

# Two-Track Adjustment: The Outlook for the Canadian Economy

Remarks to the Tourism Industry Association of Nova Scotia and Cape Breton Partnership

Sydney, Nova Scotia

02 June 2016



# Overview

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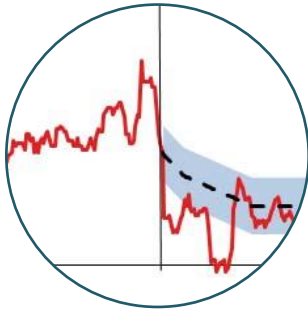
- What does the Bank of Canada do?
- What are the economic outlooks?
  - The major economies
  - Canada
  - Nova Scotia
- What are the implications for tourism?

# The Bank of Canada's mandate and responsibilities



# Mandate and responsibilities

The Bank's mandate: to promote Canada's economic and financial well-being



Monetary policy



Financial system



Funds management



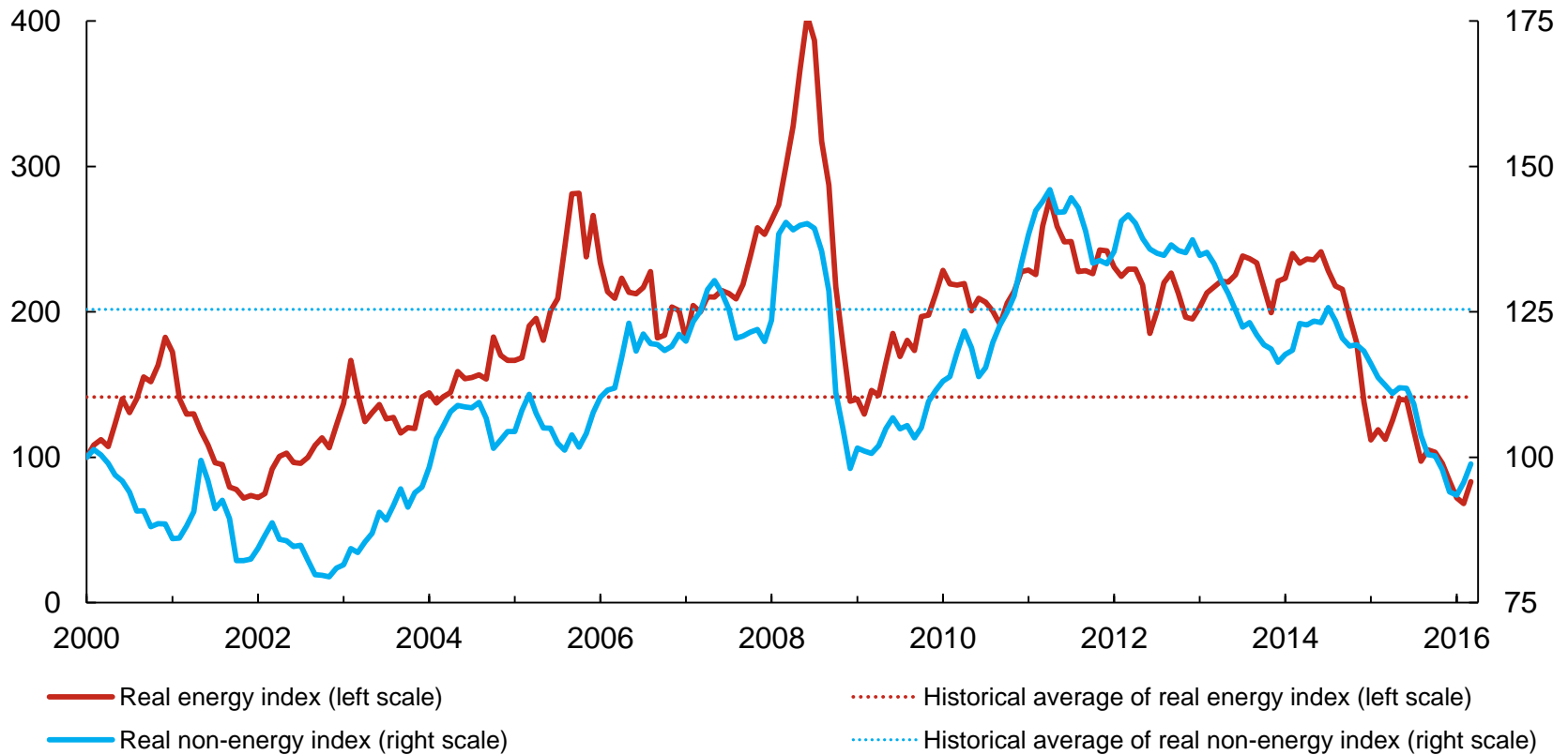
Currency

# Economic and financial system outlook



# Commodity prices remain well below historical averages

Index: January 2000 = 100, monthly data

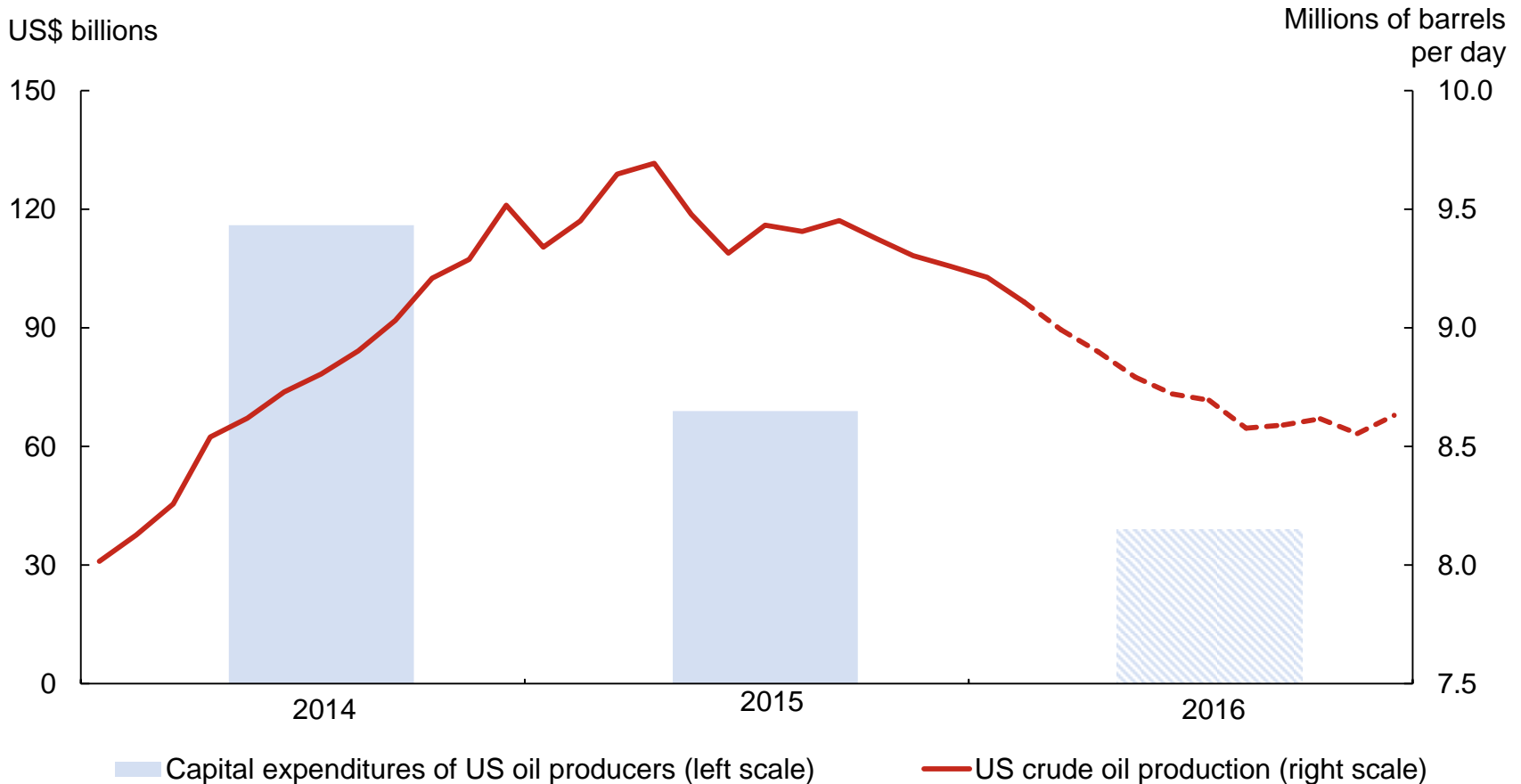


