

Economic Outlook

Ottawa Chamber of Commerce/ Ottawa Business Journal: Mayor's Breakfast Series

Ottawa, Ontario

27 April 2012



Mark Carney
Governor

Agenda

- Three global forces
- The consequences for Canada
- The current outlook
- What must be done?

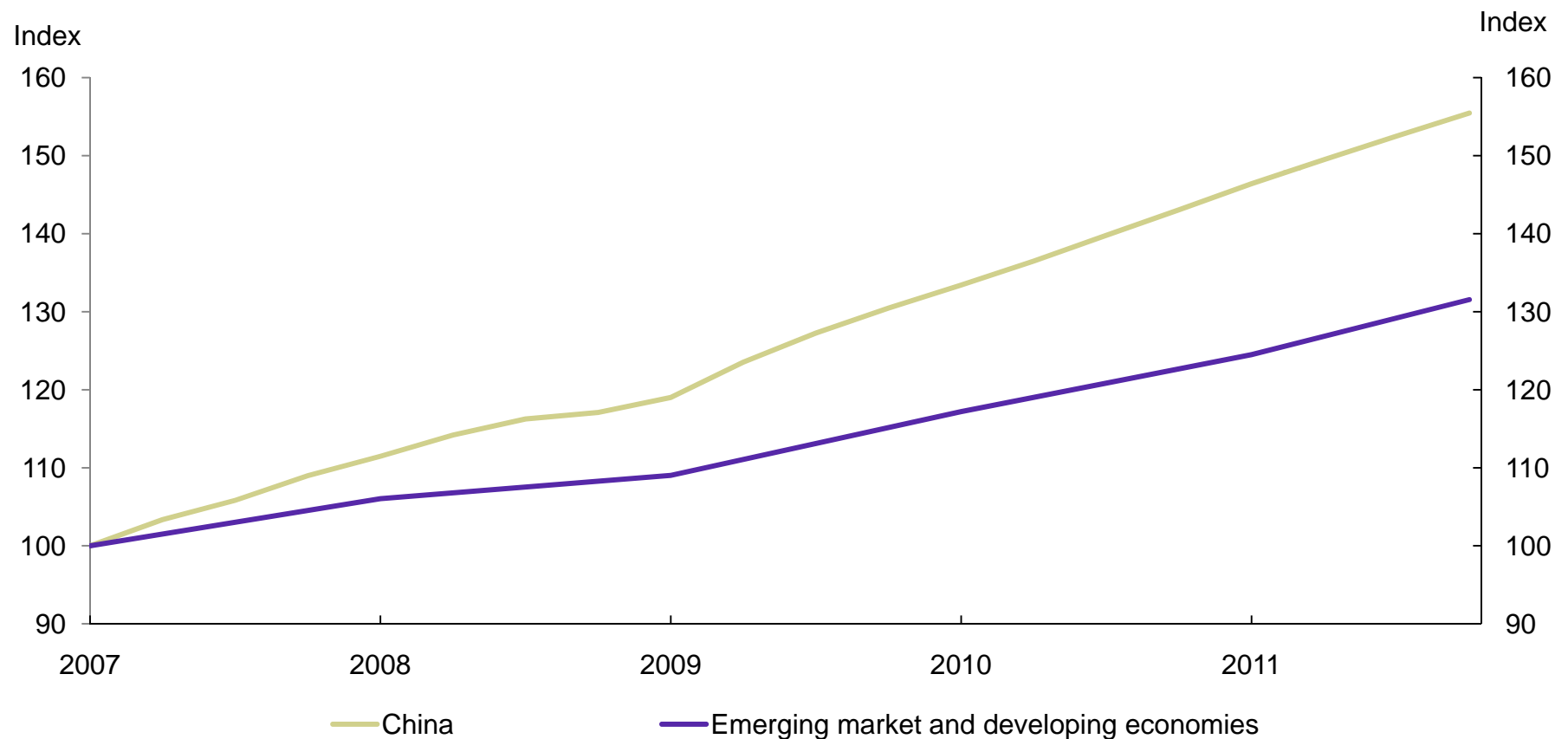
Global Forces:

The Rise of Emerging-Market Economies



Very robust growth in emerging markets

Real GDP, Index 2007Q1=100, quarterly data



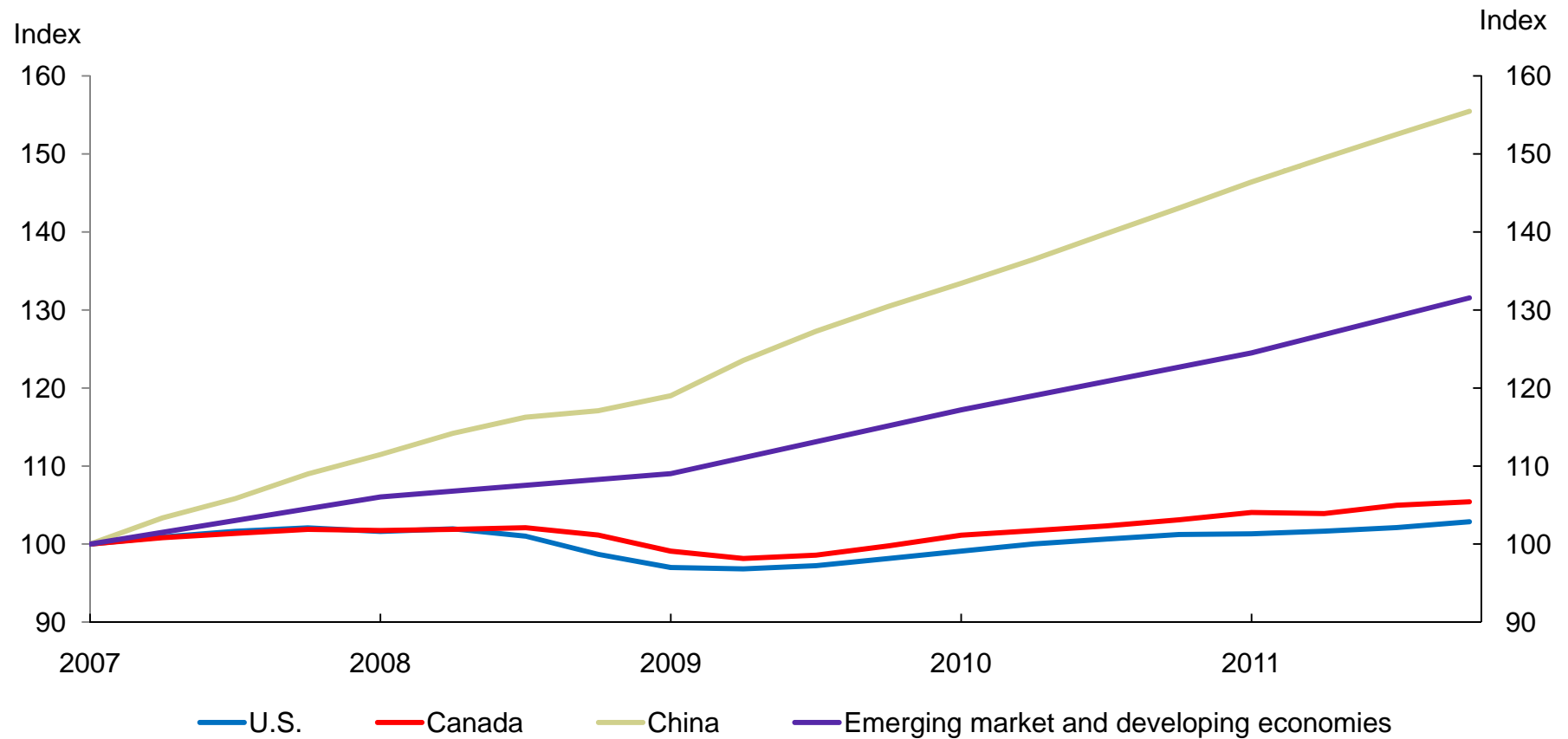
Note: Emerging market and developing economies is calculated using annual growth rate from IMF 2012 April WEO.

Source: Statistics Canada, Bureau of Economic Analysis, China National Bureau of Statistics, IMF 2012 April WEO, Bank of Canada.

Last observation: 2011Q4

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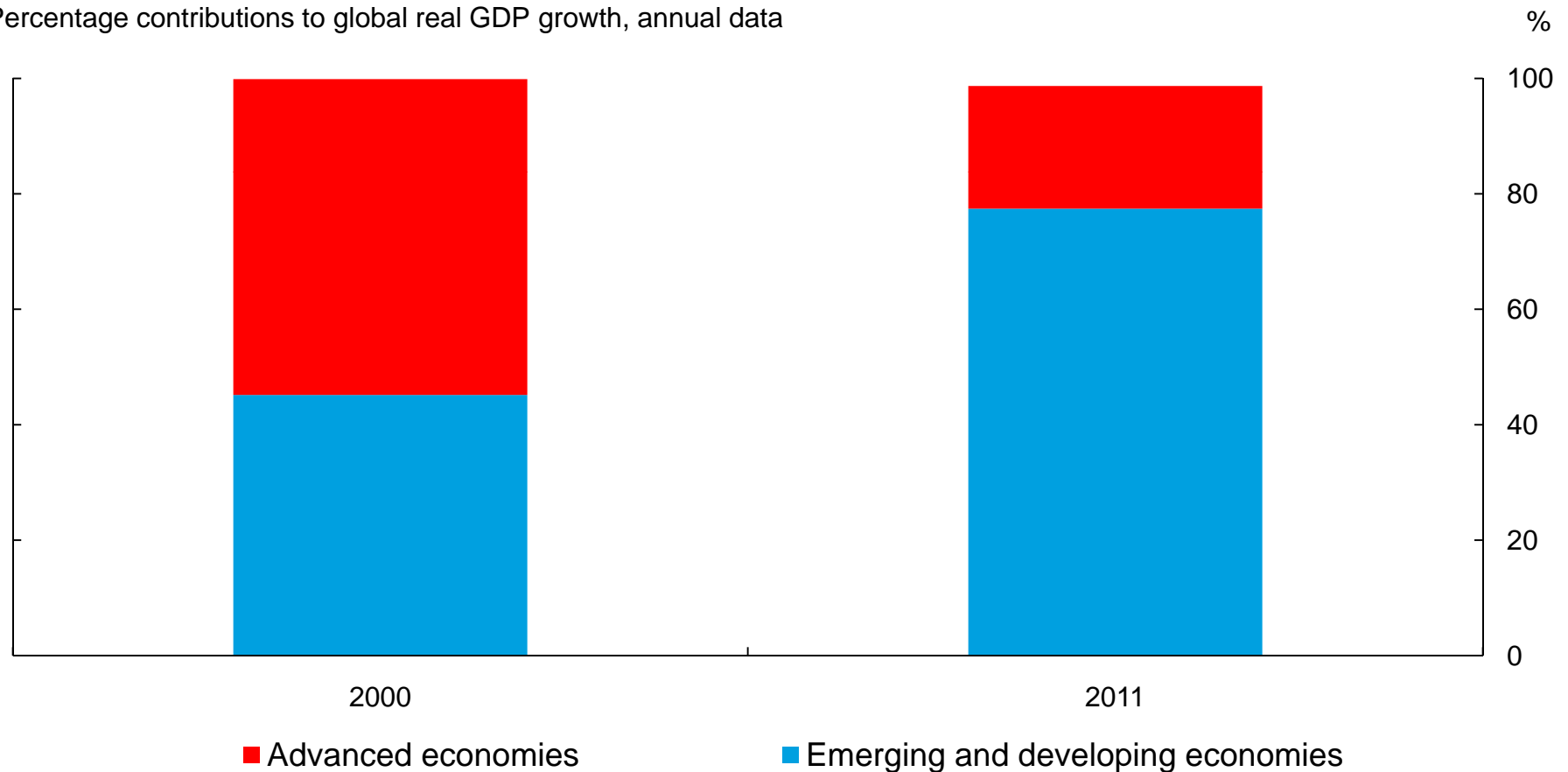
Source: Statistics Canada, Bureau of Economic Analysis, China National Bureau of Statistics, IMF 2012 April WEO, Bank of Canada.

Last observation: 2011Q4

Emerging markets now account for bulk of growth

Contribution to global growth

Percentage contributions to global real GDP growth, annual data



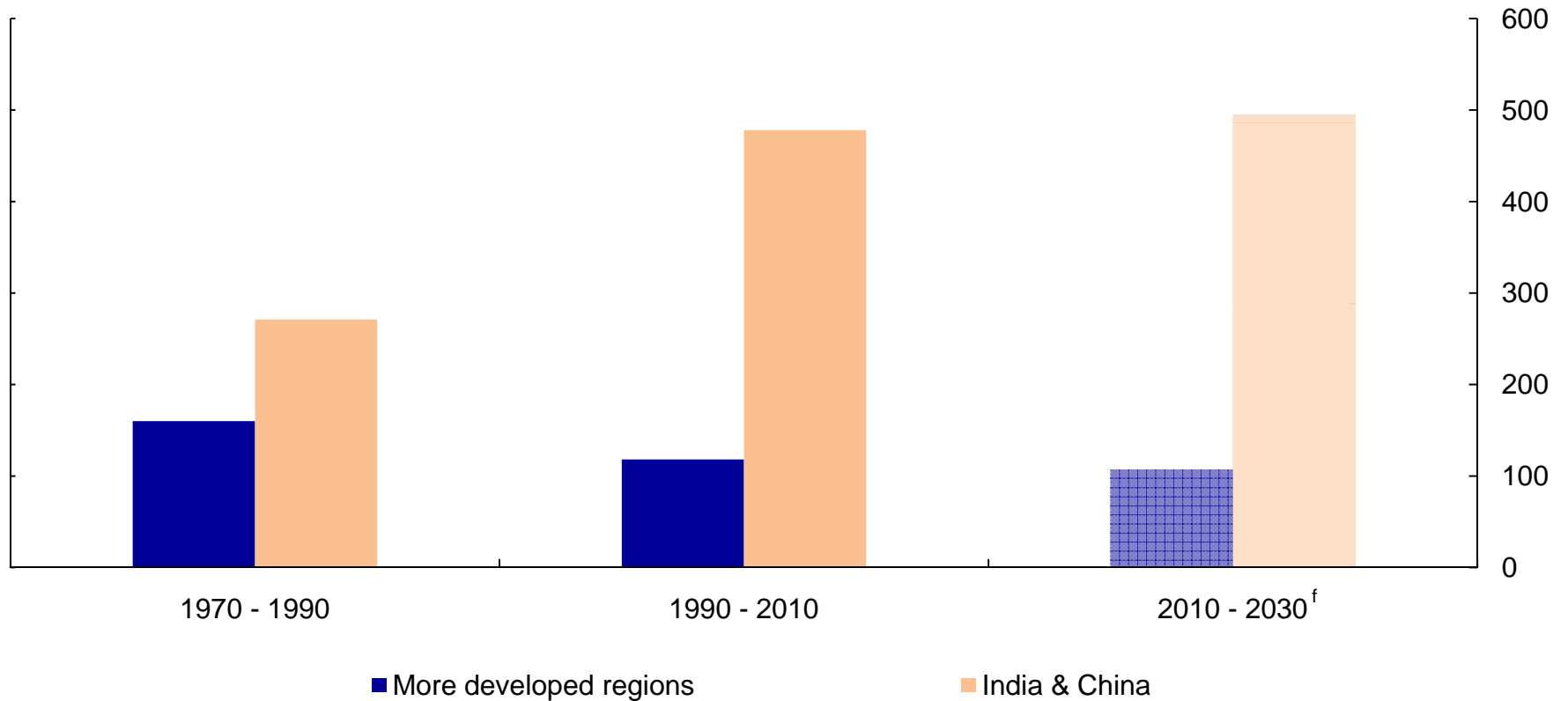
Source: International Monetary Fund World Economic Outlook, Bank of Canada calculations

Last observation: 2011

Massive, rapid urbanization

Change in urbanized population

Millions of people



Note: ^f denotes forecast

Source: United Nations - World Urbanization Prospects

Global Forces:

