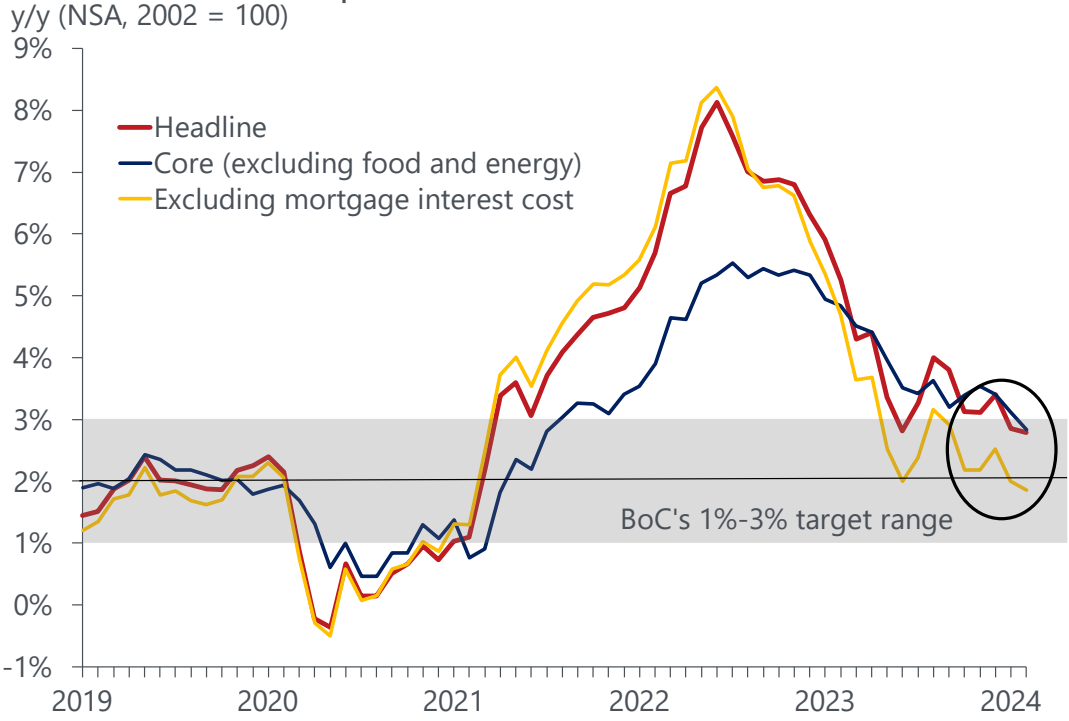


Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

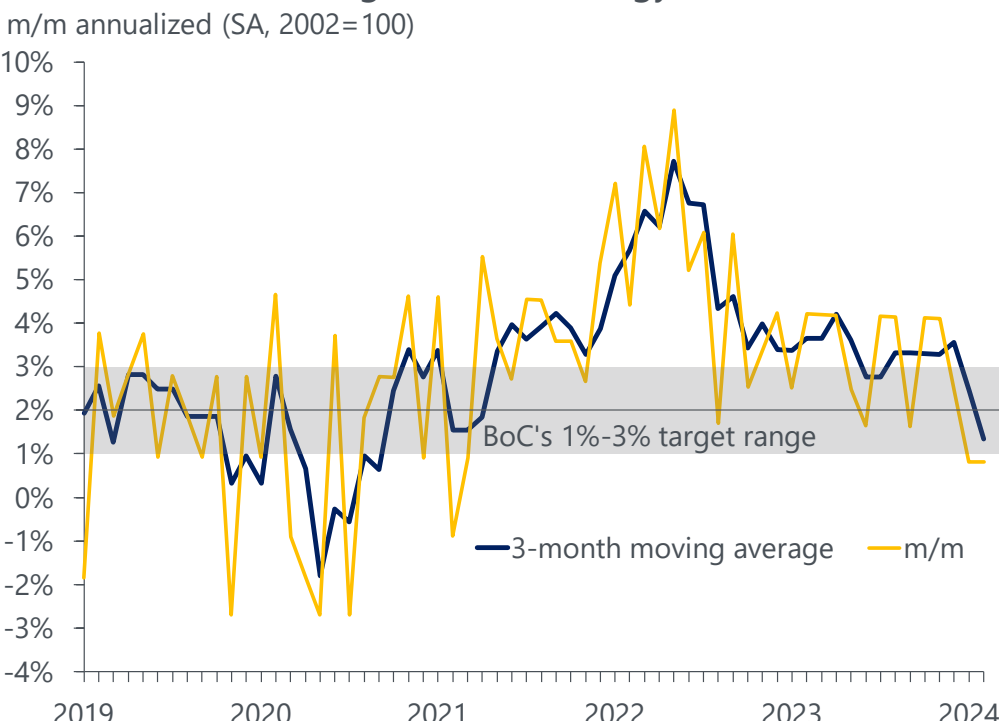
Inflation has eased largely in line with our forecast...so far, so good

Canada: Consumer prices



Source: Oxford Economics/Haver Analytics

Canada: CPI excluding food and energy

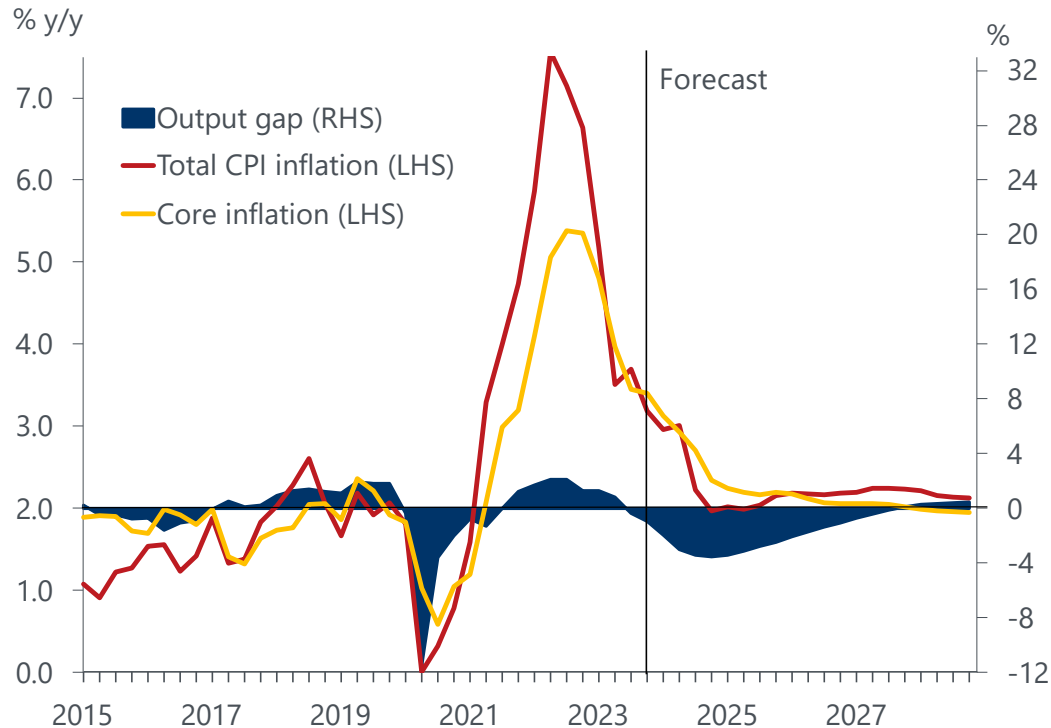


Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

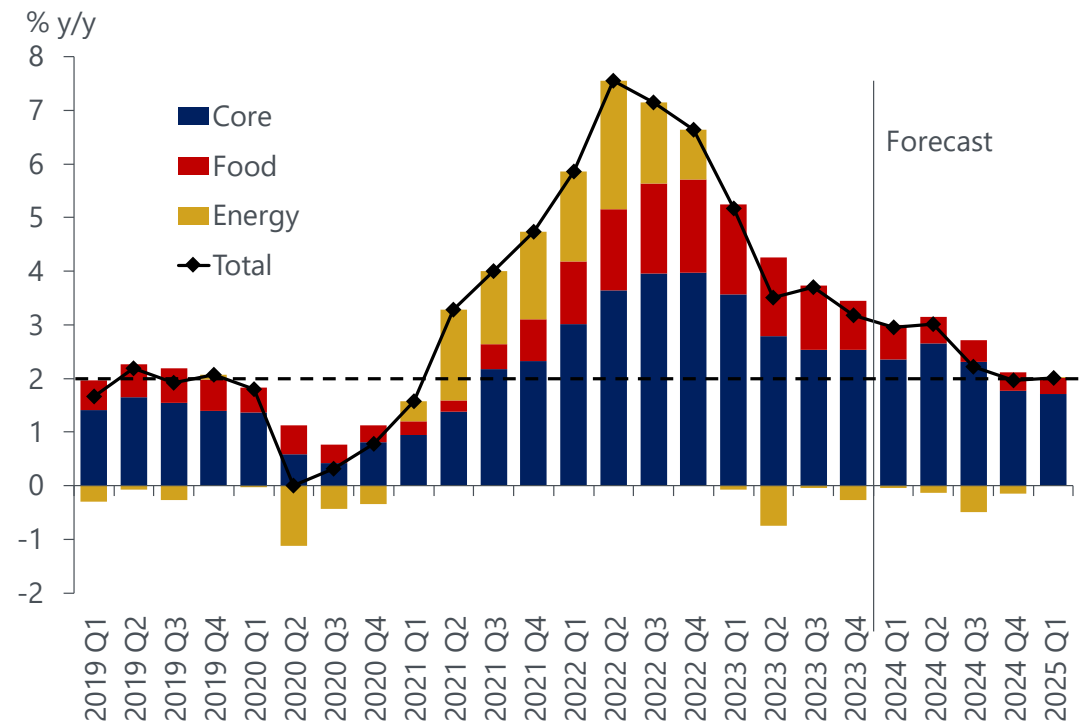
Growing slack in Canada's downturn will help return headline inflation to the 2% target by year-end

Canada: CPI inflation and the output gap



Source: Oxford Economics/ Haver Analytics

Canada: CPI inflation



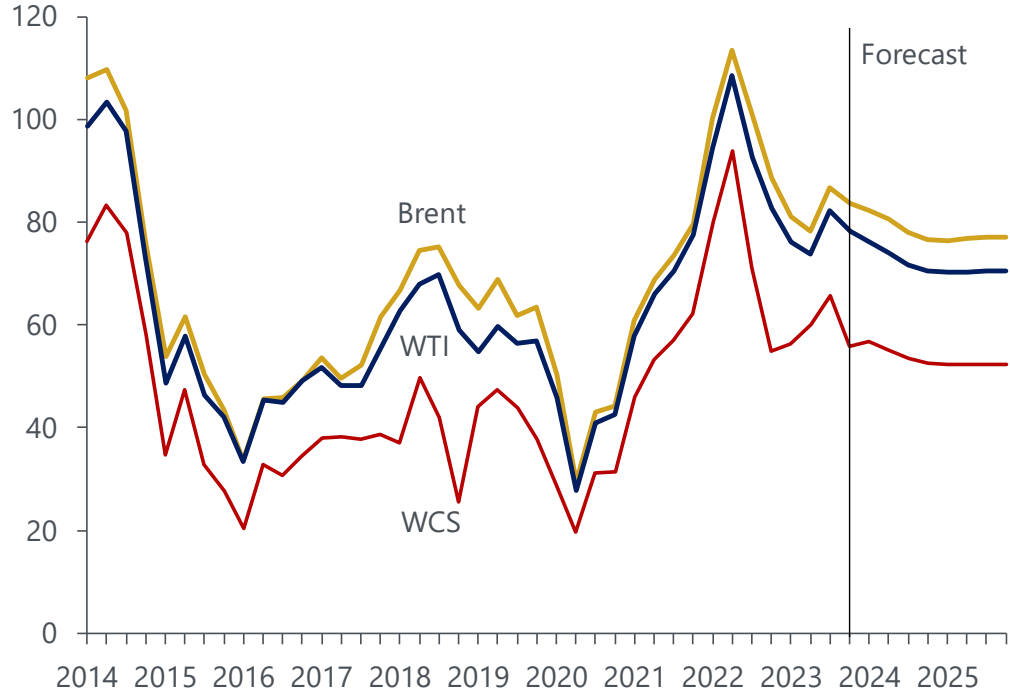
Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

