

# Weathering the Headwinds to Canada's Economic Growth

Greater Moncton Chamber of Commerce  
Moncton, NB  
21 November 2012



# Outline

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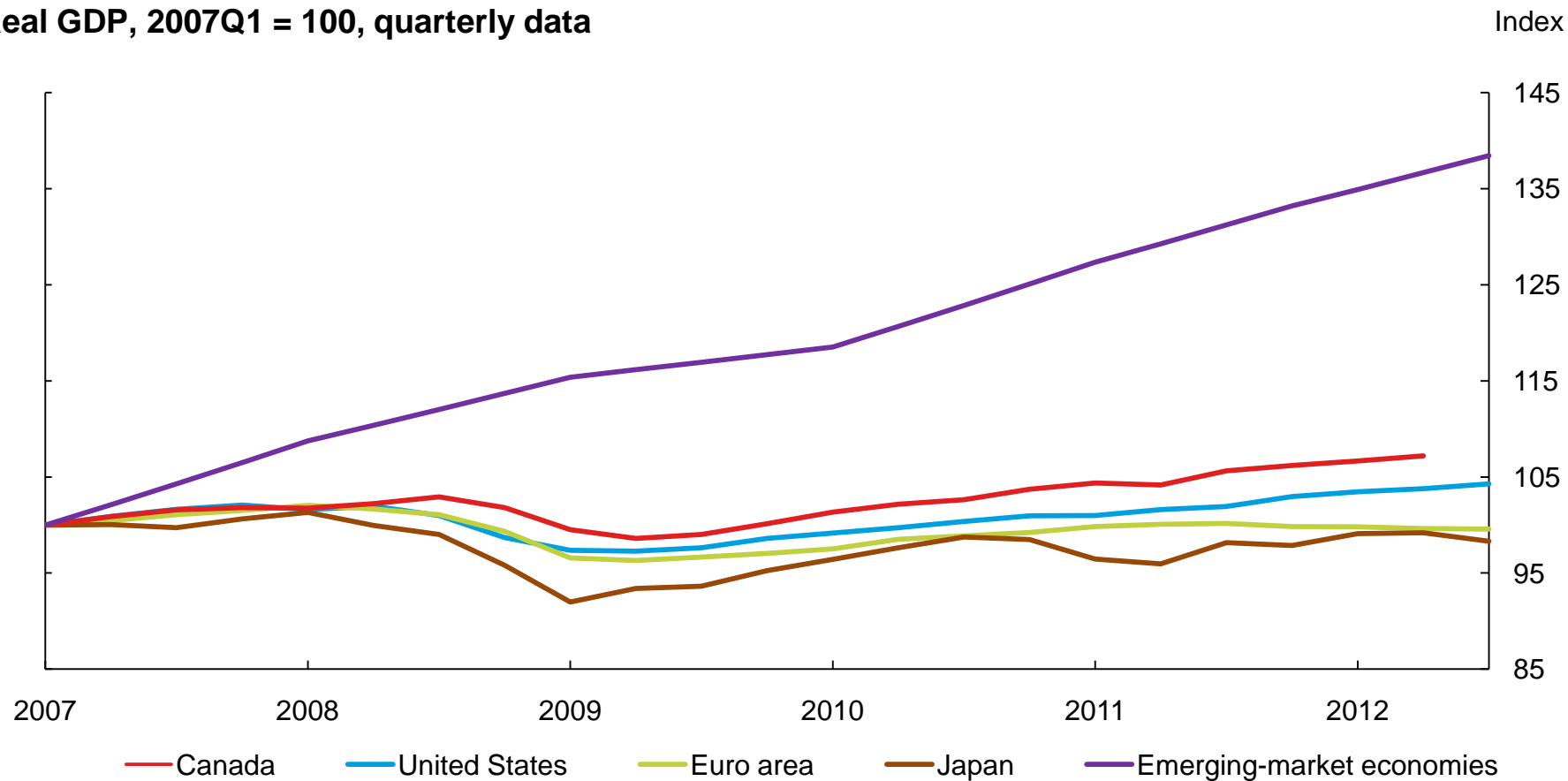
- Global economy
- Canada's economic outlook
- New Brunswick: outlook and challenges
- Bank of Canada mandate and responsibilities

# Global Economy



# Global growth remains modest and unbalanced

Real GDP, 2007Q1 = 100, quarterly data



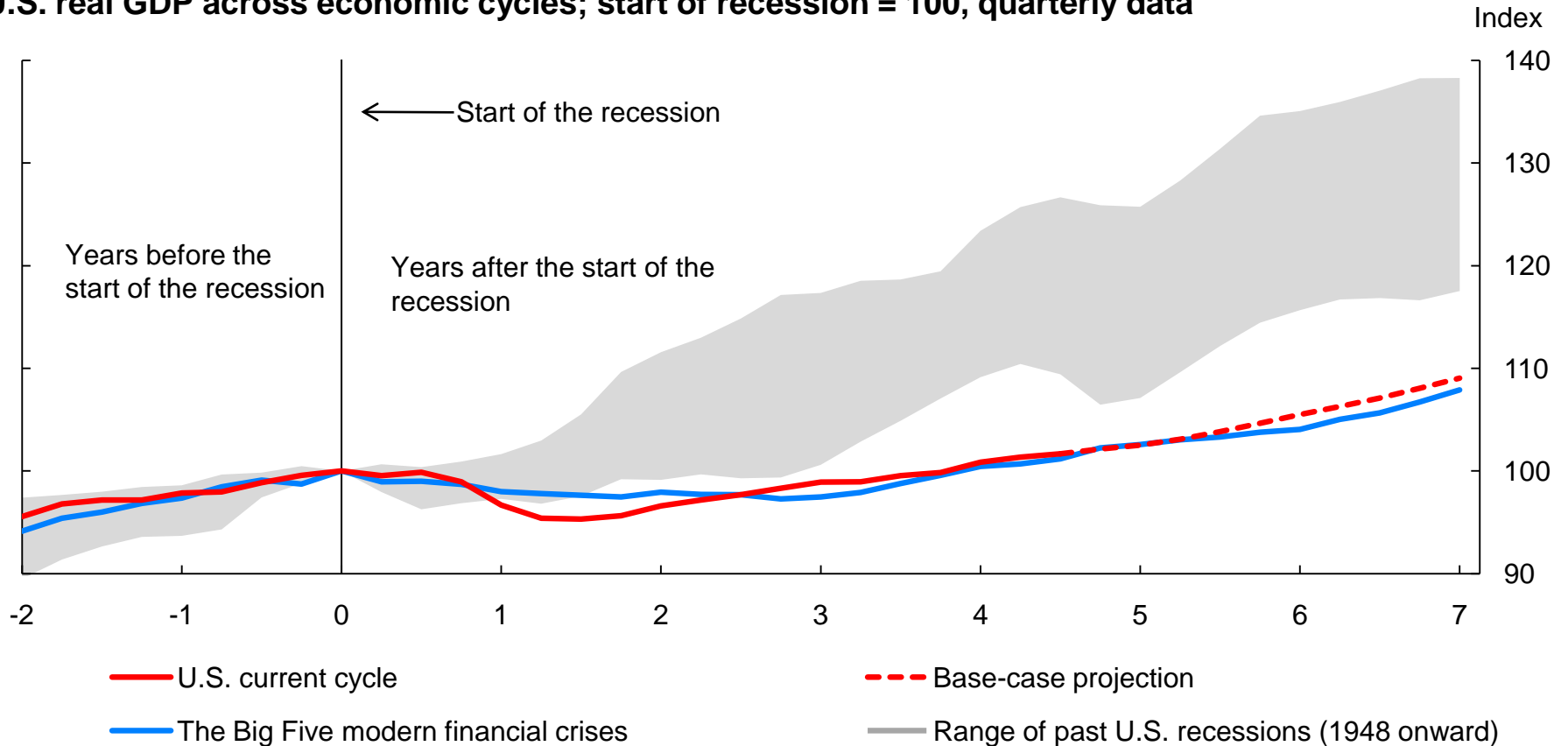
Note: Emerging-market economies GDP is a linear approximation of the quarterly trend based on annual data from the IMF World Economic Outlook.

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

Last observation: 2012Q2 and 2012Q3

# U.S. real GDP growth is projected to remain relatively modest compared with previous U.S. recoveries

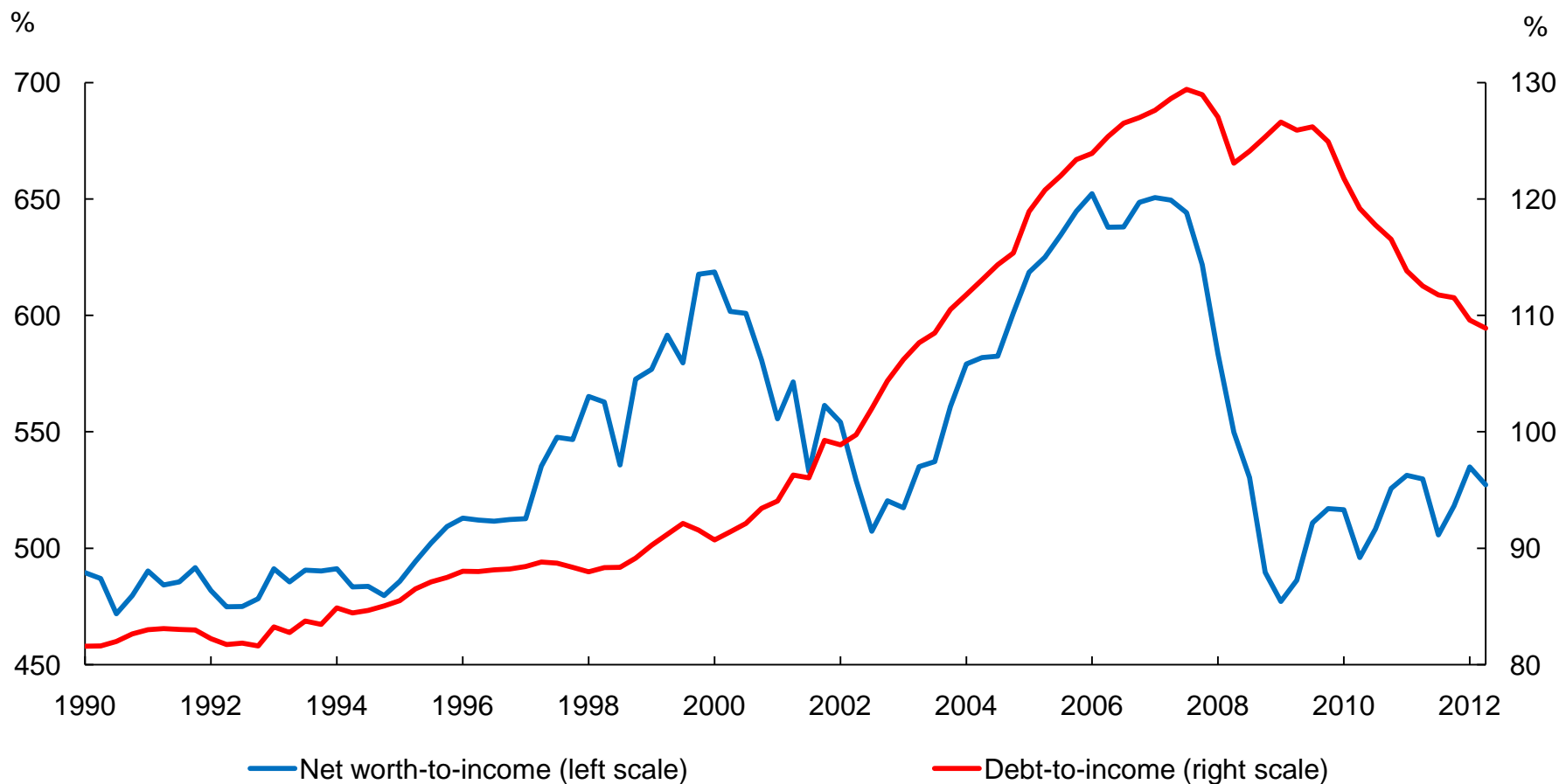
**U.S. real GDP across economic cycles; start of recession = 100, quarterly data**



Note: The Big Five modern financial crises, as described in Reinhart and Rogoff (2008), 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