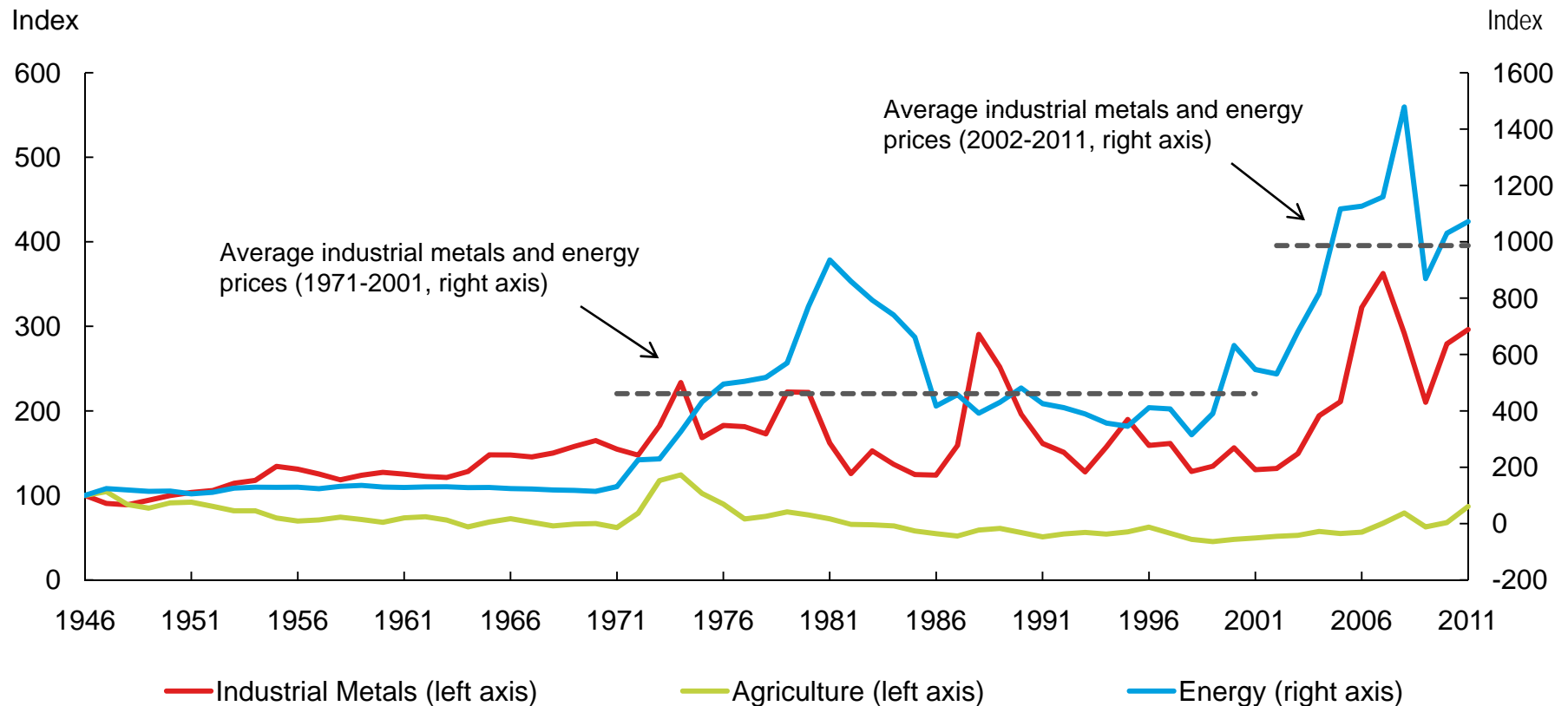
Elevated Commodity Prices



Non-agriculture commodity prices up 10-fold since WWII

Real commodity prices in the post-war period

1946 = 100

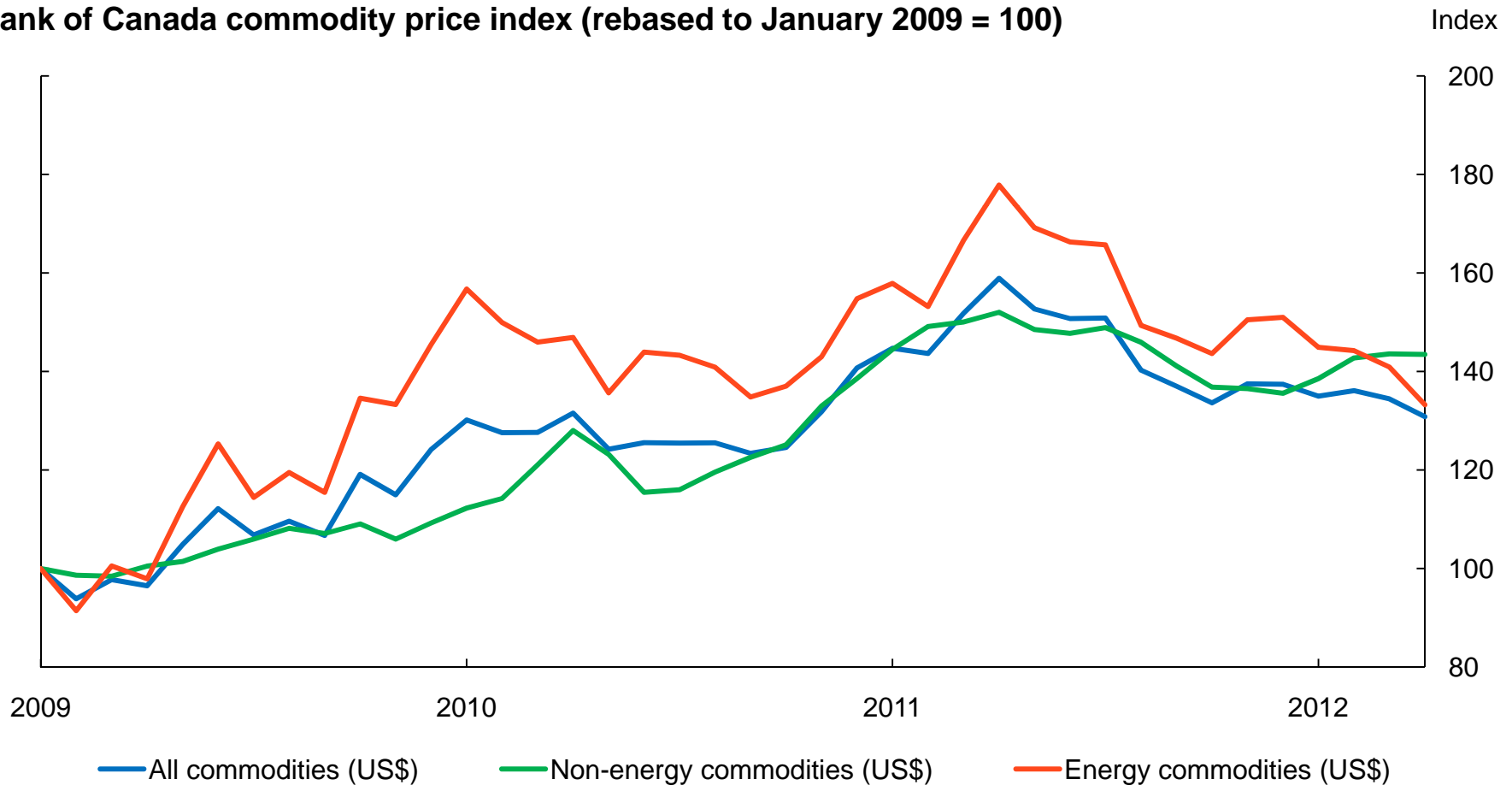


Source: Bank of Canada, U.S. Bureau of Labor Statistics

Last observation: 2011

Commodity prices remain elevated

Bank of Canada commodity price index (rebased to January 2009 = 100)

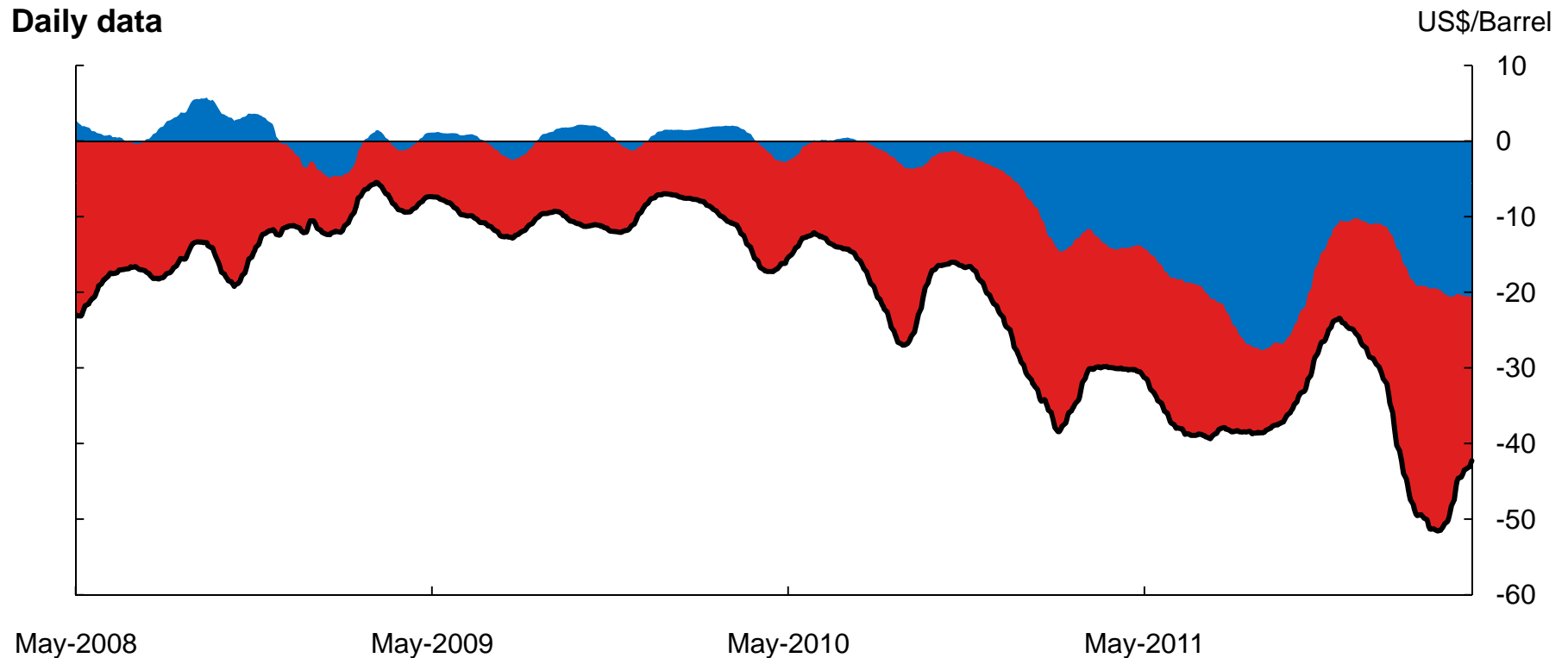


Note: April 2012 figures are calculated based on the average of daily spot prices up to 20 April 2012.
Source: Bank of Canada

Last observation: April 2012

Large gap between Canadian and global oil prices

Daily data



- Western Canadian Select minus West Texas Intermediate
- West Texas Intermediate minus Brent
- Western Canadian Select minus Brent

Note: Values in April 2012 are estimates based on the average daily spot prices up to 13 April 2012. For Brent crude oil prices, front-month futures prices are used.
Sources: Bank of Canada and Bloomberg

Last observation: April 2012

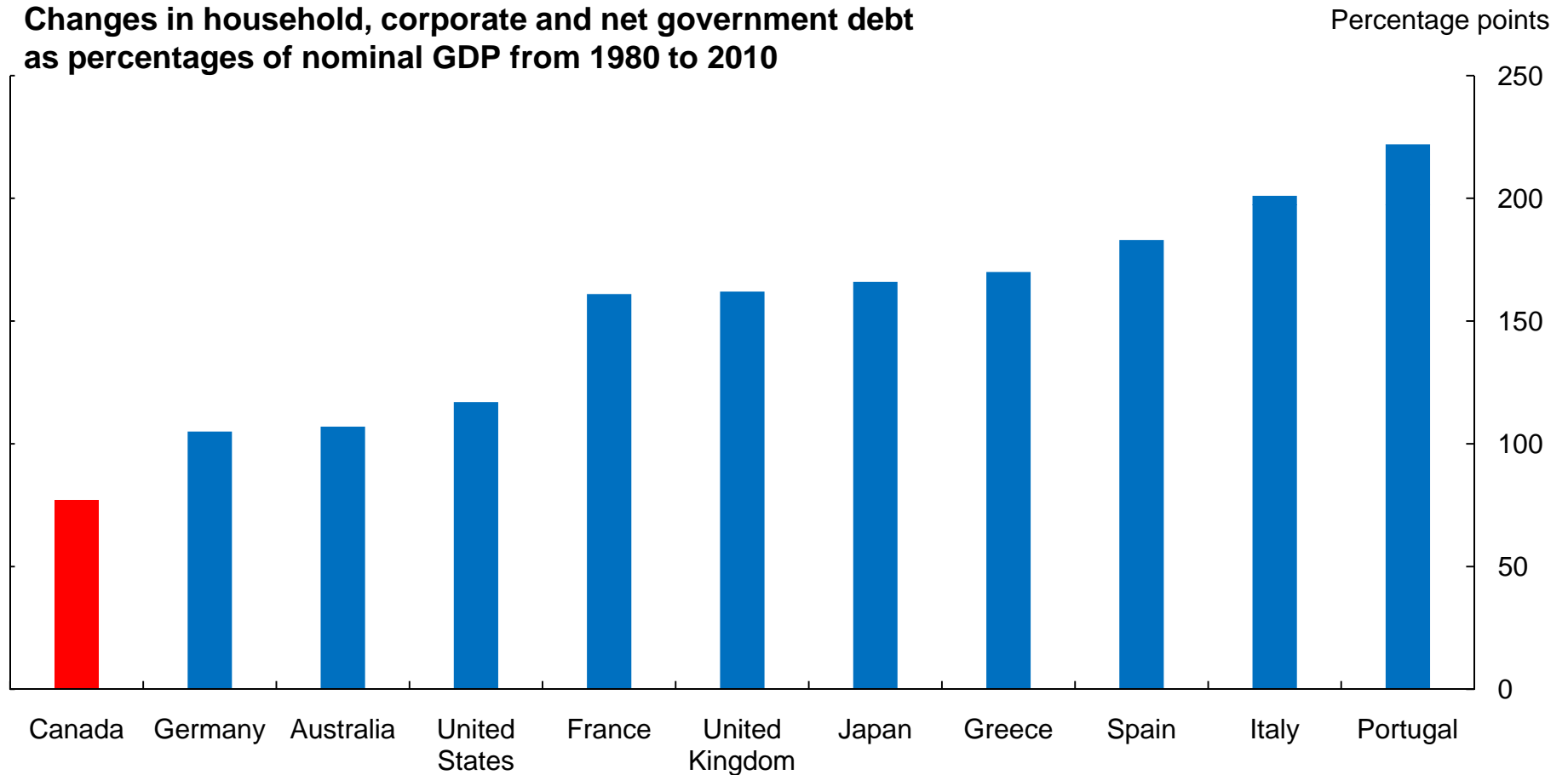
Global Forces:

The Great Deleveraging



Sharp increase in debt across developed world

Changes in household, corporate and net government debt as percentages of nominal GDP from 1980 to 2010

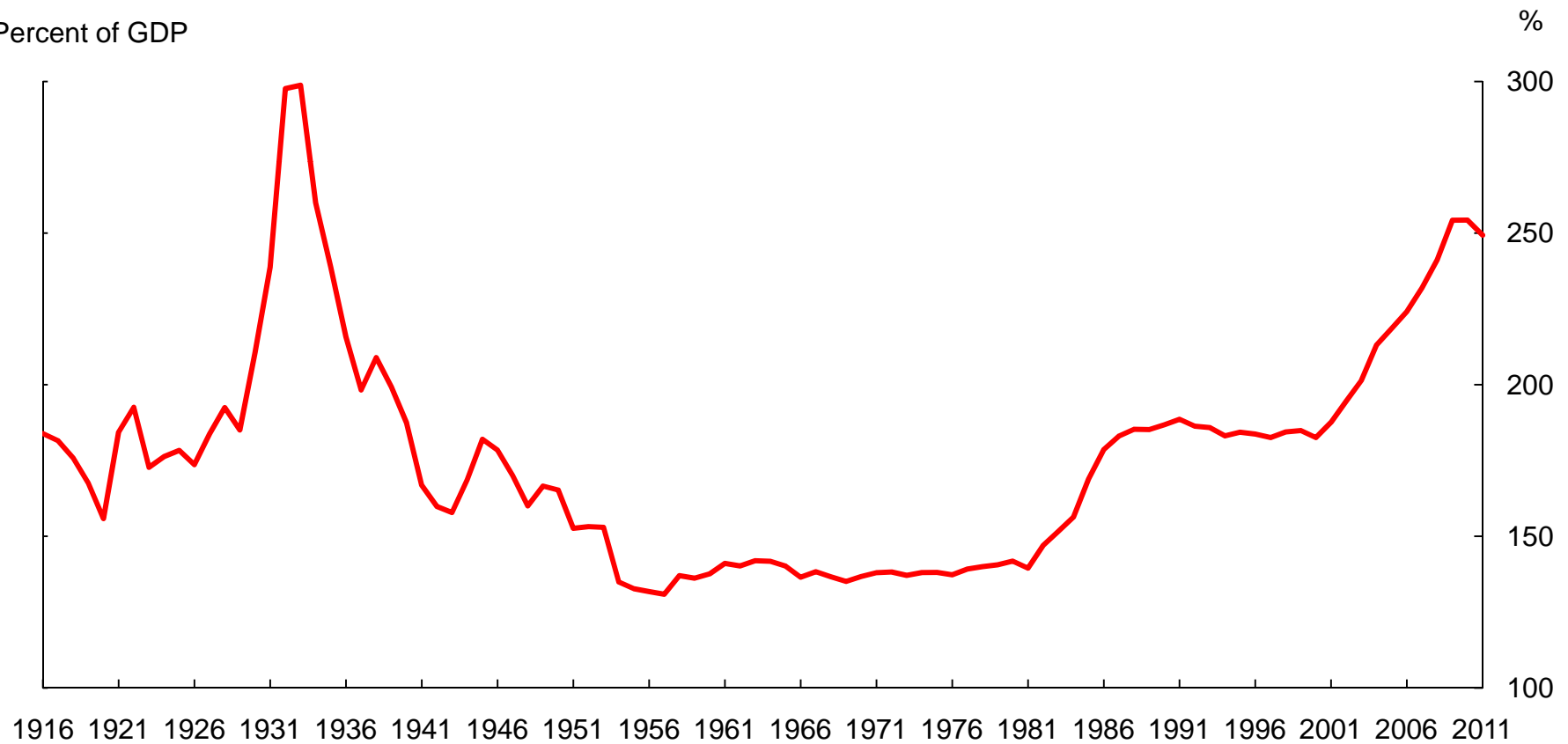


Note: Some figures refer to change from 1980 to 2009.
Source: Cecchetti, Mohanty and Zampolli (2011)