Forecast decline in world oil & food prices will also ease inflation in Canada

Global: Oil prices

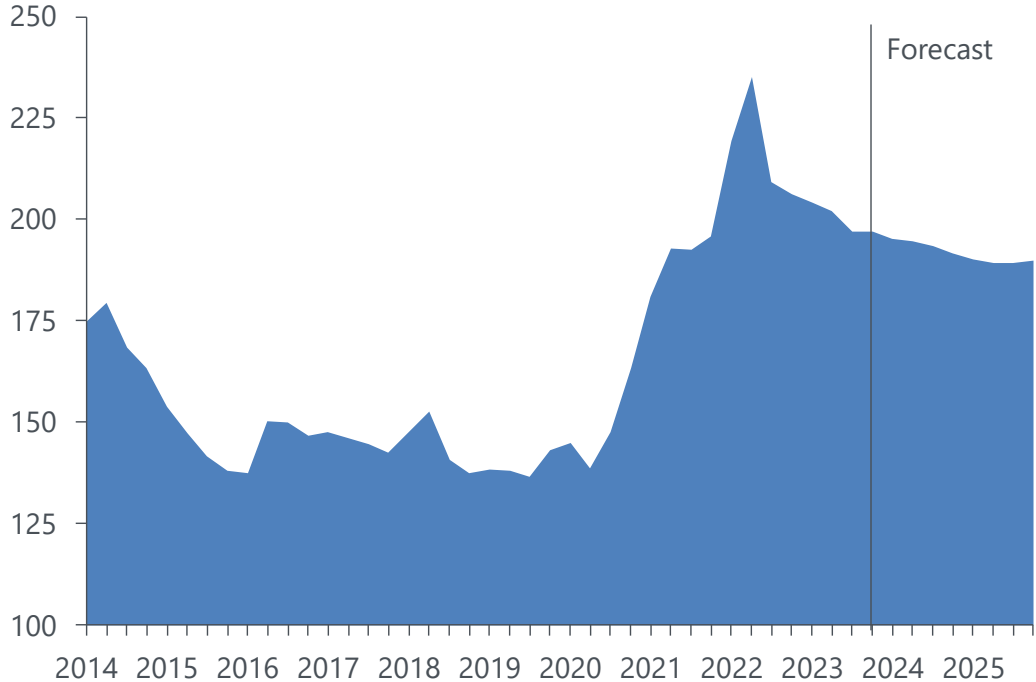
US\$ per barrel



Source: Oxford Economics/ Haver Analytics

Global: Food prices

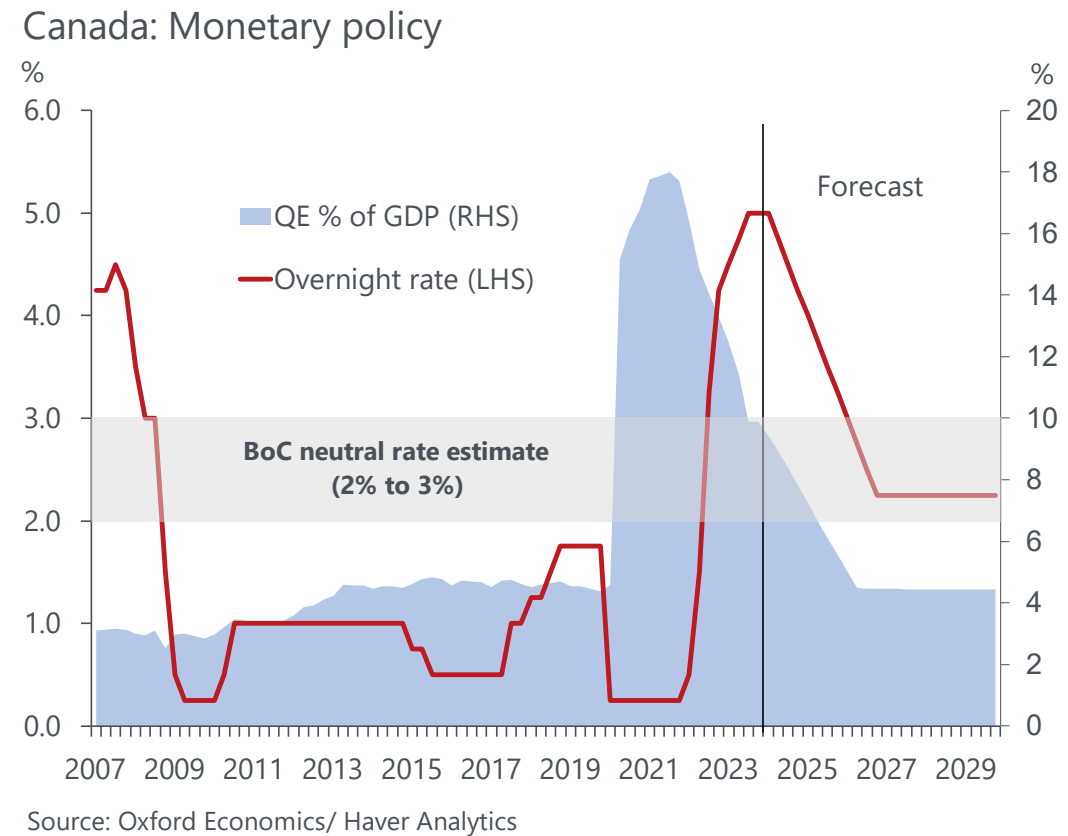
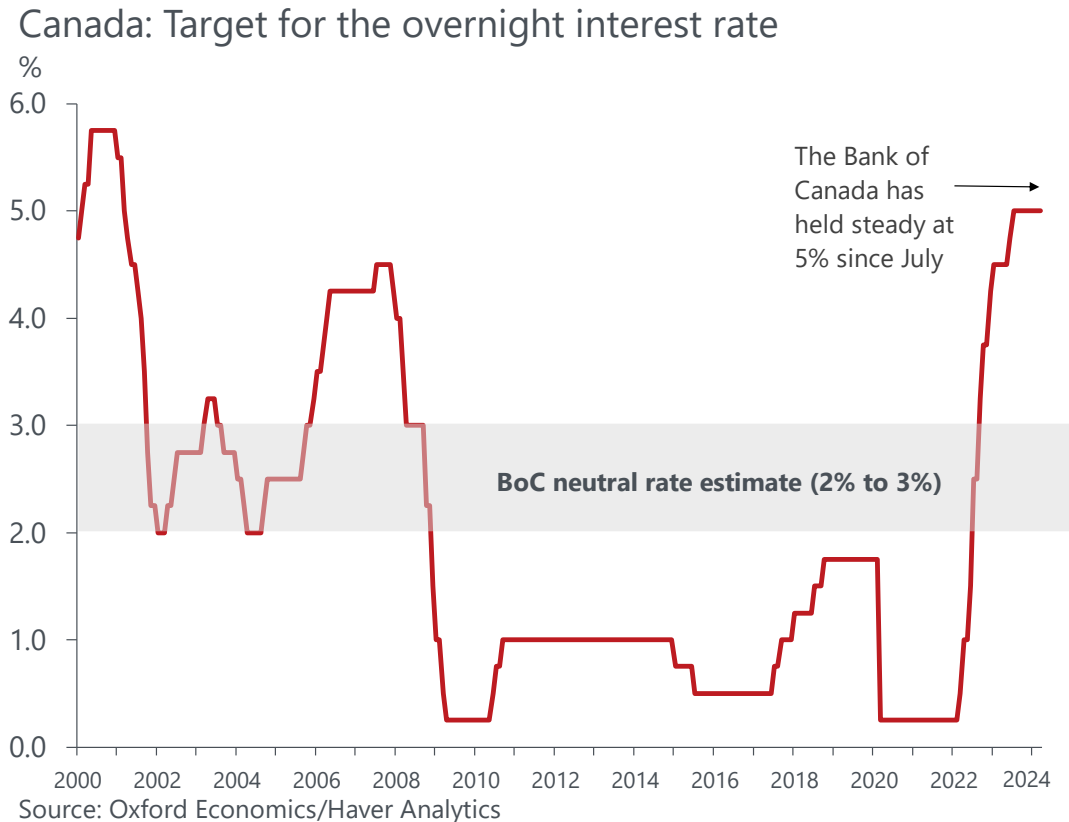
Index (2005 = 100)



Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

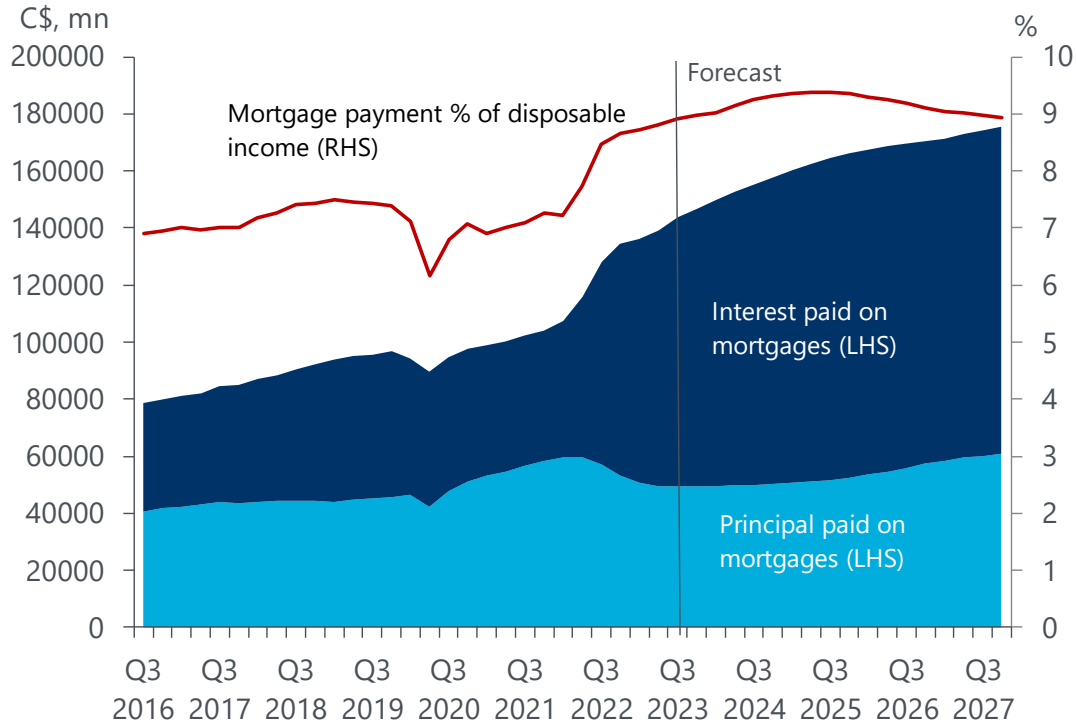
Bank of Canada wants to “give higher rates more time to do their work” ... we anticipate the first rate cut in June



Questions: Use the question panel

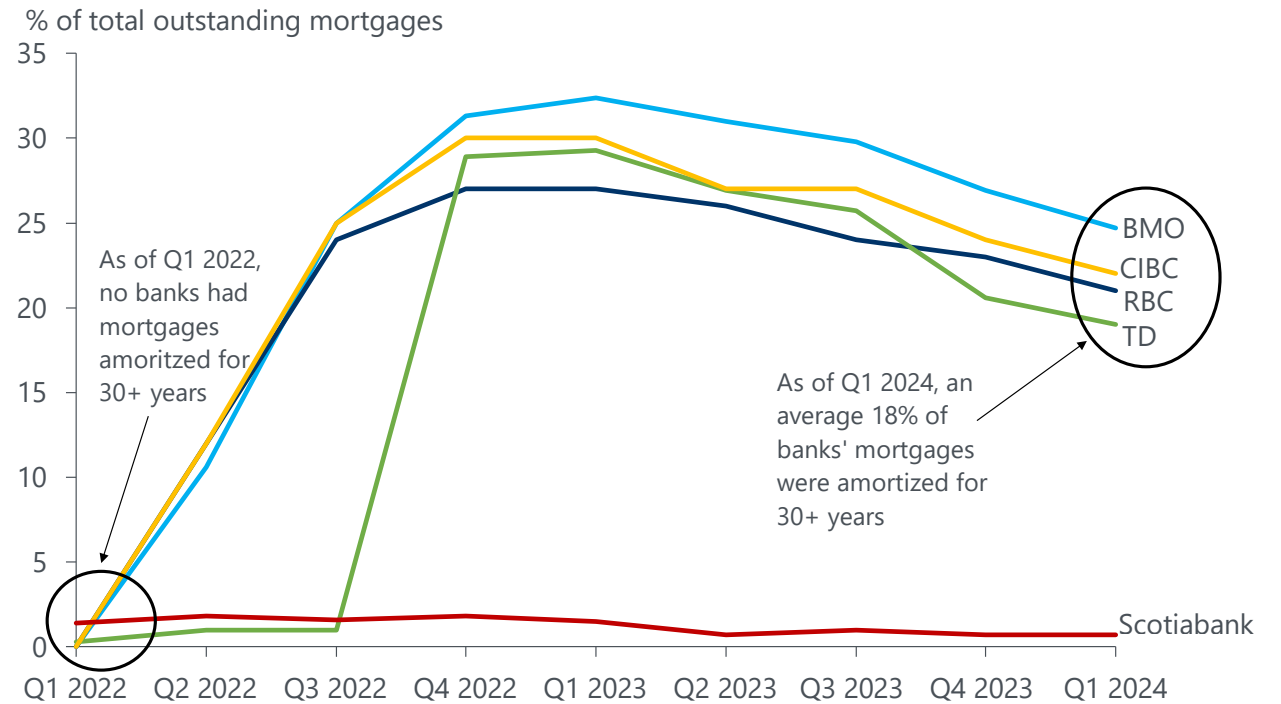
But the mortgage payment shock is not over yet