# U.S. households have made considerable progress toward deleveraging

## U.S. household balance sheet gradually improving

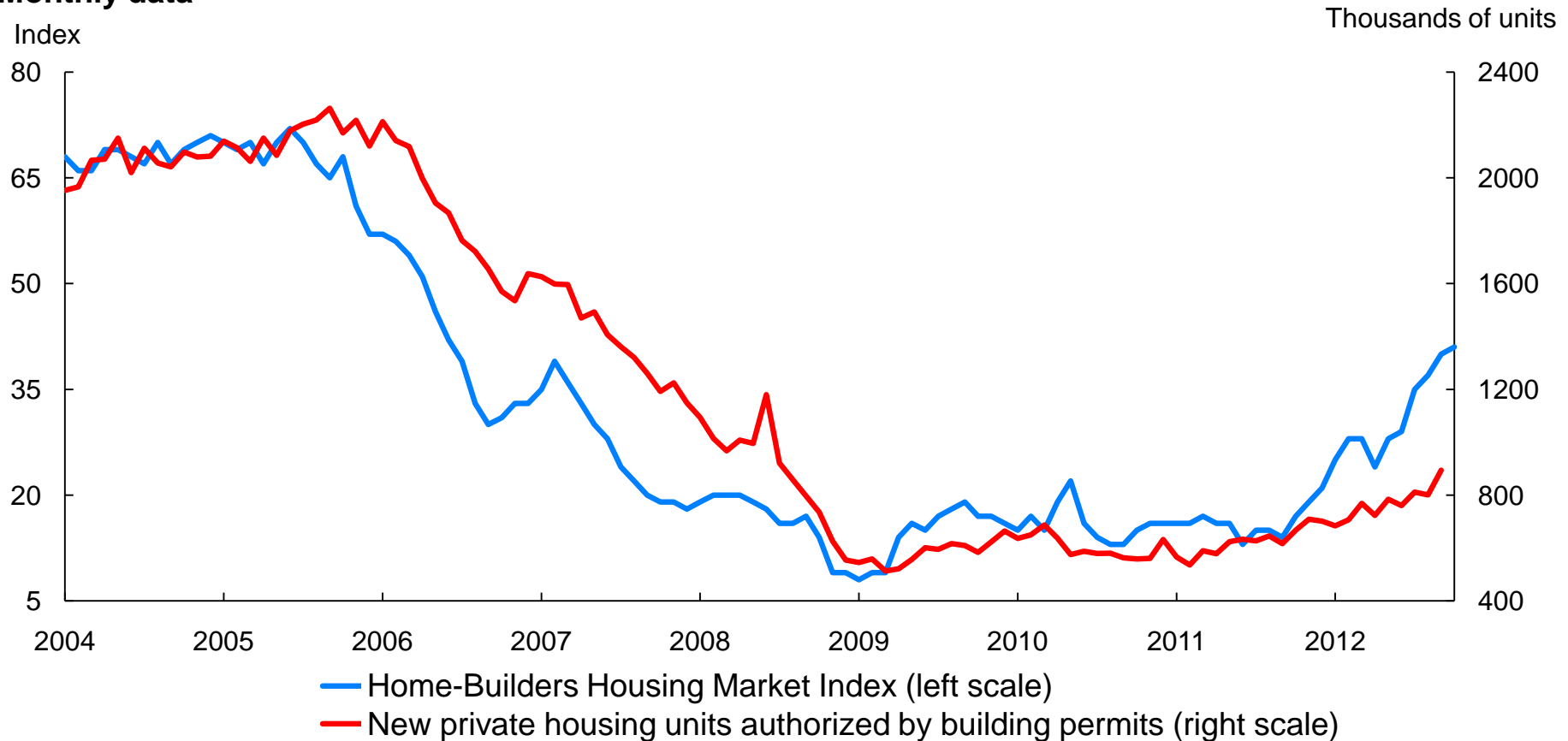


Source: U.S. Federal Reserve Board and Bureau of Economic Analysis

Last observation: 2012Q2

# U.S. residential investment is gradually improving

## Monthly data



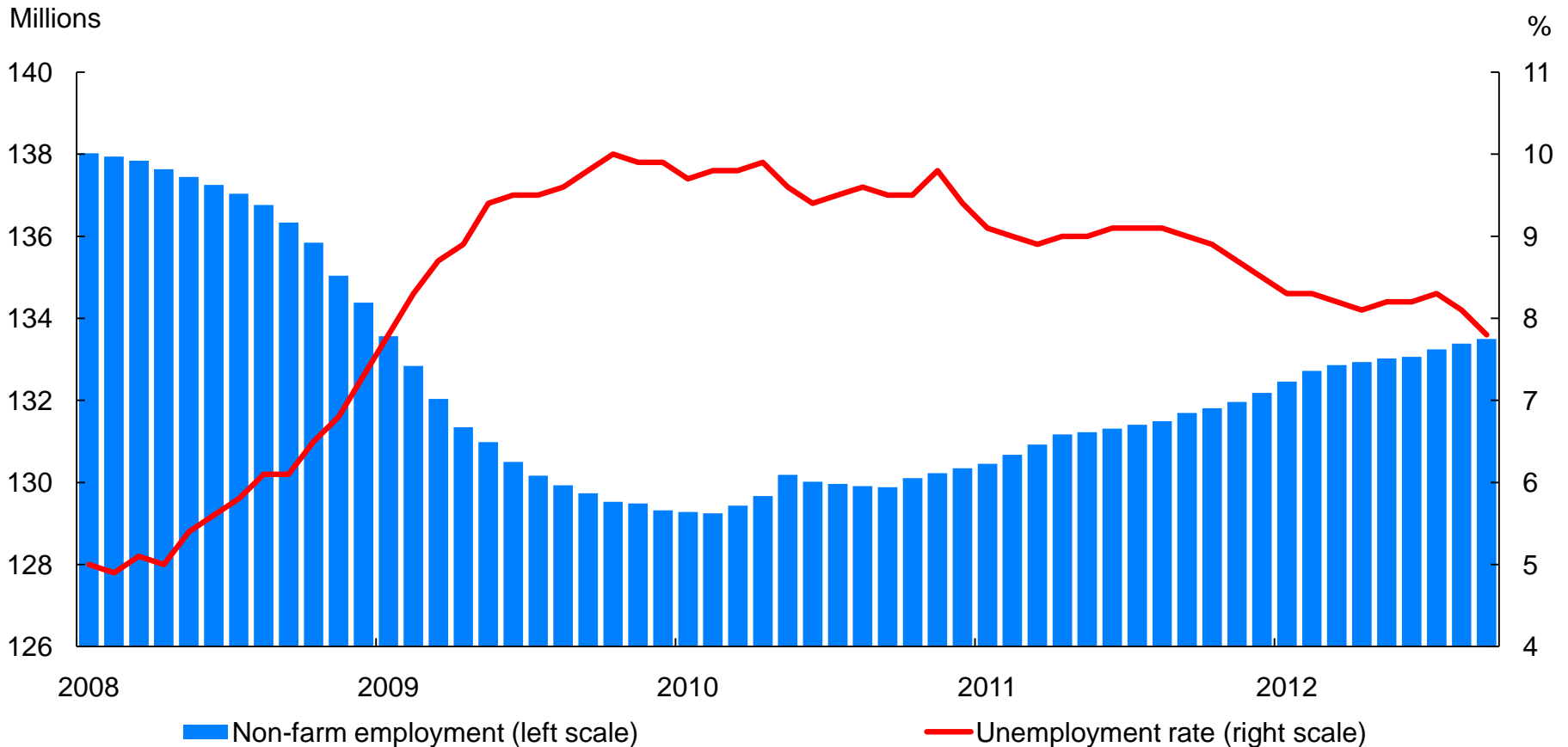
Note: The Housing Market Index (HMI) is based on a monthly survey of members of the National Association of Home Builders and is designed to take the pulse of the single-family housing market.