U.S. non-financial debt near levels of Great Depression

U.S. non-financial debt-to-GDP ratio

Percent of GDP



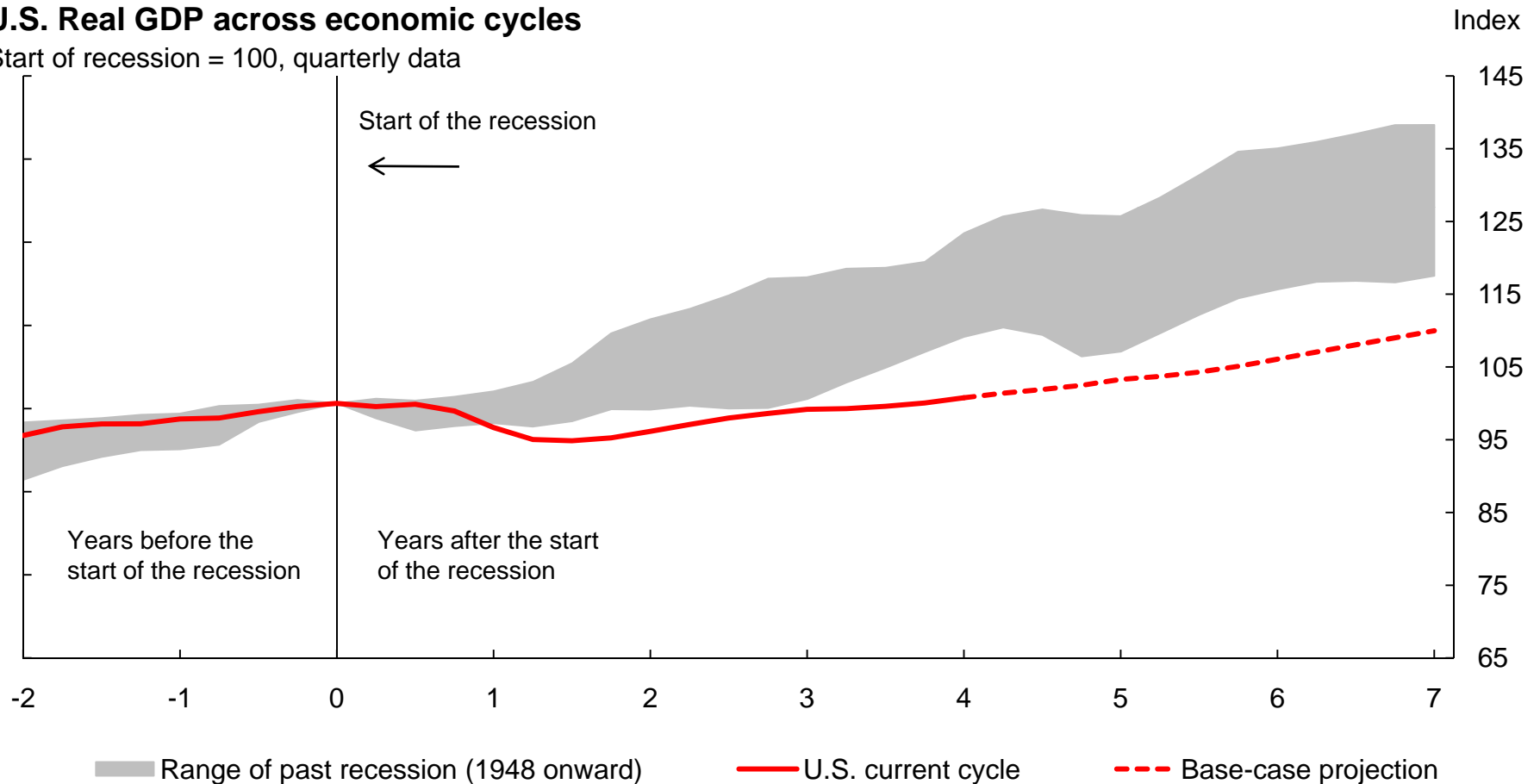
Source: U.S. Census Bureau data from 1916 to 1953, U.S. Flow of Funds data from 1954 to 2011, Bureau of Economic Analysis

Last observation: 2011Q4

Weakest U.S. recovery since Great Depression

U.S. Real GDP across economic cycles

Start of recession = 100, quarterly data

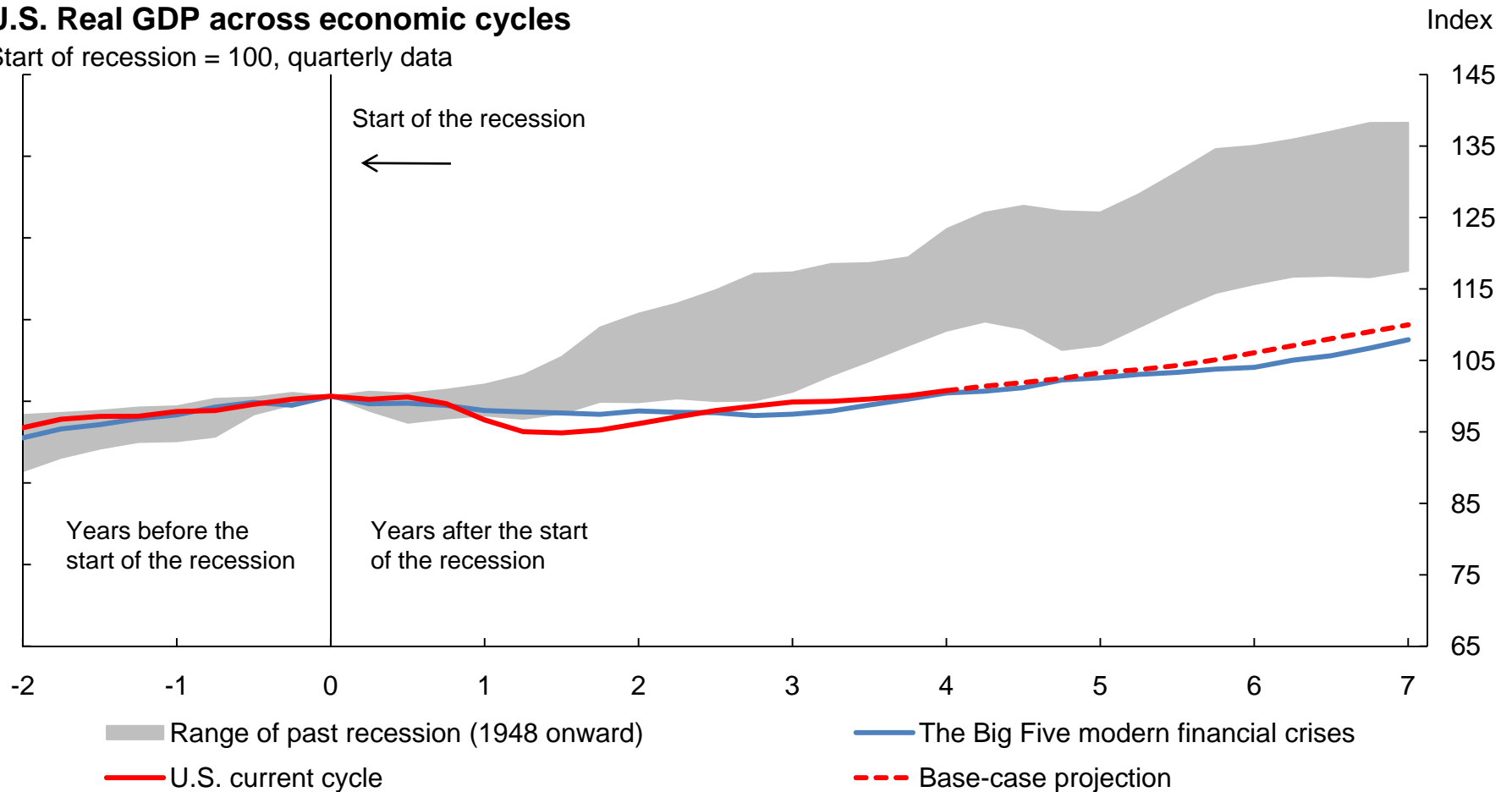


Note: The Big Five modern financial crises are Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992).
Sources: U.S. Bureau of Economic Analysis, Organisation for Economic Co-operation and Development and Bank of Canada projections

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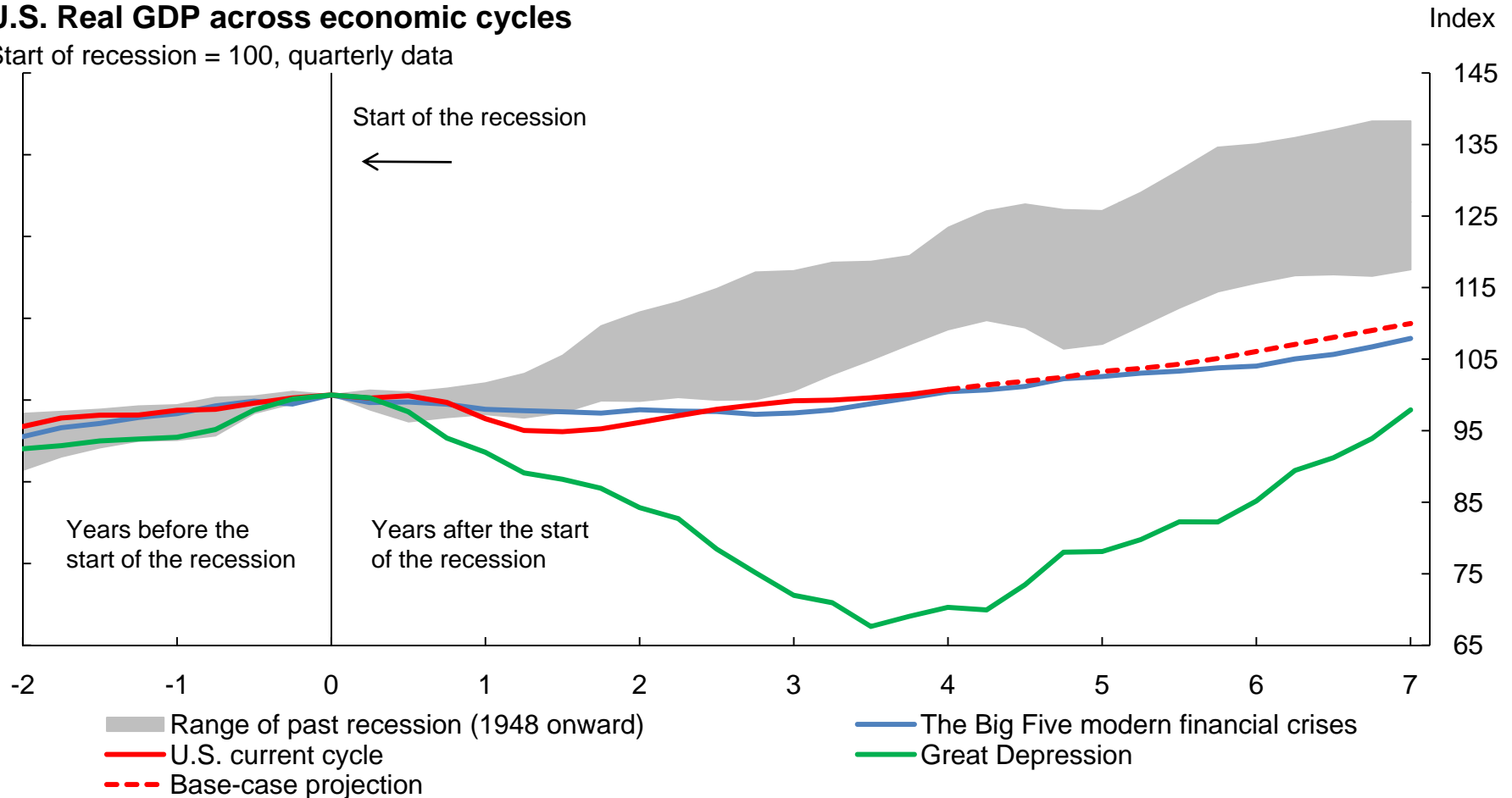
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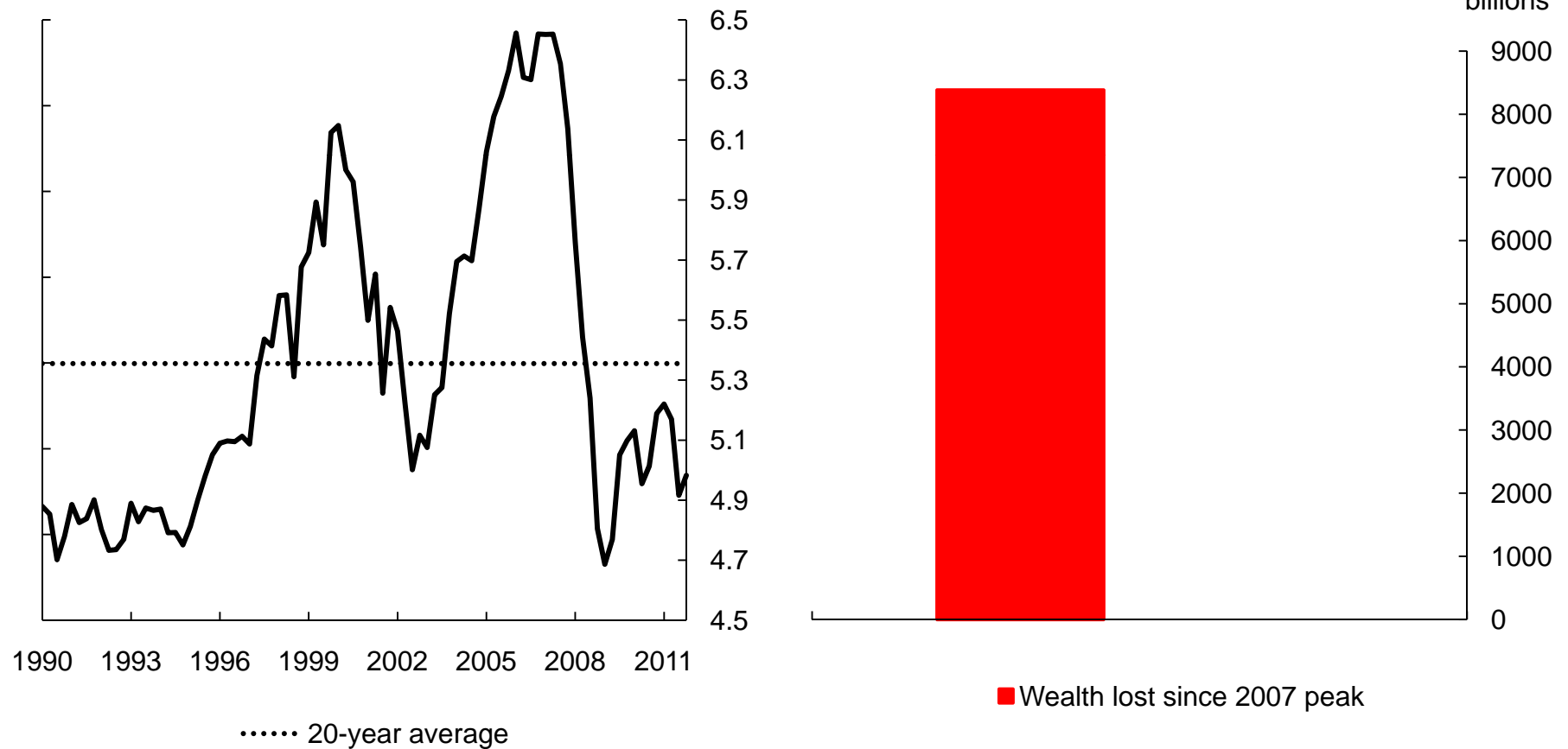
Sources: U.S. Bureau of Economic Analysis, Organisation for Economic Co-operation and Development and Bank of Canada projections