Notes: The nominal Bank of Canada commodity price subindexes have been deflated using the US GDP deflator. The historical averages represent the average monthly index values from 1972 to 2015.

Sources: US Bureau of Economic Analysis and Bank of Canada

Last observation: March 2016

## Declines in capital expenditures by US oil producers and in US crude oil production are expected to help rebalance the global oil market



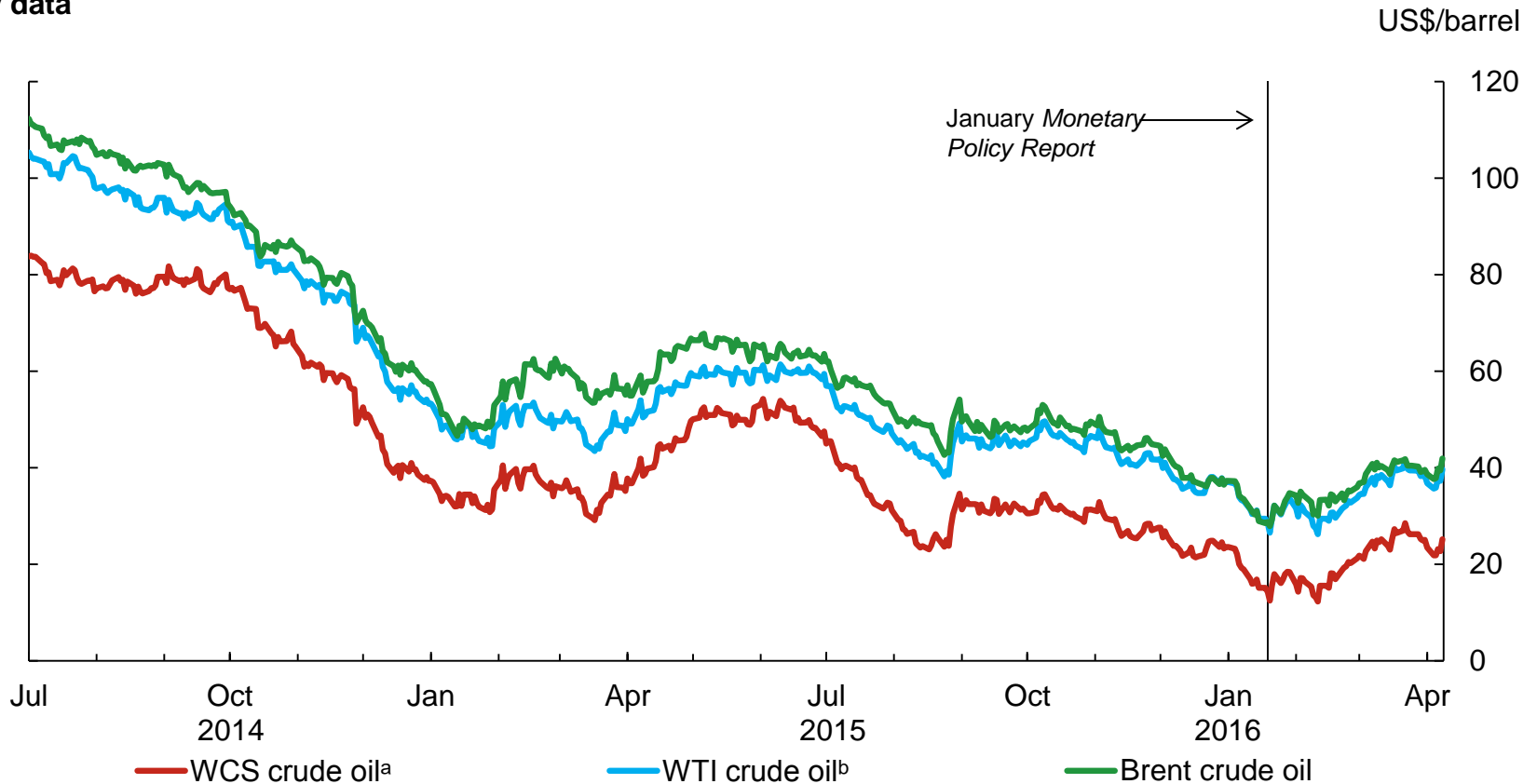
Note: US oil capital expenditures are aggregated based on a review of annual reports from 53 US independent oil producers.

Sources: International Energy Agency and Bank of Canada calculations

Last data plotted: Capital expenditures, 2016;  
oil production, December 2016

# Crude oil prices remain low

## Daily data



a. WCS refers to Western Canada Select.

b. WTI refers to West Texas Intermediate.



