GLOBALIZATION AT THE BRINK?

Global Export Forecast
Spring 2017 - Global Economic Outlook

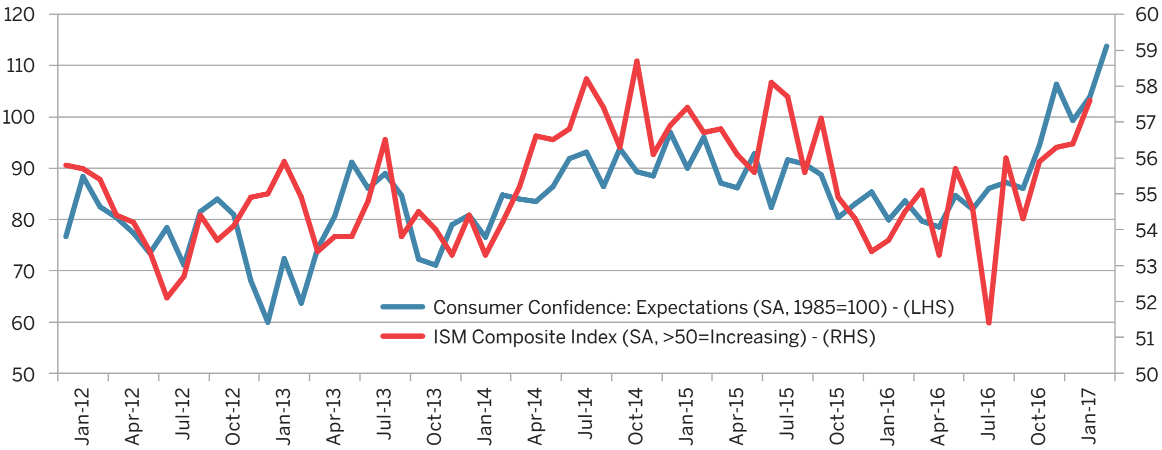
Canada

EDC
Realize a World of Opportunity

U.S. GDP

U.S. economic growth is expected to firm up this year and next, driven by positive prospects for domestic demand fundamentals. The U.S. consumer will be supported by robust labour market performance led by faster real wage growth. The recovery in business investment will be further solidified amid capacity constraints and recovering energy prices. International trade is also in recovery mode, but net trade will be a drag on the economy as growth in imports will exceed that of exports due to the strong U.S. dollar. The surge in private sentiment is mainly predicated on expectations of major fiscal policy and regulatory changes. The extent and timing of policy implementation constitute key risks to the outlook.

U.S. Consumers and Businesses Ready to Shift to Higher Gear

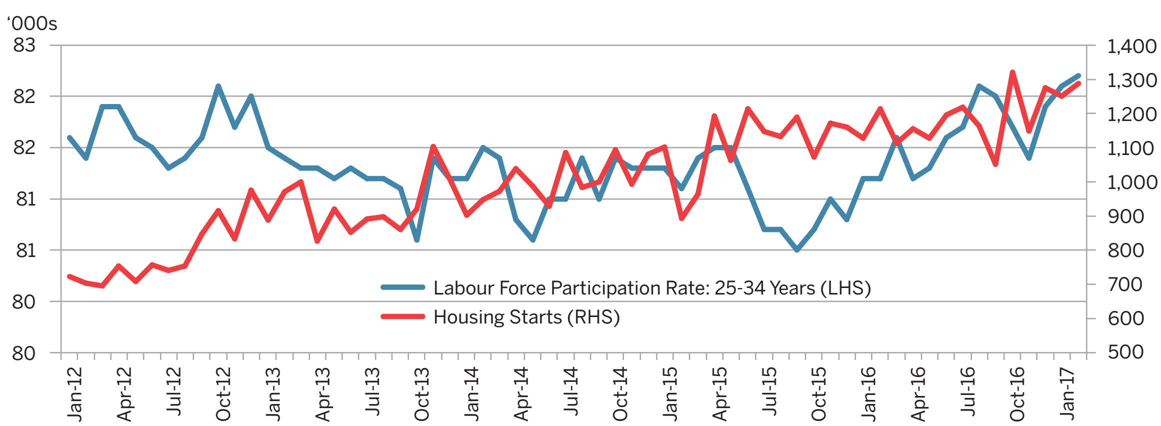


Sources: Conference Board, Institute for Supply Management, Haver Analytics

U.S. Housing Starts

U.S. housing starts are set to continue their recovery toward levels more consistent with demographic fundamentals. The new home market is among the few segments of the economy exhibiting significant pent-up demand, having remained below the long-run rate of household formation over most of the past decade. Mortgage rates have risen from record lows but remain at historically affordable levels amid an environment of robust labour market performance and expectations of rising wages. As economic and labour market performance trends towards robust growth, young adults are predicted to form new households at an increasing rate, feeding demand for new home construction in the years ahead offering upside risk to the forecast.

