Global Economic Outlook

American exceptionalism: Setting the global outlook in motion

Insights on the world's key economies, GDP growth, commodity prices, interest rates and exchange rates

EDC Economics
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Canada

EDC

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Executive summary

American exceptionalism: Setting the global outlook in motion

Stuart Bergman
Vice-president and chief economist

As we enter a new year, the global economy is in a bifurcated state. The U.S. economy continues to advance, buoyed by renewed economic optimism, while many countries face challenges linked to weak domestic conditions and political disorder. Uncertainty surrounding recent U.S. policy announcements, increased economic nationalism and disruptive trade dynamics add to this divergence. Our latest *Global Economic Outlook (GEO)* only accounts for policies in place as of Jan. 1, not prospective policies under consideration.

The outlook for Canada remains relatively weak heading into 2025. Growth is expected to have reached 1.3% in 2024, but gross domestic product (GDP) per capita was down for a sixth consecutive quarter in the third quarter and showed soft momentum into the fourth quarter, indicating a shrinking economy on a population-adjusted basis. At the same time, Canada's labour market is cooling, and unemployment has ticked up, with new job seekers struggling to find employment. Despite an early-year boost from provincial stimulus efforts, we expect weakness to persist, leading to GDP growth of just 1.8% in both 2025 and 2026.

Canada's economic outlook: Weaker growth and labour market challenges in 2025
In June 2024, the Bank of Canada was the first major central bank to begin cutting interest rates. In 2025, it could be among the first to stop cutting rates, reaching its target level earlier than most. The weakness in the Canadian economy has prompted aggressive action from the central bank. With inflation largely tamed, forecast to average 2.1% in 2025, closing a widening output gap and arresting the deterioration of the labour market will be its main priority. We expect the Bank of Canada to cut rates three times this year, reaching a target rate of 2.75% by early September. The weaker growth outlook in Canada, combined with expectations that the U.S. Federal Reserve will be cautious about rate cuts amidst policy shifts, will put pressure on the Canadian dollar. We forecast the loonie to average US$0.70 in 2025, with significant volatility throughout the year. Our forecast then calls for the Canadian dollar to average US$0.74 in 2026, as the interest rate differential narrows.

Economic challenges in Europe
This year, economic growth in Europe will remain sclerotic as the European Union's (EU) two largest economies struggle to build momentum. The loss of cheap Russian energy following the 2022 invasion of Ukraine continues to weigh heavily on Germany's manufacturing base. Major industrial companies, including Volkswagen and Thyssenkrupp, have announced plans for mass layoffs and reduced investment. This, along with Chinese weakness and policy uncertainty following the collapse of Chancellor Olaf Scholz' governing coalition, will restrain Germany's outlook. We forecast growth of just 0.2% in 2025, before a modest recovery of 1.3% in 2026.

Political turmoil in France and challenges in passing a new budget will hurt consumer confidence and business conditions. We expect the French economy to grow by 0.4% in 2025 and 1.4% in 2026. Italy also faces disputes within its ruling coalition, linked to its budget process and an elevated deficit and debt-to-GDP ratio.

China's growth prospects
As one of the world's largest economies, China's outlook significantly influences global conditions. Despite several rounds of monetary policy loosening and targeted stimulus measures, China's economy continues to struggle due to the property market crisis. Consumer and business confidence remain weak, and the country has flirted with deflation. Policy-makers have leaned heavily on manufacturing and exports to support growth, but this strategy will face headwinds in the coming year. We forecast China to grow by 4.5% in 2025 and 4.2% in 2026.

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And then there's America. Compared to other major economies, the U.S. economy is proving very durable. While the labour market is cooling, it remains resilient, with wage growth outpacing inflation. Unemployment remains low, and consumers, although not fully recovered from two years of high inflation, are confident enough to borrow to support their spending. Business investment, supported by several pieces of legislation, remains strong. While the strength of the U.S. dollar in 2025 will dampen exports, we forecast the U.S. economy to grow by 2.2% this year and 2.1% in 2026.

Continued momentum in the U.S. economy, along with an inflation rate that's cooled but remains stickier than desired, means that the Federal Reserve will be more cautious than many of its peers in its rate-cutting cycle. We forecast U.S. inflation to average 2.1% in 2025 and 2% in 2026. This will see the Fed take until the second half of 2026 to reach its target level. This slower path to neutral will support the exceptional U.S. dollar, putting pressure on other major currencies.

Bottom line

As we move into 2025, the global economy is being pulled in two directions. With the exception of the U.S., much of the world will face challenging economic conditions. We expect global growth of 3.1% this year, followed by a still below-potential 3.2% in 2026. One additional space where the U.S. is expected to be an exception is on the policy front, including regulatory, fiscal and trade policy, and in its adherence to global trade norms and conventions. Given the considerable amount of policy uncertainty on the horizon, we expect the volatility of recent years to persist.