## US employment gains and consumer confidence are around post-recession highs

3-month moving average; index: 1985 = 100

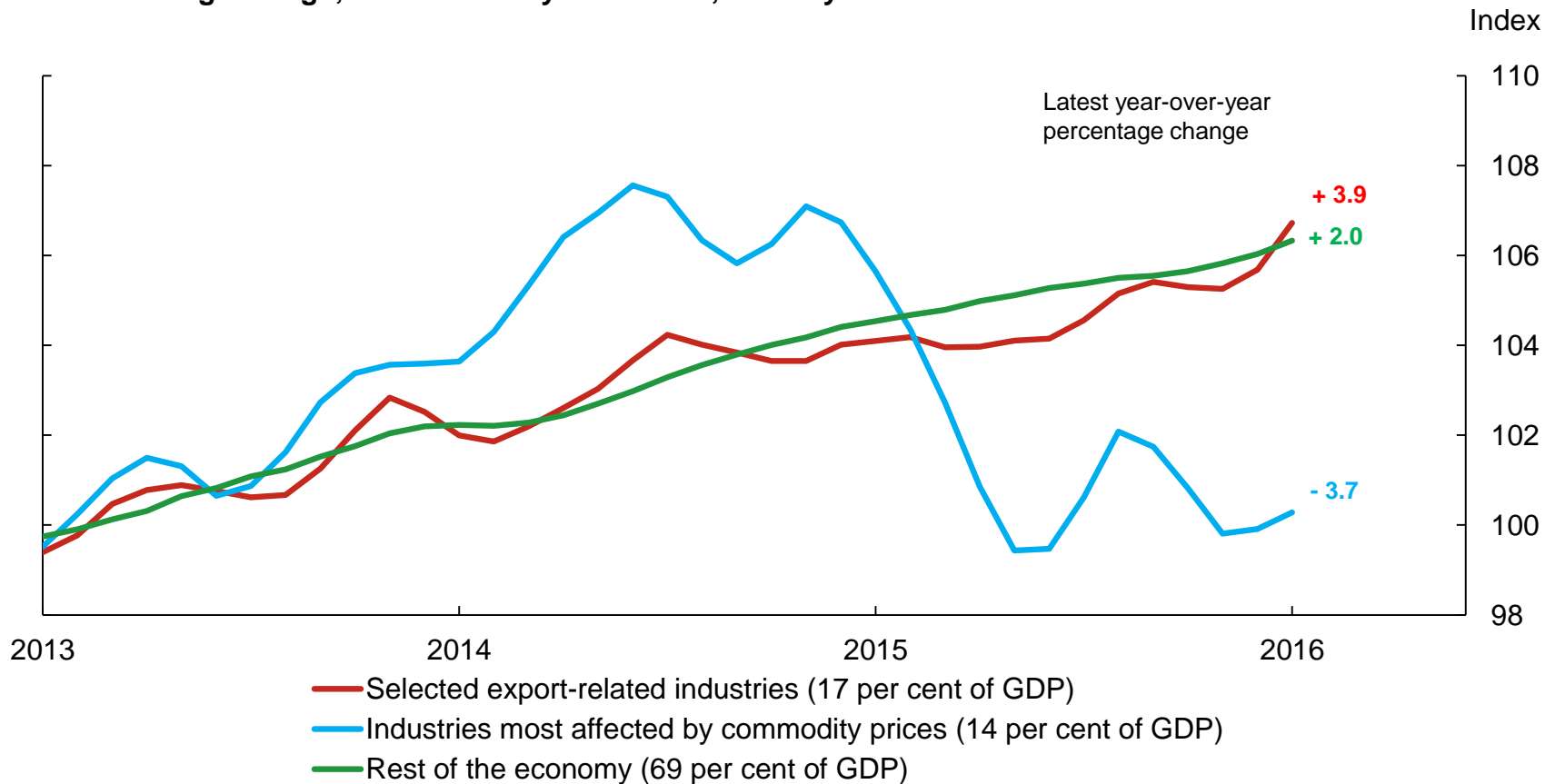


# Projection for global economic growth

	Share of real global GDP (per cent)	Projected growth (per cent)			
		2015	2016	2017	2018
United States	16	2.4	<b>2.0</b>	<b>2.1</b>	2.1
Euro area	12	1.5	1.4	1.6	1.7
Japan	4	0.5	<b>0.5</b>	0.7	0.8
China	17	6.9	6.5	6.4	6.3
Oil-importing EMEs	33	3.4	3.6	4.2	4.4
Rest of the world	18	1.5	<b>1.5</b>	<b>2.5</b>	3.1
World	100	3.1	<b>3.0</b>	<b>3.4</b>	3.6

## Export-related industries are picking up while industries most affected by commodity prices remain depressed

3-month moving average; index: January 2013 = 100, monthly data



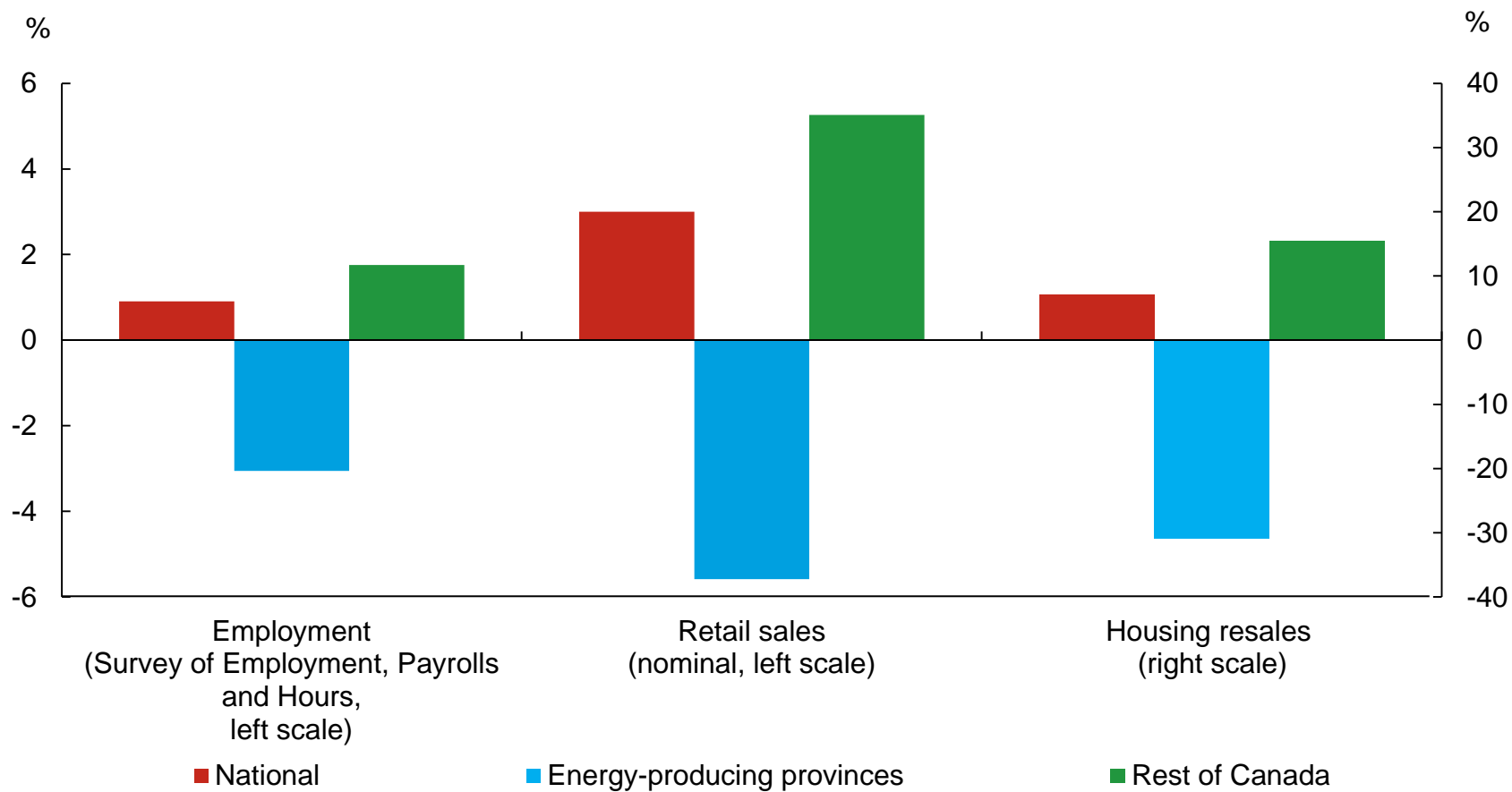
Note: Selected export-related industries includes manufacturing, agriculture, forestry, fishing and hunting, and transportation. Industries most affected by commodity prices includes mining, oil and gas, engineering and non-residential construction, and related professional services.