Rebuilding U.S. wealth will take a long time

Household net worth to disposable income

Ratio

US\$
billions

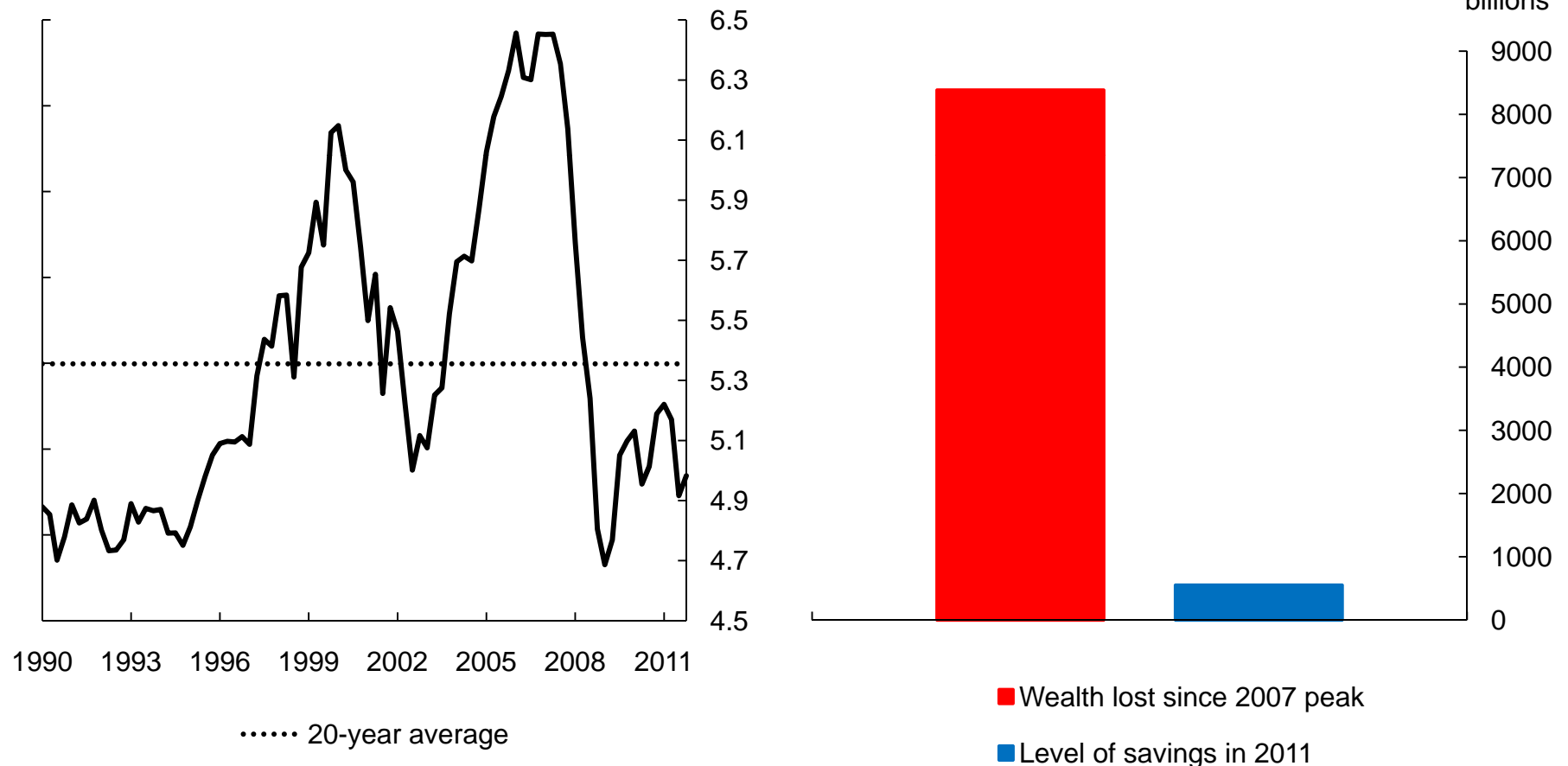


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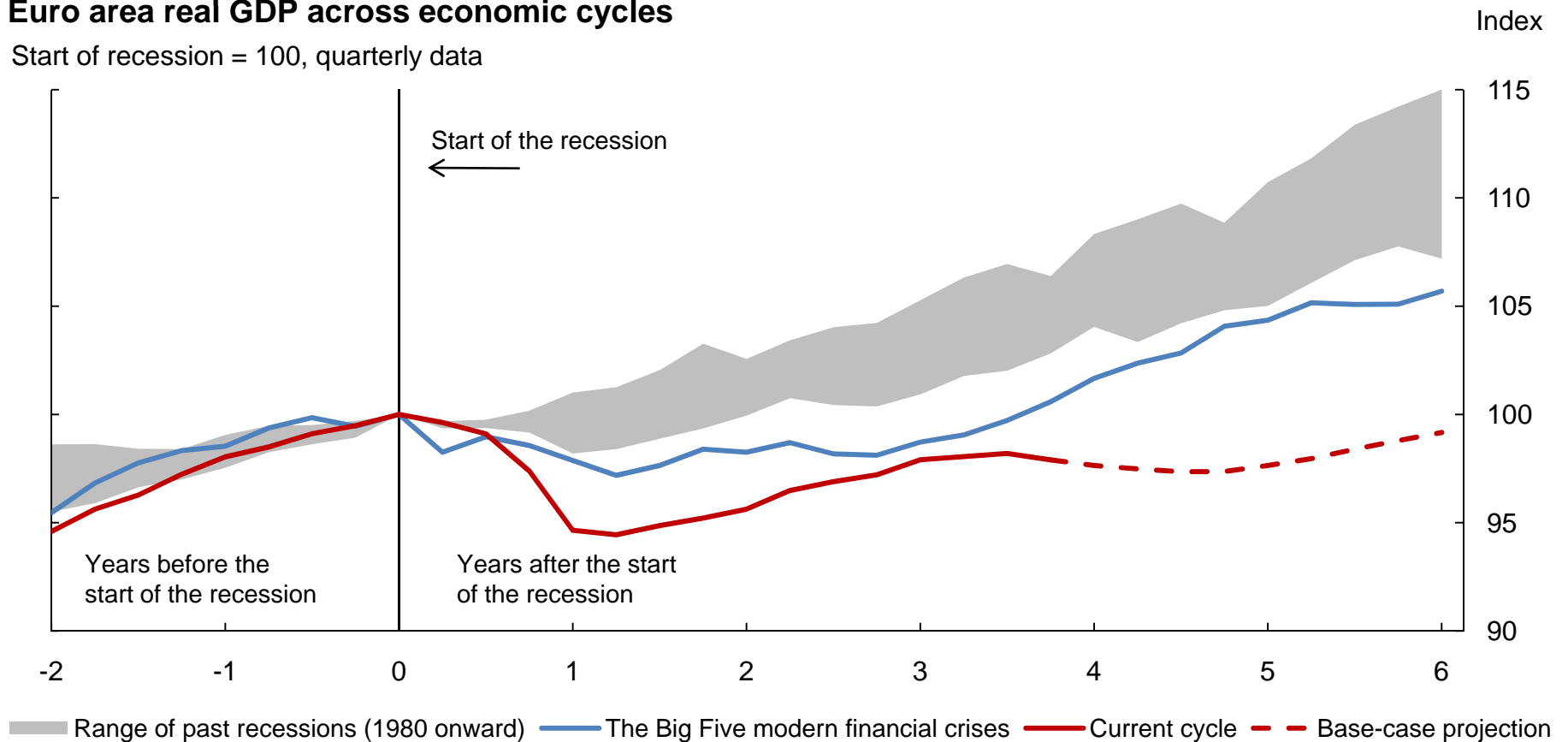
US\$
billions



Euro-area recovery was weak, is over

Euro area real GDP across economic cycles

Start of recession = 100, quarterly data

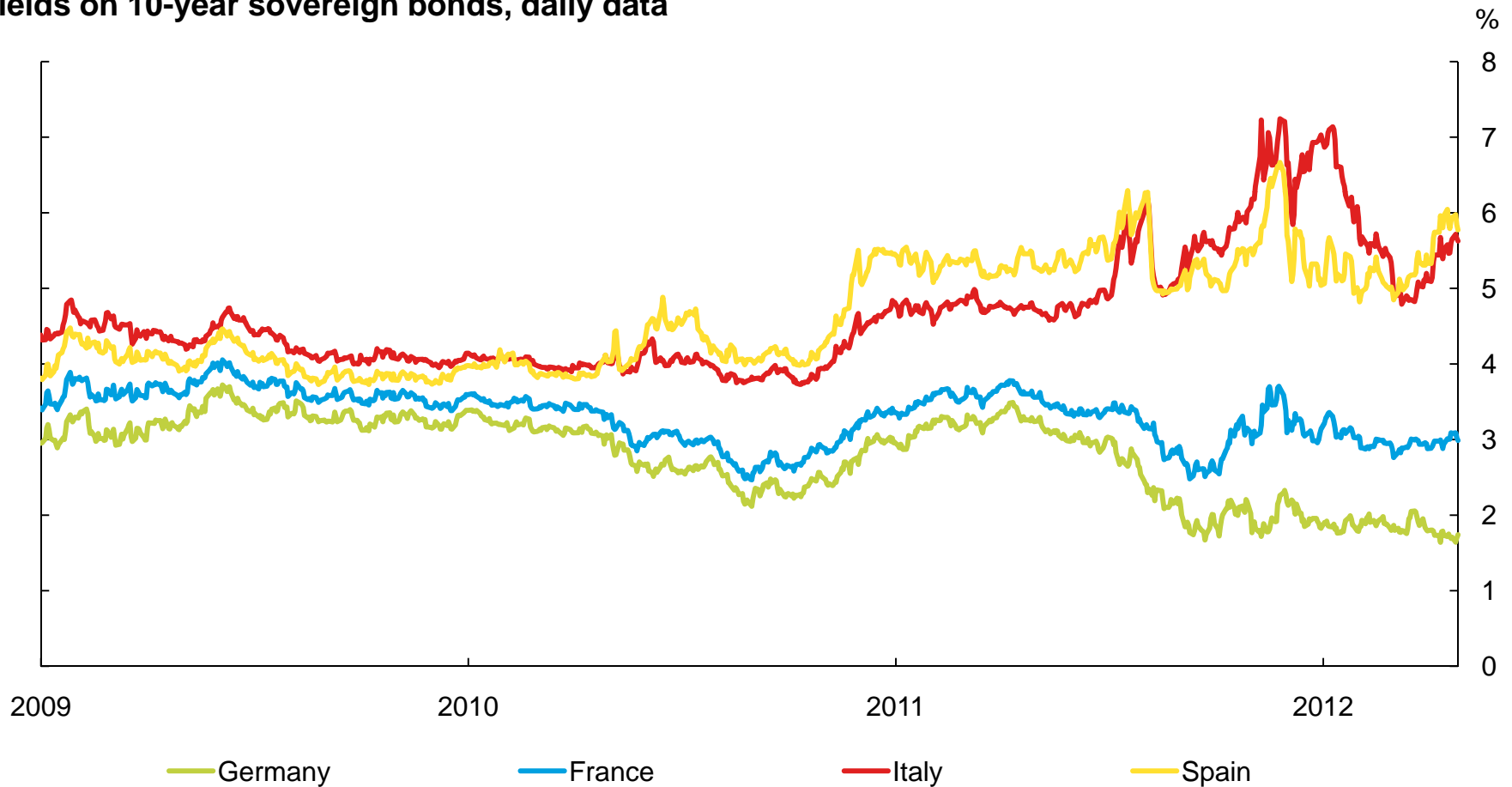


Note: The Big Five modern financial crises include Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992).