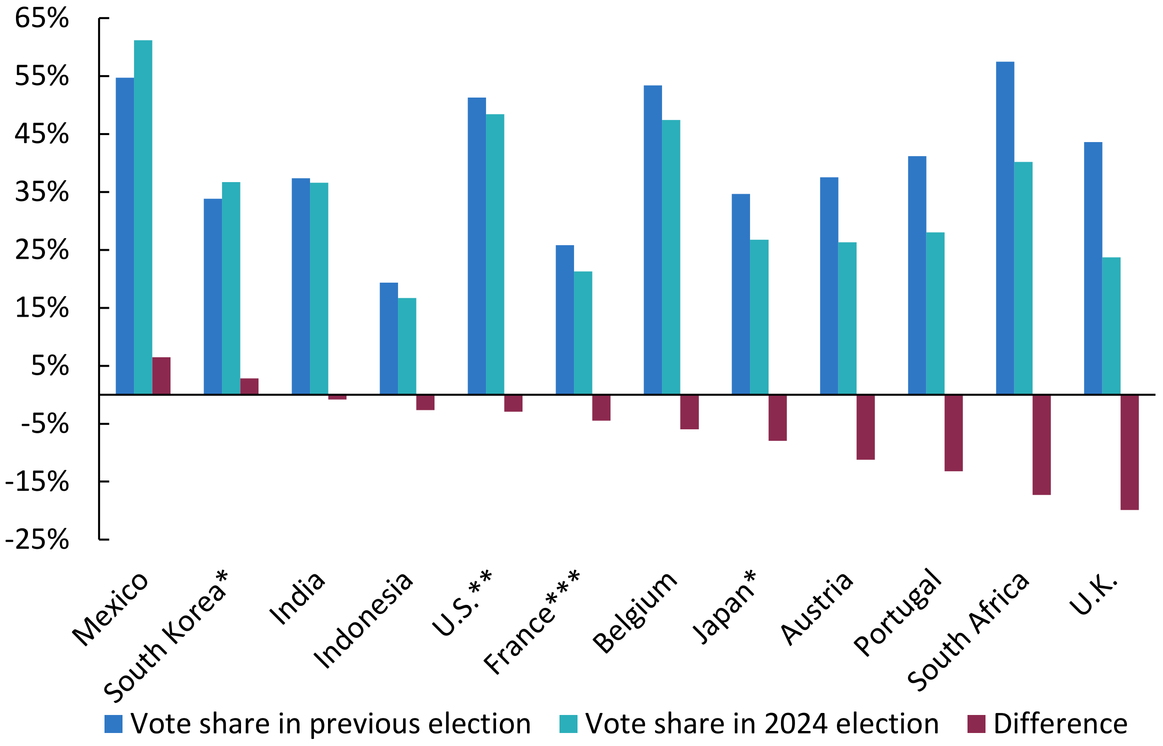
MACROECONOMIC CONTEXT

2024: A wave of anti-incumbency sweeps the globe

Throughout 2024, inflation significantly contributed to the defeat of several governing parties worldwide. The rapid rise in price levels in the last three years eroded purchasing power, leading to widespread public dissatisfaction and economic insecurity. Voters held incumbent governments accountable for failing to manage inflation, reshaping the political landscape in many countries.

