



Bennett
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Calgary, Alberta

Fall 2018 Economic Outlook

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Global GDP Growth Outlook

- › 2017 and 2018 global growth at 3.7%, stronger than potential.
- › Economic slack now has largely disappeared.
- › In 2019 growth will slow.
- › 2020 and 2021 growth should be near potential of 3.3%.
- › But risks tilted to downside.

U.S. Outlook

- › Growth decelerates from 2.9% in 2018 to 2.5% in 2019.
- › And to 1.8% in 2020 and 2021.
- › Economy adjusts to:
 - › higher federal funds target of 3.0% to 3.5%;
 - › recent appreciation of the U.S. dollar;
 - › run off of existing fiscal stimulus; and,
 - › negative impact of trade barriers.
- › Risks tilted to downside in 2020-2021, but no recession.

Canadian Outlook

- › Strong performance in 2017 (3%) and 2018 (2.1%) was supported by monetary and fiscal stimulus and rapid U.S. growth.
- › Bank of Canada set to raise policy rate to 3% by 2020.
- › Fiscal stimulus diminishes in 2019; no stimulus thereafter.
- › Growth slows to potential (1.7%) by 2021.
- › Trade and pipelines issues tilt risks to downside.

Key Planning Parameters for 2018-2021

	2018	2019	2020	2021
US GDP growth (%)	2.9	2.5	1.8	1.8
Canadian growth (%)				
Real GDP	2.1	2	1.8	1.7
Household consumption	2.3	2.1	1.8	1.8
Business non-res. investment	6.4	3.7	2.8	2.3
Interest rates (year-end) (%)				
BOC target overnight rate	1.75	2.75	3	3
10-year GOC	2.6	3.25	3.25	3.25
10-year US Treasuries	3.1	3.5	3.5	3.5
US target Fed funds rate (upper limit)	2.5	3.0-3.5	3.5	3.5
Exchange rate US\$/CAN\$ (year-end)	0.76	0.76	0.77	0.77
WTI oil price (US\$/bbl)	67	60-65	60-65	60-65



Challenges for the 2020s—Demography

- › Aging population implies:
 - › slow growth in labour force; and,
 - › rapid increase in “old” seniors.
- › Growth in hours worked slows from 1.7% pa in decade prior to 2008 to 0.6% in the decade ahead.
- › Some increased participation of 55-74 cohort maybe induced by policy but to a limited extent.
- › But key issue is to raise productivity of labour force.



Challenges for 2020s—Productivity (1)

- › Growth in Canadian labour productivity has been declining since the 1970s in absolute terms and relative to the United States.
- › Share of GDP spent on R&D has declined from 2% in 2000 to 1.7% today.
- › Share of GDP invested in machinery and equipment has plummeted from 7% in the 1990s to 4% since 2011.

Challenges for 2020s—Productivity (2)

- › Supply-side incentives for increased business investment in productivity enhancing investment:
 - › efficient regulation;
 - › tax measures for new investment; and,
 - › complementary public investment.
- › Demand side incentives also important:
 - › competition policy;
 - › reduced protective trade barriers; and,
 - › more certain access to foreign markets.



International Trade Uncertainty Persists (1)

- › U.S.-China relations continue to deteriorate. They could not agree on APEC Communiqué.
- › Trump administration continues *America First* approach;
- › U.S. section 232 tariffs on steel and aluminum and threats on autos;
- › Section 301 actions against China so far on half of its exports to U.S.
- › U.S. actions undermining WTO.

International Trade Uncertainty Persists (2)

- › U.S. efforts to work with EU and Japan are stalled.
- › Canada, Mexico, EU, China and others have retaliated against U.S.
- › Some more positive news:
 - › USMCA concluded September 30, but section 232 tariffs remain;
 - › CPTPP will enter into force for at least seven countries on December 30.

U.S.-China Geostrategic Struggle

- › The Hegemon vs the Rising Super Power—not just about trade.
- › Key administration officials would like U.S. to disengage economically from China.
- › Speculation that Trump and Xi may agree on a way forward at G20 but that would only be a temporary respite.
- › U.S. may well take further action against China.
- › Long term strategic confrontation—no early resolution.
- › Negative impact on global growth and Canada.

United States-Mexico-Canada Agreement (USMCA) (1)

- › Canada and Mexico resisted most U.S. efforts at rebalancing.
- › USMCA maintains tariff free treatment for almost all products.
- › Some useful modernization and improvement of customs procedures.
- › However, also some weakening e.g. on national security exception.
- › And trade climate remains bad with tariffs on steel and aluminum.


United States-Mexico-Canada Agreement (USMCA) (2)

- › USMCA requires ratification including by U.S. Congress.
- › Road to ratification will be difficult—not before April at earliest.
- › Trump’s aggressive approach has actually generated support for open trade in the U.S.
- › Canadian advocacy work has built a network of supportive alliances across the U.S.

Challenges for Canadian Trade Policy

- › Consolidate North American partnership—secure ratification of USMCA.
- › Pursue trade diversification.
- › Take full advantage of CPTPP (provides FTA with Japan), CETA and negotiate with ASEAN.
- › Strengthen and modernize WTO—open, stable, respected global rules will encourage growth.
- › Biggest challenge of coming decade is to manage Canadian trade policy in a world where our two dominant partners are in a trade war.





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