Sources: U.S. Census Bureau and National Association of Home Builders

Last observations: September and October 2012

# U.S. labour market conditions remain weak

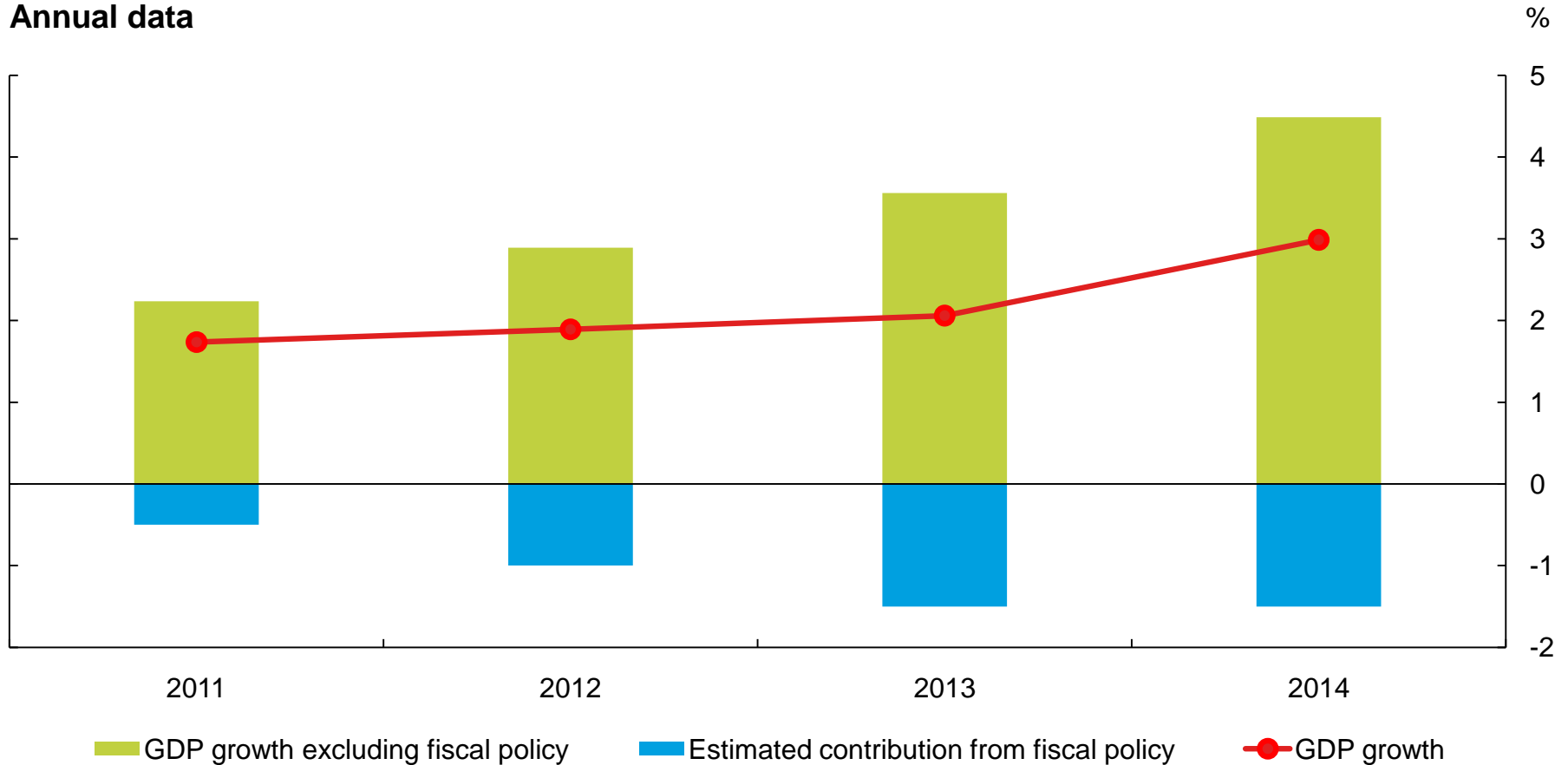
## Monthly data





# Fiscal consolidation will significantly dampen U.S. growth

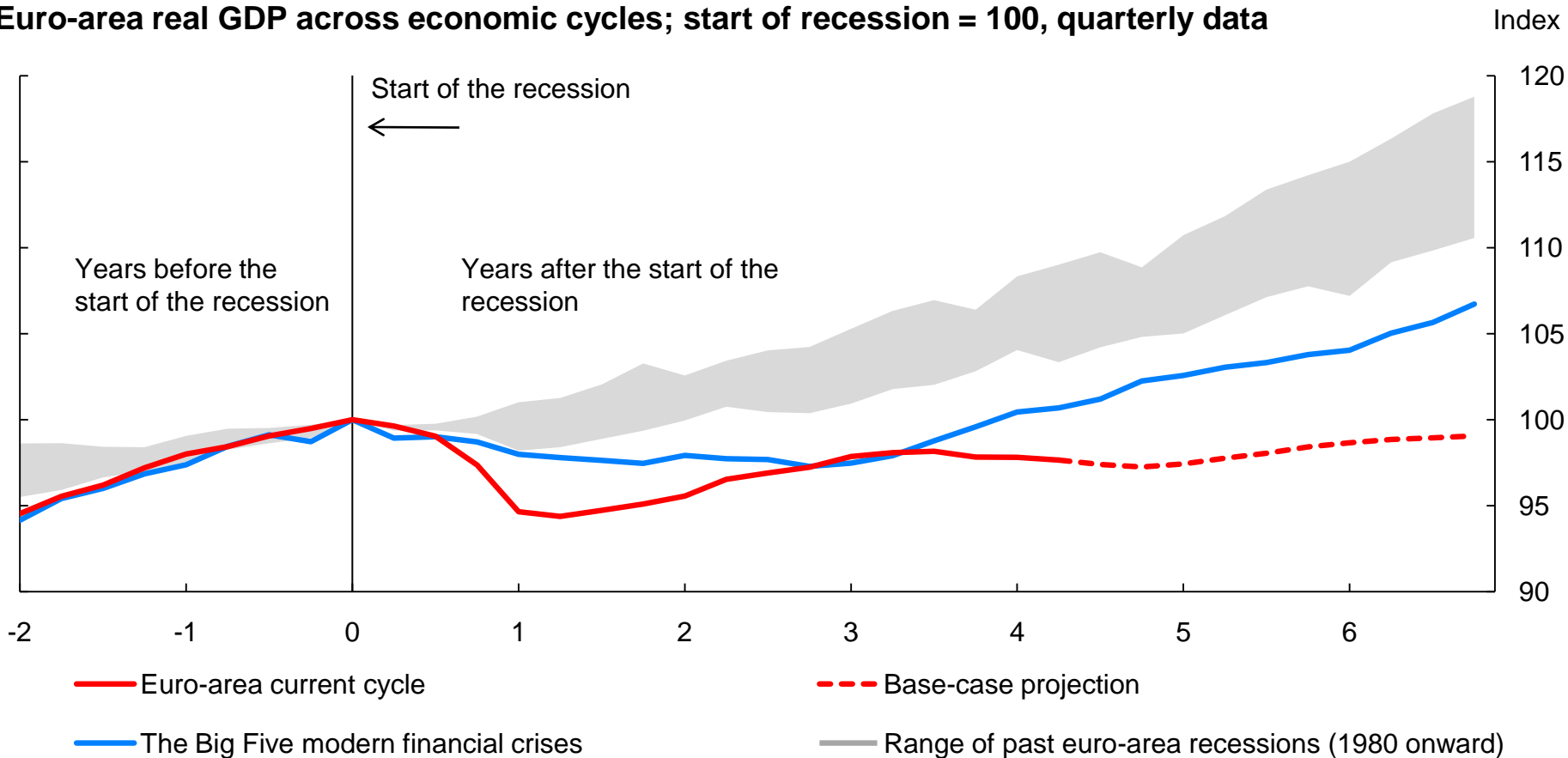
## Annual data



Note: The contribution of fiscal policy to growth includes both direct government expenditures and the indirect effects on other components of aggregate demand.  
Sources: U.S. Bureau of Economic Analysis and Bank of Canada calculations and projections

# Europe is stagnating

**Euro-area real GDP across economic cycles; start of recession = 100, quarterly data**

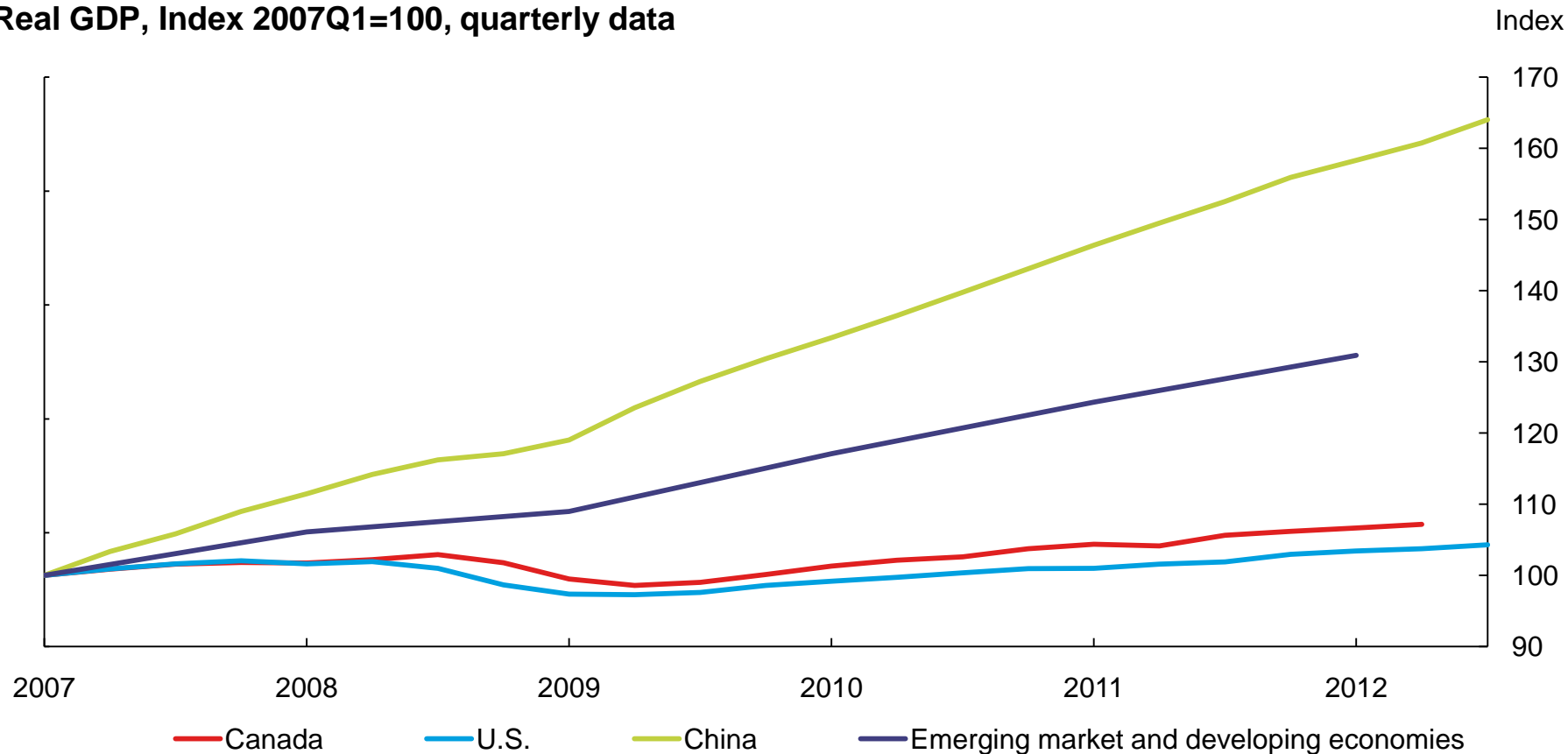


Note: The Big Five modern financial crises, as described in Reinhart and Rogoff (2008), are Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992).

Sources: Eurostat, Organisation for Economic Co-operation and Development, and Bank of Canada projections

# Very robust growth in emerging markets

Real GDP, Index 2007Q1=100, quarterly data



Note: The emerging-market and developing economies (which includes China) figure is calculated using annual growth rates from the IMF 2012 October WEO.

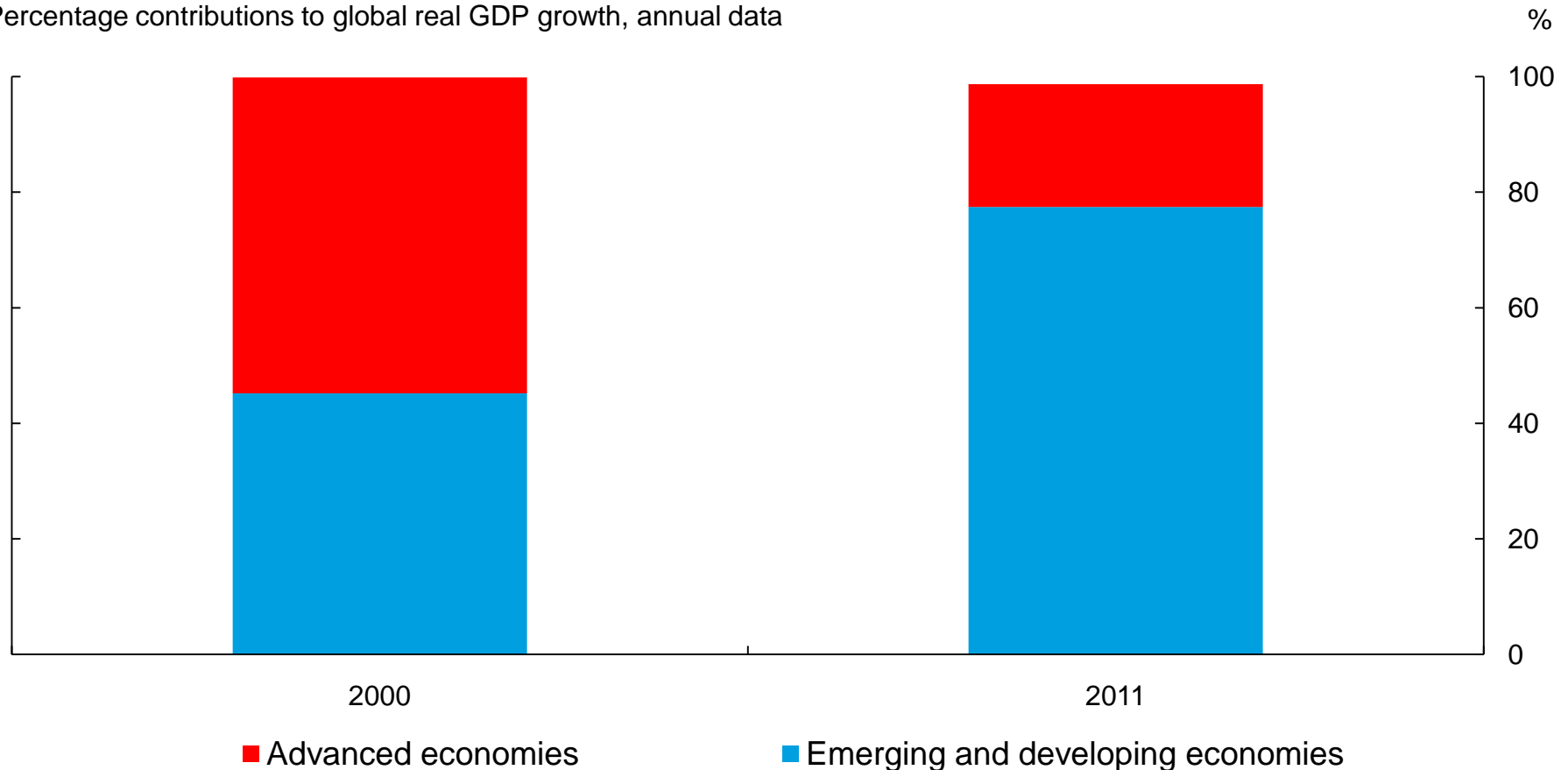
Sources: Statistics Canada, Bureau of Economic Analysis, China National Bureau of Statistics, IMF 2012 October WEO, and Bank of Canada calculations

Last observation: 2012Q3 for United States and China, 2012Q2 for Canada, 2011Q4 for emerging-market and developing economies