A Growing Economy Encourages New Household Formation, Driving New Home Construction

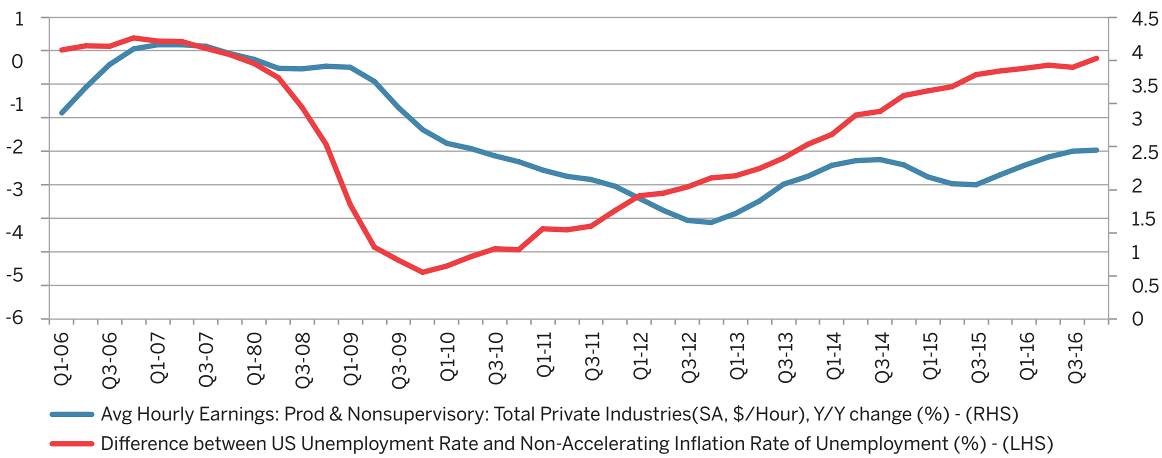


Sources: U.S. Census Bureau, Haver Analytics

U.S. Federal Reserve Interest Rate

Following a protracted period of accommodative monetary policy, the U.S. Federal Reserve has increased its Fed Funds rate for the first time since the global financial crisis. More rate hikes will come this year and next. The macroeconomic backdrop exhibits broadly favourable conditions for tighter monetary policy. The Fed's twin objectives of maximum employment and stable two per cent inflation are within reach. A number of recent disinflationary headwinds – particularly the plunge in commodity prices and the sharp currency appreciation – have mostly dissipated. Additionally, the outlook for developed and key emerging economies have brightened in a relatively synchronized fashion despite continued bouts of political and policy uncertainty. There is risk of the Fed being behind the curve in 2017.

U.S. Fed Funds Rate Pressured Up by Labour Market & Wage Inflation

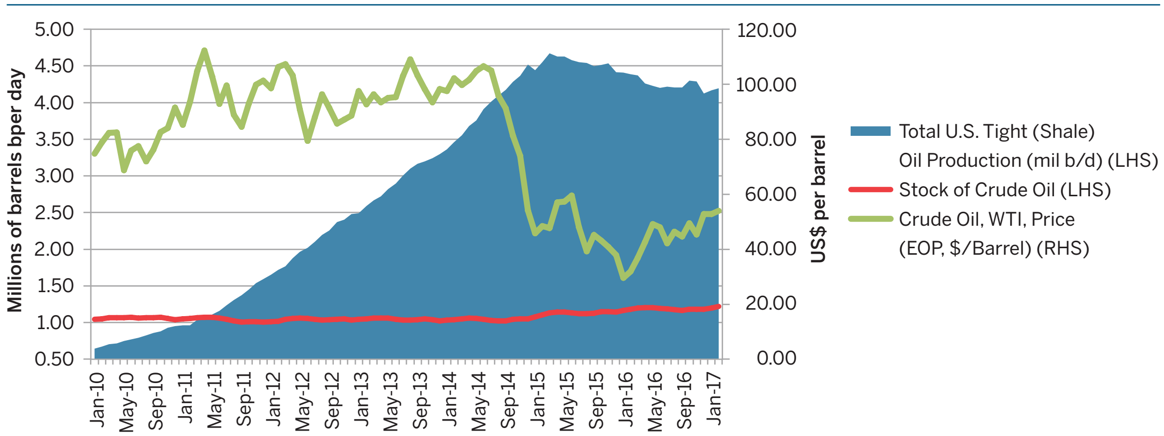


Sources: U.S. Bureau of Labour Statistics, Federal Reserve Board, Haver Analytics

Oil (WTI) Price Drivers

EDC Economics expects the price of WTI crude to average US$54/bbl in 2017 before increasing modestly to US$57/bbl in 2018. The compact between OPEC and non-OPEC producers at the end of 2016 to slightly curtail production has provided some support to global oil prices. That said, a global supply surplus persists and the market is not expected to return to balance until the second half of 2018, according to the International Energy Agency. With expansive shale oil reserves and innovation continuing to reduce the cost of production, the EIA is now forecasting that the United States will become a net energy exporter by 2026 and continue to act as a significant restraint on oil price growth. As fiscal pressures continue for OPEC countries and other key producers (ex. Russia) cooperation on tightening supply is a key signpost to trigger a more bullish outlook for crude.

