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

- 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

Sources: Haver Analytics and Bloomberg

a. WCS refers to Western Canada Select.
b. WTI refers to West Texas Intermediate.

Last observation: 8 April 2016
US employment gains and consumer confidence are around post-recession highs

3-month moving average; index: 1985 = 100


Last observation: March 2016
# Projection for global economic growth

<table>
<thead>
<tr>
<th></th>
<th>Share of real global GDP (per cent)</th>
<th>Projected growth (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>United States</td>
<td>16</td>
<td>2.4</td>
</tr>
<tr>
<td>Euro area</td>
<td>12</td>
<td>1.5</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
<td>0.5</td>
</tr>
<tr>
<td>China</td>
<td>17</td>
<td>6.9</td>
</tr>
<tr>
<td>Oil-importing EMEs</td>
<td>33</td>
<td>3.4</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>18</td>
<td>1.5</td>
</tr>
<tr>
<td>World</td>
<td>100</td>
<td>3.1</td>
</tr>
</tbody>
</table>
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

- Selected export-related industries (17 per cent of GDP)
- Industries most affected by commodity prices (14 per cent of GDP)
- Rest of the economy (69 per cent of GDP)

Latest year-over-year percentage change:
- + 3.9
- + 2.0
- - 3.7

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

Employment (Survey of Employment, Payrolls and Hours, left scale)
Retail sales (nominal, left scale)
Housing resales (right scale)

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

Percentage points

Commodity exports (contribution to total export growth, right scale)
Non-commodity exports (contribution to total export growth, right scale)
Total exports (year-over-year percentage change, left scale)

Sources: Statistics Canada and Bank of Canada calculations and projections
## Contributions to real GDP growth

Percentage points

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>1.1</td>
<td>1.0</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Housing</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Government</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Business fixed investment</td>
<td>-1.2</td>
<td>-0.8</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Exports</td>
<td>1.0</td>
<td>1.1</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Imports</td>
<td>-0.1</td>
<td>0.2</td>
<td>-1.2</td>
<td>-0.8</td>
</tr>
<tr>
<td>GDP</td>
<td>1.2</td>
<td>1.7</td>
<td>2.3</td>
<td>2.0</td>
</tr>
</tbody>
</table>
Total CPI inflation is expected to remain below 2 per cent through 2016

Contribution to the deviation of inflation from 2 per cent

- Commodity prices excluding pass-through\(^a\) (right scale)
- Output gap (right scale)
- Exchange rate pass-through (right scale)
- Other factors (right scale)
- Total inflation (year-over-year percentage change, left scale)

\(^a\) 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

- **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

Source: Statistics Canada and Private Sector Forecasts (Conference Board of Canada, Bank of Nova Scotia, TD, CIBC, BMO, RBC, and Desjardins)
Nova Scotia exports could top $1.9 billion in 2016

Exports by Product

$ Billions in non-energy exports

$ Billions in energy exports

- Fishery products
- Rubber products
- Lumber and forestry products
- Machinery and equipment
- All others
- Natural gas and other energy (right scale)

Last observation: March 2016

*2016e is an estimate based on 2016Q1 data

Source: Industry Canada Trade Data Online
Tourism
Although lower than its peak, Canada’s tourism sector continues to play an important role.
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

Sources: Statistics Canada and Bank of Canada calculations

Last observation: 2016Q1
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**

- **Exchange Rate**
  - 1987 - 1.10
  - 1990 - 1.05
  - 1993 - 1.00
  - 1996 - 0.95
  - 1999 - 0.90
  - 2002 - 0.85
  - 2005 - 0.80
  - 2008 - 0.75
  - 2011 - 0.70
  - 2014 - 0.65

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  - 2005 - 0.80
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  - 2011 - 0.70
  - 2014 - 0.65

- **U.S. Recession Period**
- **Difference in tourism GDP and national GDP annual growth rates (right scale)**
- **Canadian dollar vis-à-vis the U.S. dollar (left scale)**

Sources: Statistics Canada, NBER and Bank of Canada calculations

Last observation: 2015
Recent strength in tourism expenditure growth is being increasingly driven by foreign demand.

Foreign and domestic contributions to quarterly tourism expenditure growth

Sources: Statistics Canada and Bank of Canada calculations
Key Messages

- 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