Sources: Eurostat and Organisation for Economic Co-Operation and Development

European tensions still elevated

Yields on 10-year sovereign bonds, daily data

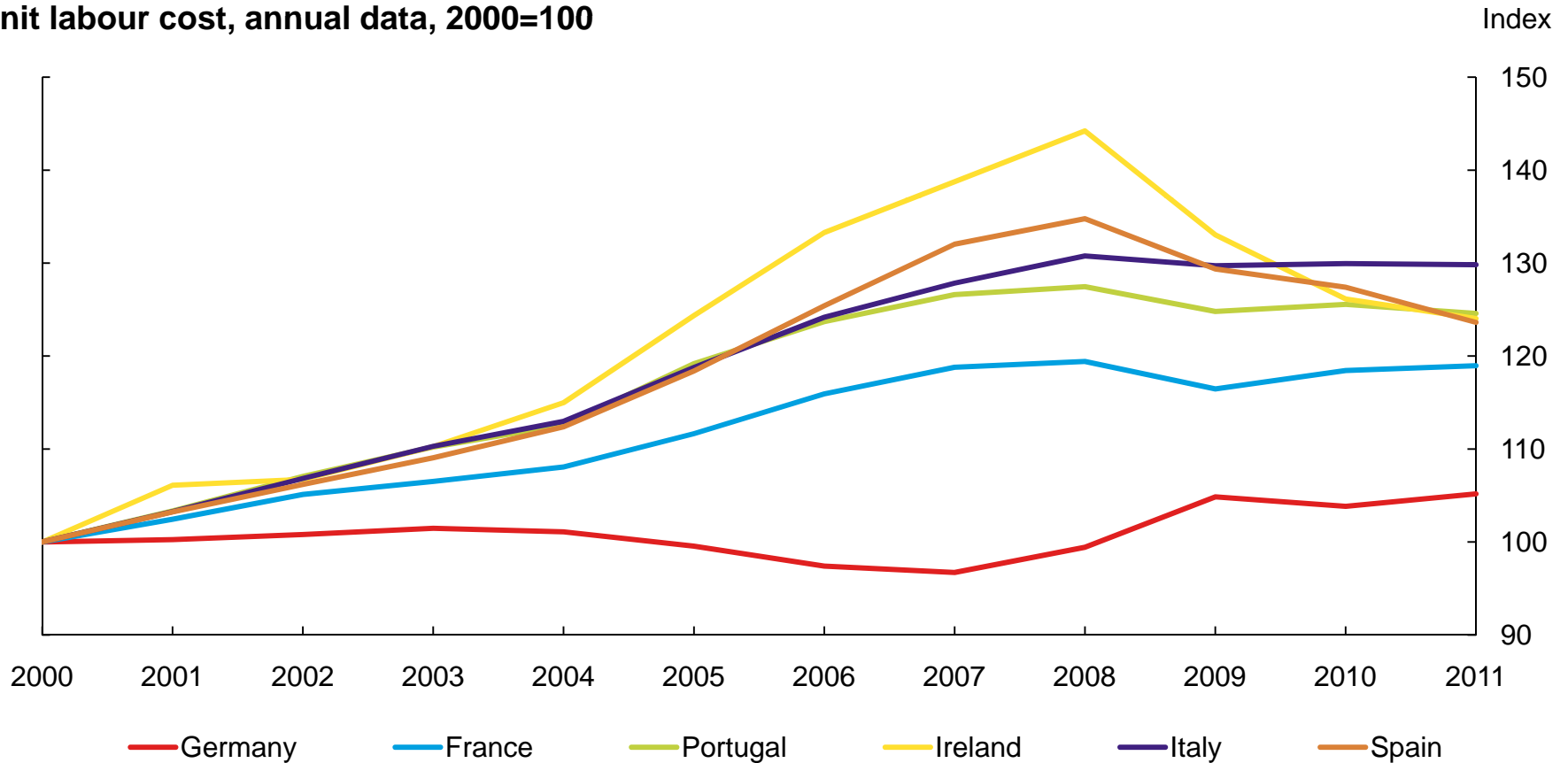


Source: Bloomberg

Last observation: 25 April 2012

A balance of payments problem

Unit labour cost, annual data, 2000=100



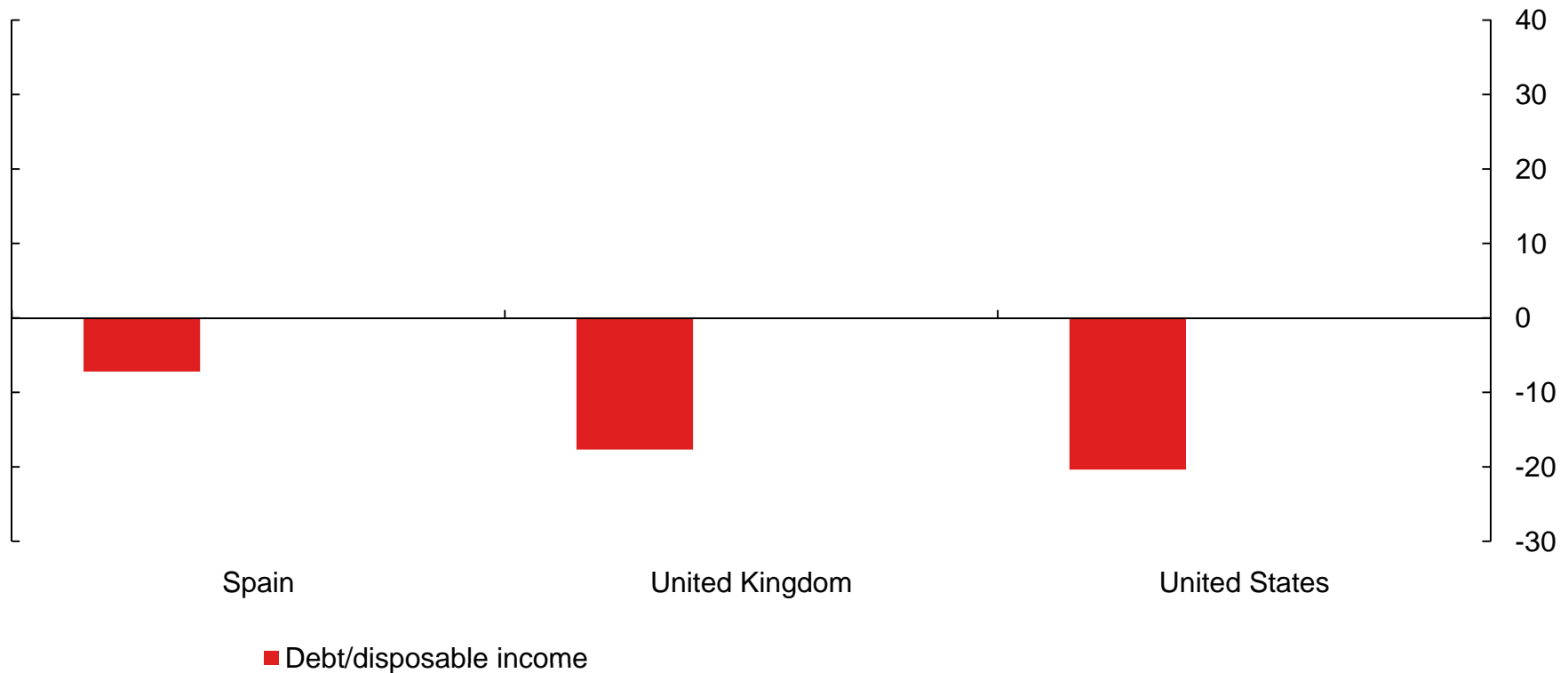
Sources: Deutsche Bundesbank, Institut national de la statistique et des études économiques, Instituto Nacional de Estadística, Central Statistics Office, Istituto Nazionale di Statistica and Instituto Nacional de Estadística

Last observation: 2011

Private deleveraging, public leveraging

Household and government debt

Percentage point
change, 2007 to 2011



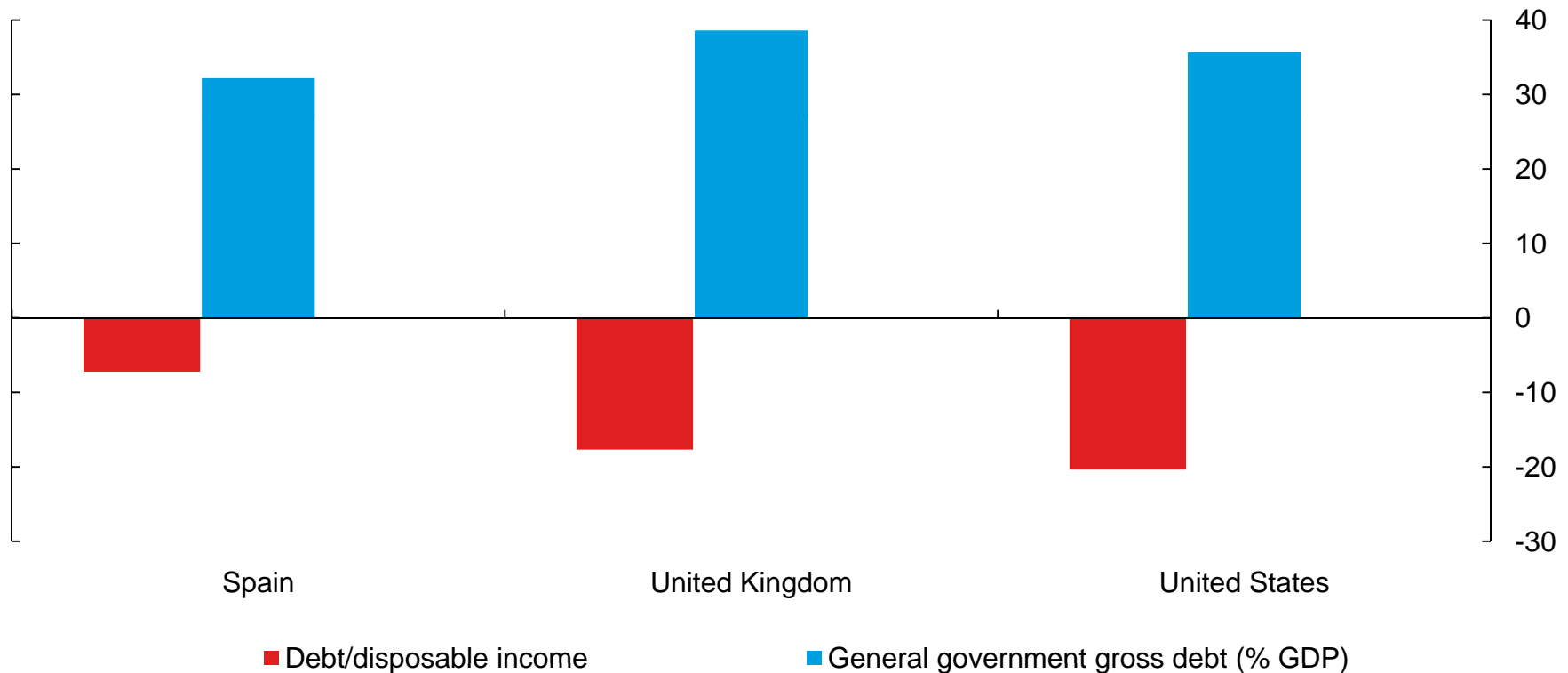
Note: Figures for debt/disposable income refer to percentage point change from peak to trough. Latest available data for household debt is 2011 Q3 for Spain, 2011Q4 for others. 2011 forecast figures are used for government debt.

Source: Bank for International Settlements, International Monetary Fund Fiscal Monitor April 2012, national statistics agencies

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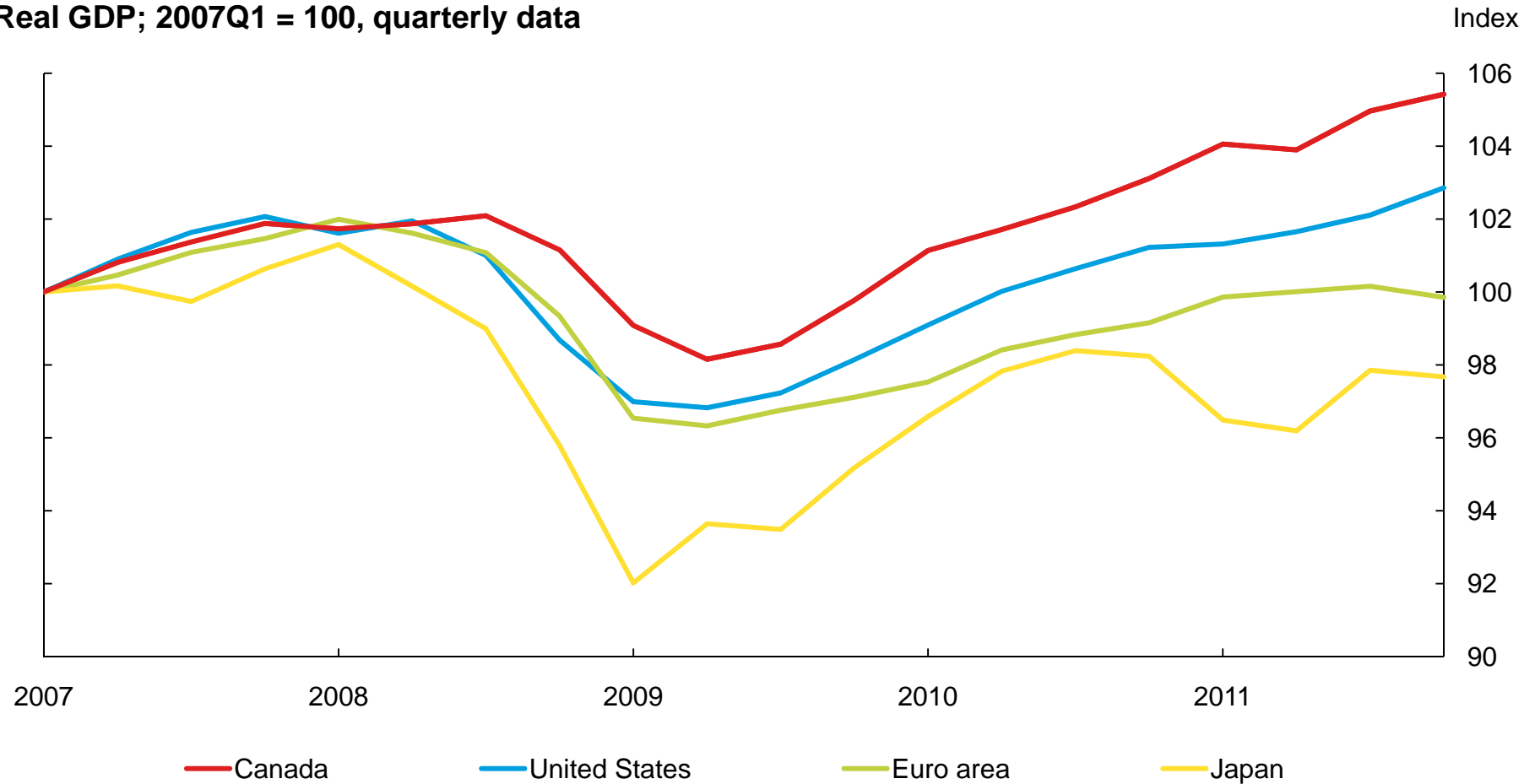
Source: Bank for International Settlements, International Monetary Fund Fiscal Monitor April 2012, national statistics agencies

Consequences for Canada



Canada: First G-7 country to recover to pre-recession GDP

Real GDP; 2007Q1 = 100, quarterly data

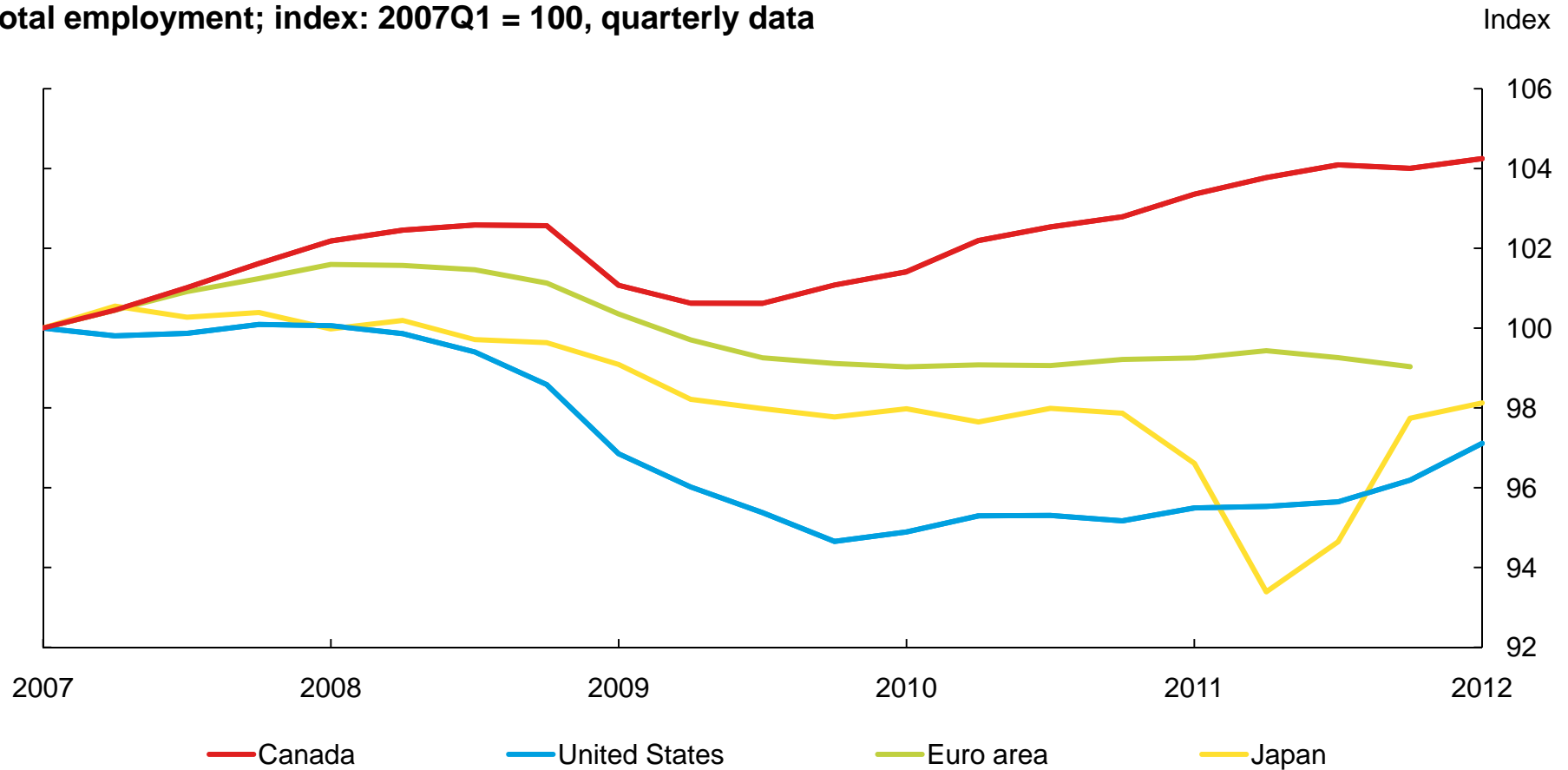


Sources: Statistics Canada, U.S. Bureau of Economic Analysis, Eurostat, and Japan Statistics Bureau