Canada: Mortgage payments



Source: Oxford Economics/Haver Analytics

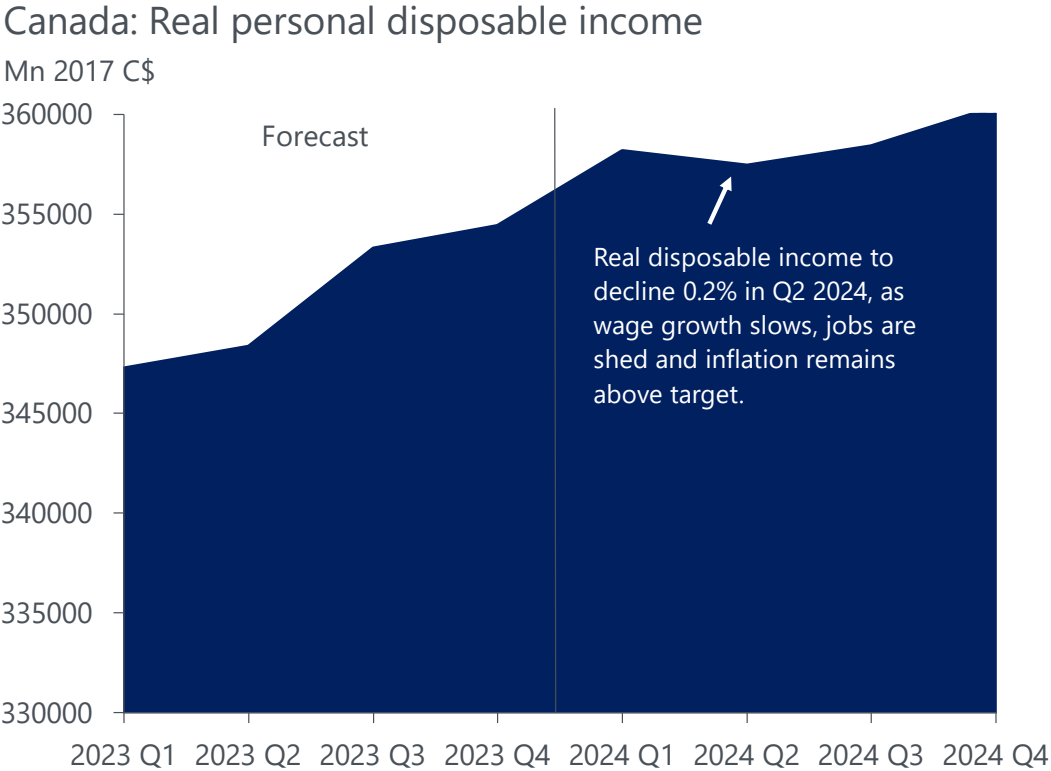
Canada: Residential mortgages by remaining amortization - 30 years and over



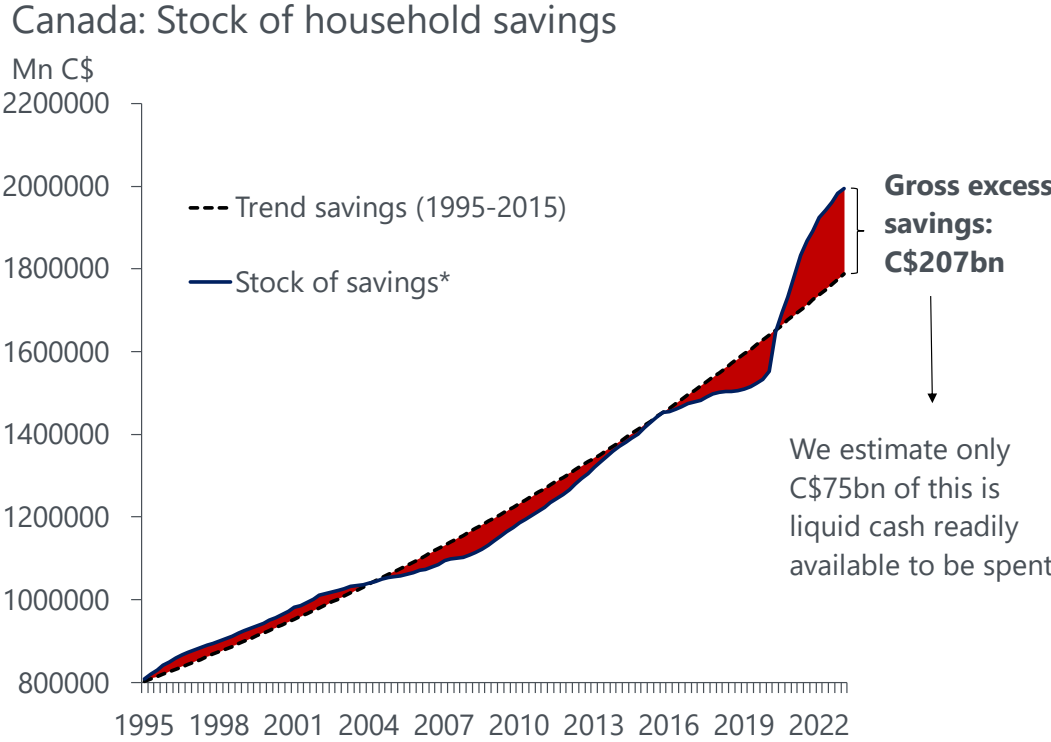
Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

Lower real disposable incomes and higher debt service costs will squeeze discretionary spending



Source: Oxford Economics/Haver Analytics



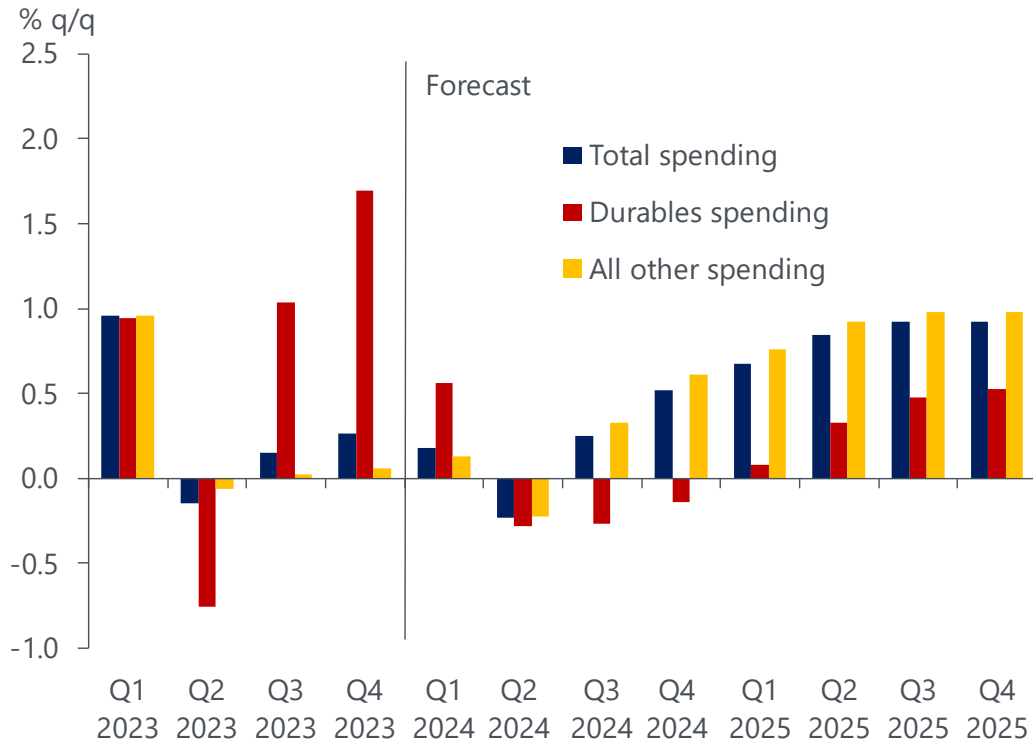
Source: Oxford Economics/Haver Analytics

*Stock of savings = 0 in 1961 Q1

Questions: Use the question panel

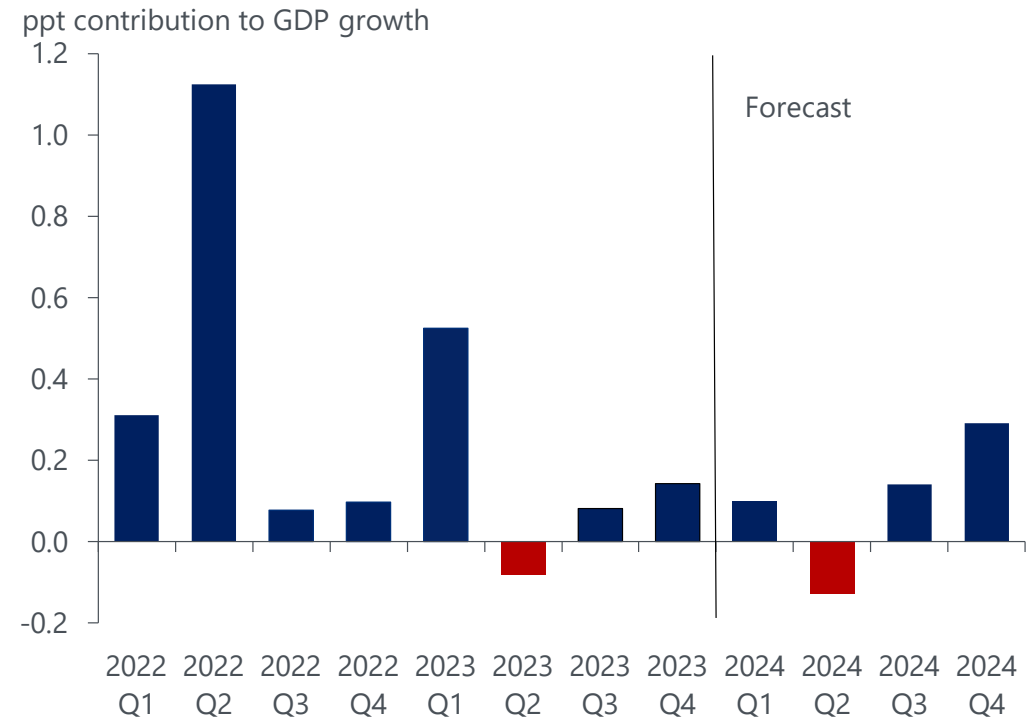
Consumption forecast to decline in Q2, led by durables spending

Canada: Consumer spending



Source: Oxford Economics/Haver Analytics

Canada: Consumption contribution to GDP growth

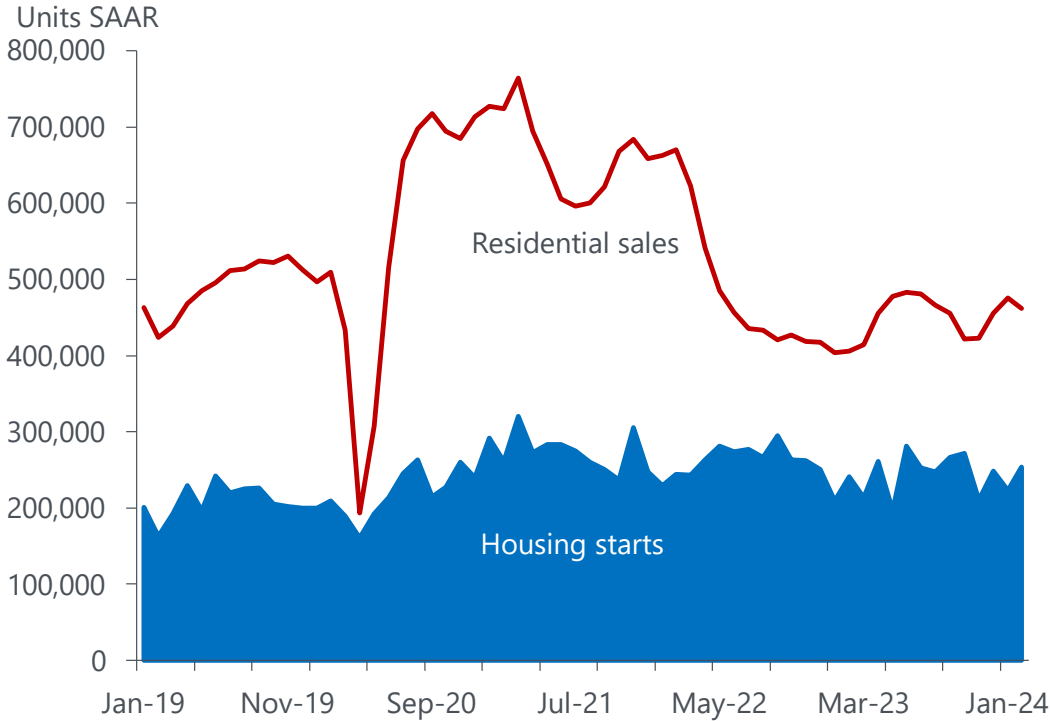


Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

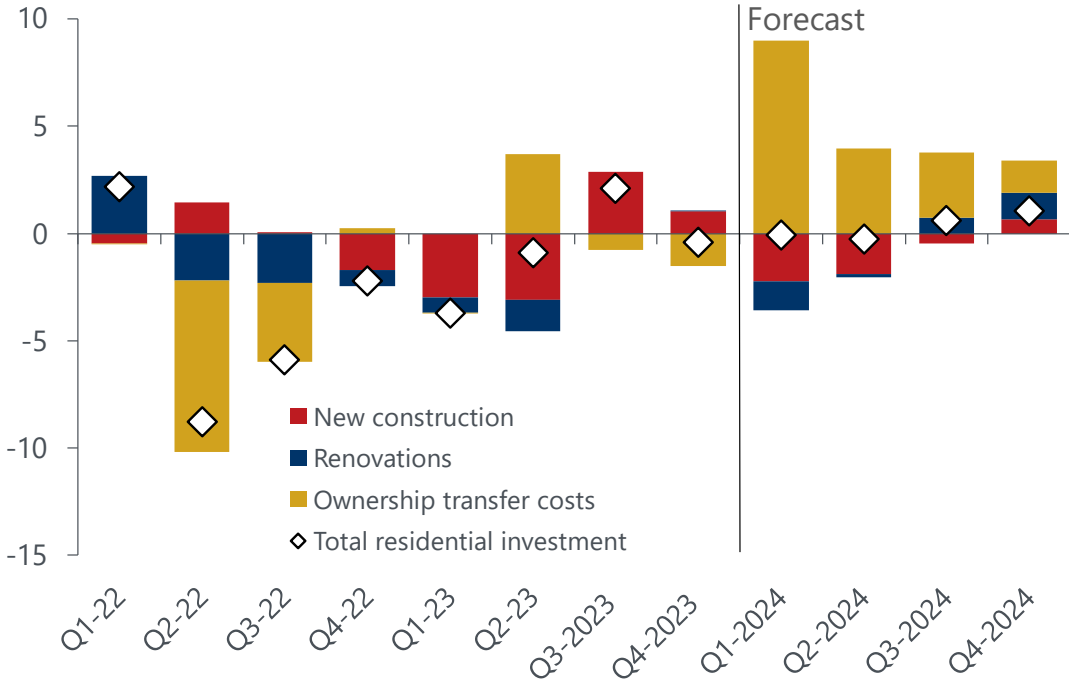
Weaker home building and renos in H1 will offset resale housing upswing before sustained recovery gets underway in H2