U.S. Shale Oil Production Restrains Oil Prices

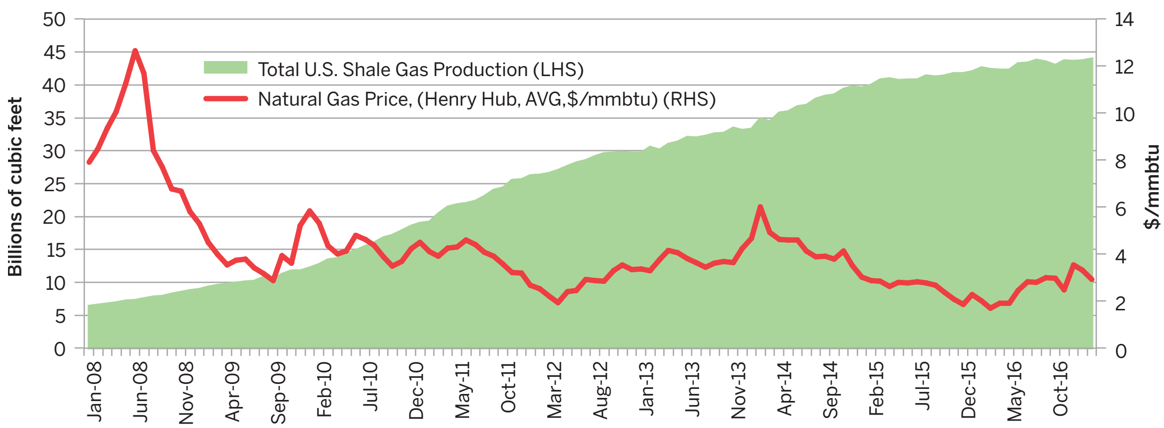


Sources: EIA, Haver Analytics, EDC Economics

Natural Gas (Henry Hub)

EDC Economics forecasts that the price of natural gas will average US$2.81/mmbtu in 2017 and US$3.06/mmbtu in 2018. While oversupply continues to afflict the North American natural gas market, a return to more normal winter weather patterns is expected to result in greater natural gas consumption by U.S. users. Industrial demand is also expected to grow in the short term as the extended period of low natural gas prices has led to the upgrading of U.S. ammonia plants and plan for the construction of new nitrogen projects. Technology gains related to fracking and horizontal drilling have resulted in a near-doubling of U.S. natural gas production since 2005 and turned the U.S. into a net exporter of natural gas. However, price growth will be constrained by the significant amount of natural gas that remains in storage.

Improvements in Efficiency Keep Natural Gas Production High, Prices Stable

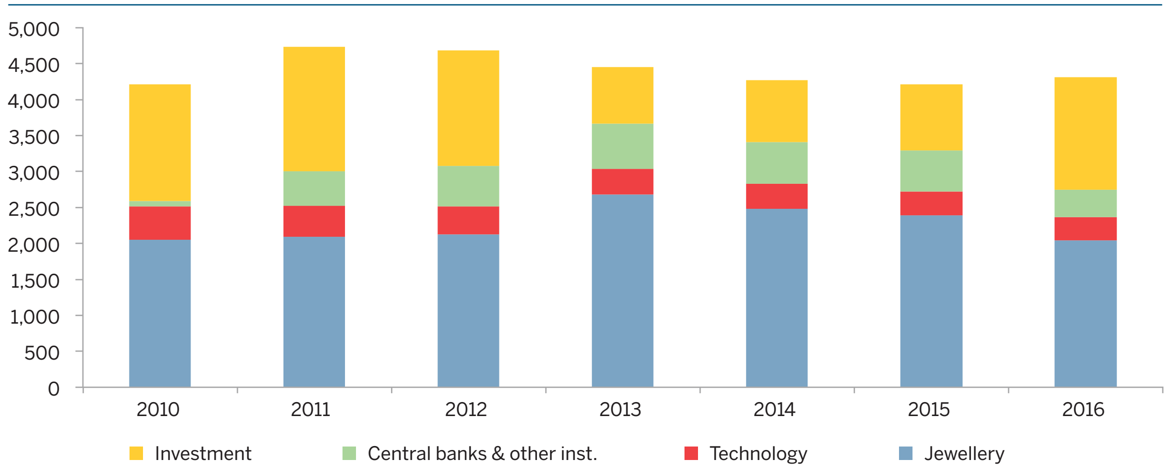


Sources: EIA, Haver Analytics, EDC Economics

Gold

EDC Economics is forecasting an average of US$1,245/ oz in 2017 before a slight moderation to US$1,210/ oz in 2018. Investment is likely to continue being the source of gold demand as traditional sources such as jewellery, technology, and central banks remain soft due to falling demand from key consumers India and China (about 50 per cent of global demand). Geopolitical concerns and slow-coming tightening from the Fed have served as key motives for investors' flurry into the precious metal. While more aggressive Fed tightening is expected to dampen prices slightly, continued geopolitical risk balances the forecast upwards. The unfolding of global events such as key European elections, uncertainty about U.S. industrial policies, and banking strains in Europe are upside risks to our forecast.