# Emerging markets now account for bulk of growth

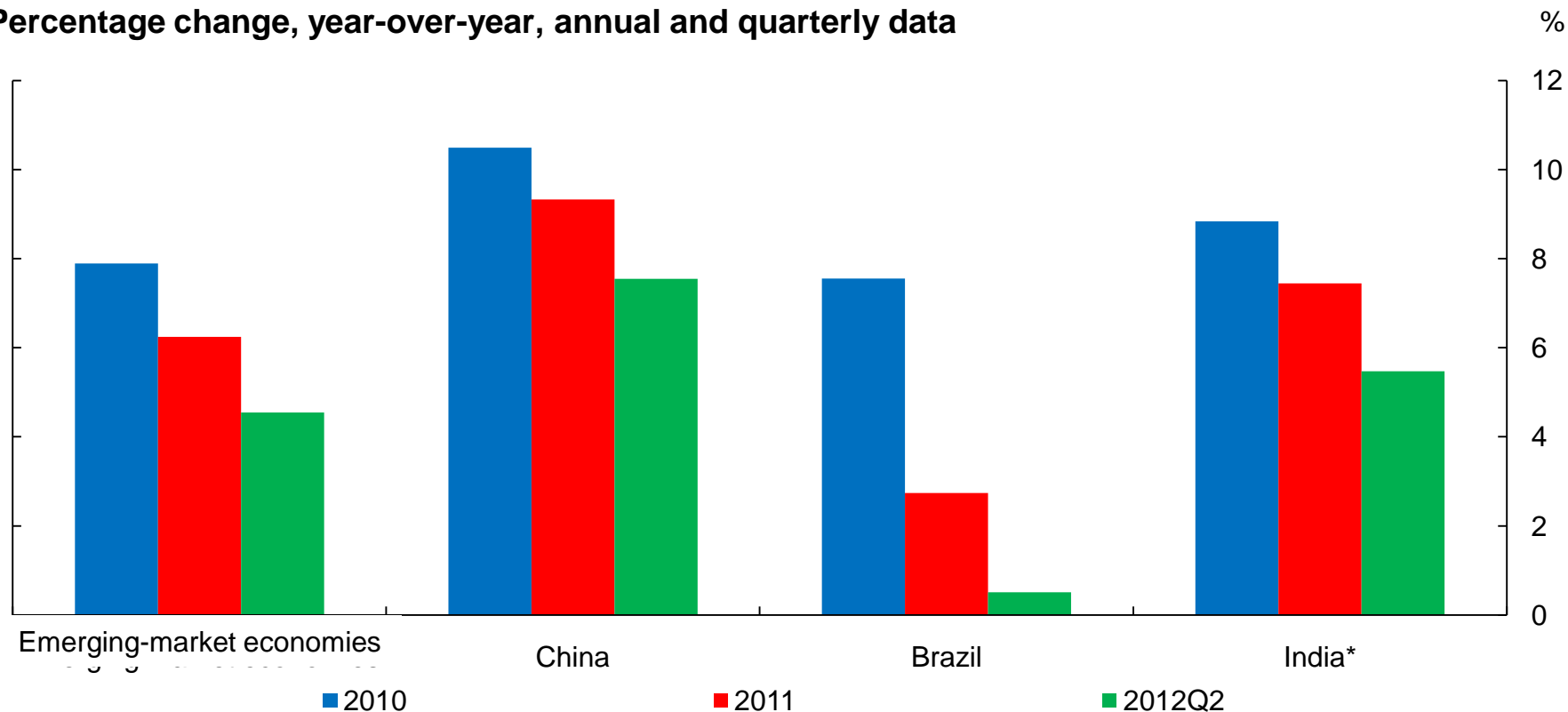
## Contribution to global growth

Percentage contributions to global real GDP growth, annual data



# EME's growth slowing from previously rapid rates

Percentage change, year-over-year, annual and quarterly data



Note: Emerging-market economies include China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, Thailand, Argentina, Brazil, Chile, Colombia, Mexico and Peru, Czech Republic, Hungary, Poland, Romania and Russia. Countries are weighted by 2011 GDP in PPP terms.

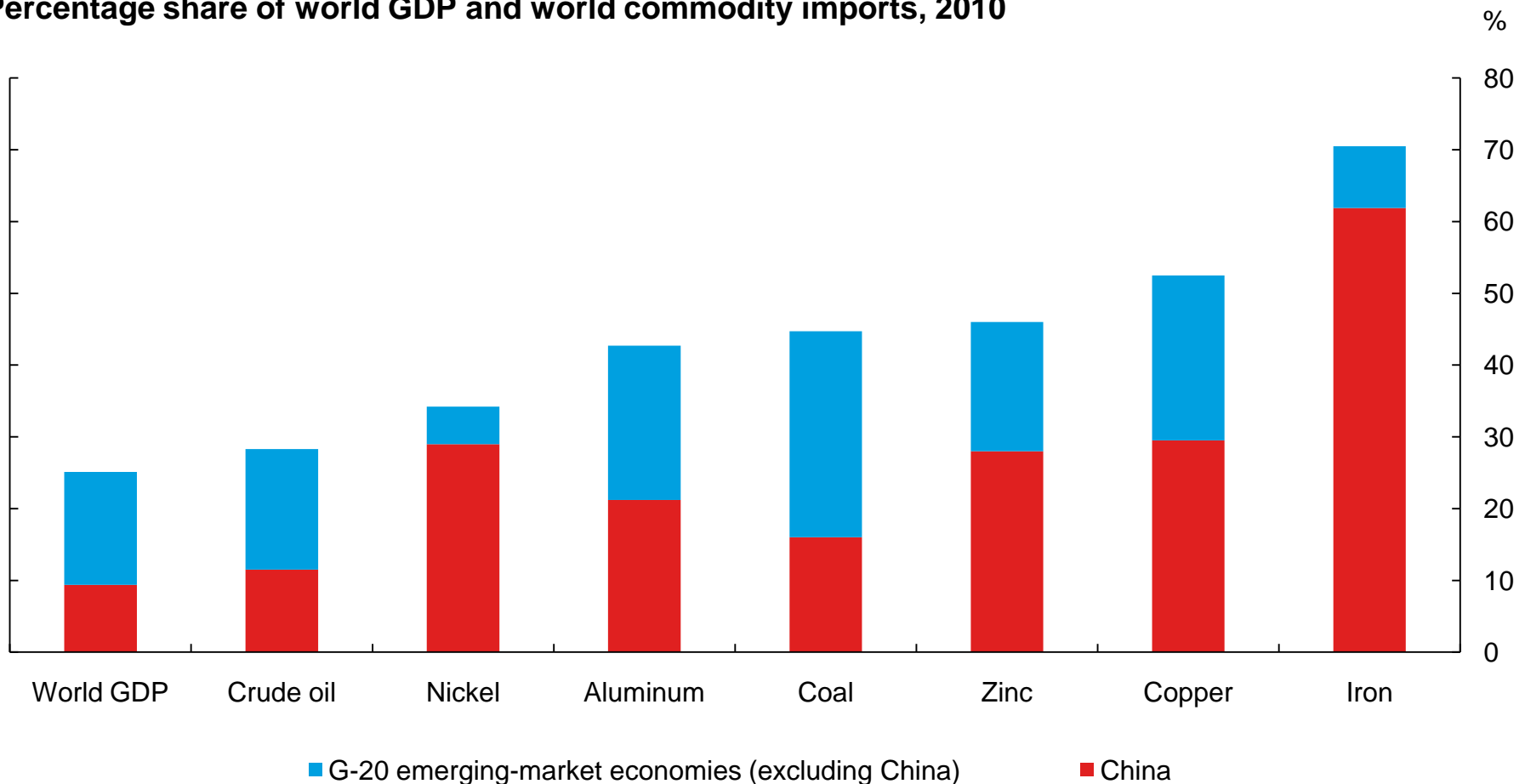
\*The measure used for India is GDP at factor cost, since this is the generally reported figure for that country. For the EME aggregate, of which India is part, GDP measured by expenditure was used, for consistency with the other countries included in the aggregate.

Source: J.P. Morgan, International Monetary Fund *World Economic Outlook*, April 2012; Haver Analytics; and Bank of Canada

Last observation: 2012Q2

# EMEs major drivers of commodity prices

Percentage share of world GDP and world commodity imports, 2010

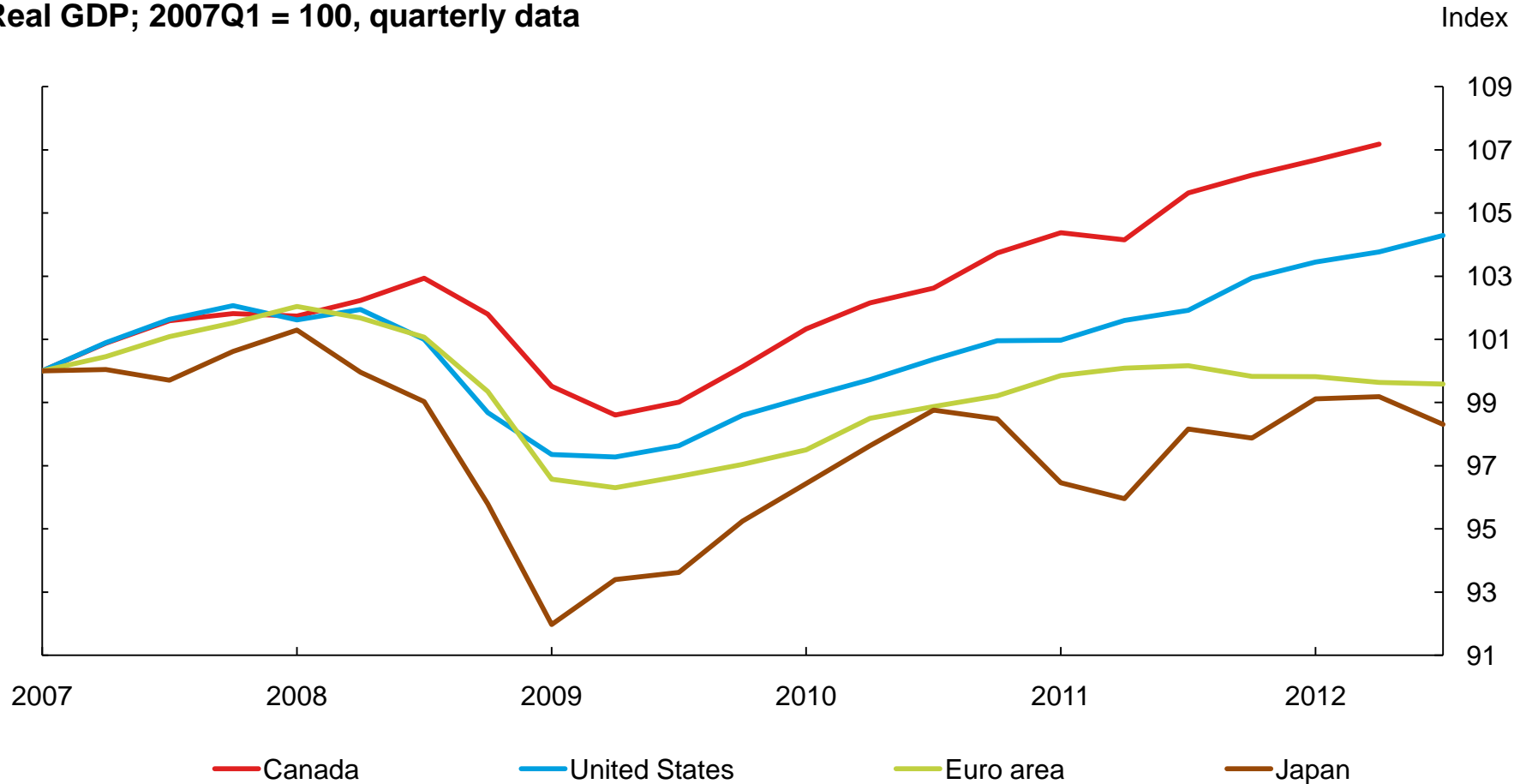


# Canada's Economic Outlook



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

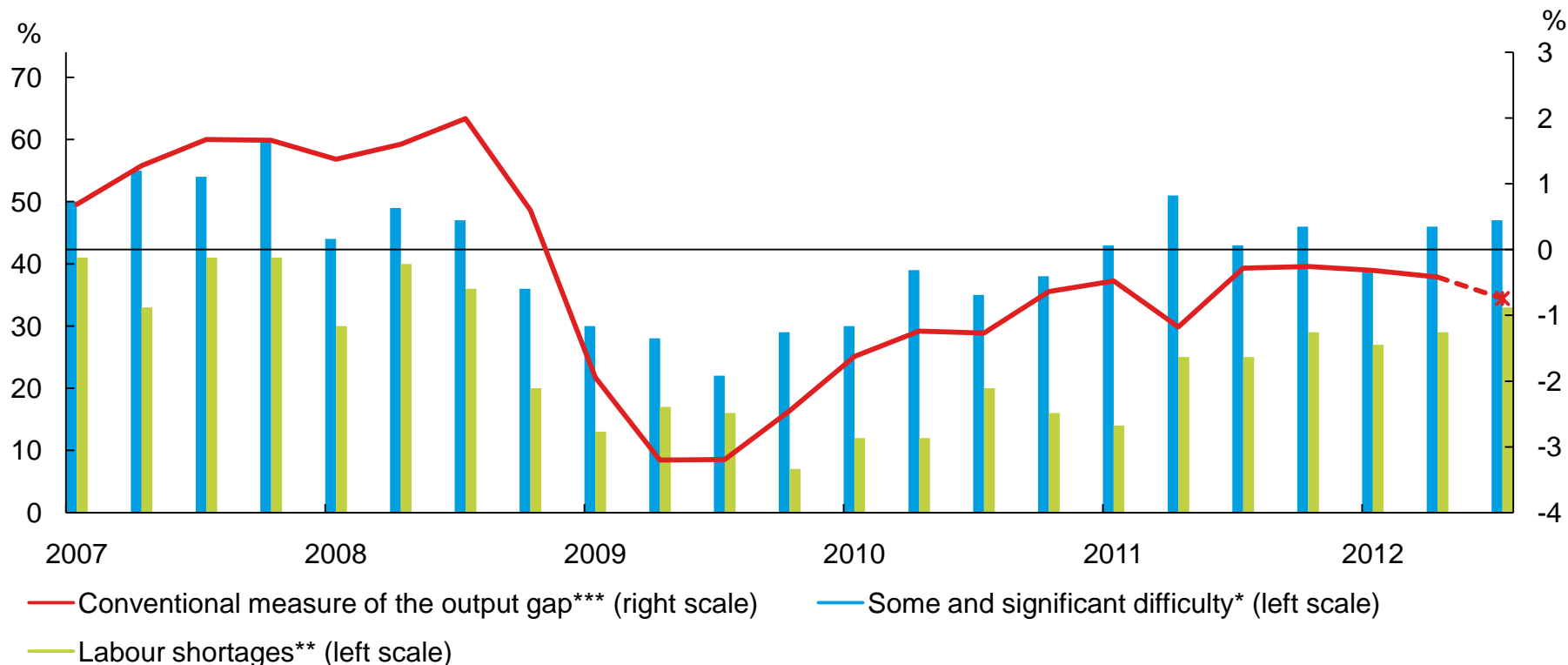
Real GDP; 2007Q1 = 100, quarterly data





# The Canadian economy continues to operate with a small amount of excess supply

Real GDP; 2007Q1 = 100, quarterly data



\*Response to *Business Outlook Survey* question on capacity pressures. Percentage of firms indicating that they would have either some or significant difficulty meeting an unanticipated increase in demand/sales.