Canada: Monthly residential unit sales and housing starts



Source: Oxford Economics/Haver Analytics

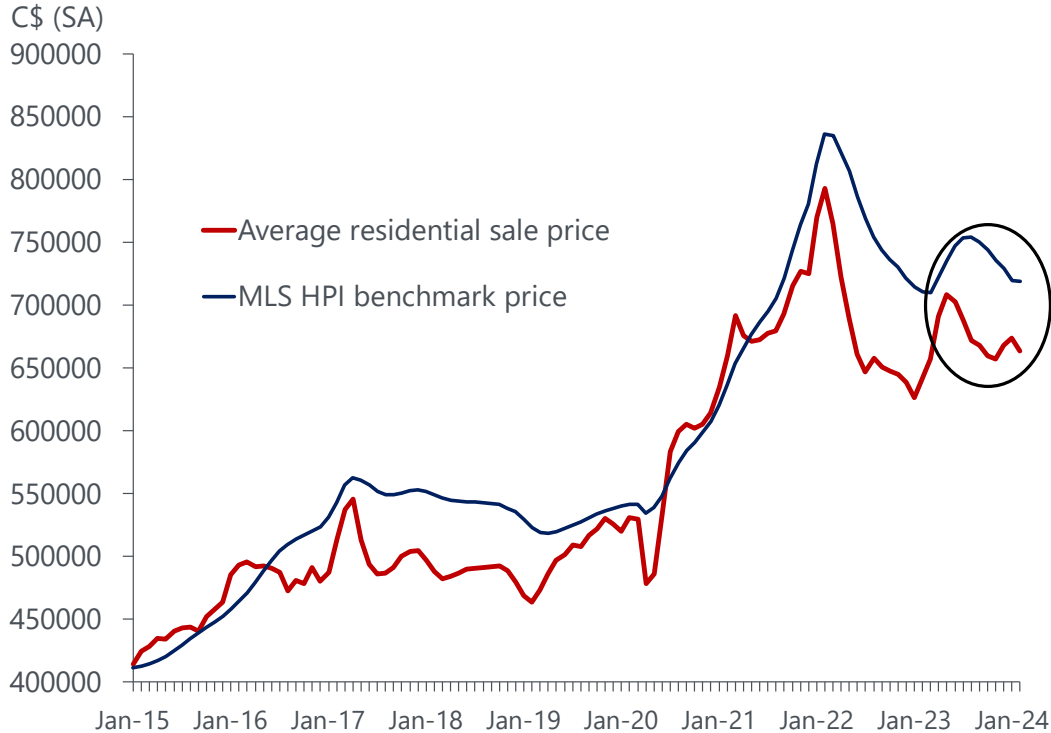
Canada: Contributors to residential investment growth
ppt contribution to quarterly real residential investment growth



Questions: Use the question panel

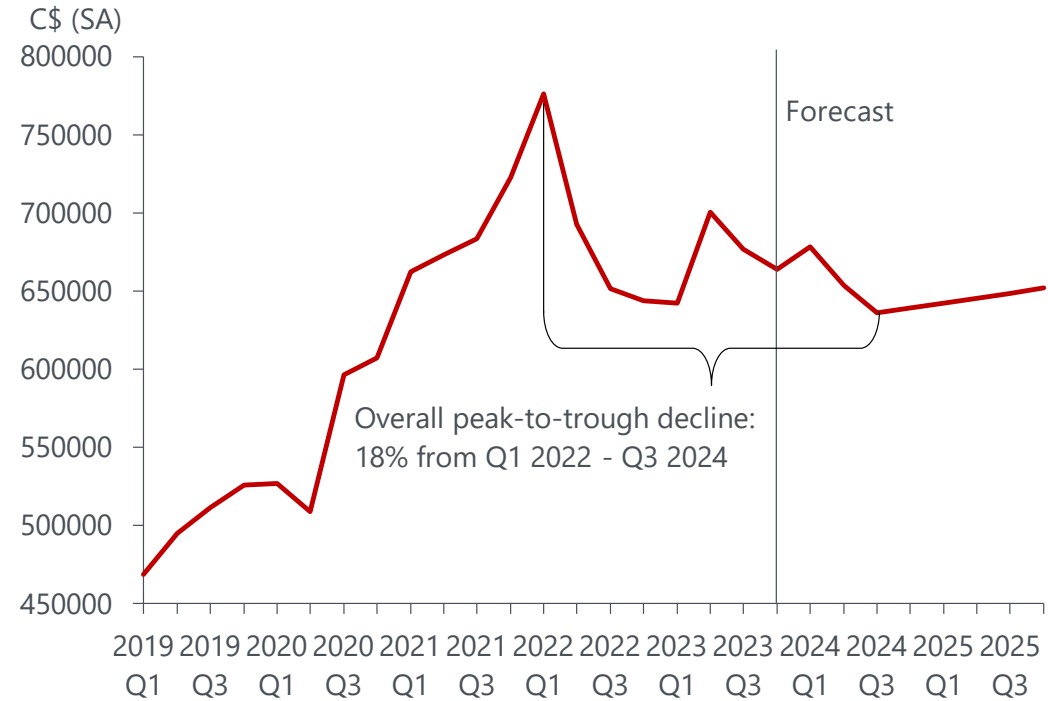
House prices to bottom out by mid-year, resume rising in H2

Canada: Monthly house prices



Source: Oxford Economics/Haver Analytics

Canada: Average Residential Sale Price

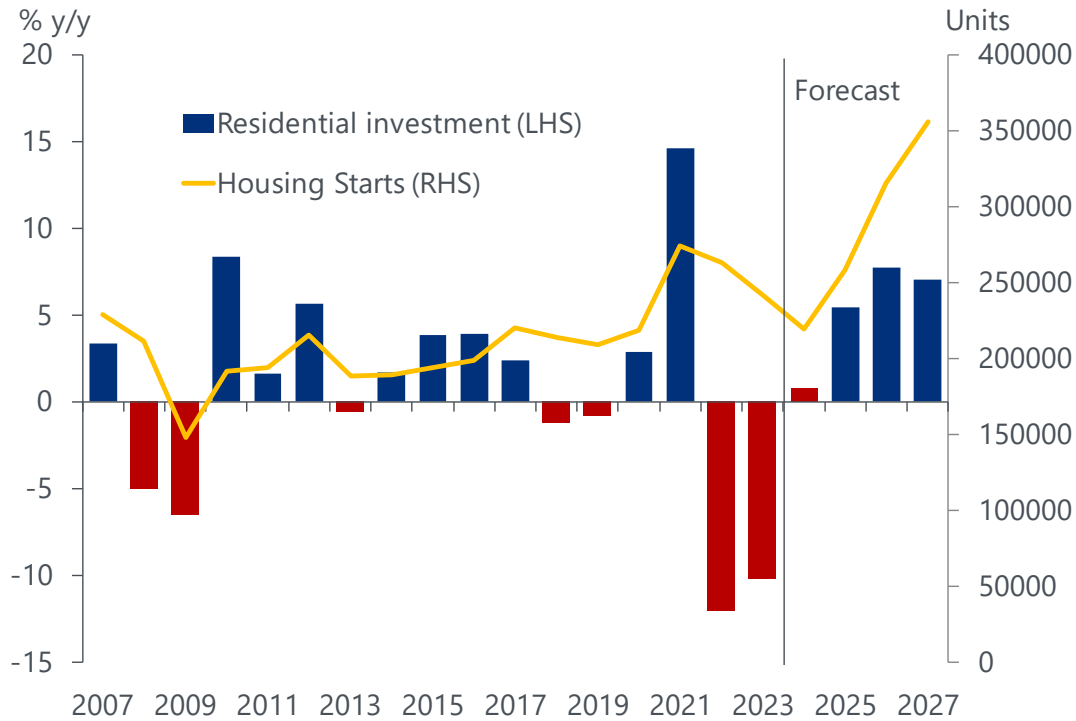


Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

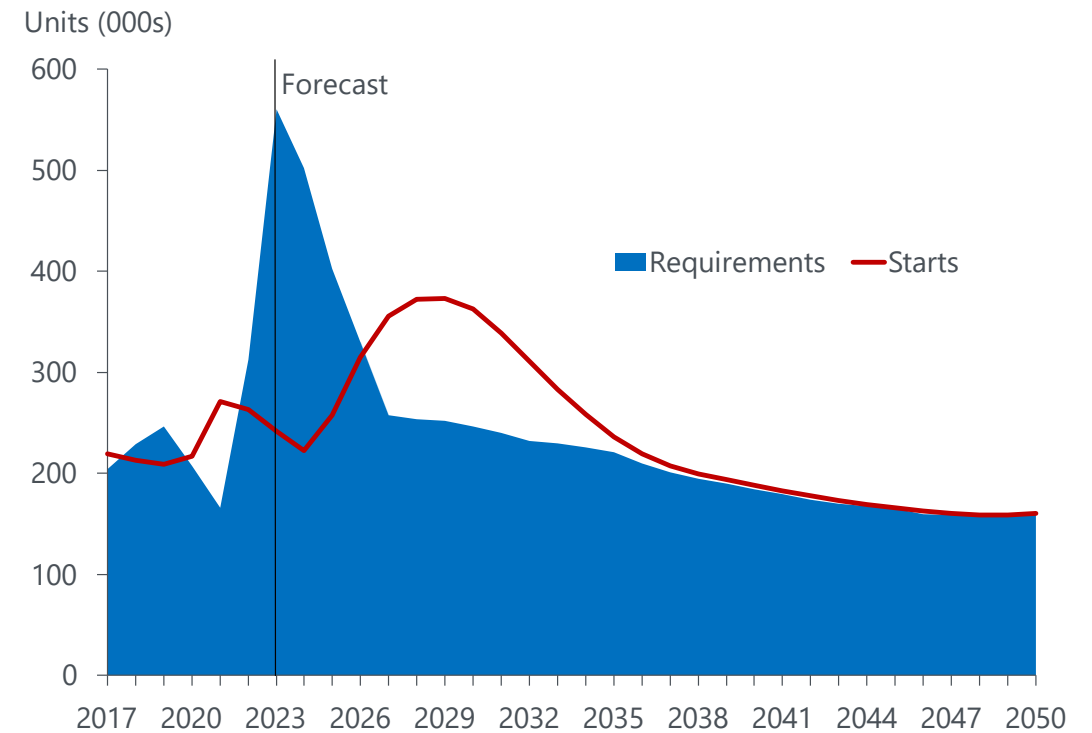
Declining mortgage rates, recovering economy & government efforts to increase supply will begin to boost starts later in 2024