Demand for Gold (Tonnes): Investment a Key Driver

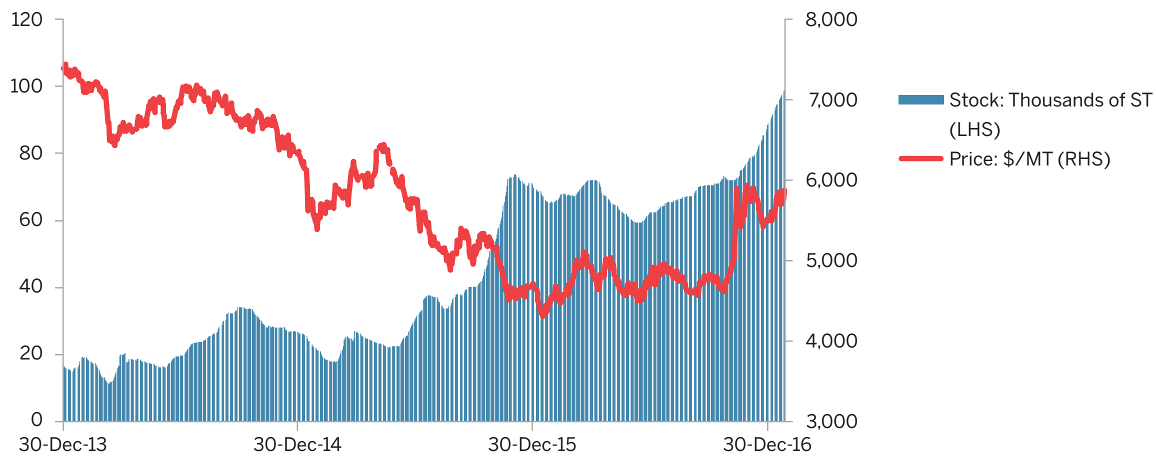


Source: World Gold Council

Copper

EDC Economics expects the price of copper to average US$5,677/MT in 2017 and US$5,895/MT in 2018. About 10 per cent of the world's copper production has recently been disrupted due to strikes in Chile and Indonesia, fuelling a significant run-up in prices, but these effects should be short-lived. Weaker global growth and industrial investment in China (about 50 per cent of demand) are expected to balance prices. Although stocks continue to stand above levels associated with balanced markets (65 days of consumption), new projects are slated to diminish towards the latter half of 2018. Global copper conditions are expected to come into balance around the end of our forecast, but tightening has already begun.

Supply and Demand are Coming into Balance

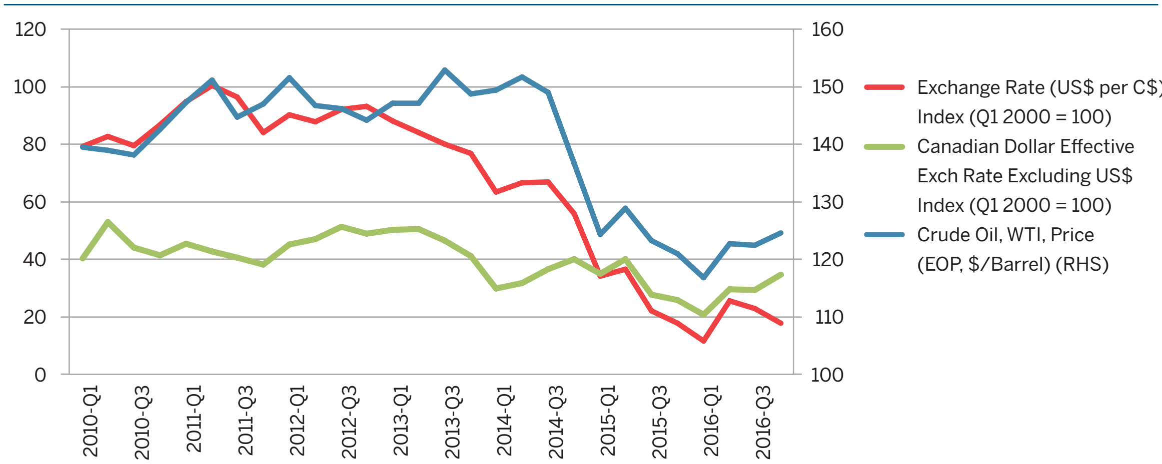


Sources : LME and COMEX

CAD/USD Exchange Rate

EDC Economics expects the Canadian Dollar (CAD) to average US$0.76 in 2017 and US$0.78 in 2018. Support for the CAD comes from a modest lift in the price of oil and improved performance in Canadian exports and domestic economic growth in 2017. However, the Loonie is likely to suffer in 2017 as the U.S. Federal Reserve accelerates its tightening cycle while the Bank of Canada is expected to remain on hold. An additional downside risk for the CAD is that political volatility due to European election results could increase flows of foreign capital into U.S. assets as investors seek safe assets.