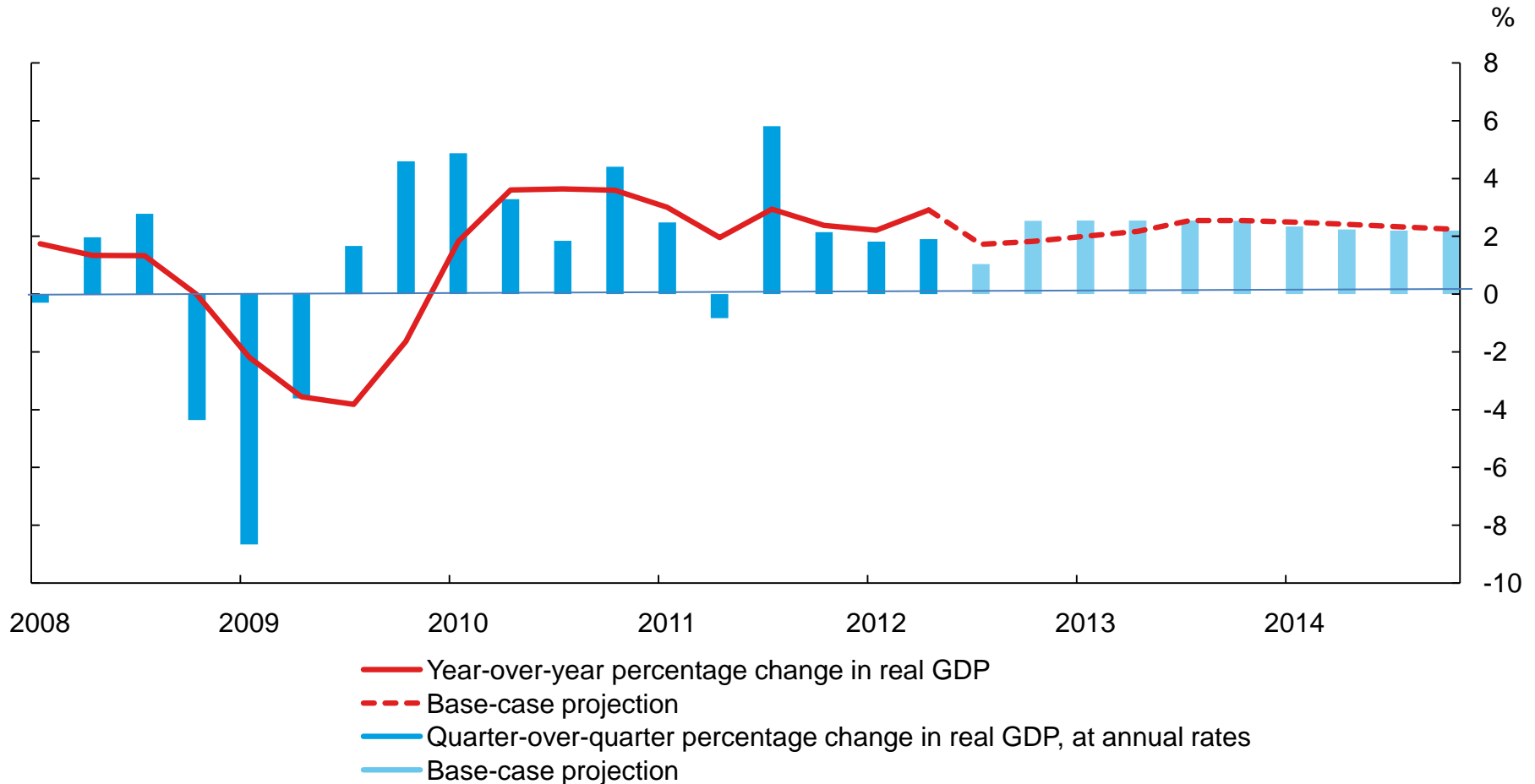
\*\*Response to *Business Outlook Survey* question on labour shortages. Percentage of firms reporting labour shortages that restrict their ability to meet demand.

\*\*\*Difference between actual output and estimated potential output from the Bank of Canada's conventional measure. The estimate for the third quarter of 2012 (indicated by \*) is based on a projected increase in output of 1.0 per cent (at annual rates) for the quarter.

Source: Bank of Canada

Last observation: 2012Q3

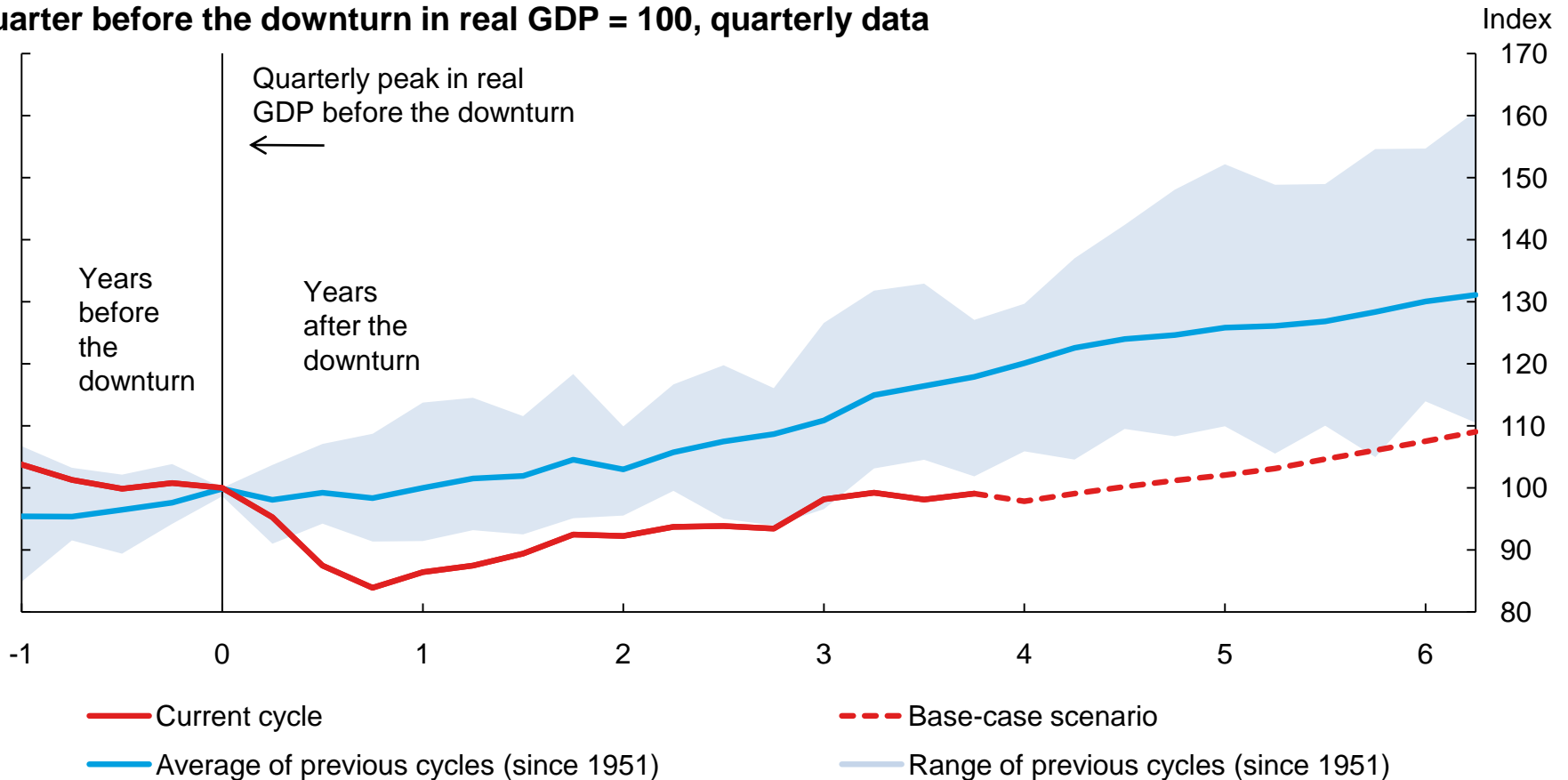
# Real GDP is expected to grow at a moderate pace



Sources: Statistics Canada and Bank of Canada calculations and projections

# Export recovery weakest in post-war period

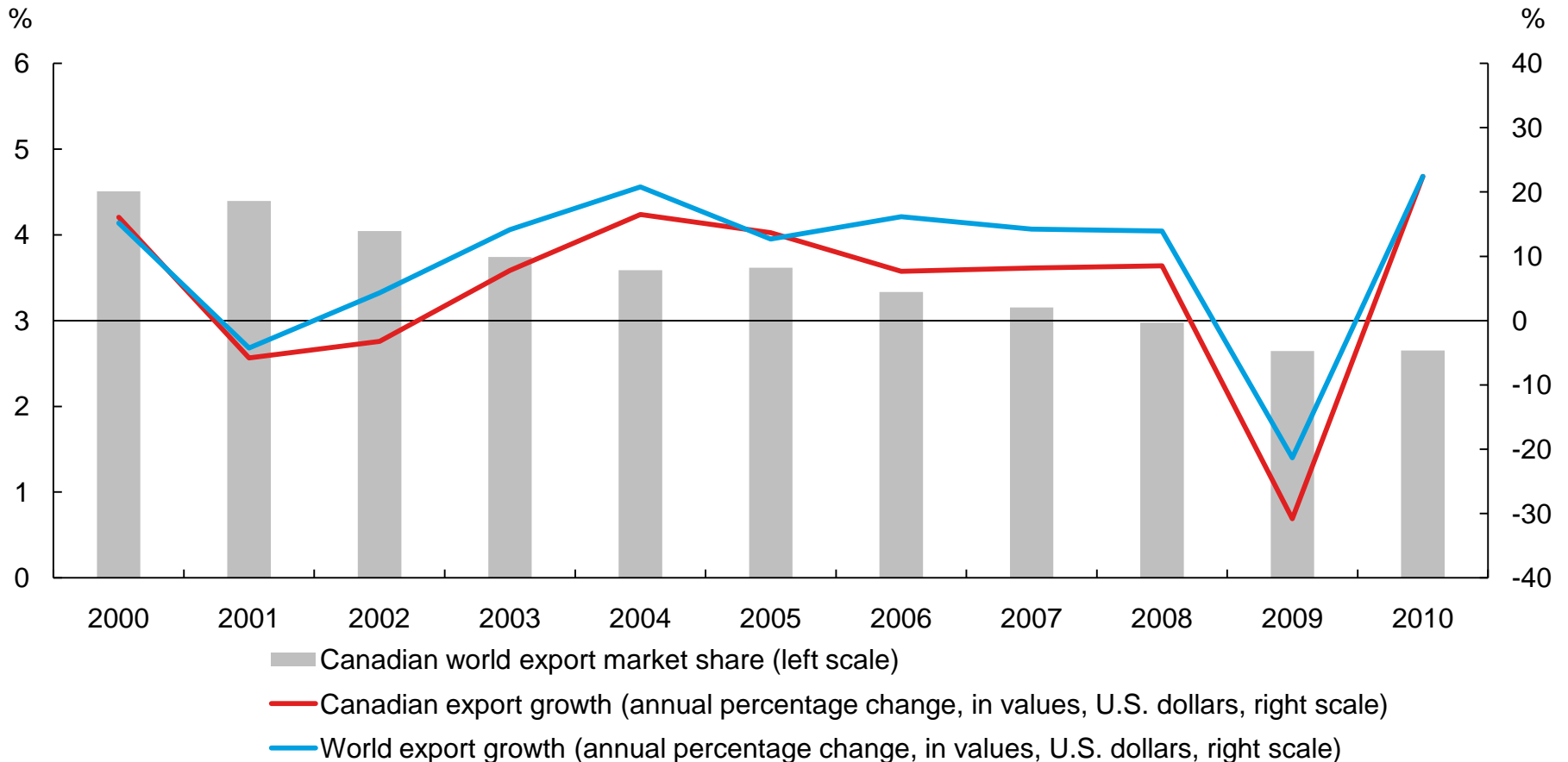
**Comparison of real exports across economic cycles;  
quarter before the downturn in real GDP = 100, quarterly data**