Canada: Residential investment and housing starts



Source: Oxford Economics/Haver Analytics

Canada: New housing requirements and housing starts

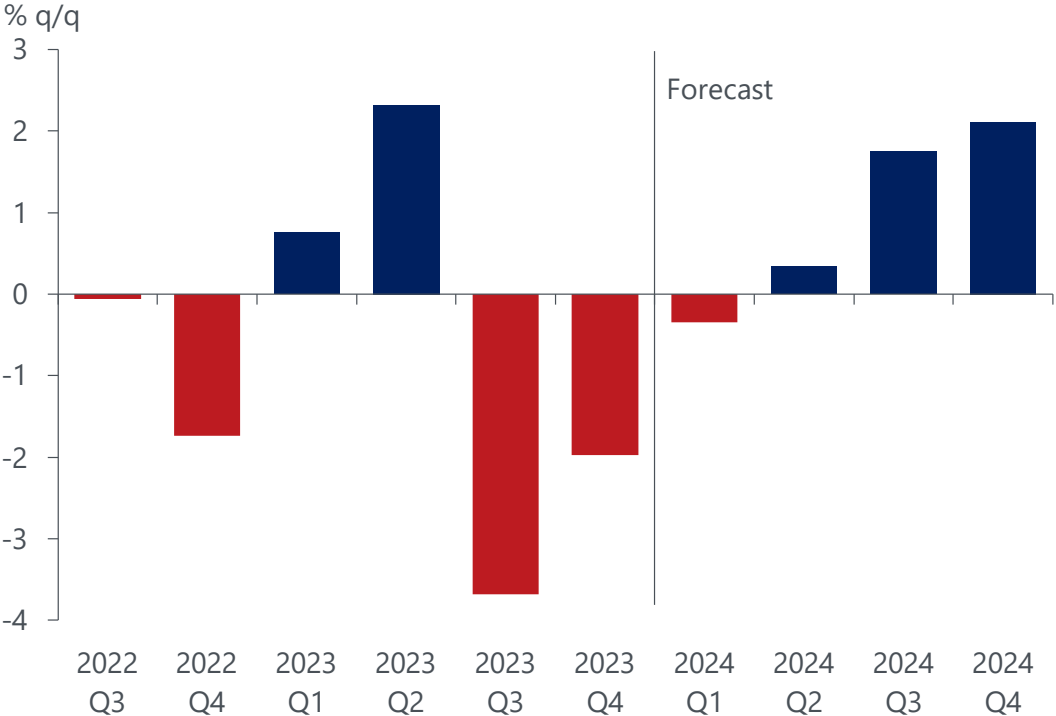


Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

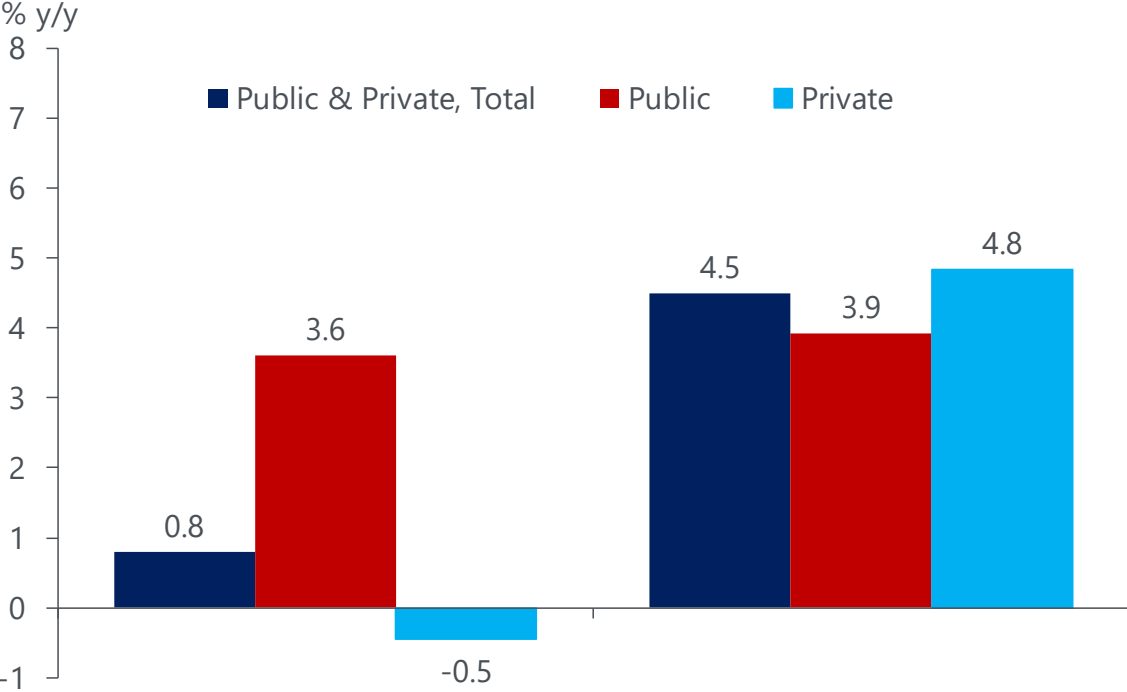
Business investment will likely fall short of StatCan's intentions survey, despite expected pick-up in H2

Canada: Business investment



Source: Oxford Economics/Haver Analytics

Canada: Nominal non-residential investment, 2024

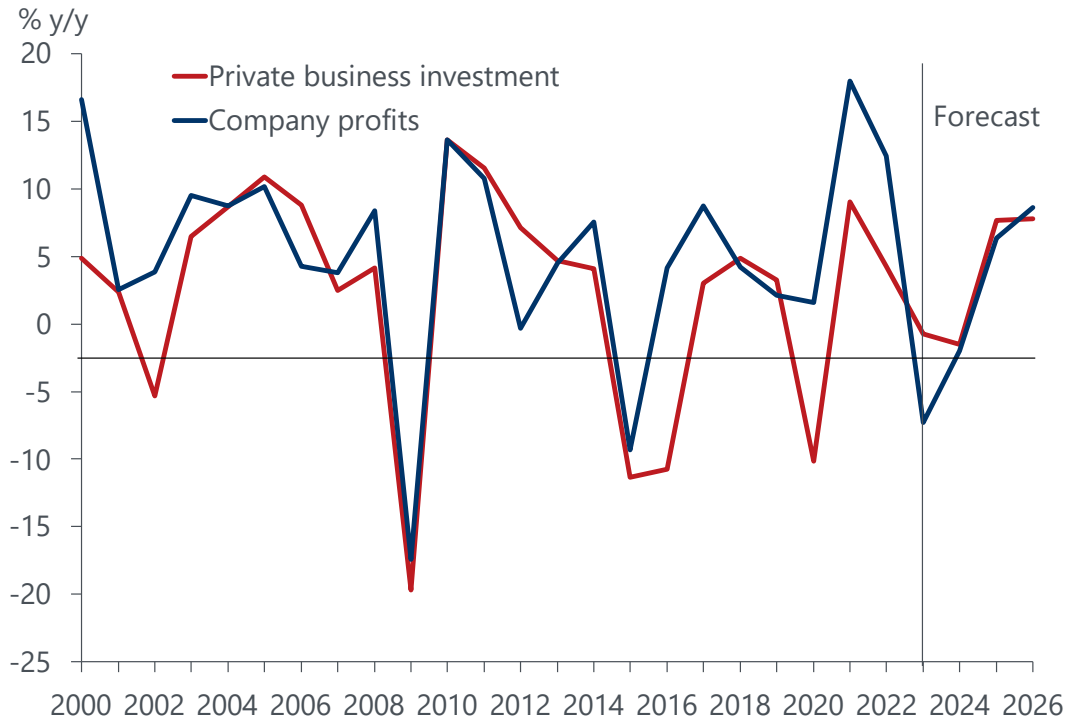


Source : Oxford Economics/Haver Analytics

Questions: Use the question panel

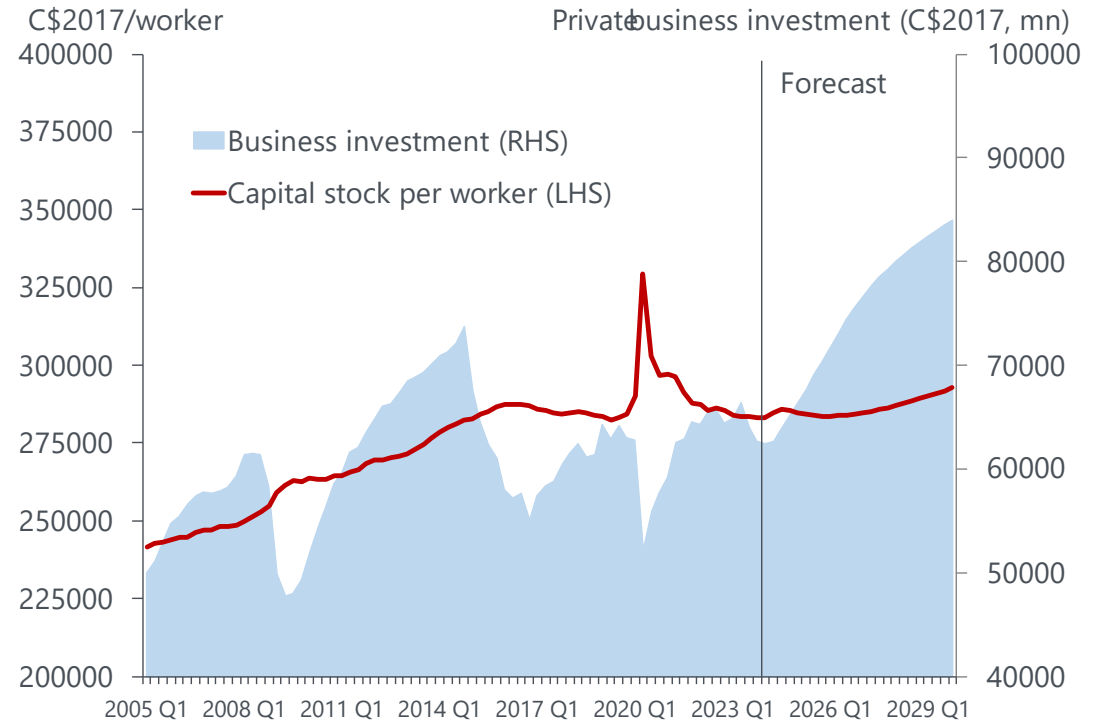
High interest rates, weaker profits & muted sales prospects will postpone business investment before an H2 rebound

Canada: Business investment and company profits



Source: Oxford Economics/Haver Analytics

Canada: Capital stock per worker & private business investment

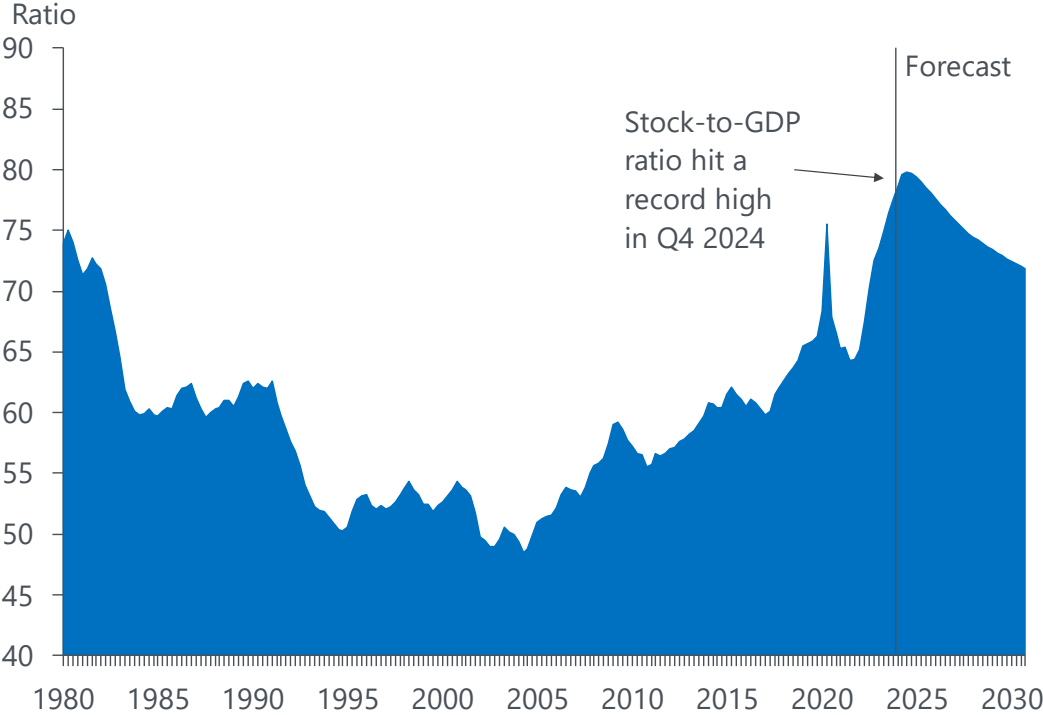


Source: Oxford Economics/Haver Analytics *Capital stock data for 2023 is an estimate

Questions: Use the question panel

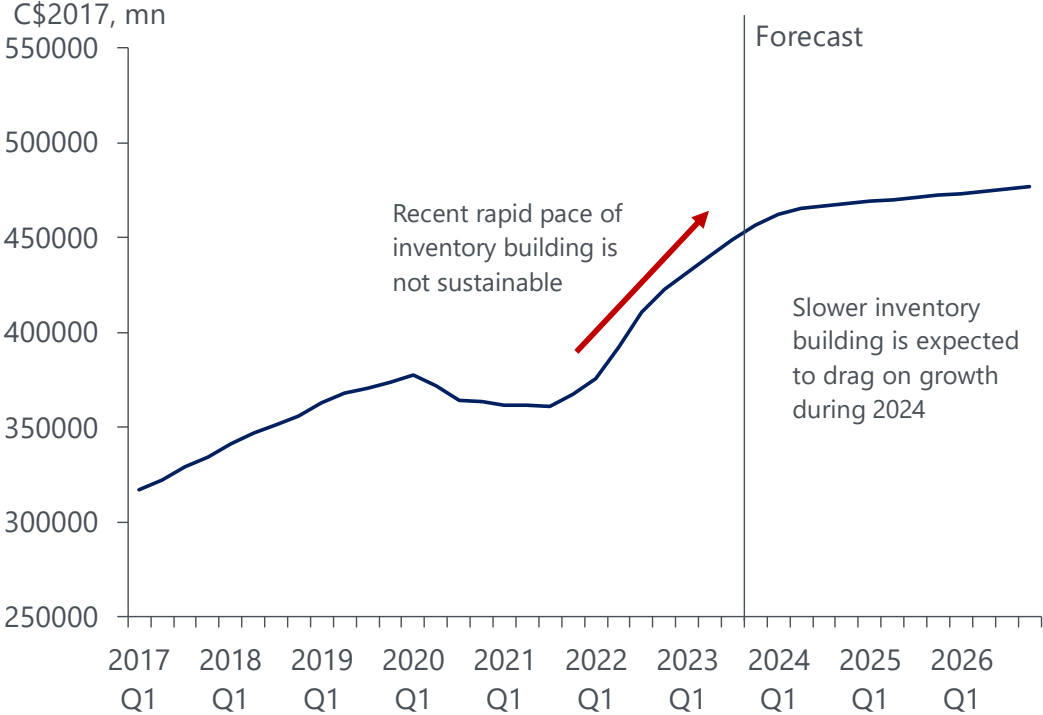
Inevitable slowing in recent unsustainable pace of inventory building will drag on growth this year