Last observation: 2011Q4

Canada has more than recovered all jobs lost

Total employment; index: 2007Q1 = 100, quarterly data

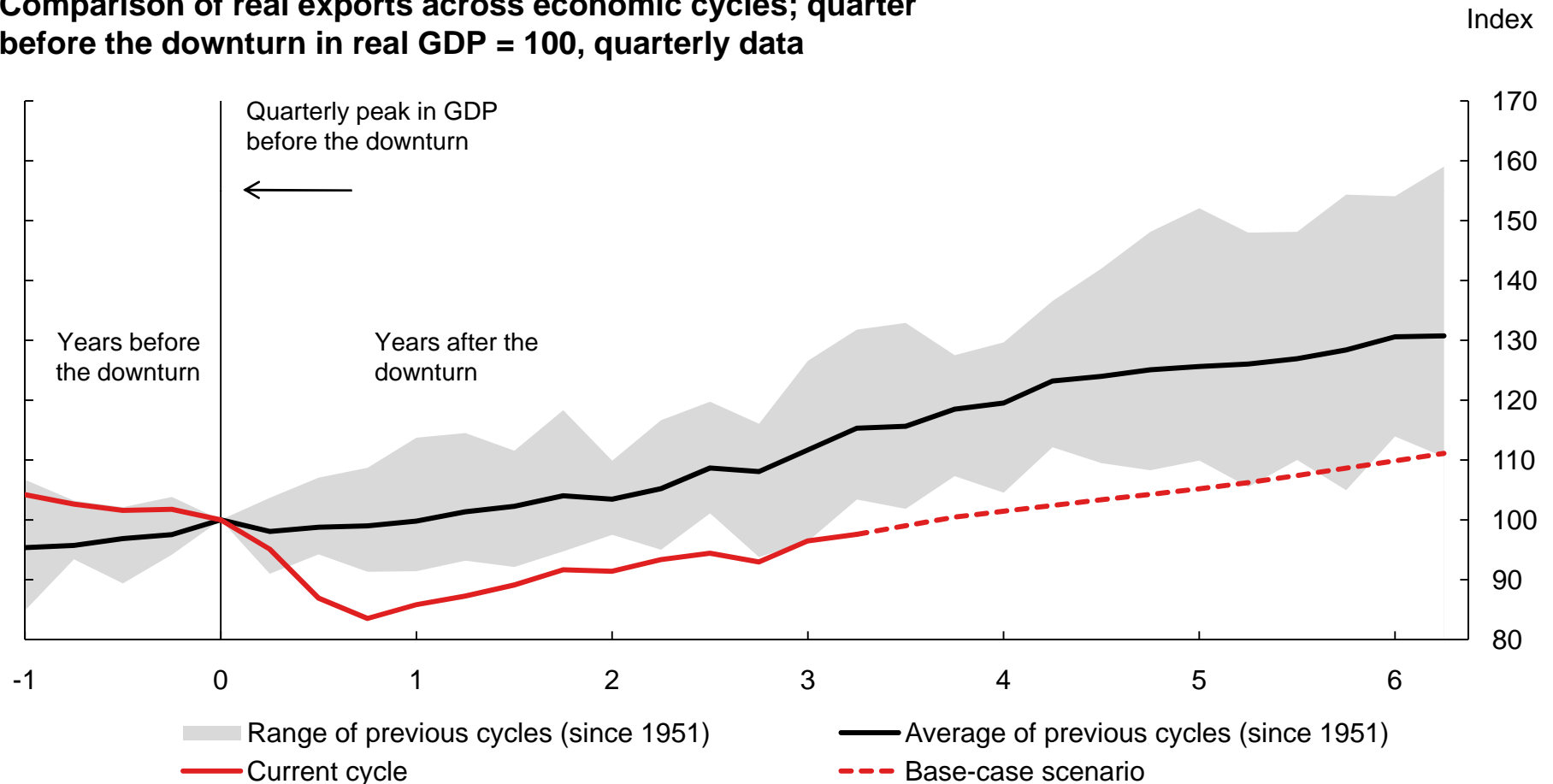


Note: Employment data for Japan in 2012Q1 is the average of January and February data.
Sources: Statistics Canada, U.S. Bureau of Economic Analysis, Eurostat, and Japan Statistics Bureau

Last observations: 2011Q4 and 2012Q1

Weakest post-war export recovery

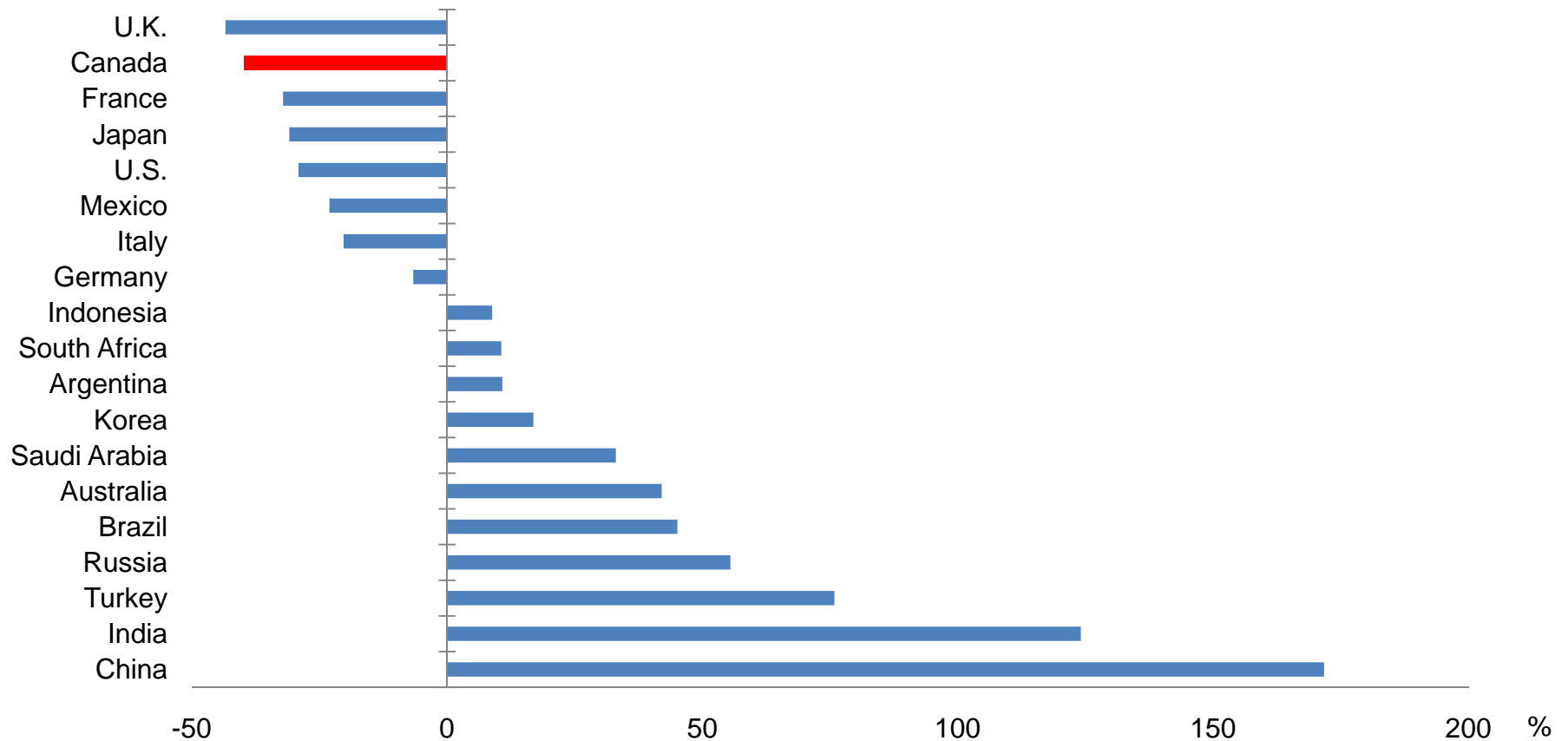
Comparison of real exports across economic cycles; quarter before the downturn in real GDP = 100, quarterly data



Sources: Statistics Canada and Bank of Canada calculations and projections

Canada's export performance second worst in G-20

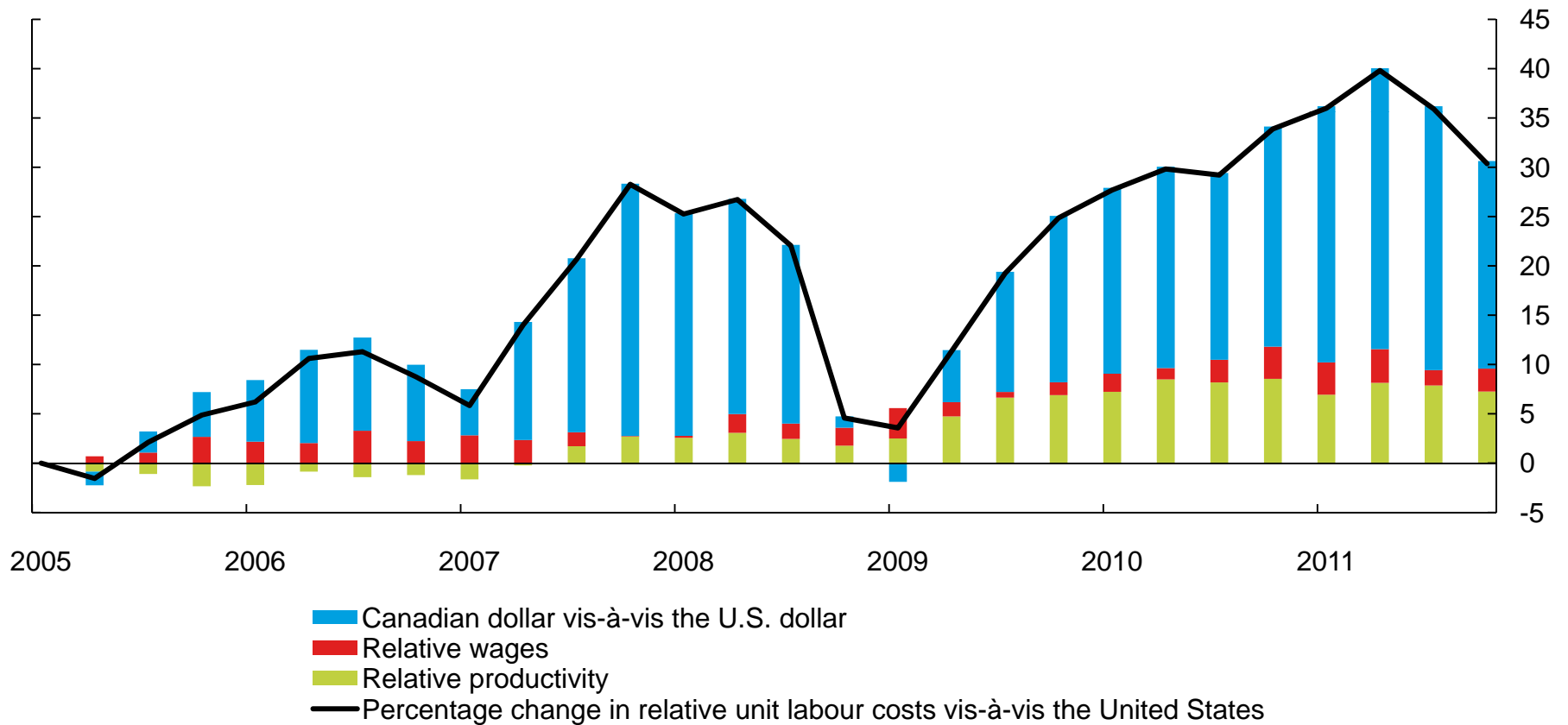
% change in share of world exports, 2000 to 2010



Source: International Monetary Fund

Canadian firms are losing competitiveness

Contribution of various factors to the change in Canada's relative unit labour costs vis-à-vis those in the United States, quarterly data

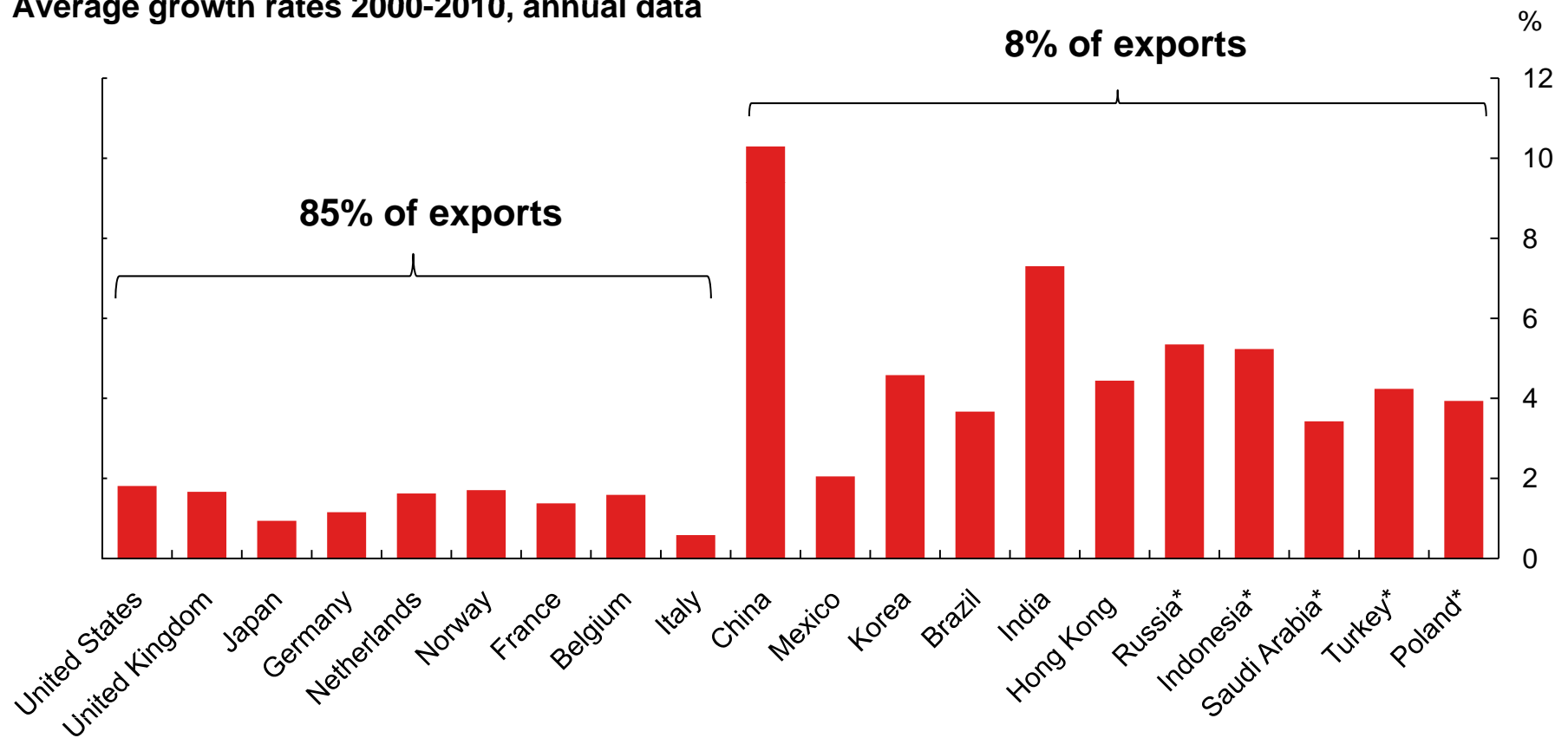


Sources: Statistics Canada, U.S. Bureau of Economic Analysis and Bank of Canada calculations

Last observation: 2011Q4

Canada's trade directed toward slow growing economies

Average growth rates 2000-2010, annual data



*This country is not one of Canada's top 15 trading partners.

Note: Export shares in 2010 are reported.

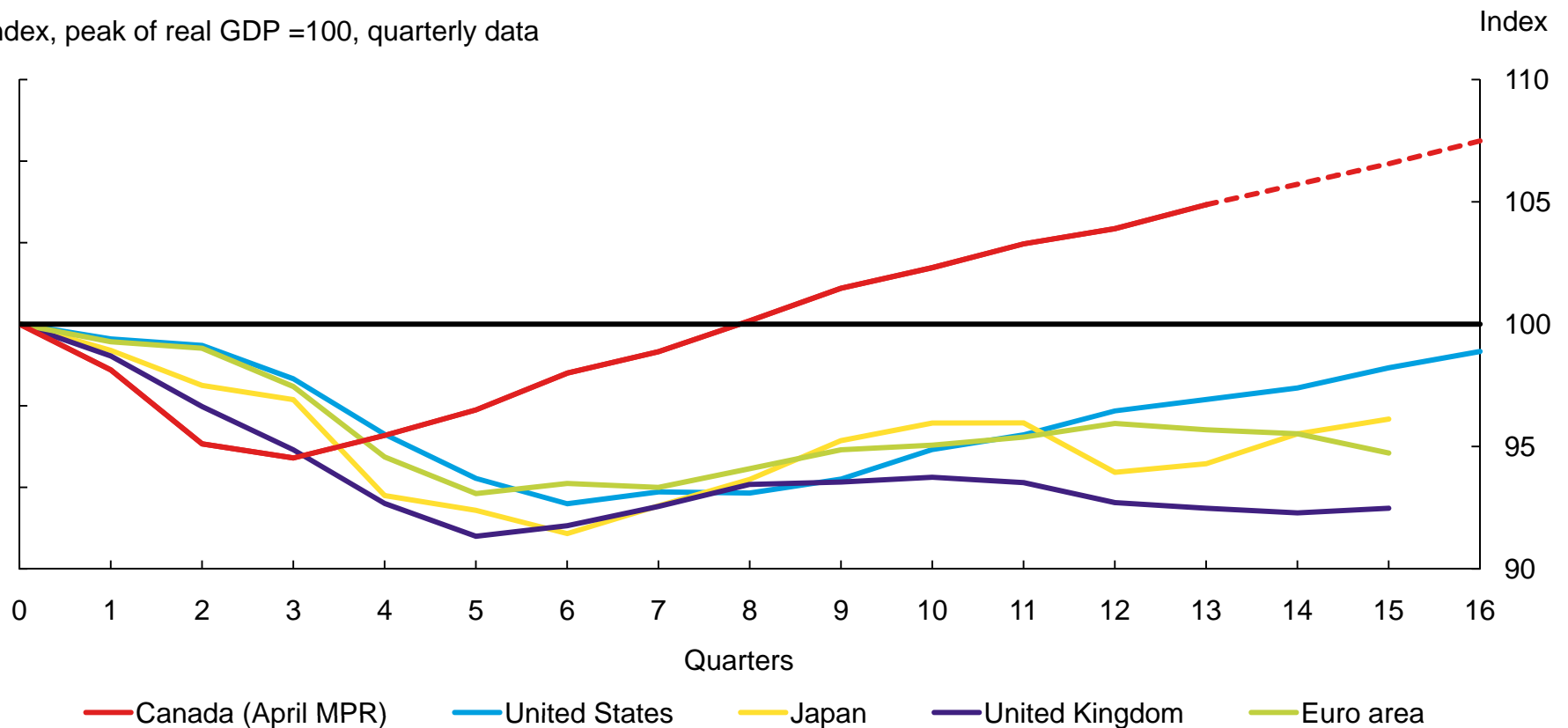
Sources: International Monetary Fund World Economic Outlook, Industry Canada, Bank of Canada calculations