Sources: Statistics Canada and Bank of Canada calculations and projections

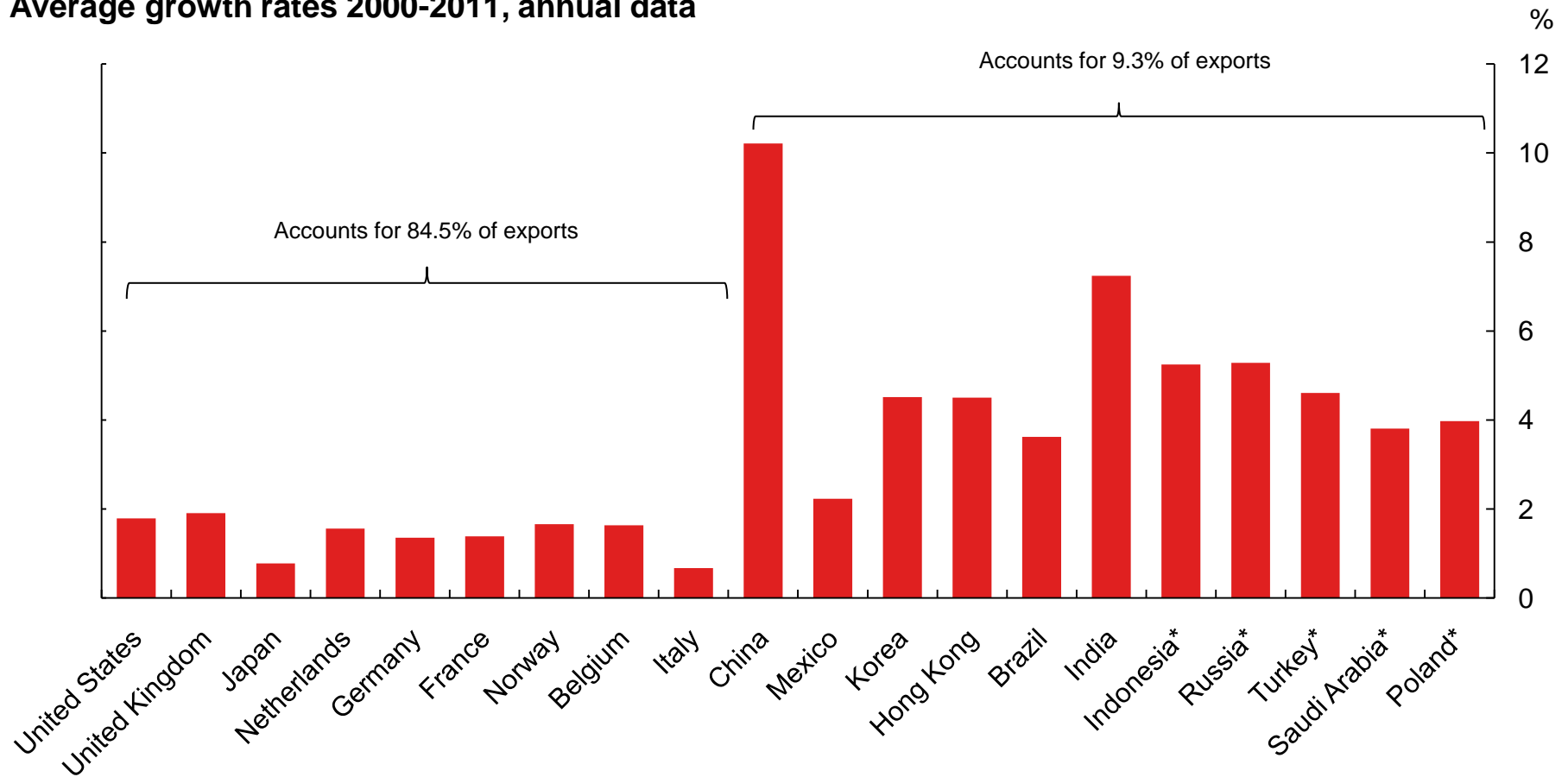
# Canada's share of world market down

## Annual data



# Canada's trade directed toward slow growing economies

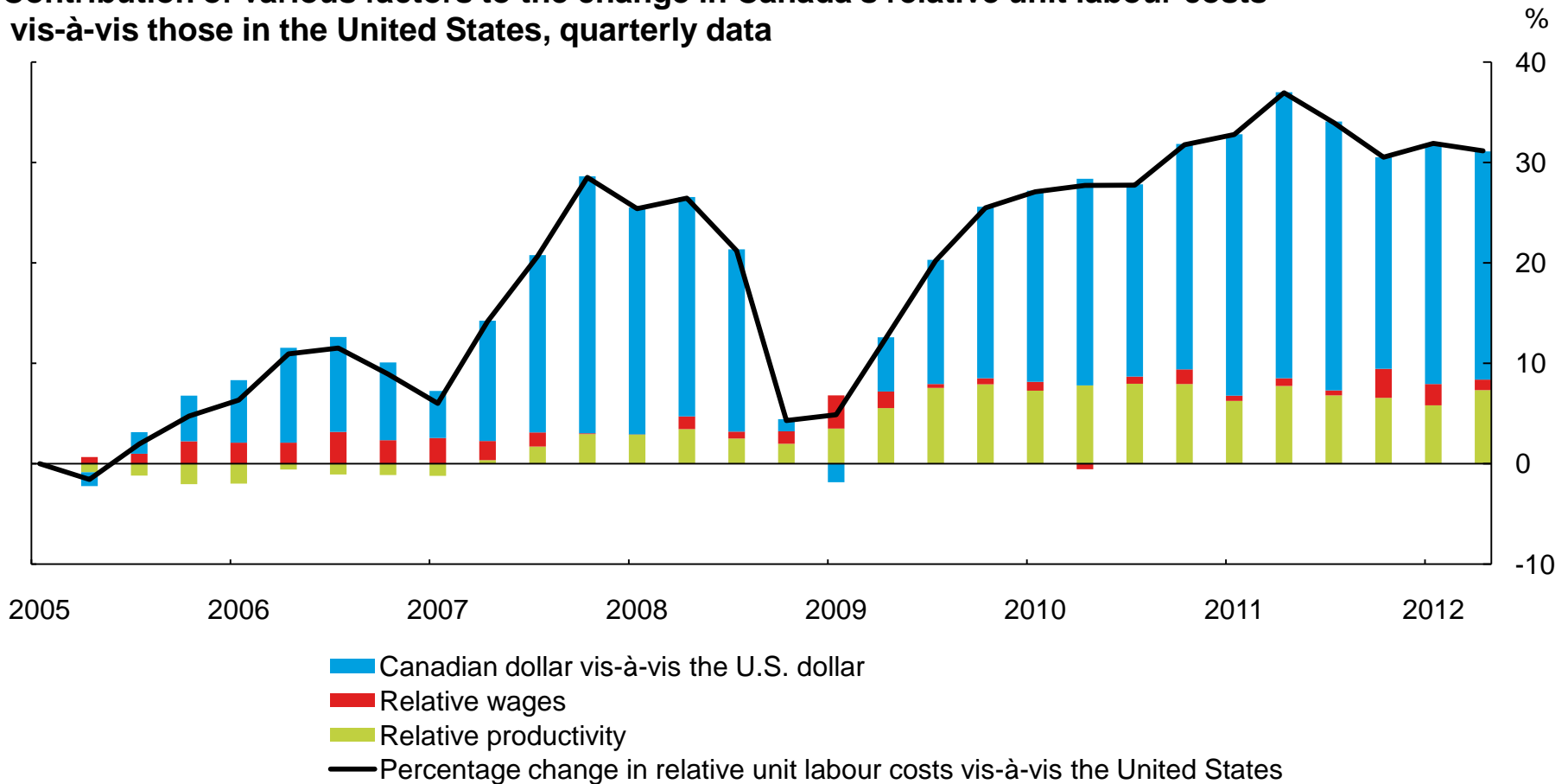
Average growth rates 2000-2011, annual data



Note: \*Country is not one of Canada's top 15 trading partners. Export shares in 2011 are reported.  
Source: International Monetary Fund World Economic Outlook, Industry Canada, staff calculations

# Canadian firms losing competitiveness

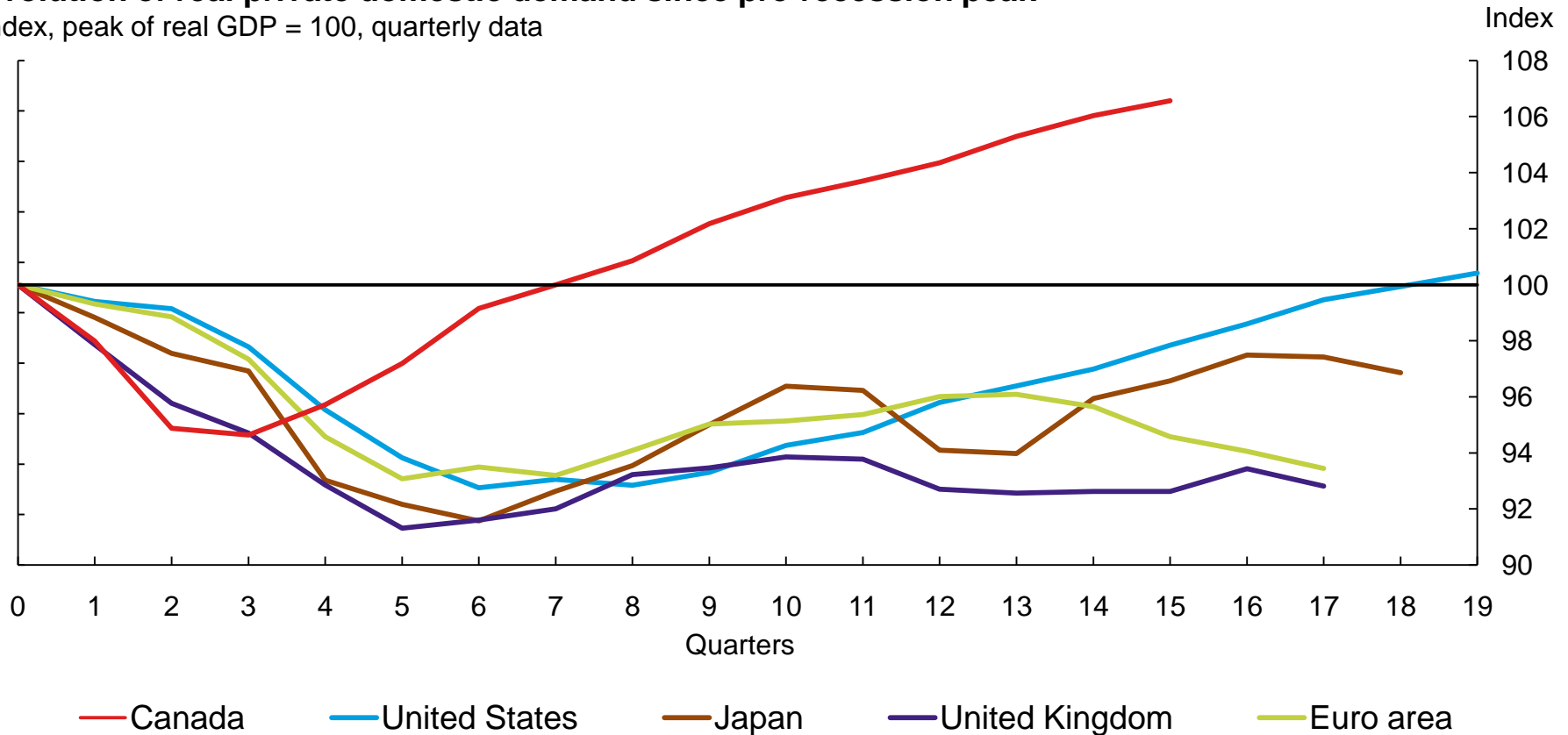
**Contribution of various factors to the change in Canada's relative unit labour costs vis-à-vis those in the United States, quarterly data**