Canada: Stock-to-GDP



Source: Oxford Economics/Haver Analytics

Canada: Stock of inventories

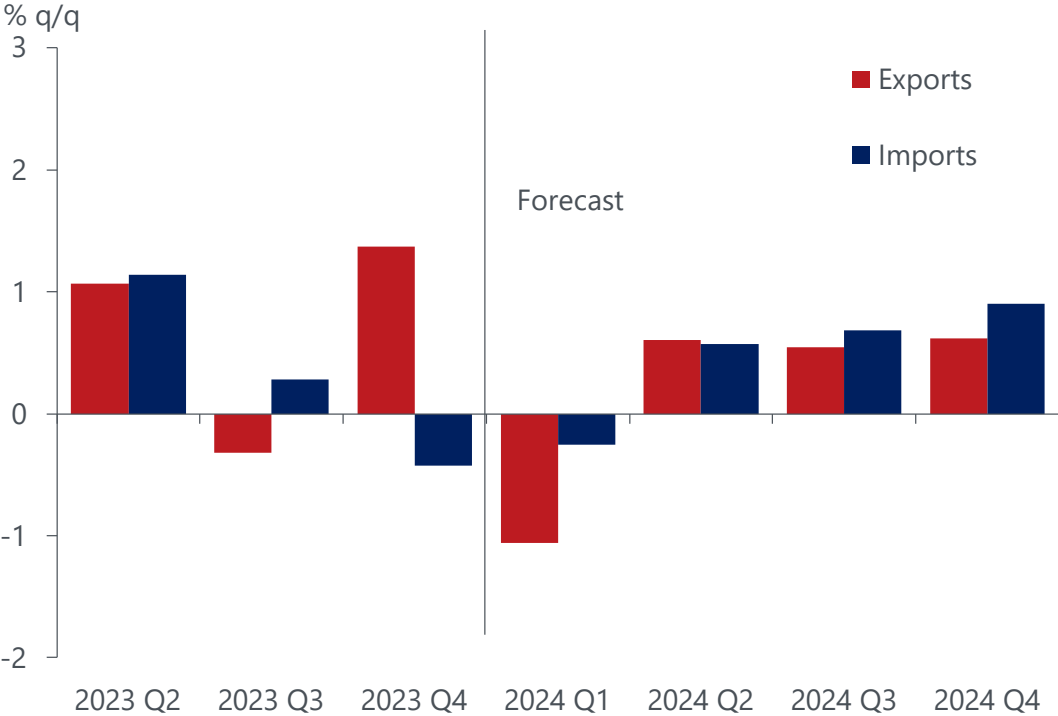


Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

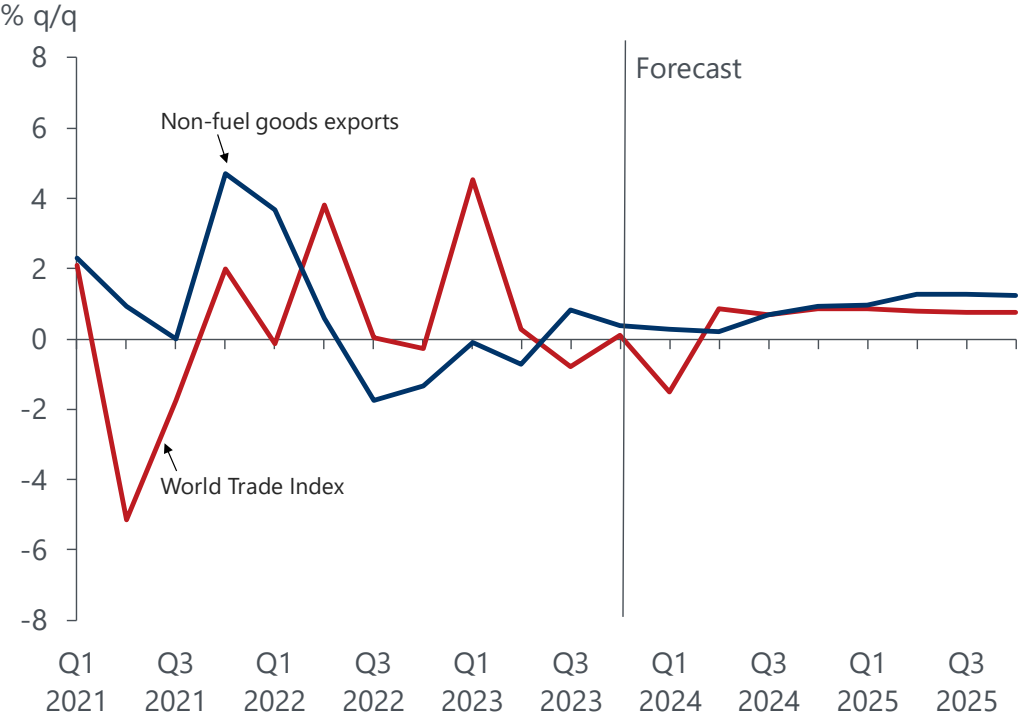
Net exports will drag down GDP in Q1 but will boost growth afterward

Canada: Real exports and imports of goods and services



Source: Oxford Economics/Haver Analytics

Canada: Non-fuel goods exports and World Trade Index



Source: Oxford Economics/Haver Analytics

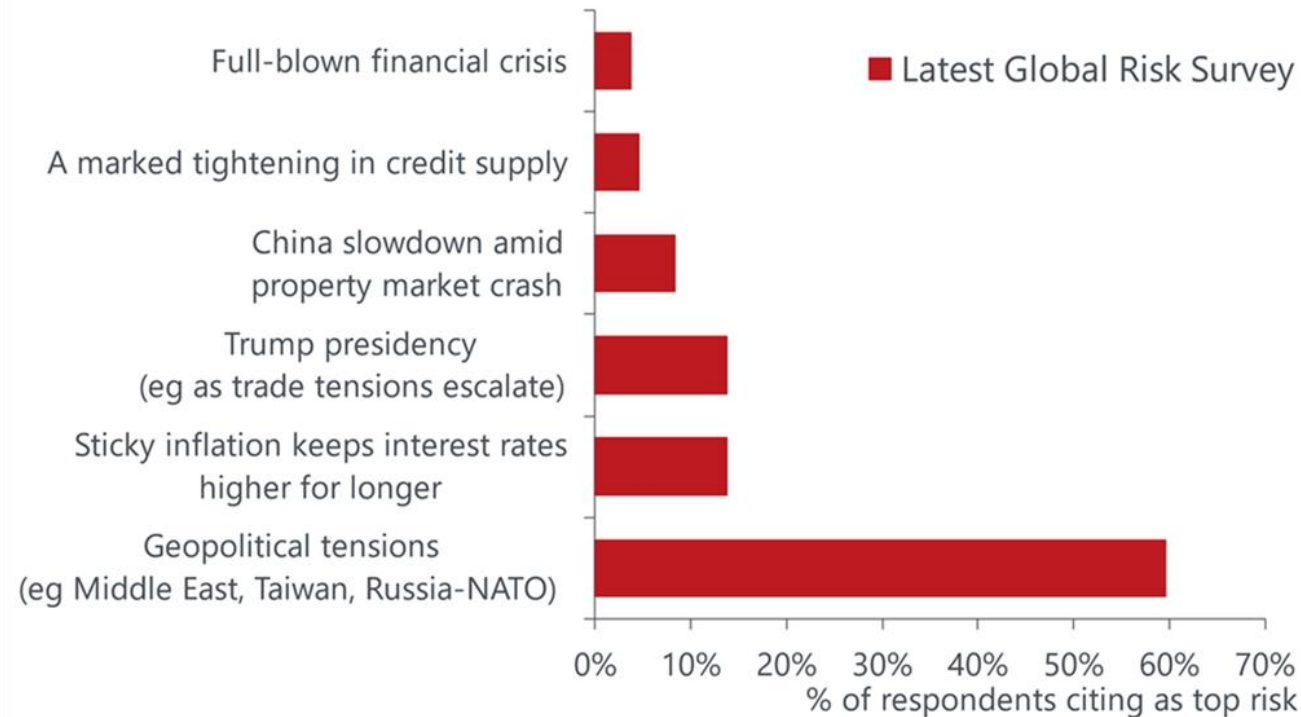
Questions: Use the question panel



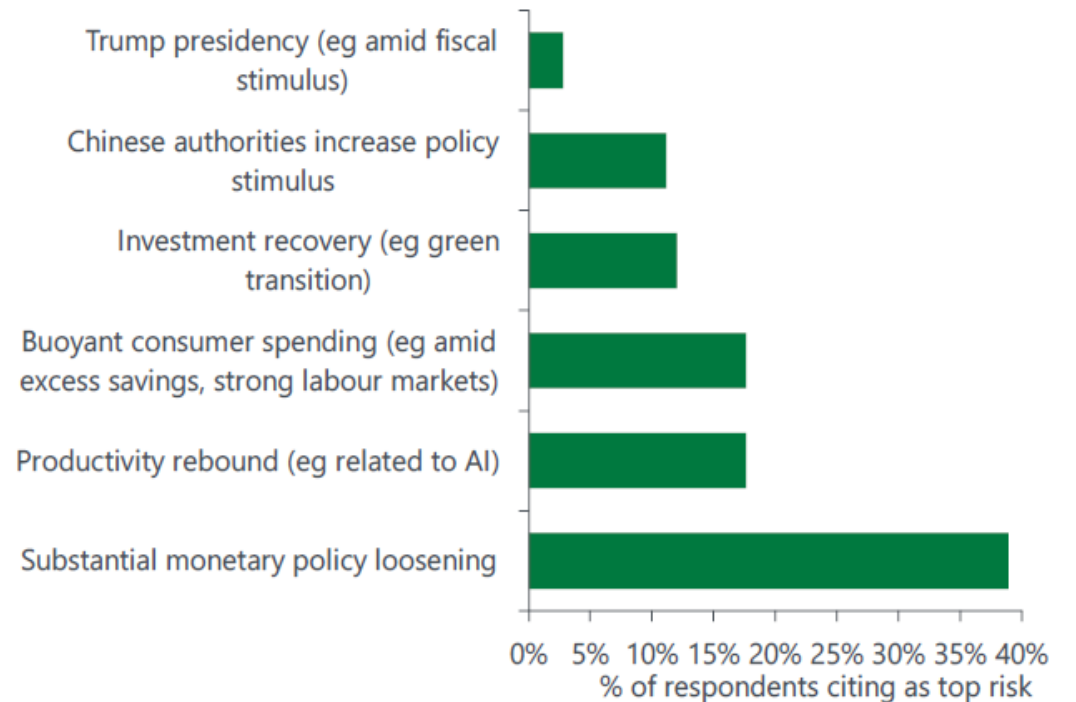
Risks to the economic outlook

Global risks - geopolitical tensions viewed as key downside risk while policy rate cuts seen as top upside

Global Risk Survey: near-term downside risks



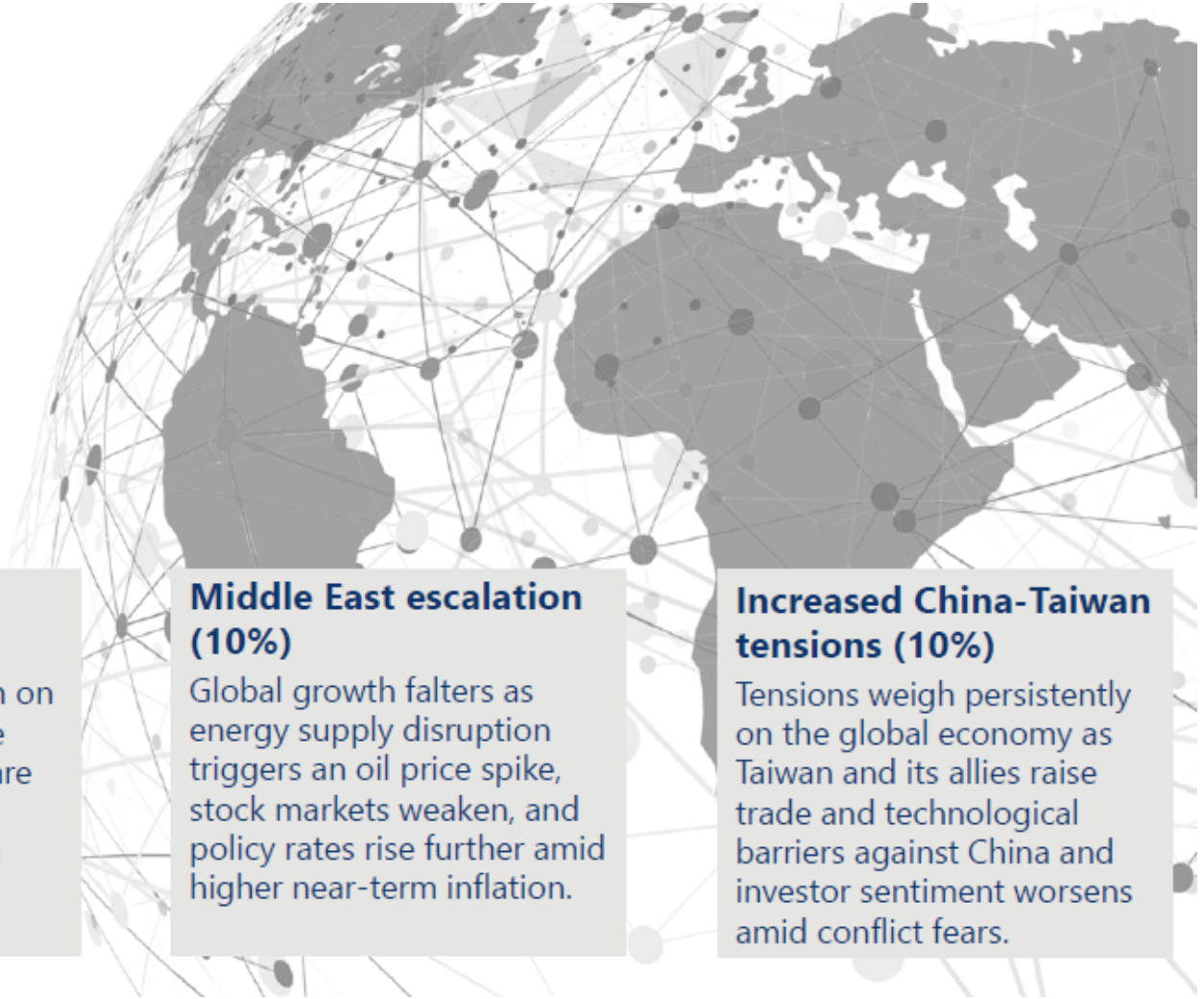
What do you see as the top upside global economic risks over the next two years?