Last observation: 2010

Canada has relied on domestic demand

Evolution of real private domestic demand since pre-recession peak

Index, peak of real GDP =100, quarterly data

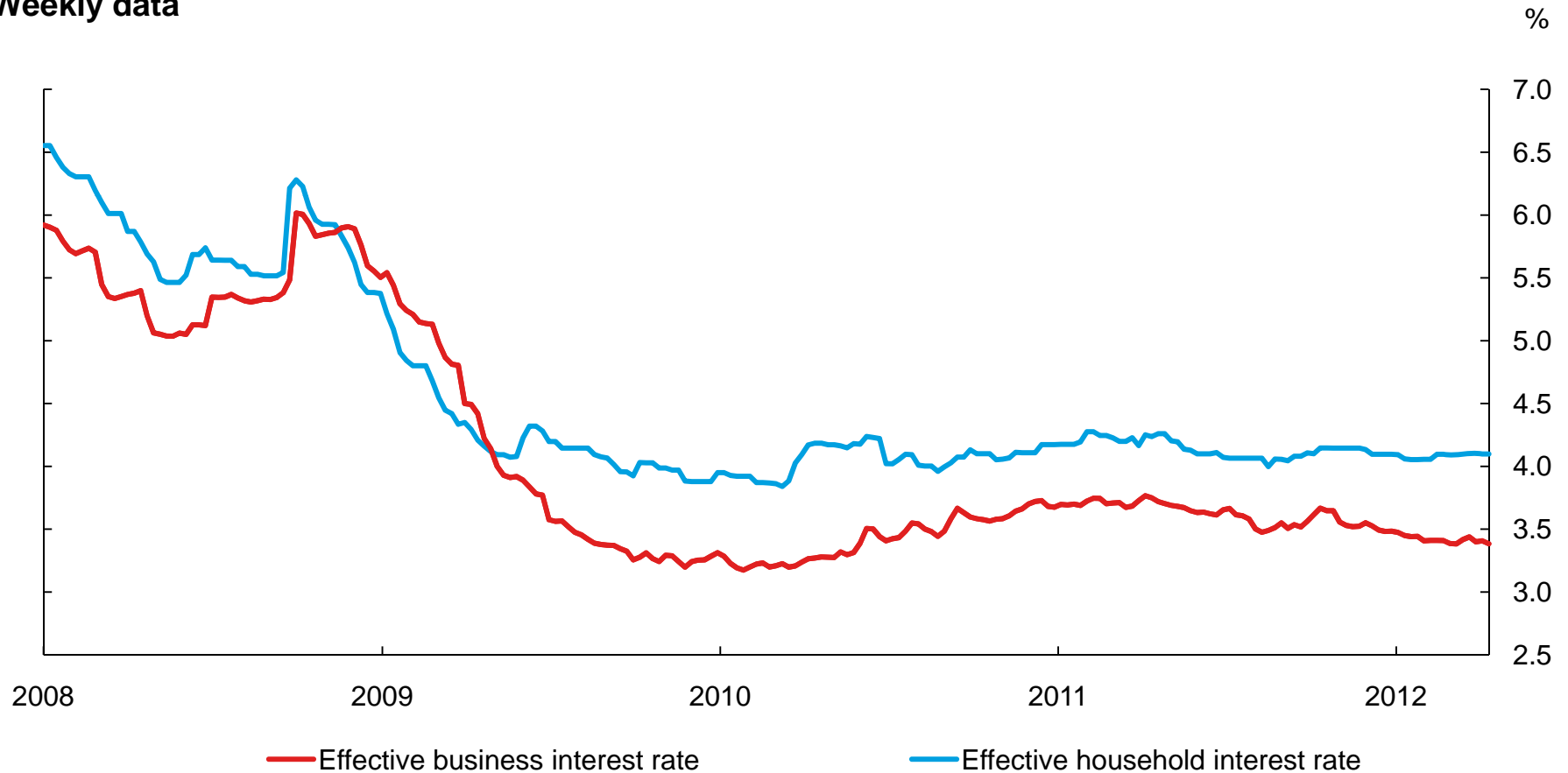


Note: Private domestic demand includes consumer, business and residential investment, except for the Euro area and United Kingdom, which also includes government investment. Sources: Bank of Canada, Statistics Canada, U.S. Bureau of Economic Analysis, Eurostat, Japan Cabinet Office, and the U.K. Office for National Statistics via Haver

Last observation: 2012Q3 for Canada, 2011Q4 for all others

Borrowing costs remain at exceptionally low levels

Weekly data

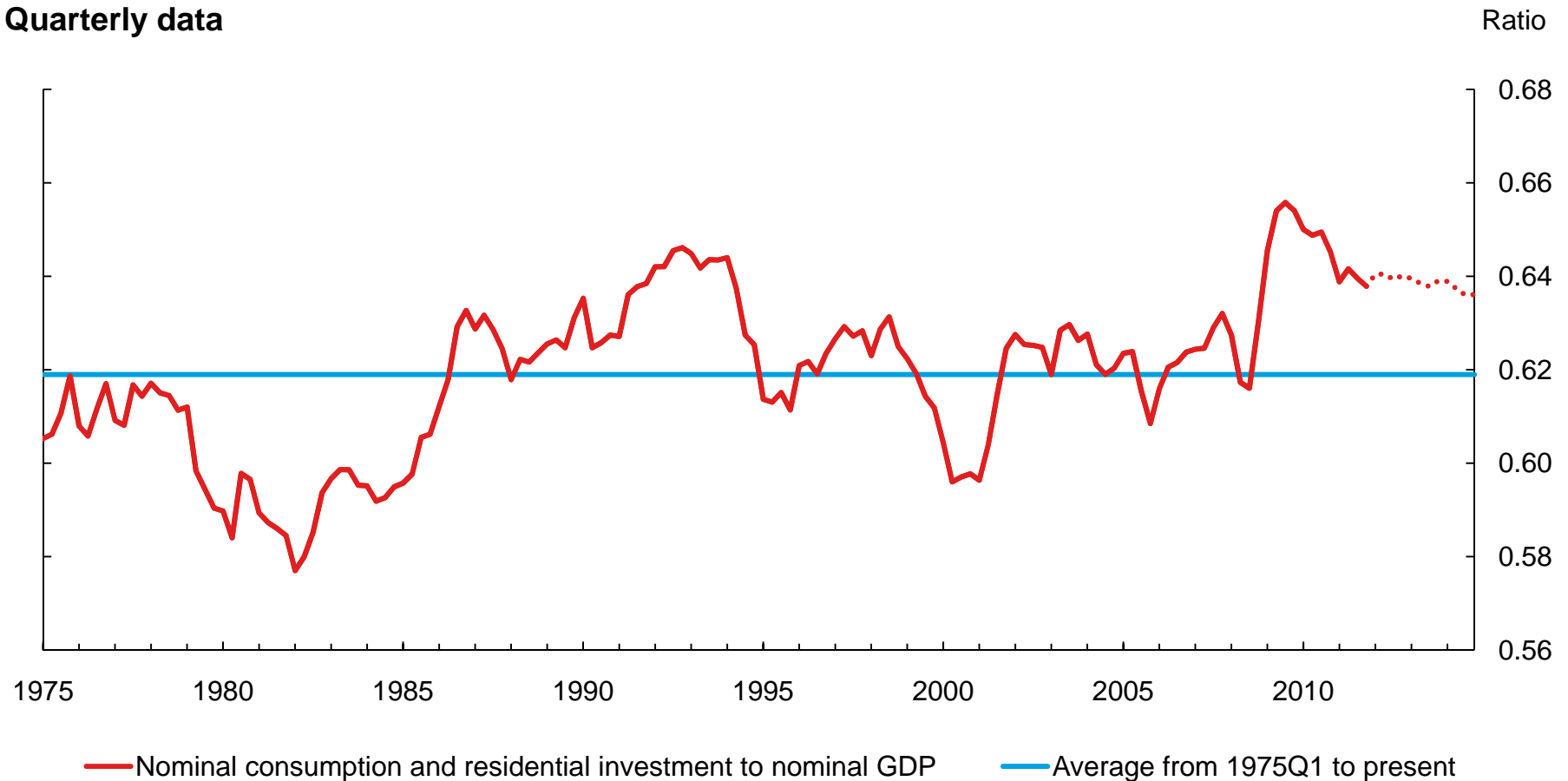


Source: Bank of Canada calculations

Last observation: 13 April 2012

Share of household expenditures in GDP now high

Quarterly data

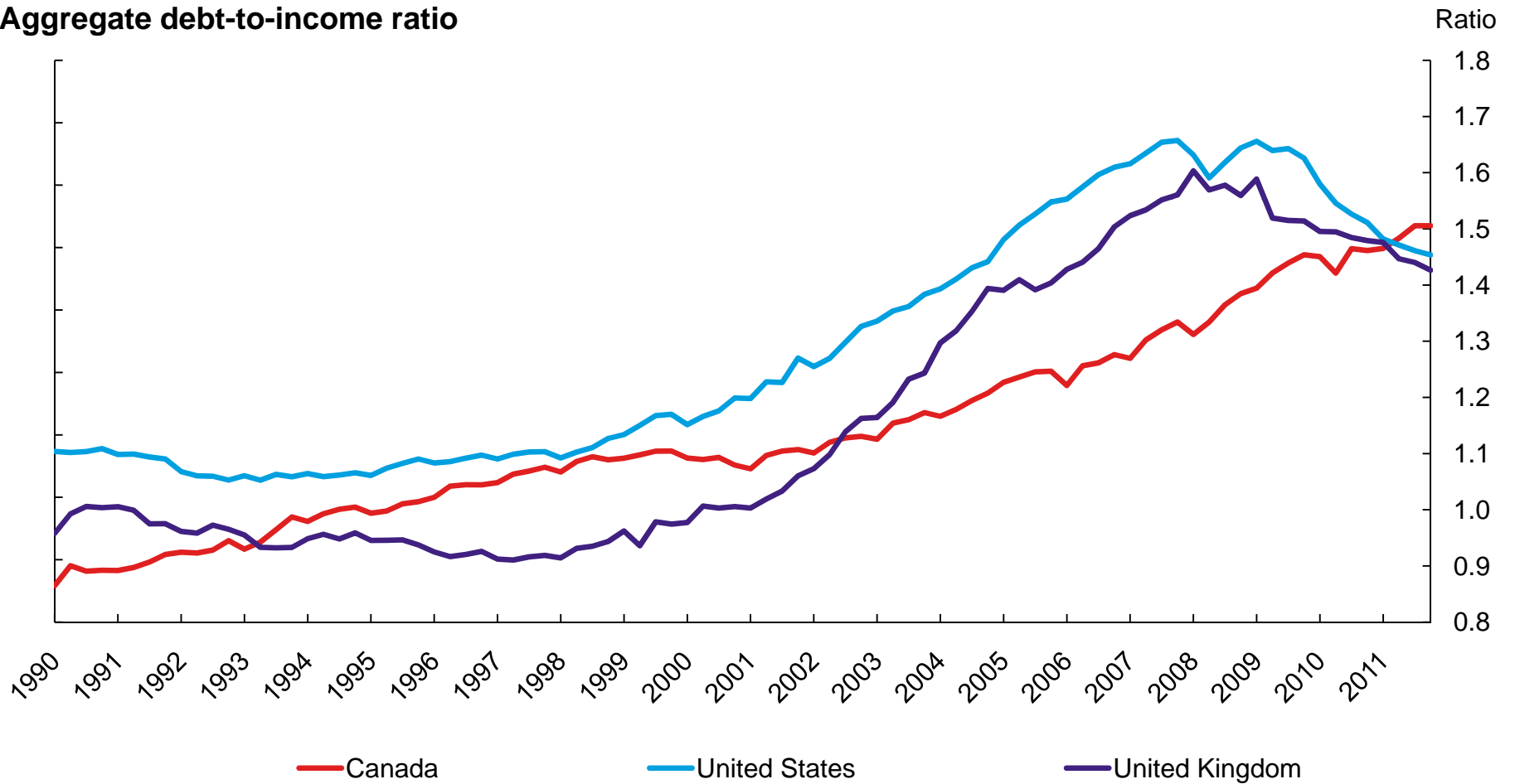


Note: Dotted line indicates a projection.

Sources: Statistics Canada and Bank of Canada calculations

Canadians now more indebted than Americans and British

Aggregate debt-to-income ratio



Source: Statistics Canada, U.S. Federal Reserve, U.K. Bureau for National Statistics

Last observation: 2011Q4

The Current Outlook



Projection for economic growth (per cent)

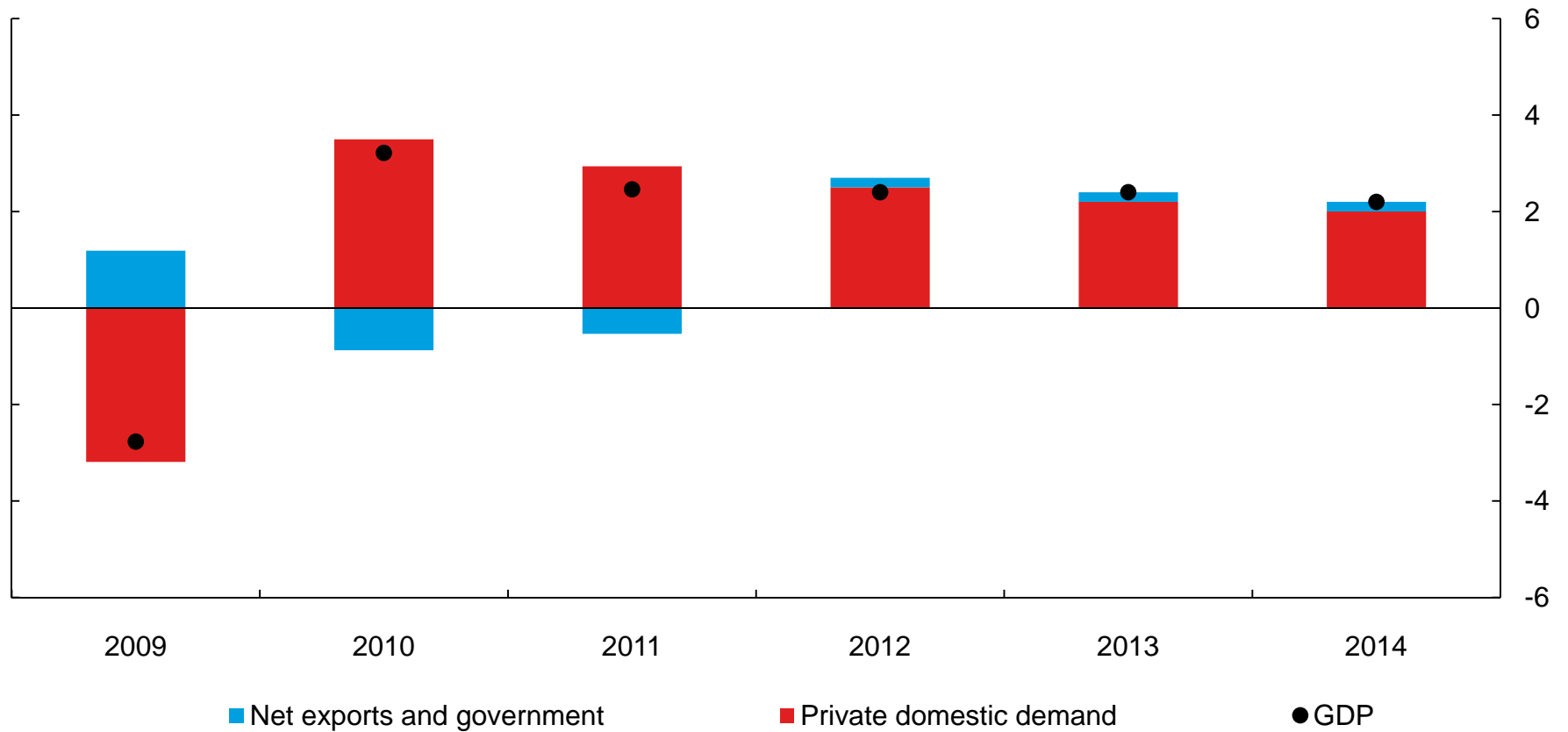
	2002-2007 average	2011	2012	2013	2014
United States	2.6	1.7	2.3	2.5	3.6
Euro area	2.0	1.5	-0.6	0.8	1.4
Japan	1.6	-0.7	1.9	1.6	1.6
China	11.2	9.2	8.1	8.0	8.0
Rest of the world	5.1	4.3	3.4	3.5	3.7
World	4.4	3.8	3.2	3.4	3.8
Canada	2.7	2.5	2.4	2.4	2.2

a. GDP shares are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity (PPP) valuation of country GDPs for 2010.
Sources: IMF World Economic Outlook, September 2011, Bank of Canada