Sources: Statistics Canada and Bank of Canada calculations

Last observation: January 2016

# Various indicators illustrate divergence across Canada

Percentage change since November 2014, monthly data



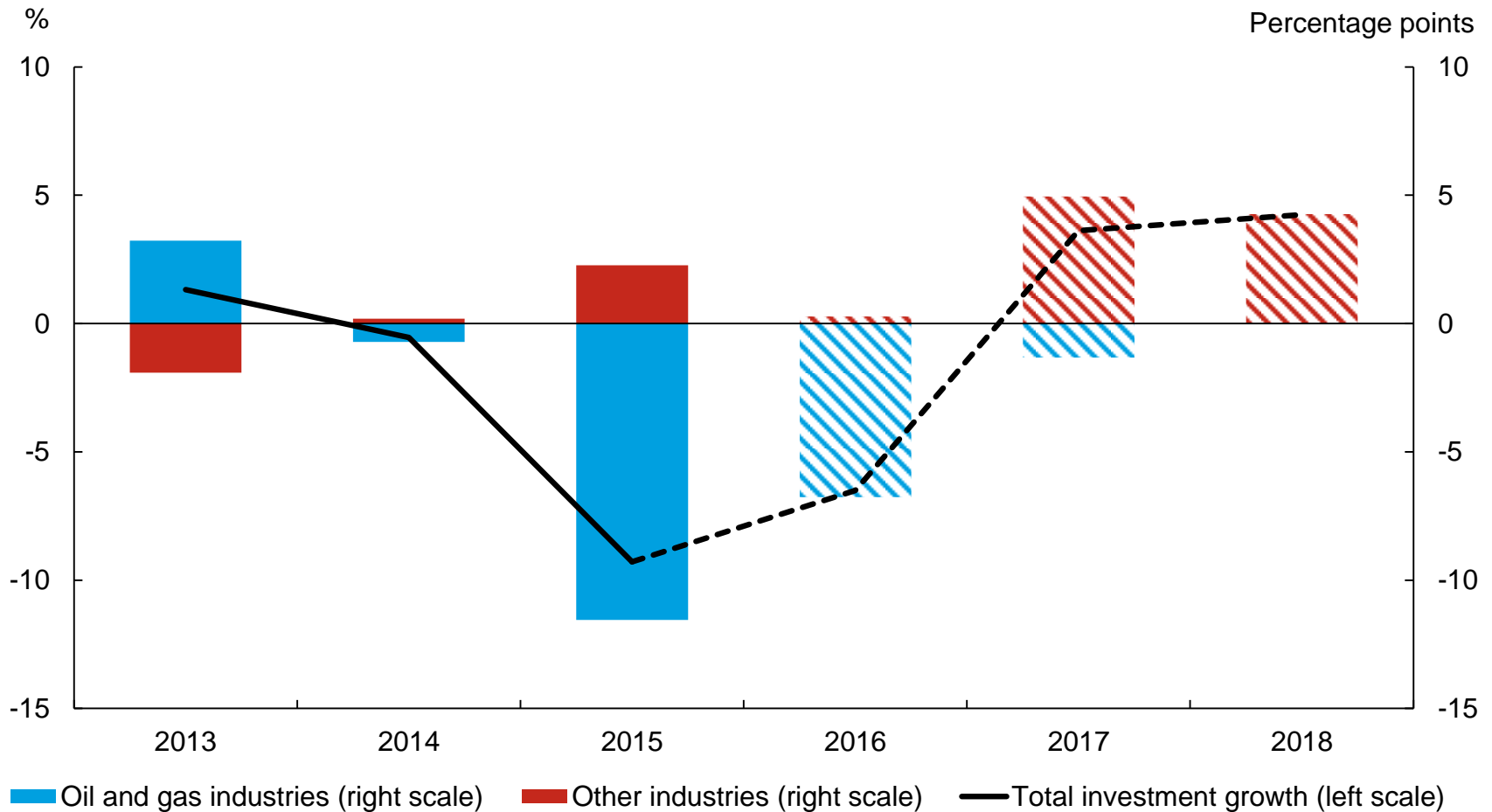
Note: The energy-producing provinces are Alberta, Saskatchewan, and Newfoundland and Labrador.

Sources: Statistics Canada and Bank of Canada calculations

Last observations: Employment and retail sales, January 2016; housing resales, February 2016