While it's Lost Ground Against the Greenback, the Loonie Remains Strong Globally

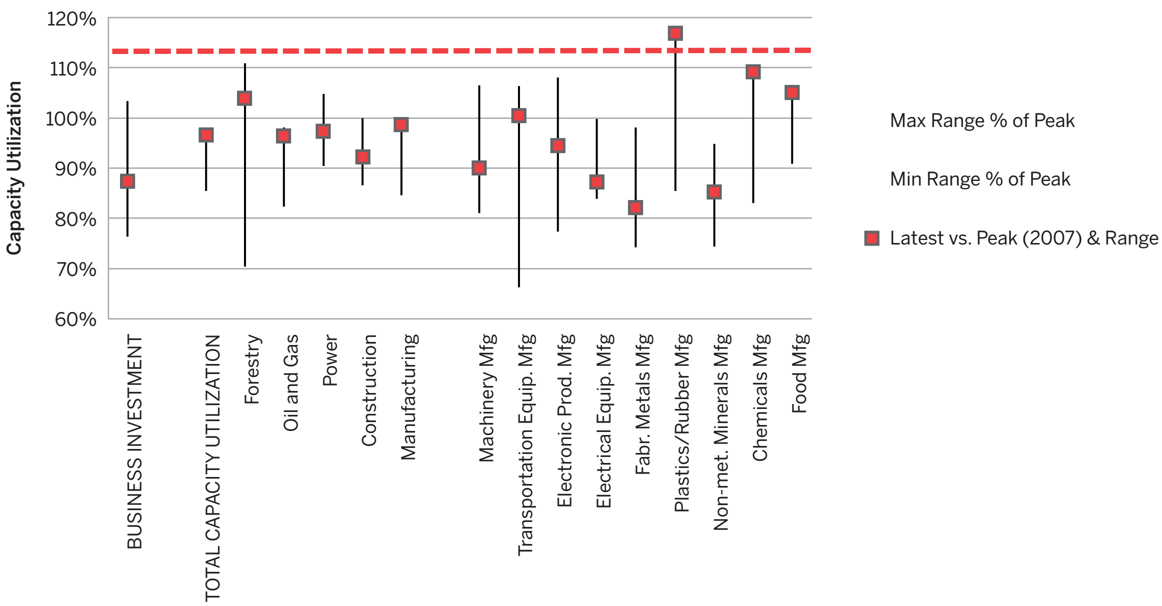


Sources: Bank of Canada, U.S. Federal Reserve Bank, Haver Analytics, EDC Economics

Canadian GDP

Canada's economy is forecast to grow by 2.4 per cent in 2017 and 2.2 per cent in 2018. Initial indications show that growth at the start of 2017 has been relatively strong with the increase in exports, domestic manufacturing, and continuing expansion in the labour market supporting the economy. Growth in 2017 will also benefit from a modest bounce-back in business investment aided by tight capacity in a number of industries and stability in the prices of many key commodities. The federal governments' infrastructure spending and continued (if modest) growth in private consumption, will support a stable outlook.

Key Sectors Nearing the Need for Investment in New Capacity



Sources: Haver Analytics, Statistics Canada, EDC Economics

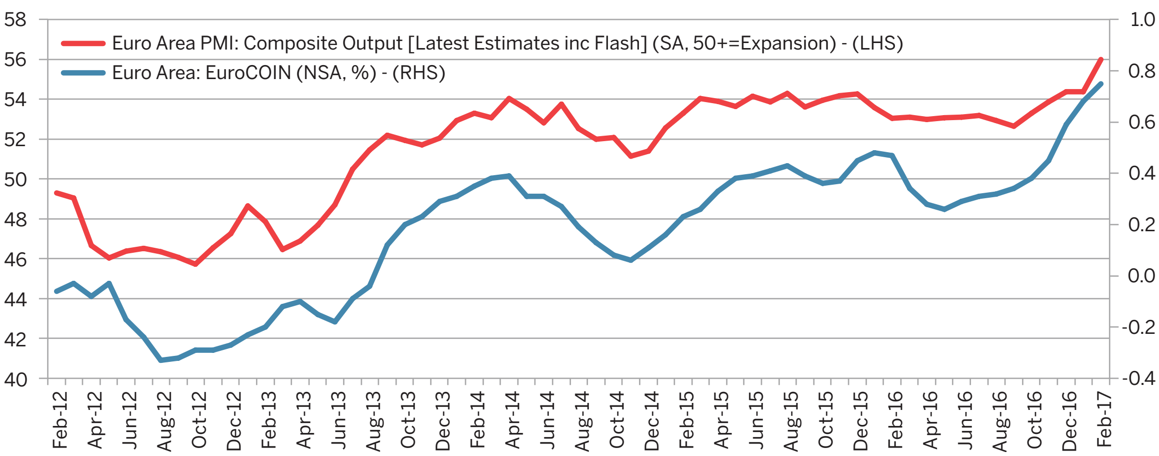
China

The built-in momentum from fiscal policy, infrastructure, and real estate activity in 2016 will continue to buoy macroeconomic growth in 2017 to 6.6 per cent and into 2018 to 6.4 per cent. Exports especially driven by resurgent U.S. and decent EU demand will also contribute. Economic, financial sector, and socio-political stability remain a core government priority ahead of leadership changes in late 2017. As such, macro-prudential risk management will be an important feature as authorities attempt to contain unruly shadow banking activity and localized real estate speculation. Balancing near-term risks amidst a strengthening US dollar and higher U.S. Federal Reserve rates will prove a tight balancing act for authorities. The trajectory of U.S. trade policy, geo-politics, and rising Chinese indebtedness are key downside risks to the outlook.

Euro Area GDP

The Euro Area economy is showing momentum despite headwinds from political uncertainty due to the heavy electoral calendar and potential impacts from Brexit. Headline GDP growth over 2017 and 2018 is seen maintaining a relatively robust pace well above its long-term potential, propelled as well by an upturn in leading indicators. Private consumption is expected to be supported by a broadly based improvement in labour market performance; however, this will be capped by subdued real wage increases. The ongoing recovery in business investment is expected to be marginally impacted by bouts of policy uncertainty. Monetary conditions are likely to remain positive over 2017-2018, with the ECB's low interest rate and sovereign asset purchases supporting bank lending and a competitive currency.