Private domestic demand to continue driving growth

Contributions to real GDP growth

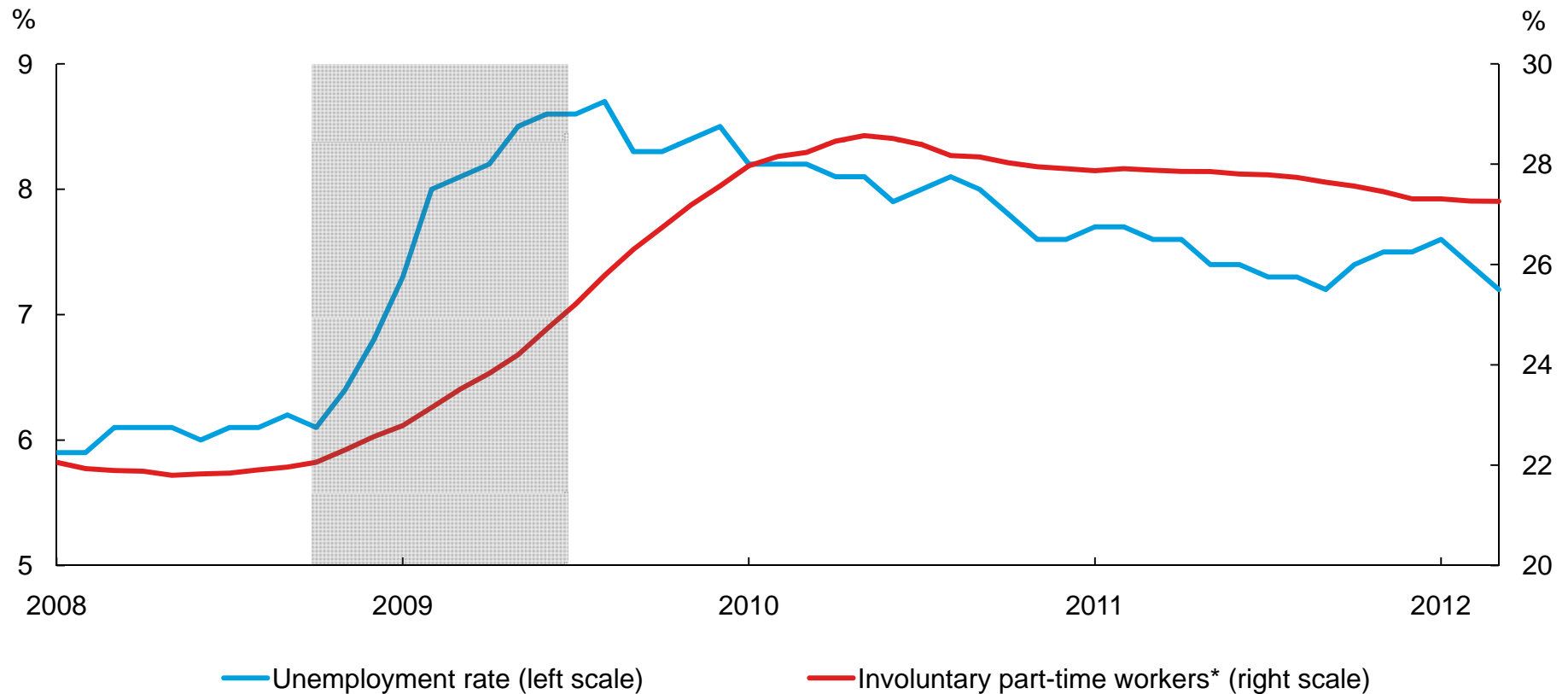
Percentage points



Sources: Statistics Canada and Bank of Canada calculations and projections

Some slack remains in labour market

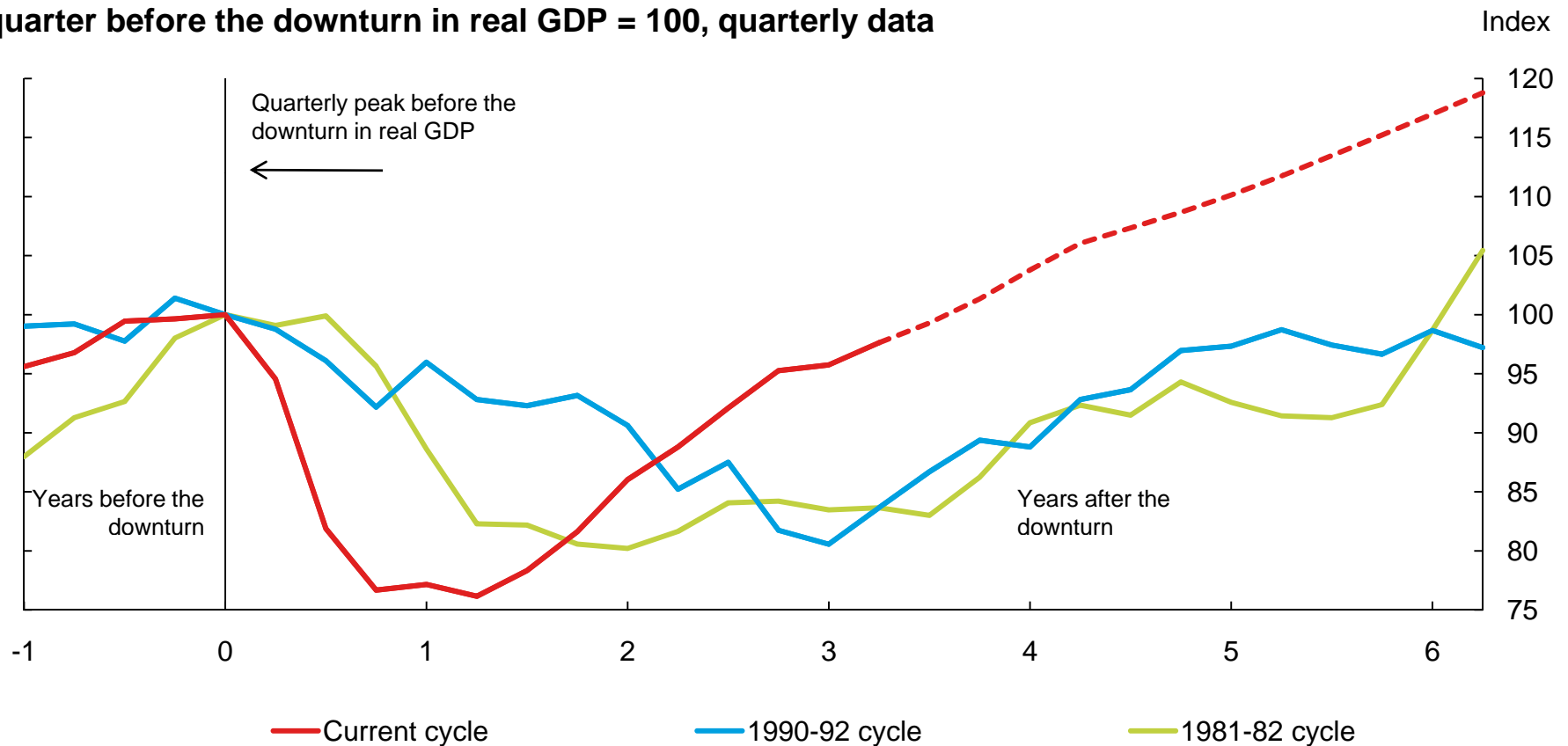
Monthly data, 3-month moving average



*Expressed as a percentage of total part-time employment, unadjusted, 12-month moving average
Source: Statistics Canada

Robust business investment to continue

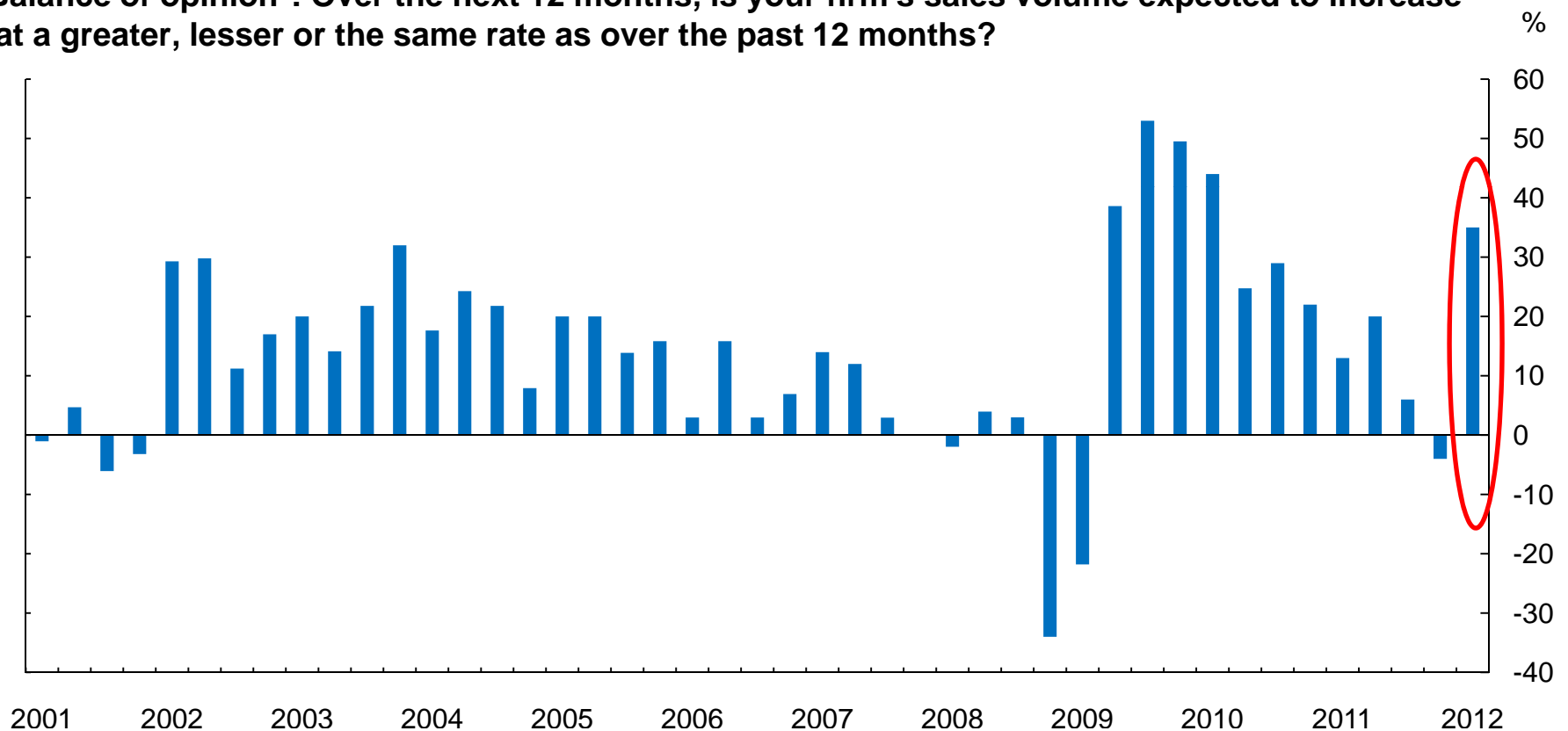
Comparison of real business fixed investment across economic cycles;
quarter before the downturn in real GDP = 100, quarterly data



Note: Dotted line indicates base-case scenario from April 2012 Report.
Sources: Statistics Canada and Bank of Canada calculations and projections

Business more optimistic about future sales

Balance of opinion*: Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?

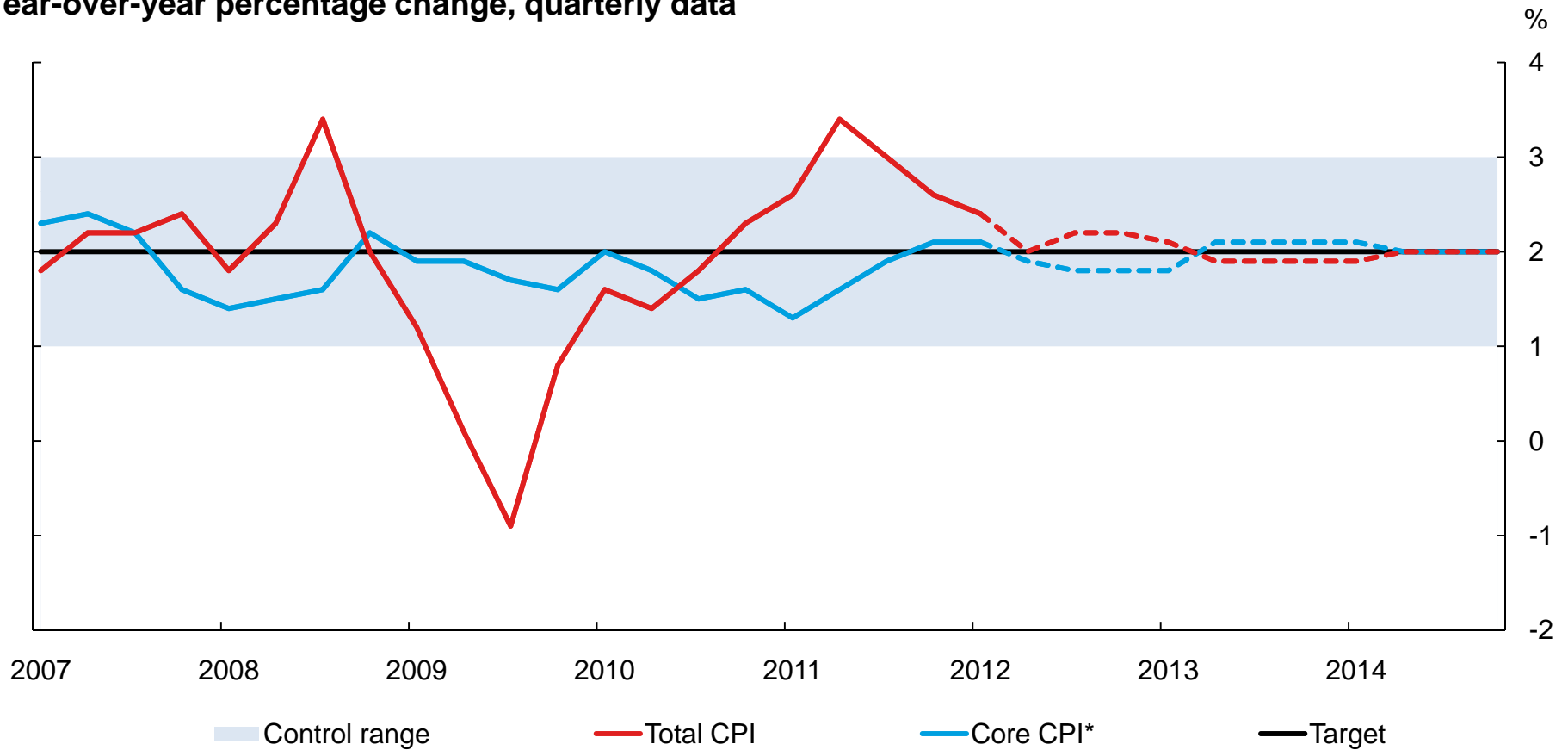


Greater: 58% Same: 19% Lesser: 23%

*Percentage of firms expecting faster growth minus percentage expecting slower growth.
Source: Spring 2012 Business Outlook Survey

Total and core inflation in Canada expected to be around 2 %

Year-over-year percentage change, quarterly data



Note: Dotted lines indicate projections.

*CPI excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components

Sources: Statistics Canada and Bank of Canada calculations and projections

What Must Be Done



Global

- Maintain open trade and capital markets
- Implement financial reforms
- Fiscal sustainability limits stimulus options
- Structural reforms across advanced economies

Europe

- Implement:
 - Bank recapitalization - more new capital, fewer asset sales
 - Sizeable sovereign firewall

- Buy time to re-found European Monetary Union
 - Fiscal and structural adjustment across the crisis economies
 - New economic governance

Canada

- Maintain price stability through flexible inflation targeting
- Keep financial markets liquid and operating
- Apply lessons of American and European crises
 - Importance of fiscal sustainability
 - Value of flexible exchange rates
 - Risks of excessive household debt
 - Imperative to use cheap foreign capital to maximum effect
- Canadian businesses to refocus, retool and retrain