# Canada has relied on domestic demand

## Evolution of real private domestic demand since pre-recession peak

Index, peak of real GDP = 100, quarterly data



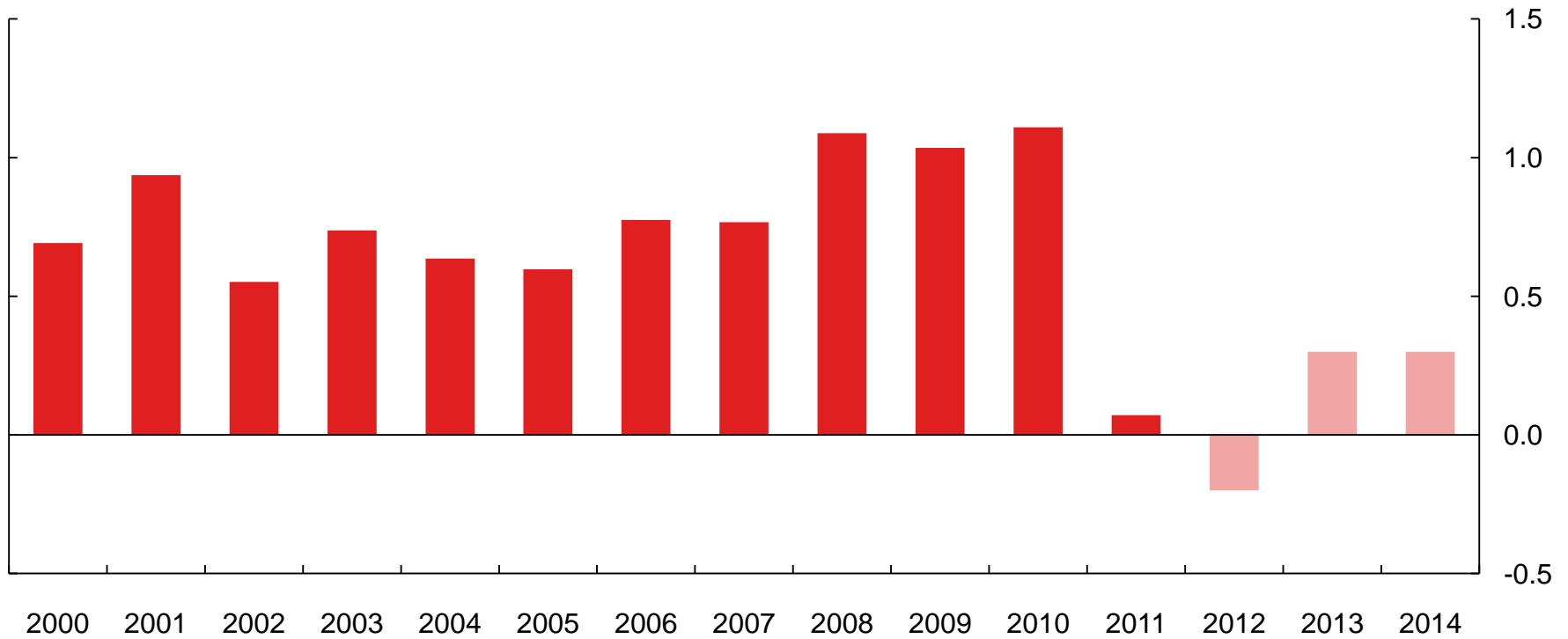
Note: Private domestic demand includes consumption, business and residential investment, except for the euro area and the United Kingdom, which also includes government investment.  
Sources: Statistics Canada, U.S. Bureau of Economic Analysis, Eurostat, Japan Cabinet Office, the U.K. Office for National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

Last observation: 2012Q2

# Contribution of government spending to real GDP growth is expected to be modest

Annual data

Percentage points



■ Contribution of government expenditures to real GDP growth

■ Base-case projection

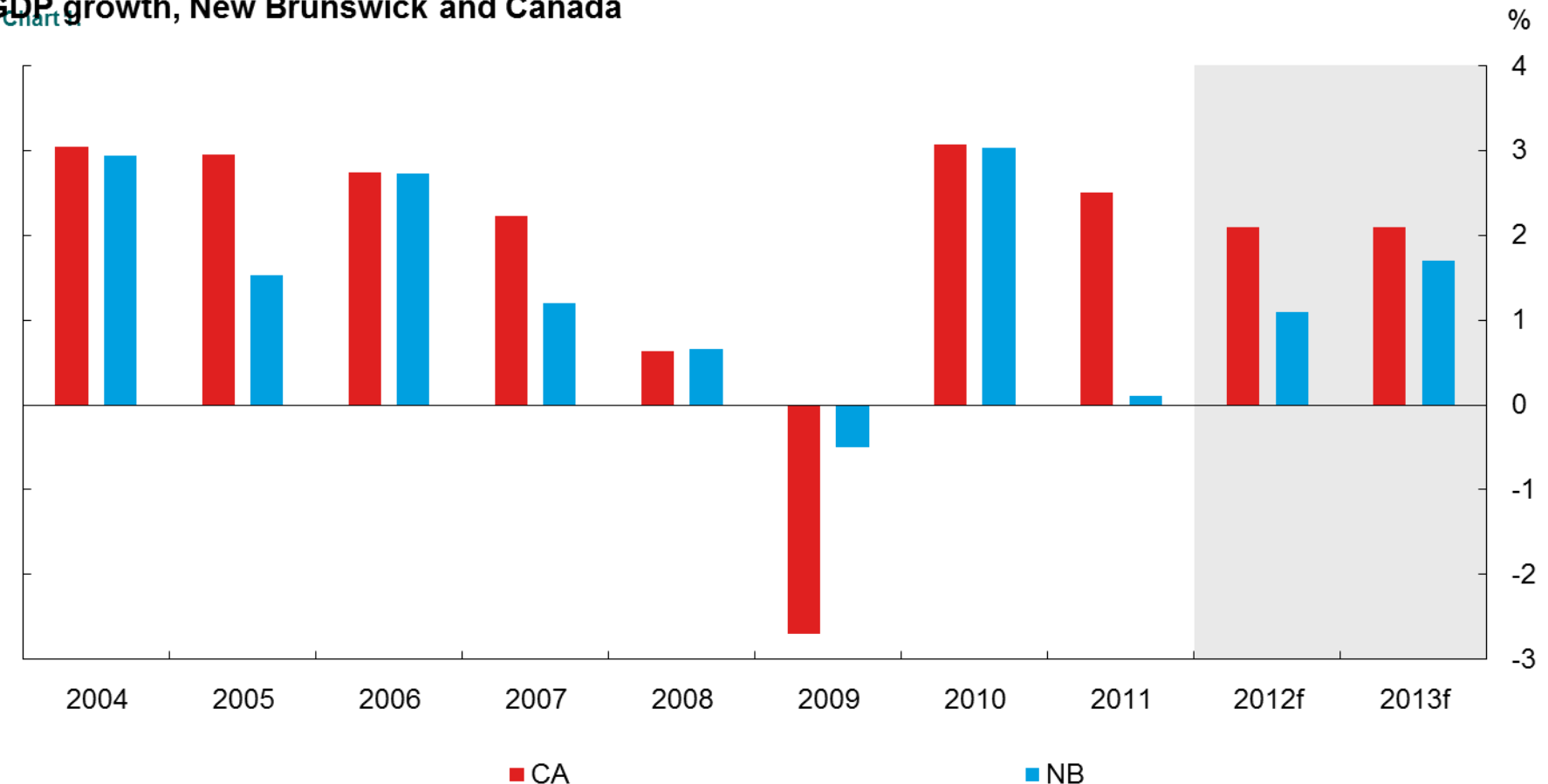


# New Brunswick: outlook and challenges



# GDP comparison—New Brunswick and Canada

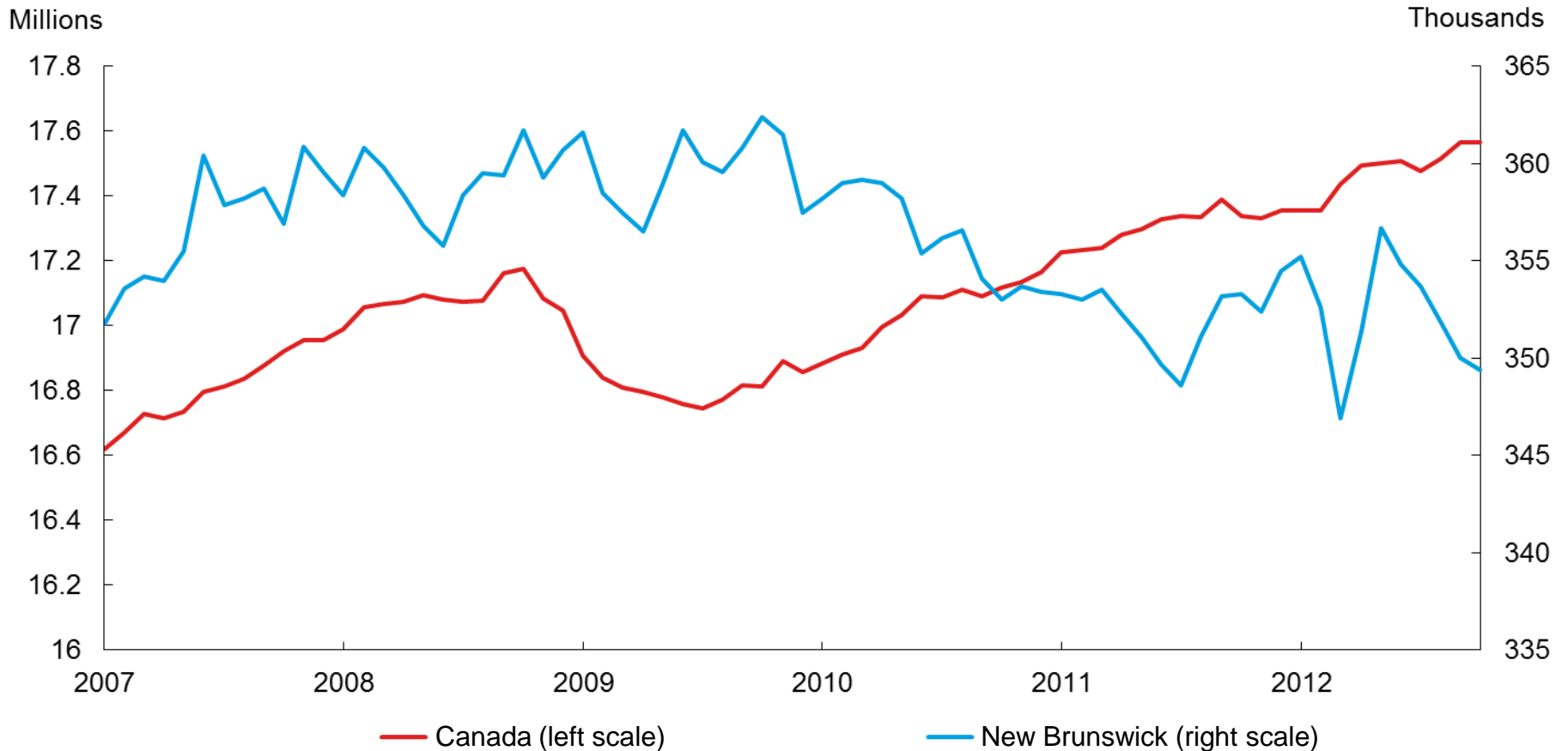
GDP growth, New Brunswick and Canada



Note: Shaded area indicates forecast  
Sources: Statistics Canada and private sector forecasters