Questions: Use the question panel

Global risk scenarios

This quarter's scenarios quantify key risks to the global economy. These relate primarily to inflationary pressures, the stance of monetary policy, financial market conditions, and geopolitical tensions.



Central banks signal victory over inflation (30%)

Policy easing bolsters the global economy as inflation returns to target, central bank caution fades, and policy shifts to a stance more supportive of growth.

Higher for longer interest rates (10%)

High interest rates weigh on stock markets and house prices, as central banks are challenged by the inflationary fall-out from persistent shipping disruption.

Middle East escalation (10%)

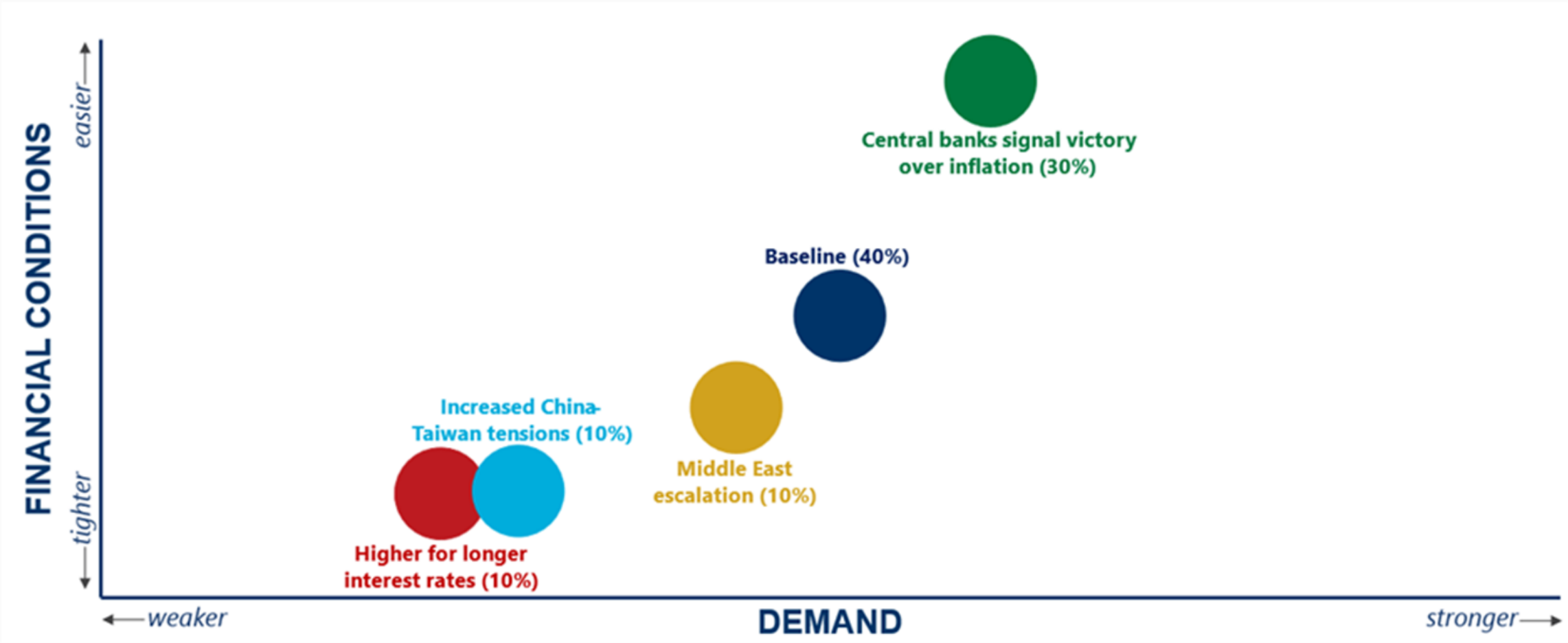
Global growth falters as energy supply disruption triggers an oil price spike, stock markets weaken, and policy rates rise further amid higher near-term inflation.

Increased China-Taiwan tensions (10%)

Tensions weigh persistently on the global economy as Taiwan and its allies raise trade and technological barriers against China and investor sentiment worsens amid conflict fears.

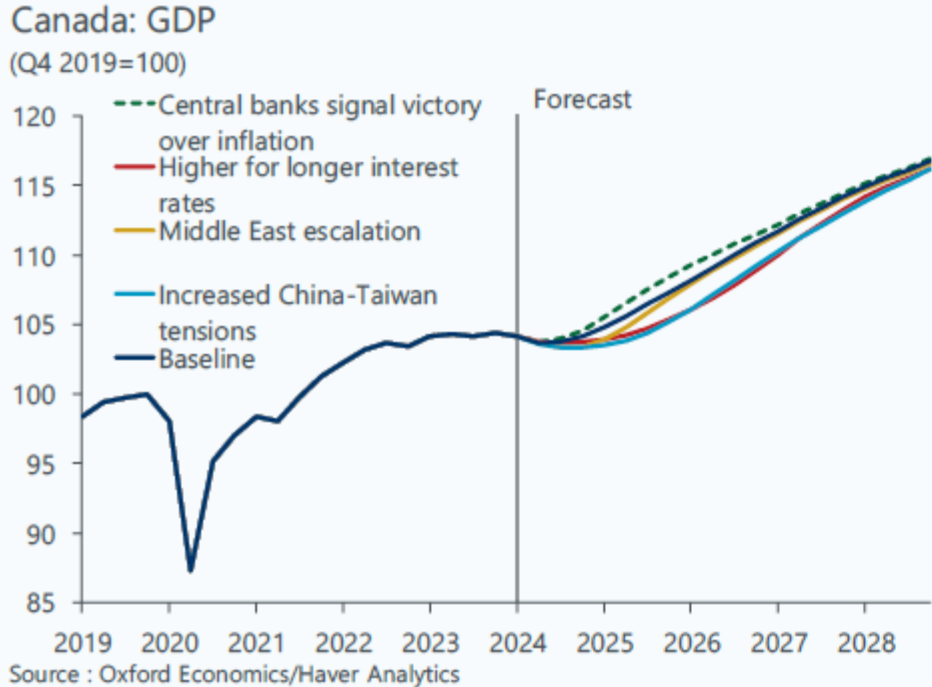
Questions: Use the question panel

Global risk scenarios overview



Questions: Use the question panel

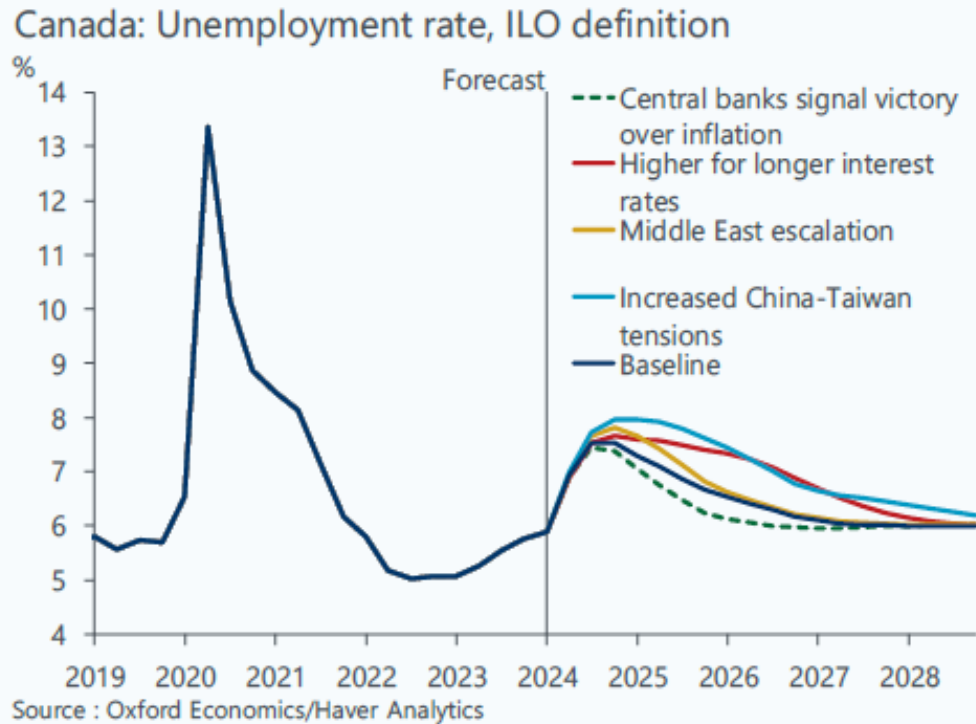
Global risk scenarios – Canada GDP growth



Canada GDP performance across scenarios						
	GDP growth (%)					
	2023	2024	2025	2026	2027	2028
Baseline	1.1	-0.3	2.0	3.3	3.2	2.5
Central banks signal victory over inflation	1.1	-0.1	2.8	3.2	2.7	2.4
Higher for longer interest rates	1.1	-0.4	0.7	2.8	4.0	3.1
Middle East escalation	1.1	-0.6	1.7	3.8	3.2	2.6
Increased China-Taiwan tensions	1.1	-0.6	0.6	3.3	3.7	3.0

Source: Oxford Economics

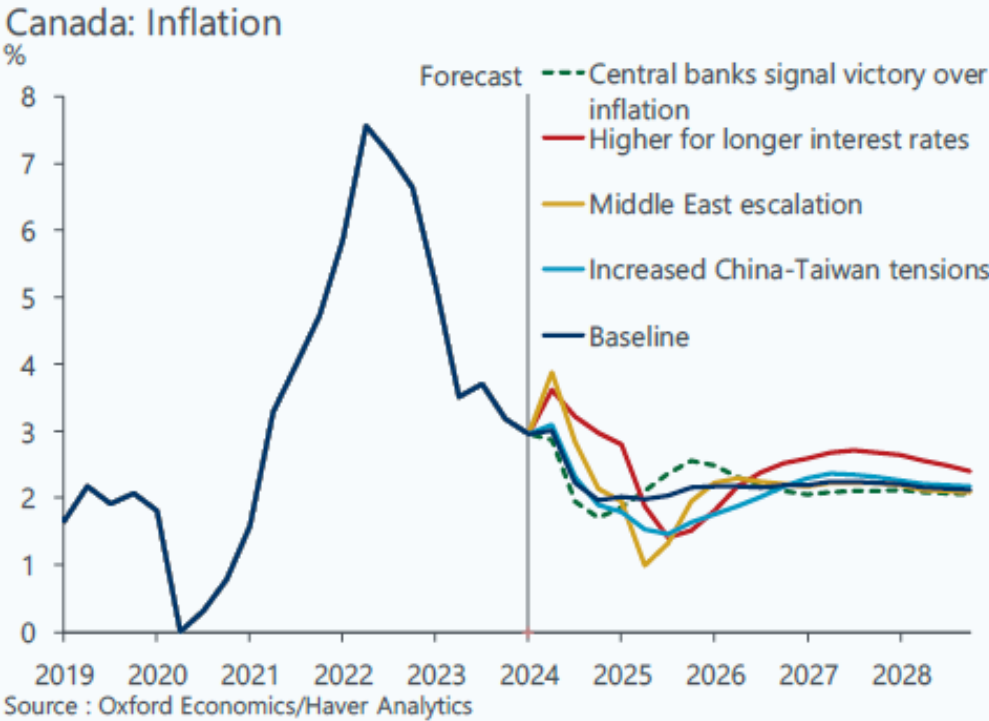
Global risk scenarios – Canada unemployment rate



Canada labour market performance across scenarios						
	Unemployment rate (%)					
	2023	2024	2025	2026	2027	2028
Baseline	5.4	7.0	7.0	6.4	6.0	6.0
Central banks signal victory over inflation	5.4	6.9	6.6	6.0	6.0	6.0
Higher for longer interest rates	5.4	7.0	7.5	7.1	6.4	6.1
Middle East escalation	5.4	7.1	7.3	6.4	6.1	6.0
Increased China-Taiwan tensions	5.4	7.1	7.8	7.1	6.5	6.3

Source: Oxford Economics

Global risk scenarios – Canada CPI inflation



Canada inflation performance across scenarios						
	Consumer price inflation (%)					
	2023	2024	2025	2026	2027	2028
Baseline	3.9	2.5	2.0	2.2	2.2	2.2
Central banks signal victory over inflation	3.9	2.4	2.2	2.3	2.1	2.1
Higher for longer interest rates	3.9	3.2	1.9	2.2	2.7	2.5
Middle East escalation	3.9	2.9	1.5	2.2	2.2	2.1
Increased China-Taiwan tensions	3.9	2.6	1.6	2.0	2.3	2.2