# Investment outside oil and gas industries is projected to pick up

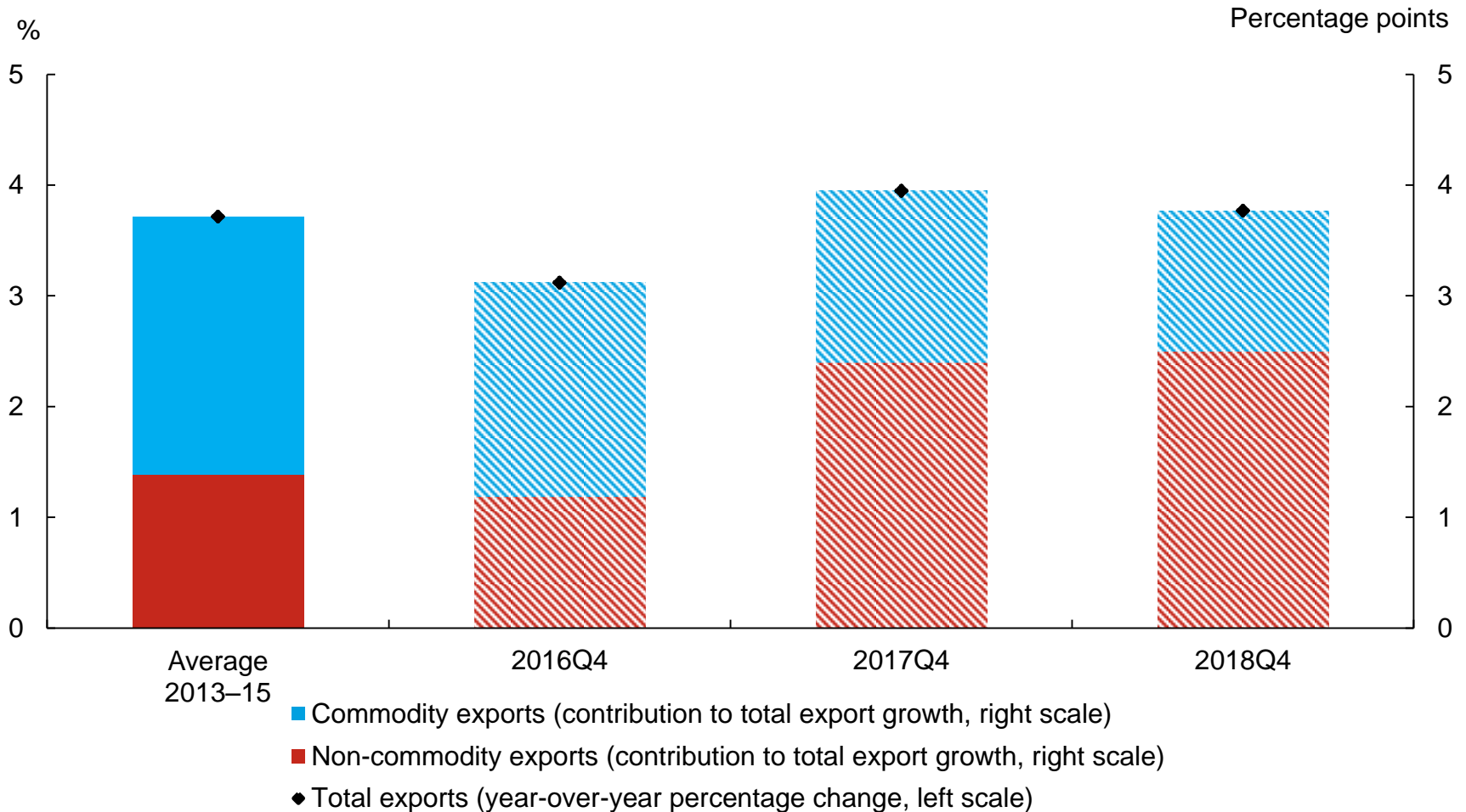
Contribution to total business investment growth, annual data



Sources: Statistics Canada and Bank of Canada estimates, calculations and projections

# Non-commodity exports are projected to become the main contributor to total export growth

## Q4/Q4 percentage change



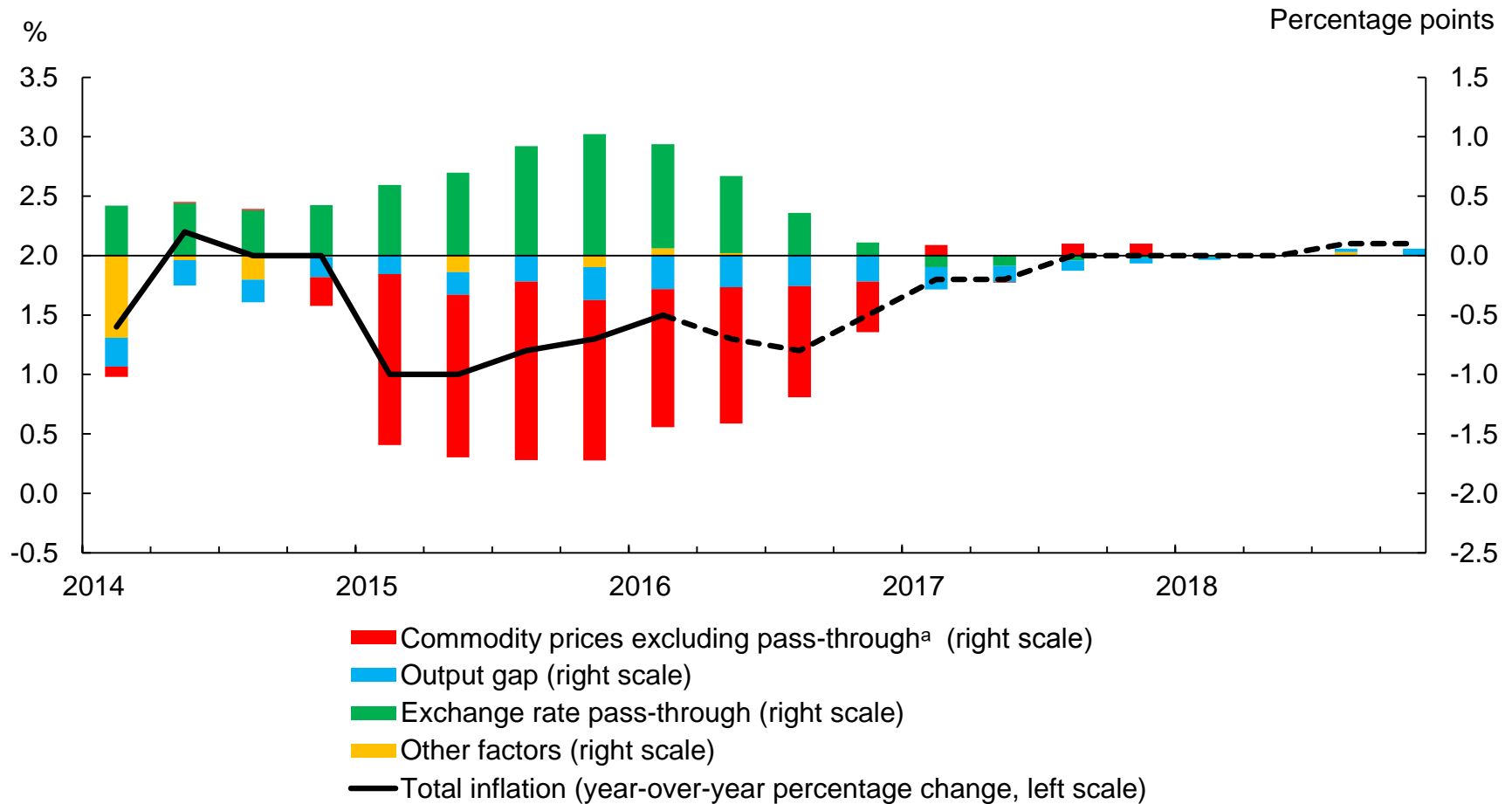
# Contributions to real GDP growth

Percentage points

	2015	2016	2017	2018
Consumption	1.1	1.0	1.2	1.0
Housing	0.3	0.2	0.1	0.0
Government	0.4	0.5	0.6	0.0
Business fixed investment	-1.2	-0.8	0.4	0.5
Exports	1.0	1.1	0.9	1.2
Imports	-0.1	0.2	-1.2	-0.8
GDP	1.2	1.7	2.3	2.0