The Euro Area Economic Upswing is Gathering Pace Despite Myriad of Headwinds

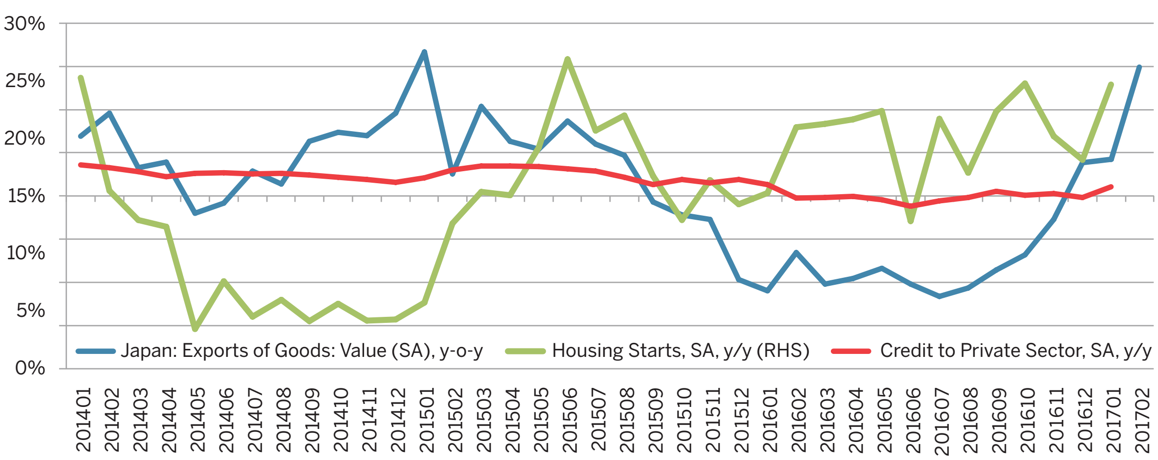


Sources: IHS Markit, Centre for Economic Policy Research, Haver Analytics
Note: The EuroCOIN is a coincident indicator of the euro area business cycle that provides an estimate of monthly growth of euro area GDP.

Japan

Macroeconomic growth for 2017 is expected at one per cent, supported by strong exports and investment activity. The momentum from 2017, in particular exports, will drive 2018 growth to reach 1.1 per cent. The uptick in U.S., EU and Chinese demand as well as a weaker Yen remains a critical driver of exports. Private consumption continues to disappoint despite the positive push from exports and corporate profits as neither are transmitting through to real wage growth. Investment activity will continue to be supported by private real estate and capital expenditure, as well as public infrastructure. Public finance risk, while unsustainable over the long term, appears contained as over 30 per cent of outstanding government bonds are owned by the Bank of Japan. The main downside risk to the outlook is U.S. trade policy.

Exports and Investments Leading the Way



Sources: EDC Economics, Haver Analytics/National Statistics

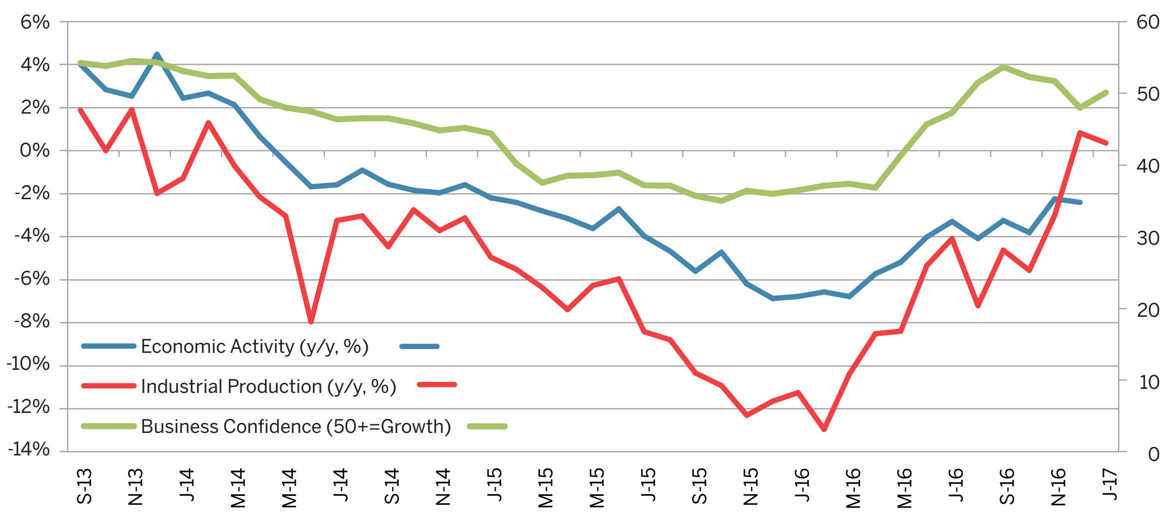
India

India is forecasted to grow by seven per cent in FY-2017 and 7.4 per cent in FY-2018. While demonetization is expected to have some transient effects in the short run, growth has performed better than expected on the back of a good monsoon, increased government expenditure, and record levels of foreign direct investment. Going forward, with the 'Make in India' policy powering up FDI, the 7th Pay Commission increase, and ongoing government capital expenditure, consumption both in urban and rural centres (60 per cent of India's population) will continue to fuel growth. GDP expectations for 2018 are further supported by the deployment of India's first countrywide goods and services tax. Headwinds to the forecast include currently heightened geopolitical risk and general slack in the economy. Nonetheless, India's outlook continues to be one of the brightest.