# Employment: New Brunswick and Canada

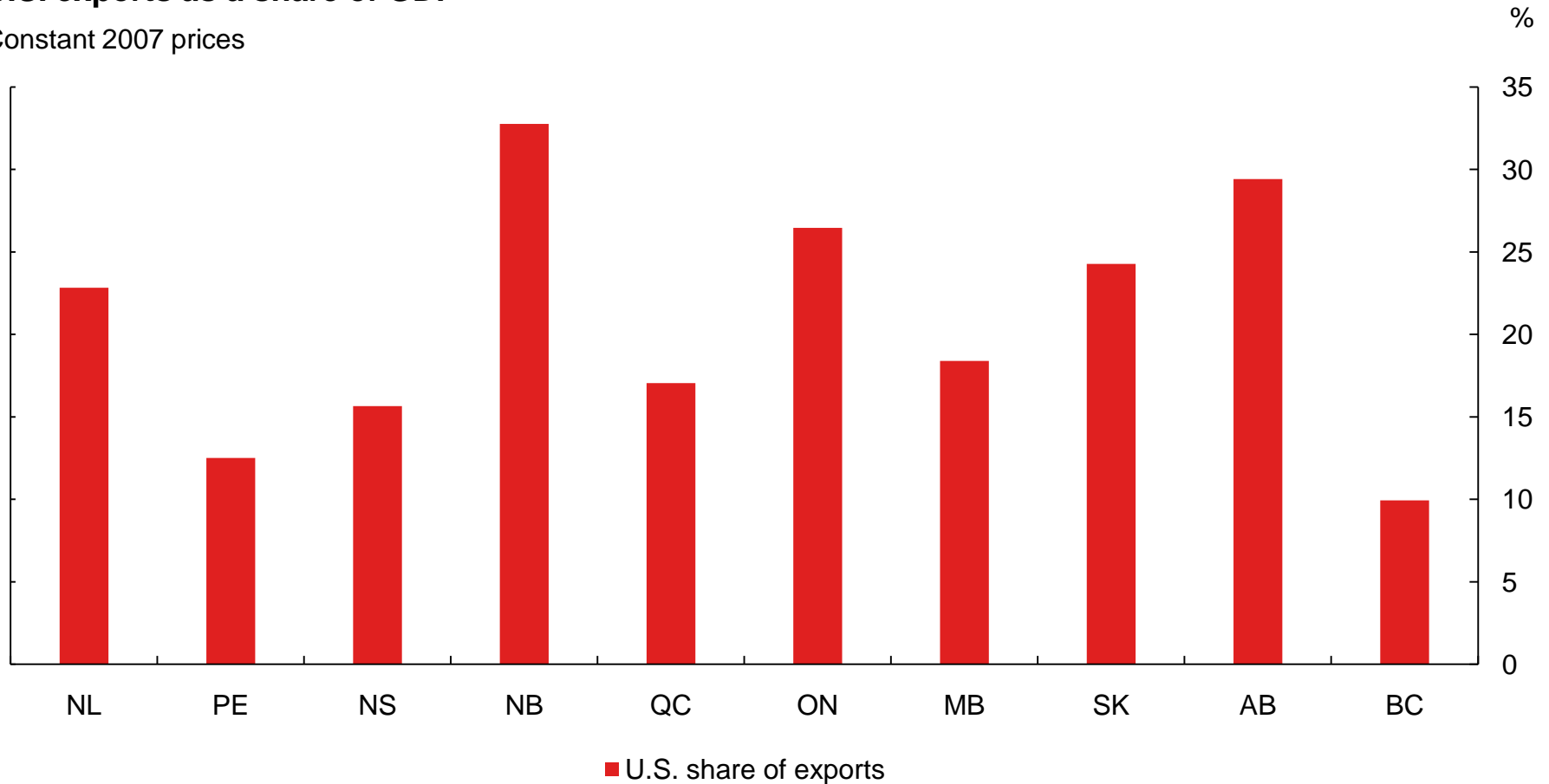
Chart 2:



# New Brunswick: largest exporter to United States

## U.S. exports as a share of GDP

Constant 2007 prices



# Bank of Canada mandate and responsibilities



# Mandate of the Bank

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The mandate of the Bank of Canada is to contribute to the economic well-being of Canadians by:

- Aiming to keep inflation low, stable and predictable
- Promoting a stable and efficient financial system
- Supplying secure, quality bank notes
- Providing banking services to the federal government and key financial system players

# Monetary policy

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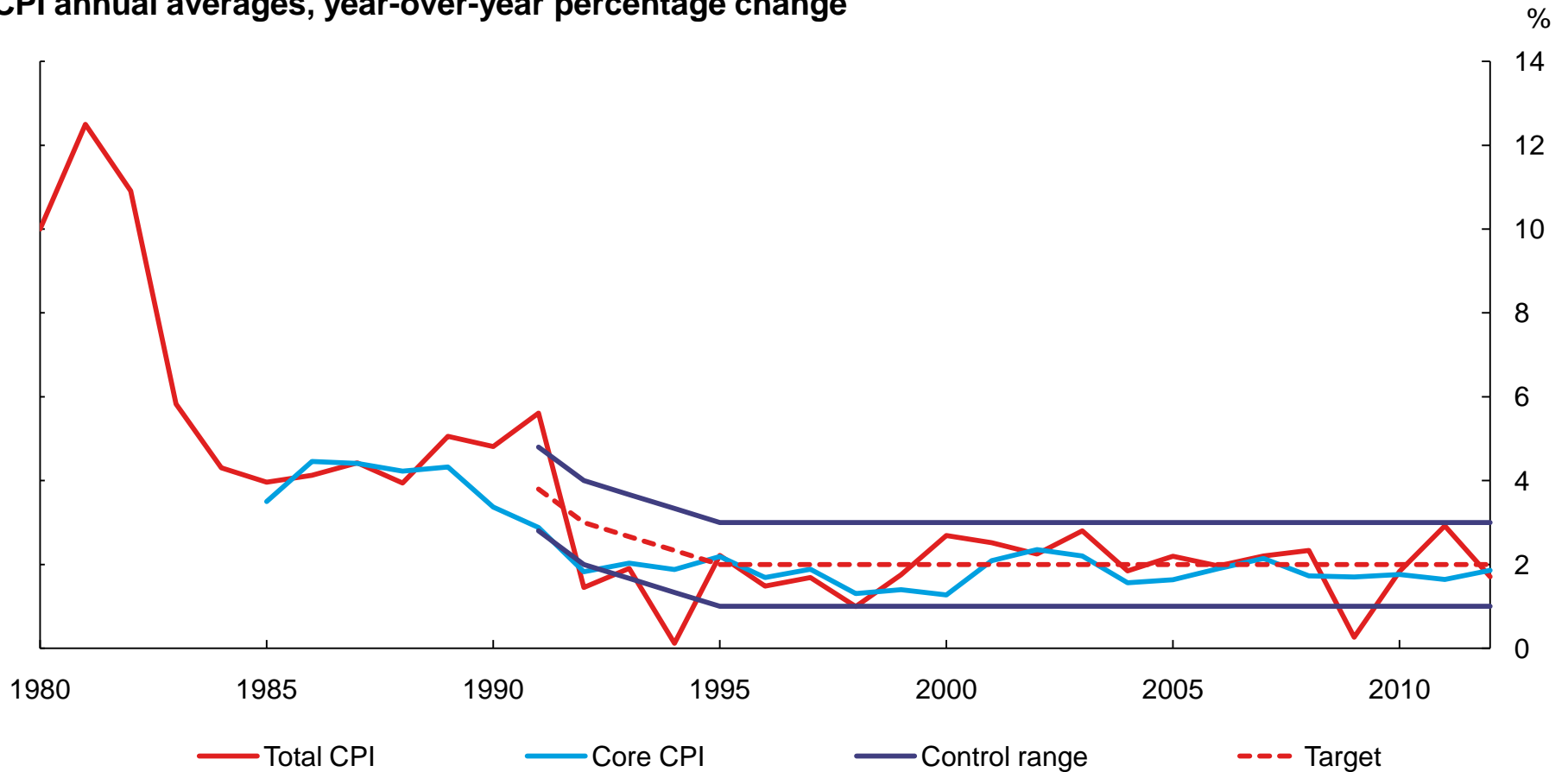
**Our objective:** Low, stable, predictable inflation. The target is 2%.

Benefits:

- Reduces uncertainty: Businesses and consumers can make decisions with greater confidence
- Smooths out business cycles: Stimulates very slow growth, dampens excessive growth

# Monetary policy: Low and stable inflation

CPI annual averages, year-over-year percentage change



Note: Data for 2012 are current to September.  
Source: Statistics Canada



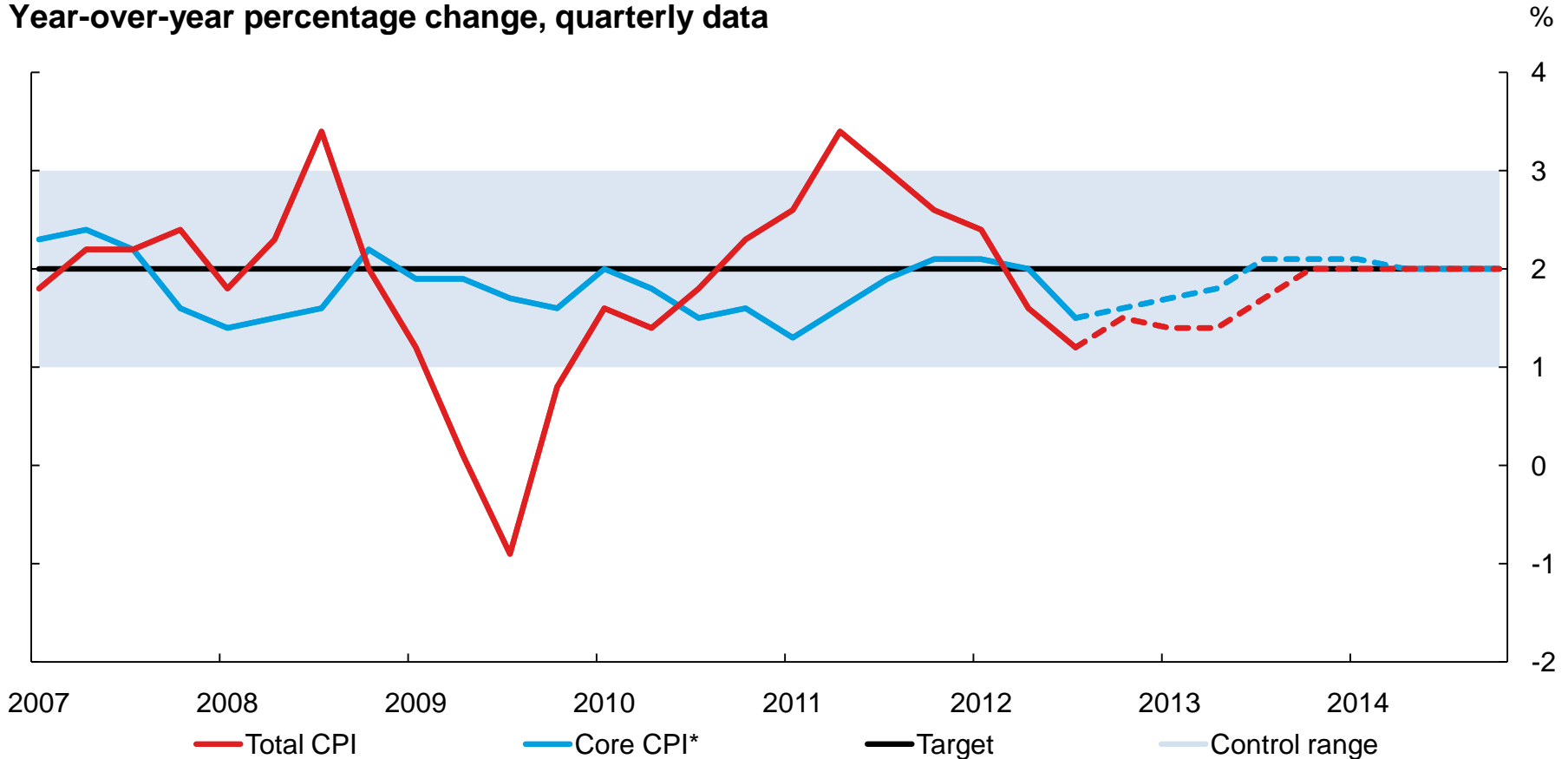
# Recent monetary policy decision

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- On 23 October, the Bank of Canada maintained its policy interest rate at 1 per cent
- Over time, some gradual withdrawal of monetary policy stimulus will likely be required, consistent with achieving the inflation-control target

# Total CPI inflation in Canada is projected to remain below 2 per cent until the end of 2013

Year-over-year percentage change, quarterly data



\*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

# Financial system

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**Goal:** Promote the stability and efficiency of the Canadian and global financial systems

Canada's financial system includes:

- Financial institutions, e.g. banks, credit unions, insurance companies
- Financial markets, including securities and foreign exchange markets
- Clearing and settlement systems

# Funds management

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**Objective:** Provide effective banking services to the federal government and other key financial system players

The Bank of Canada:

- Manages Canada's foreign exchange reserves, the federal government's cash balances and federal debt in collaboration with the Department of Finance
- Administers the Canada Savings Bond program
- Provides the means of final settlement of daily flows of payment among financial institutions

# Currency

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- Bank notes are one of the central bank's most tangible products.
- The Bank of Canada provides Canadians with bank notes that are readily accepted and secure from counterfeiting.
- Anti-counterfeiting goal: fewer than 50 counterfeits detected annually per million notes in circulation.

# New \$20 bank note: safer, cheaper, greener



# Questions?