# Total CPI inflation is expected to remain below 2 per cent through 2016

## Contribution to the deviation of inflation from 2 per cent



a. Also includes the effect on inflation of the divergence from the typical relationship between gasoline and crude oil prices and the introduction of the cap-and-trade plan in Ontario

Sources: Statistics Canada and Bank of Canada estimates, calculations and projections



# Risks to the outlook for inflation

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- **Upside risks**

1. Stronger real GDP growth in the United States
2. Stronger momentum for Canadian exports

- **Downside risks**

1. More cautious behaviour by Canadian consumers
2. More pronounced adjustment of Canadian economy to low commodity prices
3. Slower growth in emerging-market economies

- **Implications for monetary policy**

# Nova Scotia economic outlook



# Growth in Nova Scotia will be supported by project investments and exports

## Real GDP Growth

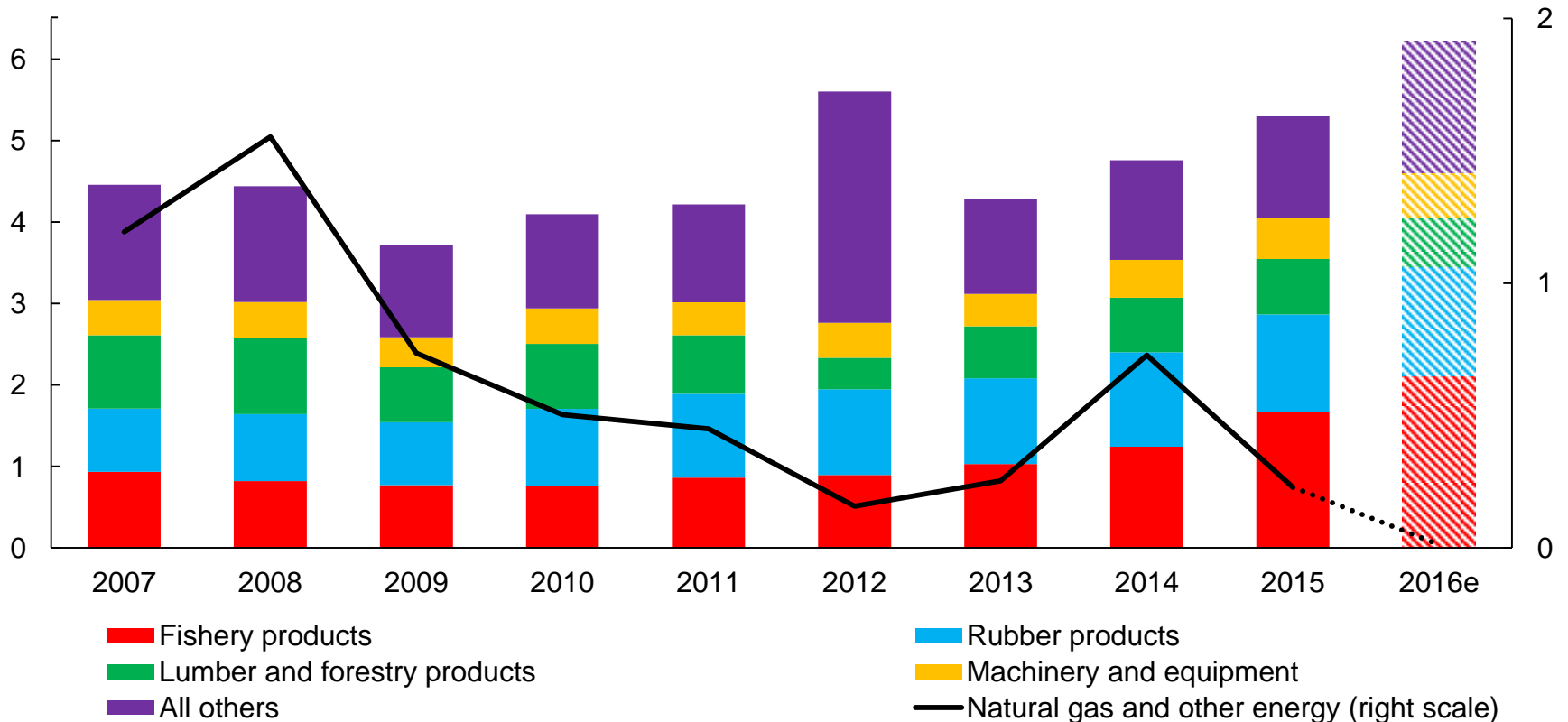


# Nova Scotia exports could top \$1.9 billion in 2016

## Exports by Product

\$ Billions in non-energy exports

\$ Billions in energy exports



Last observation: March 2016

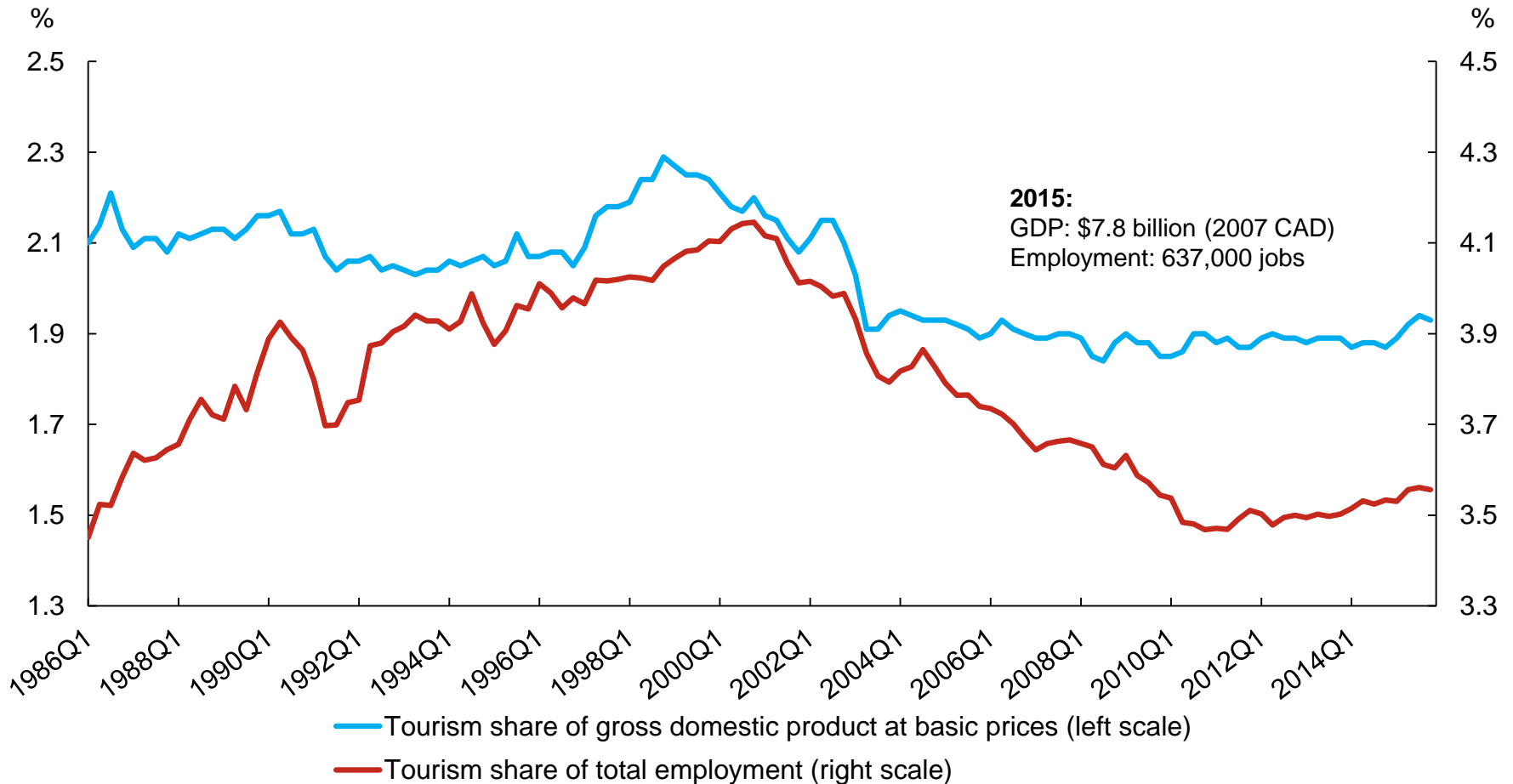
\*2016e is an estimate based on 2016Q1 data