Source: Oxford Economics

Questions: Use the question panel

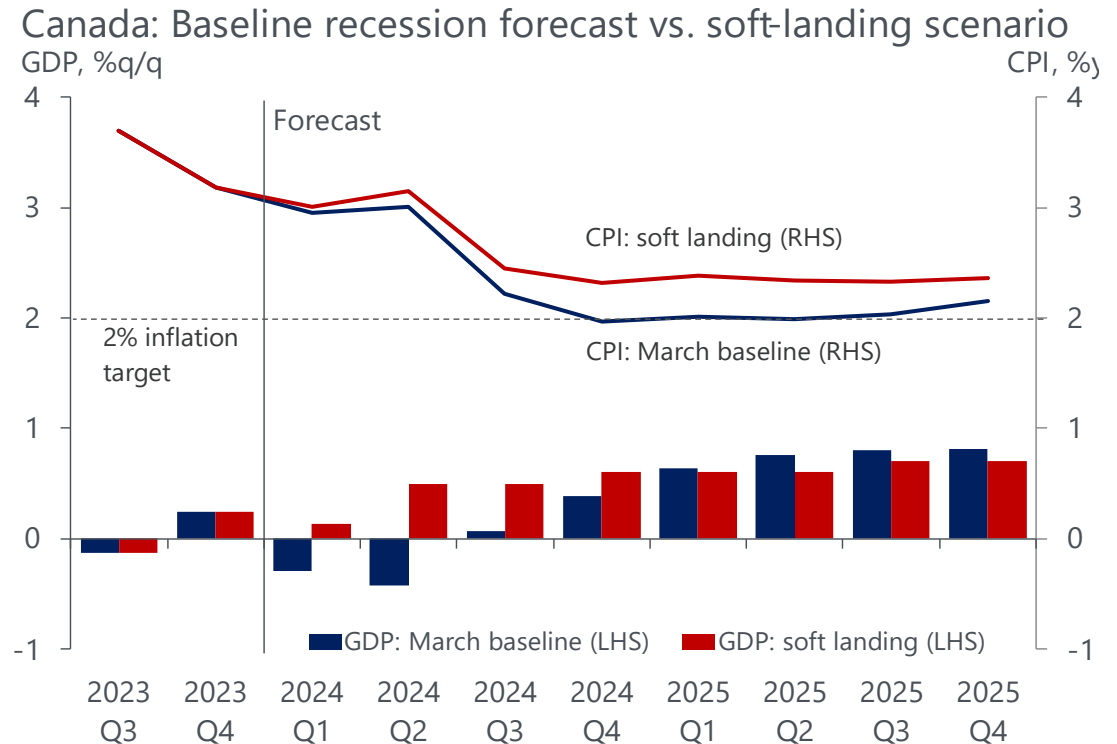
What if the Canadian economy has a soft landing?

The Bank of Canada (BoC) continues to expect a soft landing for the economy, as do many other forecasters.

The BoC expects inflation to remain close to 3% during the first half of this year before easing to 2% in 2025 in a gradual and uneven process.

This is around a year later than our baseline recession forecast.

In our modelling of a soft-landing scenario, inflation would be higher which could prompt the BoC to boost the policy rate to 5.5% by mid-year.

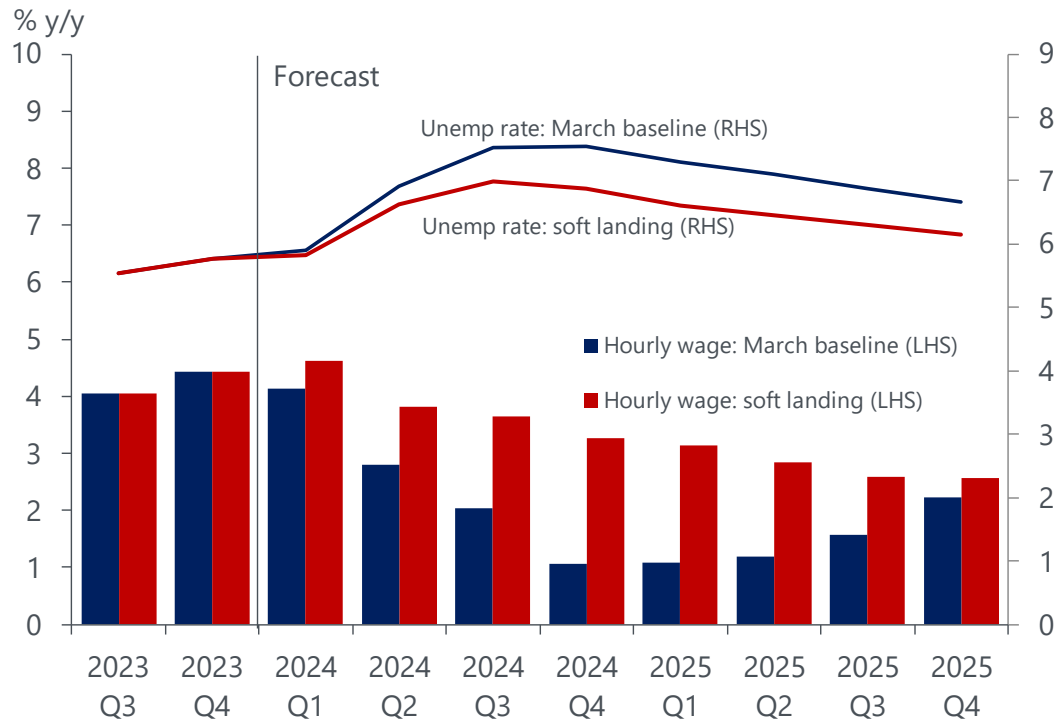


Source: Oxford Economics/Haver Analytics

*CPI forecast includes impact of rising carbon levy so it settles just above 2%

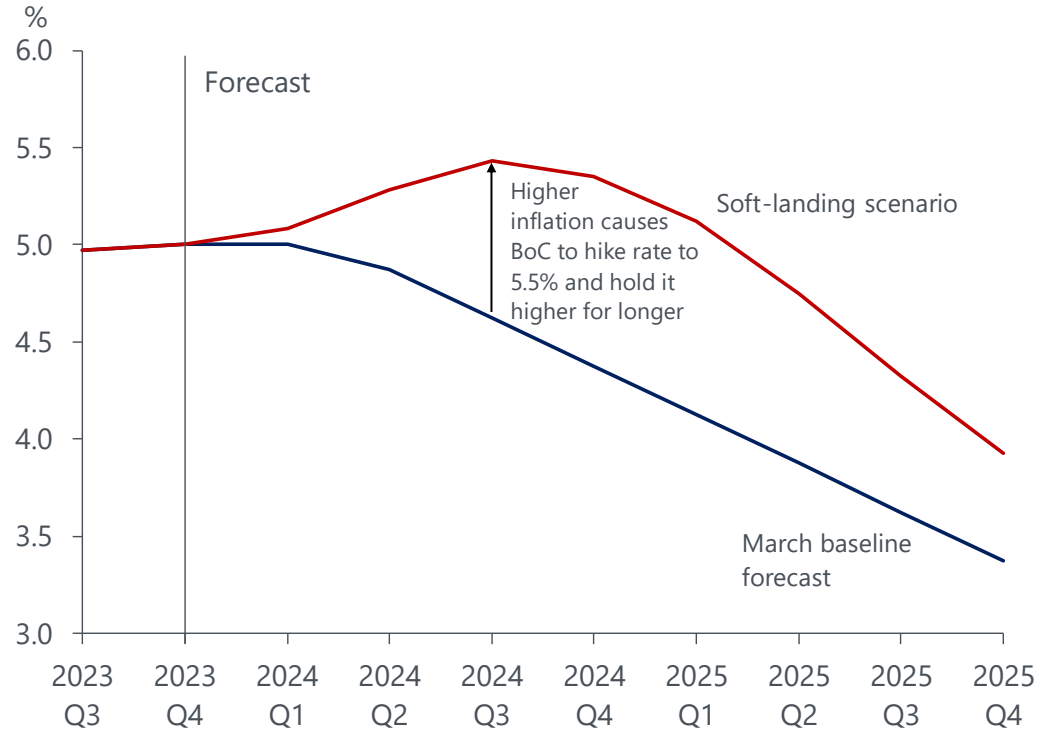
Higher inflation in soft landing could prompt the BoC to hike rates

Canada: Labour market baseline vs. soft-landing scenario



Source: Oxford Economics/Haver Analytics

Canada: Bank of Canada overnight interest rate



Source: Oxford Economics/Haver Analytics

Questions: Use the question panel



Economic forecast summary

Global & Canada economic forecast summary

A recent slew of positive data suggests a soft landing for the global economy.

- We expect major central banks to loosen monetary policy in H2 and forecast global GDP will grow by 2.4% in 2024 and by 2.8% in 2025.
- Risks are becoming more balanced, but they are still skewed to the downside, with geopolitical tensions and sticky inflation triggering higher for longer interest rates key concerns.

Despite the Q4 uptick in Canadian GDP, we still expect the economy will contract modestly in H1 before a recovery emerges in the latter half of 2024.

- Resilient consumer spending and higher forecast US imports are expected to only partially offset the impact of higher interest rates on household outlays and housing investment, lower business non-residential investment, and a slower pace of inventory building.
- On an annual average basis, we forecast GDP will contract 0.3% in 2024 and grow 2% in 2025.
- Still, GDP on a per capita basis is expected to continue falling until 2025.

Questions: Use the question panel

Global baseline forecast for key indicators

Summary of international forecasts													Exchange rates and commodities*			
	Real GDP (% Year)			Inflation (% Year)			Short-term rates (Q4 EOP)			10-yr bond yields (Q4 EOP)			2023	2024	2025	
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	(End of period)			
US	2.5	2.4	1.7	4.1	2.8	2.1	5.6	4.8	3.9	3.9	3.8	3.5	US\$ effective*	116.6	113.2	109.0
Eurozone*	0.5	0.5	1.8	5.4	1.9	1.3	3.9	2.5	1.6	2.0	2.2	2.1	EUR/USD	1.11	1.09	1.11
Japan	2.0	0.5	0.8	3.3	1.9	0.8	0.1	0.1	0.1	0.6	0.7	0.7	GBP/USD	1.27	1.27	1.29
UK	0.1	0.5	2.0	7.3	2.2	2.1	5.3	4.7	3.8	3.5	3.8	3.5	JPY/USD	141.91	135.45	126.74
Canada	1.1	-0.3	2.0	3.9	2.5	2.0	5.4	4.5	3.6	3.1	3.6	3.5	CAD/USD	1.32	1.32	1.23
China	5.2	4.7	4.1	0.2	0.3	1.7	2.5	1.9	2.1	2.6	2.6	2.7	CNY/USD	7.10	7.01	6.58
India	7.7	6.3	7.2	5.7	4.6	4.5	7.3	6.2	6.1	7.2	7.2	7.2	INR/USD	83.17	82.50	80.86
Brazil	2.9	0.5	2.1	4.6	3.7	3.6	11.7	8.9	8.9	10.4	10.2	9.4	BRL/USD	4.84	5.12	5.20
Philippines	5.6	5.2	5.9	6.0	3.6	3.2	6.4	5.3	5.0	6.0	6.5	6.5	PHP/USD	55.57	54.72	53.06
South Africa	0.6	0.7	1.4	5.9	5.2	5.0	8.4	8.1	7.1	11.1	11.0	10.8	ZAR/USD	18.58	18.78	19.09
EM	4.2	3.8	4.1	8.4	9.2	5.3							World Trade (avg.)**	-1.2	2.4	4.1
DM	1.6	1.5	1.8	4.6	2.4	1.7							Brent oil (\$/bl)***	82.5	79.4	76.8
World	2.7	2.4	2.8	6.1	4.4	3.3							World commodity price index, non-fuel**	-6.9	-1.8	-2.0

*For Eurozone long-term rates we report German 10-year yields.

End of period except where marked by: * Q4 average, ** y/y %, *** year average

Canada baseline forecast summary

Forecast for Canada						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
GDP	3.8	1.1	-0.3	2.0	3.3	3.2
Private Consumption	5.1	1.7	0.5	2.5	3.7	3.7
Fixed Investment	-2.4	-3.2	0.7	5.5	6.2	5.1
Stockbuilding (% of GDP)	2.4	1.4	0.5	0.2	0.2	0.2
Government Consumption	3.2	1.5	1.0	0.8	1.0	1.0
Exports of Goods and Services	3.2	5.7	0.9	2.3	2.0	1.9
Imports of Goods and Services	7.6	1.0	0.8	3.2	3.1	2.8
Industrial Production	3.9	-0.6	0.0	2.1	2.8	2.0
Consumer Prices	6.8	3.9	2.5	2.0	2.2	2.2
Current Balance (% of GDP)	-0.4	-0.6	-1.1	-1.6	-2.1	-2.3
Government Budget (% of GDP)	0.6	0.0	-2.3	-2.3	-1.7	-1.1
Short-Term Interest Rates (%)	2.66	5.13	4.97	4.07	3.03	2.41
Long-Term Interest Rates (%)	2.77	3.36	3.52	3.53	3.47	3.45
Exchange Rate (Per US\$)	1.30	1.35	1.34	1.27	1.20	1.18
Exchange Rate (Yen per Can \$)	101.1	104.2	107.3	102.6	103.2	100.5

Questions: Use the question panel

Questions?



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