Brazil

Brazil's economic recovery is in sight – albeit at a slow pace. EDC Economics expects GDP to grow by a mere 0.4 per cent in 2017 followed by a jump to 2.5 per cent in 2018. The economy and business confidence continues to be impacted by the ongoing corruption scandals that have implicated a number of President Temer's close allies. Private consumption, Brazil's largest contributor to GDP, will continue to be held back by high unemployment and interest rates. Although a small share of the economy, exports have been one of the bright spots due to an expected record-year in agriculture production. Many indicators are suggesting Brazil growth is at a turning point, but the bounce-back will depend largely on the government's ability to drive investment, restore confidence, and implement trade- and business-friendly reforms.

Confidence Leading a Turnaround



Sources: Central Bank of Brazil, IIBGE, CEI, Haver Analytics

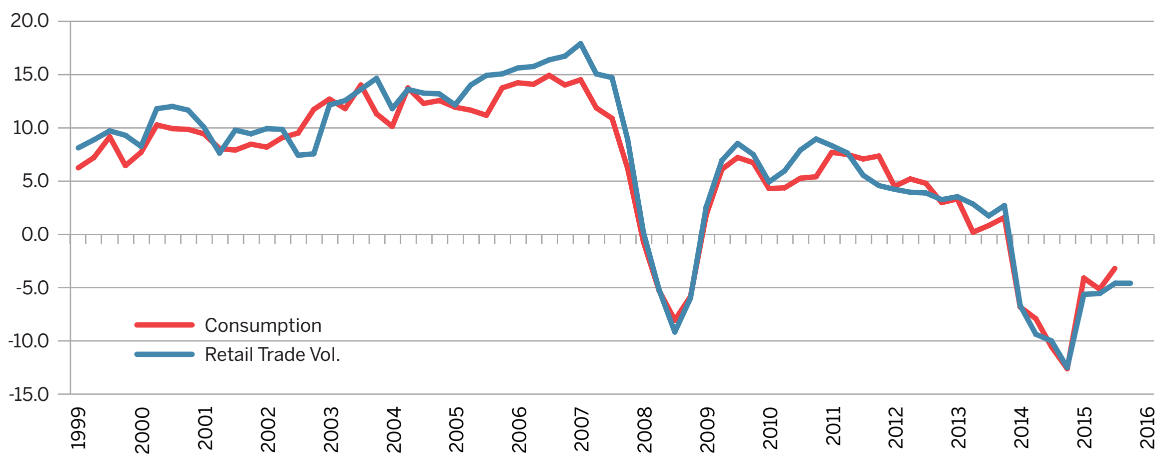
Mexico

EDC Economics forecasts Mexico's economic growth will decelerate to 1.8 per cent in 2017 with a slight improvement to 2.1 per cent in 2018. The outlook is clouded by the uncertainty created by the U.S. administration which has called for a renegotiation of NAFTA to begin this year. Economic growth will therefore be subdued owing to a decline in investment as well as weaker public spending. That said, only moderate changes to the trade relationship are expected. While consumer spending will be constrained by rising inflation and higher interest rates, EDC Economics forecasts that domestic demand will nevertheless continue to drive growth, albeit at a slower pace, and that exports to the U.S., led by increases in auto production, will be positive.

Russia

Russian GDP is projected to rise 1.4 per cent in 2017, followed by 1.6 per cent in 2018. Growth this year is being supported by a gradual recovery in consumer spending and a first-quarter boost to government outlays. Retail sales are expected to post positive growth driven by wage gains, while pensioners received a one-time pension increase in the first quarter. The Central Bank took advantage of higher oil prices to lower its key intervention rate in the first quarter. There is scope for further interest rate reductions in 2017 and 2018 which would provide additional stimulus ahead of presidential elections due in second half of 2018. Although industrial production took a dip in early 2017, a recovery is expected later in 2017 and into 2018 due to a improvement in oil prices. Business investment is expected to follow as capacity utilization rates have gradually trended north and lower interest rates provide relief.