# Tourism



# Although lower than its peak, Canada's tourism sector continues to play an important role

**Tourism share of GDP and total employment**

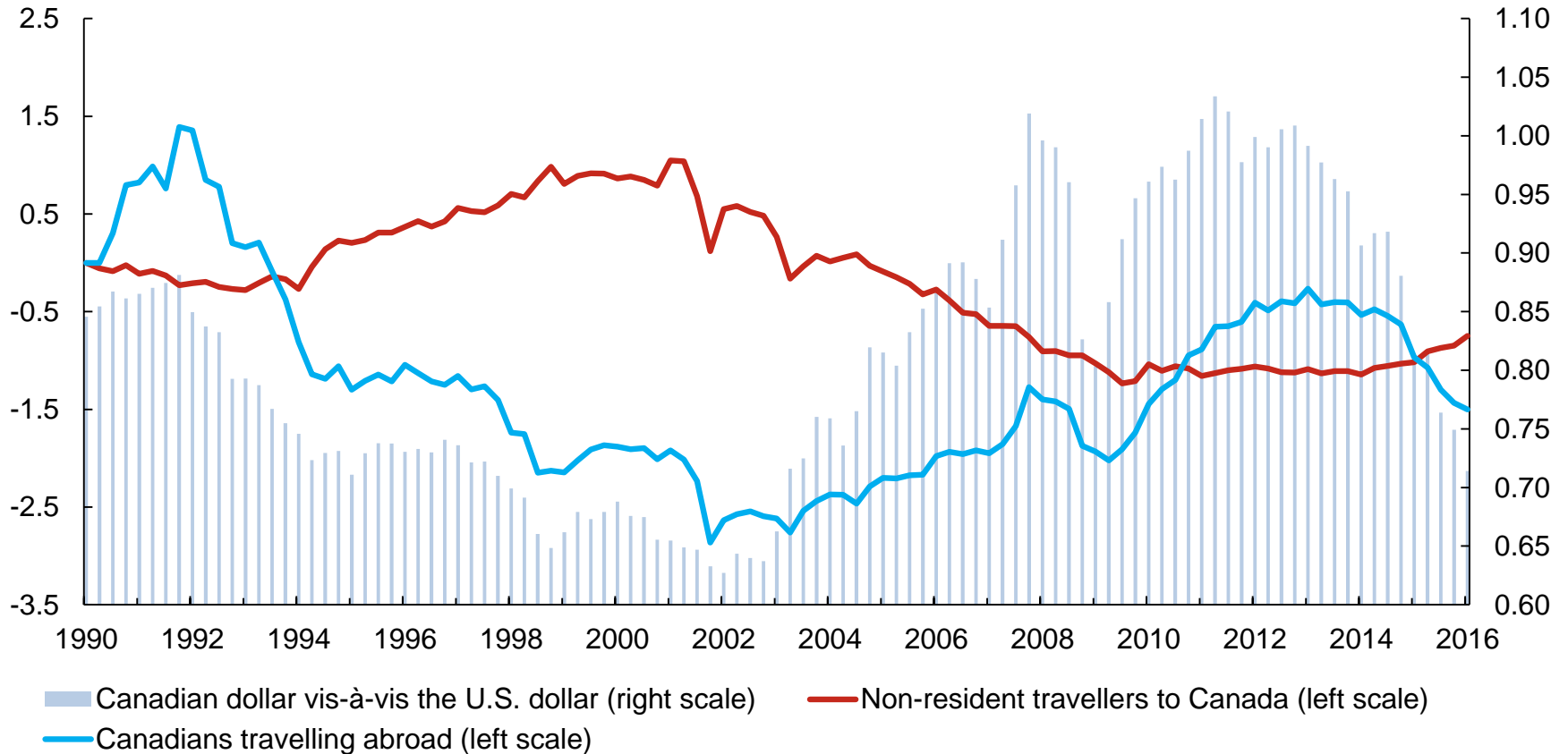


# Currency movements affect foreign travel into and out of Canada

## Changes in the number of travellers since 1990

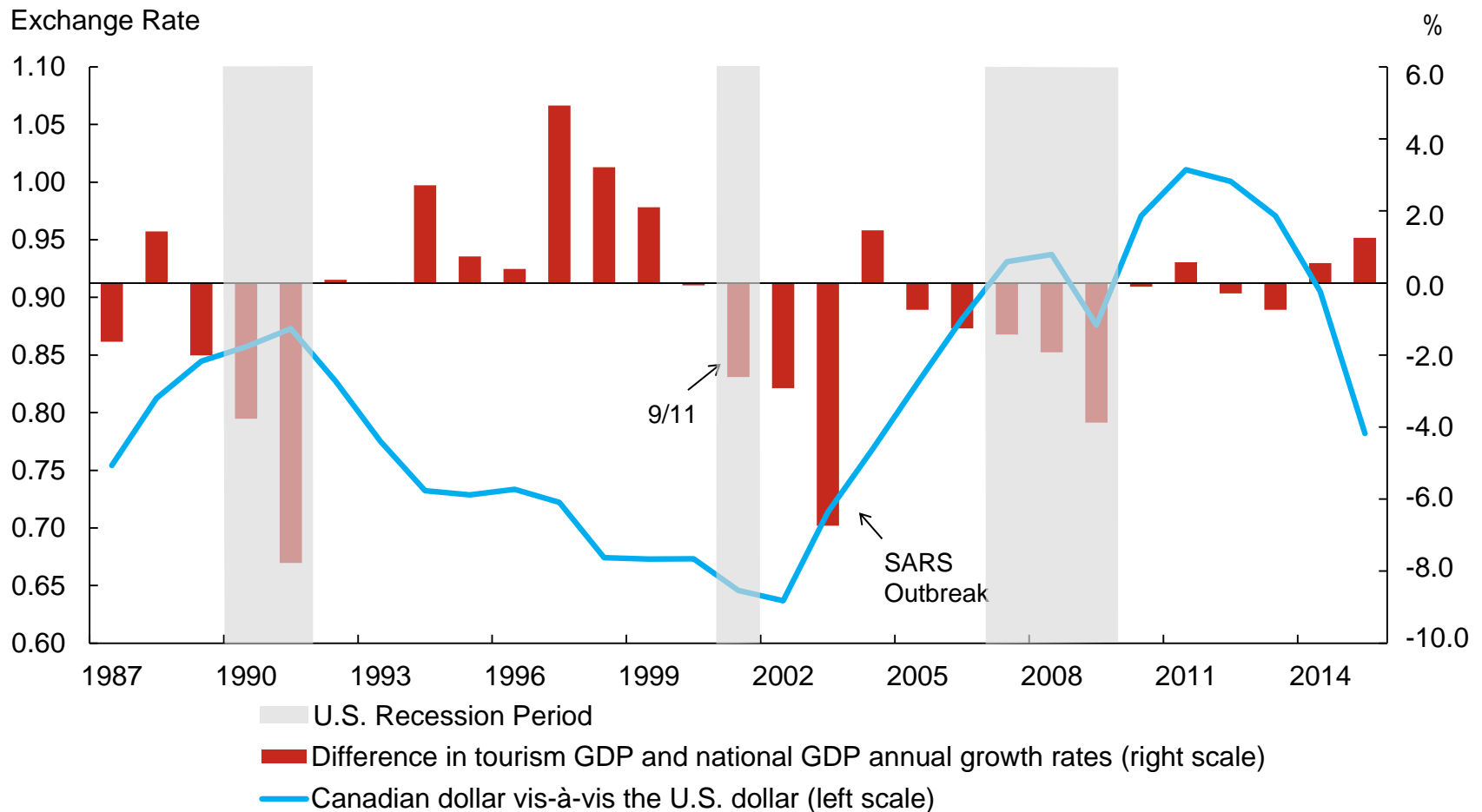
Indexed at 1990, quarterly data

Millions of travellers



# The U.S. economy and other major events also have a material impact on tourism

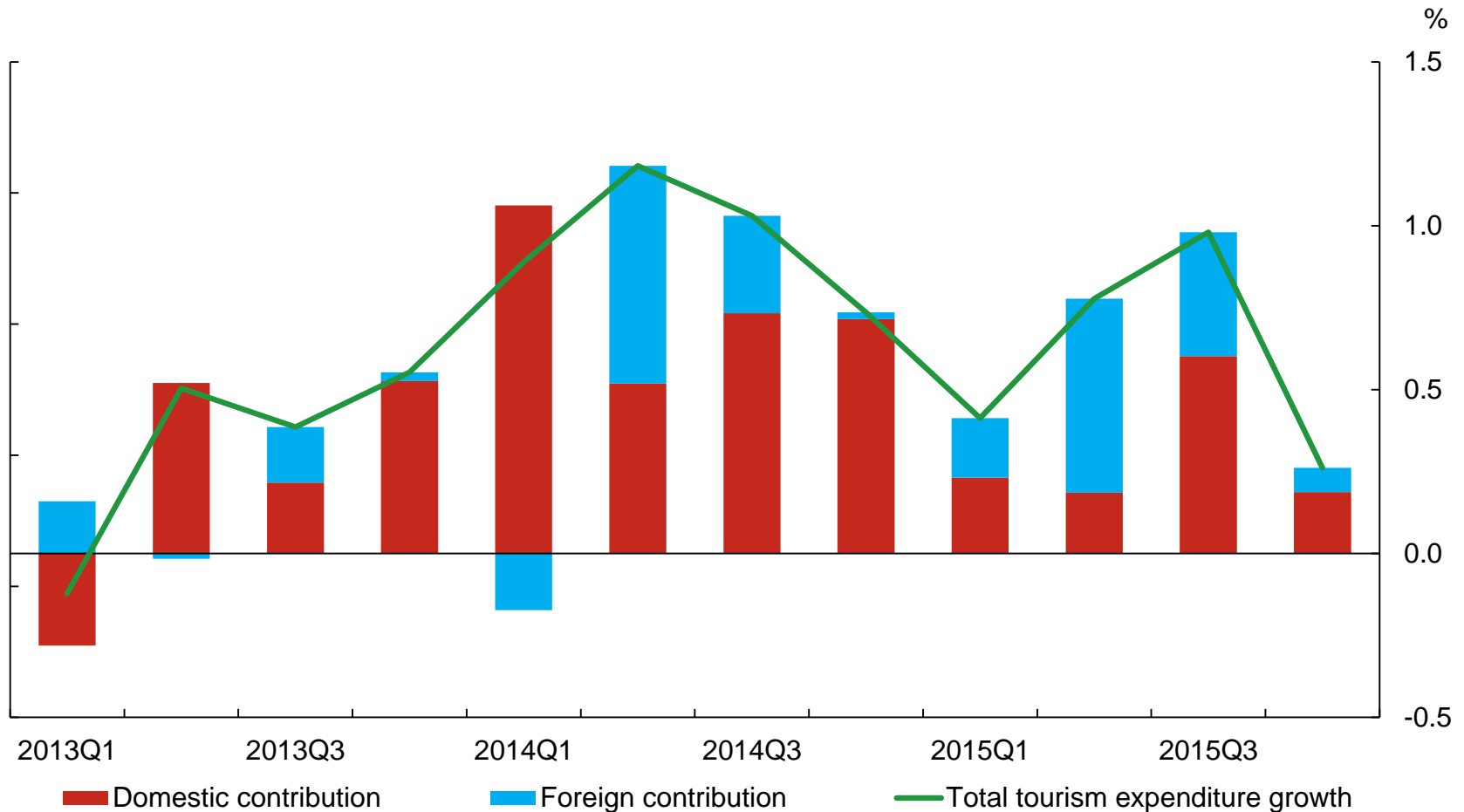
## Difference in tourism GDP and national GDP annual growth rates





# Recent strength in tourism expenditure growth is being increasingly driven by foreign demand

Foreign and domestic contributions to quarterly tourism expenditure growth



# Key Messages

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- Global and Canadian economies will gradually gain momentum
- Economic adjustment in Canada will be facilitated by depreciation of CDN dollar and stronger U.S.
- Demand for tourism services will increase