Russia's Household Consumption vs Retail Trade Volume (y/y per cent change)

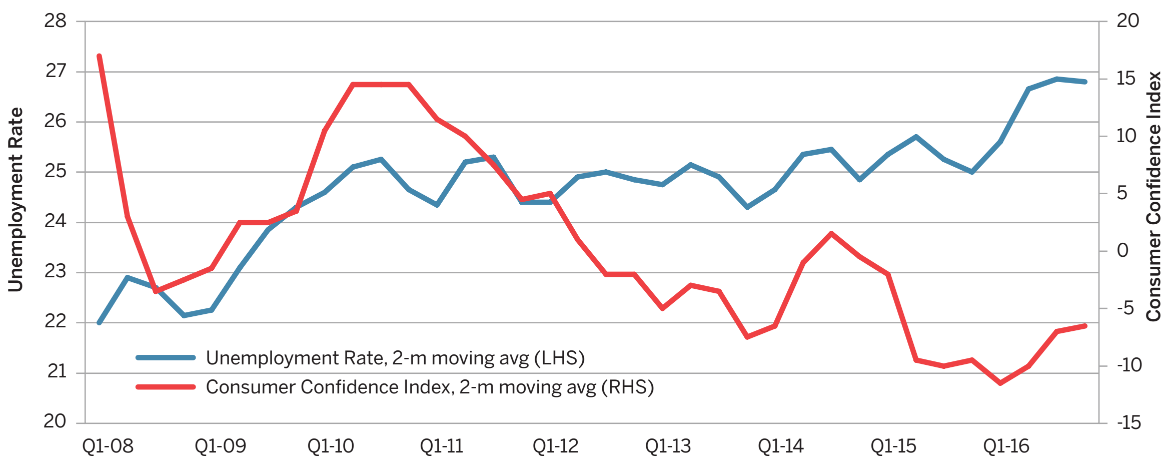


Sources: Central Bank of the Russian Federation, Federal State Statistics Service, Haver Analytics

South Africa

The economy of South Africa will inch towards 0.9 per cent growth in 2017 followed by 1.3 per cent in 2018. Easing of food-products inflation will give a boost to private consumption while recovering agriculture output from the drought and improved commodity prices of major exports will underpin near term growth. The government has shifted its priority to internal politic resulting in political impasses and delays in key reforms that dampen investor confidence and investment. Persistently high unemployment, an undertrained labour force, and stagnate wage growth will continue to hinder private consumption, which accounts for 60 per cent of GDP. These factors along with tightened public finance in an attempt to rein in public spending will constrain growth prospects going forward.

South Africa's High Unemployment Rate Dampens Consumer Confidence



Sources: Statistics South Africa and Bureau of Economic Research, Haver Analytics

Global Economic Outlook (GEO)

Global Economic Indicators	2014	2015	2016	2017 (f)	2018 (f)
GDP (% y/y)					
World Total	**3.4**	**3.2**	**3.1**	**3.5**	**3.8**
Developed Markets	**1.9**	**2.1**	**1.6**	**2.0**	**2.1**
Canada	2.5	0.9	1.3	2.4	2.2
United States	2.4	2.6	1.6	2.4	2.7
Euro Area	1.1	2.0	1.7	1.7	1.6
Japan	0.0	1.2	0.9	1.0	1.1
Emerging Markets	**4.6**	**4.1**	**4.1**	**4.6**	**5.0**
China	7.3	6.9	6.7	6.6	6.4
India	7.2	7.6	6.6	7.4	7.6
Brazil	0.1	-3.8	-3.5	0.4	2.5
Mexico	2.2	2.6	2.2	1.8	2.1
Russia	0.7	-3.7	-0.6	1.4	1.8
South Africa	1.6	1.3	0.3	0.8	1.4
Currencies					
CAD/USD	0.91	0.78	0.76	0.76	0.78
Commodity Prices					
Crude Oil (WTI, US$/bbl)	93.2	48.7	43.3	53.9	56.6
Natural Gas (Henry Hub, US$/mmbtu)	4.3	2.6	2.5	2.8	3.1
Copper (USD/MT, LME)	6,861.5	5,493.9	4,862.1	5,677.0	5,895.0
Gold (USD/oz, LME)	1,266.2	1,160.3	1,250.3	1,245.0	1,210.0
Others					
US Housing Starts (000s)	1,003.3	1,111.9	1,173.7	1,325.0	1,425.0
Fed Funds Target Rate (%)	0.1	0.1	0.4	0.9	1.8

Sources: Statistics Canada, Haver Analytics, EDC Economics, 2016 is actual data while 2017 and 2018 are forecast.

Export Performance Monitor

The Export Performance Monitor is a monthly publication which tracks recent movements in Canadian exports by industry and geographic market. The monitor also references our Global Export Forecast which is produced twice yearly.

Commodity Tracker

The Commodity Tracker is a weekly table of commodity prices and economic indicators related to activity in the commodity markets that are most relevant to Canadian exporters.

Weekly Commentary by Peter G. Hall

Every Thursday, a concise analysis of global issues for Canadian exporters.

Country Risk Quarterly

The Country Risk Quarterly is an electronic publication aimed at Canadian companies looking to explore high potential markets. It provides valuable information on over 100 countries, helping to inform trade and investment decisions. A mix of text and visual graphics present the reader with the risks and opportunities of doing business in Europe, Asia, Africa, the Middle East and the Americas, including key insights on payment experience and risk rating drivers.

Global Financial Markets

The Global Financial Markets (GFM) is a weekly publication that reports key financial and macroeconomic information for both developed and emerging markets. Currency exchange rates, stock markets and government bond spreads are included for over 50 countries in Latin America, Asia, Africa Middle East and Emerging Europe as well as other key external vulnerability indicators. For the US, Europe and Japan graphics and tables present information on the health of credit and financial markets.

This assessment is valid at date of issue but always subject to review.
Please contact the **EDC Economics Division** for current position.