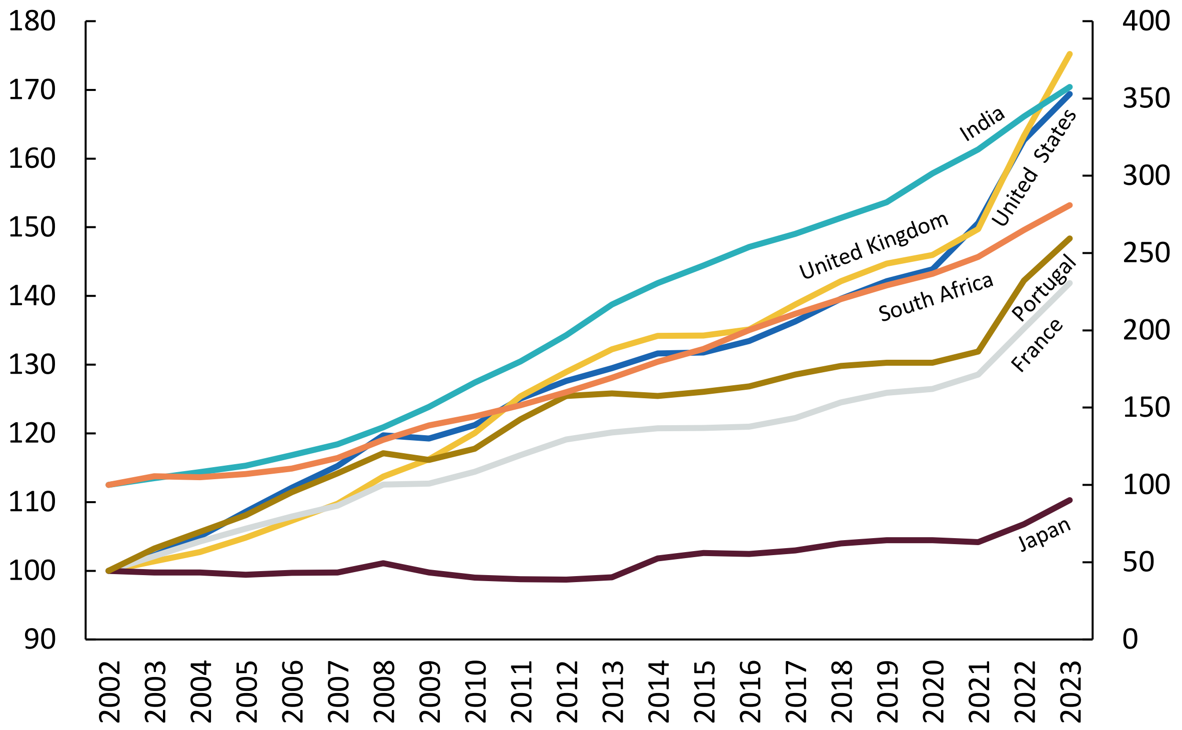
A consequential election year in 2024

Rise/fall in vote share for governing parties in national elections (% points)



Inflation increased steeply over the past three years

Consumer price level, annual 2002=100, India and South Africa on the RHS



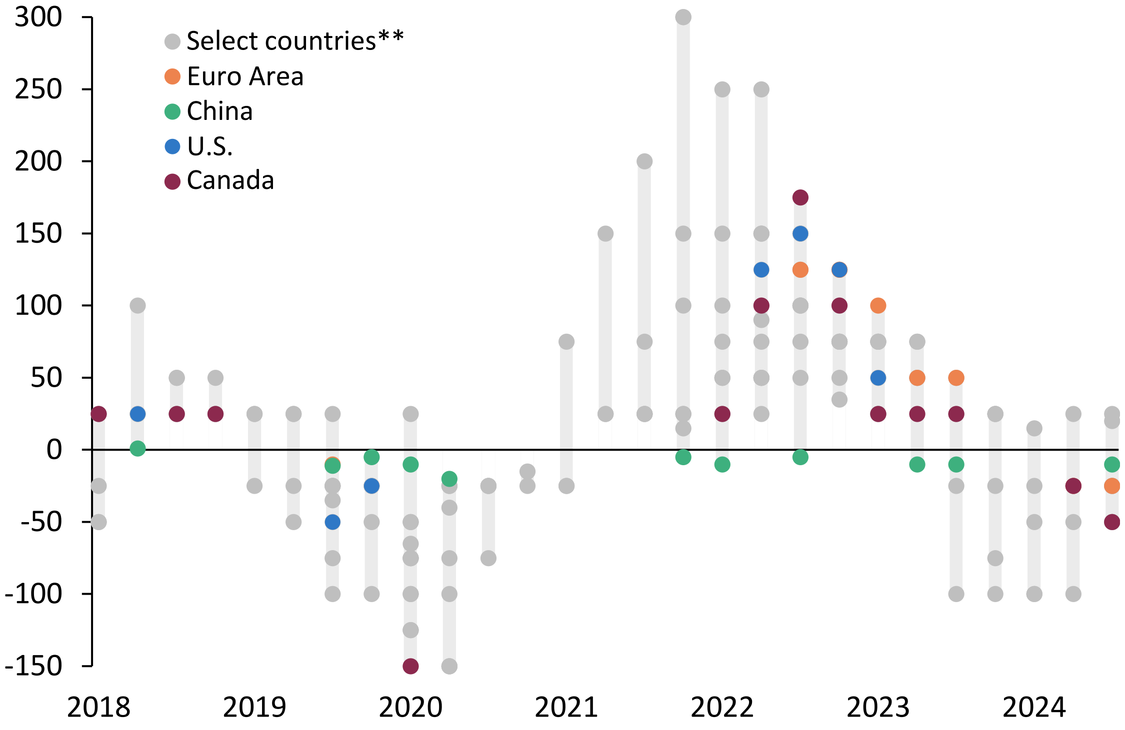
Note: * Regional vote. ** Vote for U.S. presidency. *** First round of elections.
Source: EDC Economics, Haver Analytics.

Central bank policy rate convergence and turbulence

In 2022 and 2023, the world experienced a divergence in monetary policies as nations grappled with post-COVID-19 challenges. Central banks, which had previously synchronized their policy rate adjustments, are now moving at varied paces. The U.S. is loosening its policy rate much slower compared to Europe and Canada. These shifts influence business decisions, stoke currency volatility and result in domestic devaluations, increased debt burdens and higher inflation for imports.

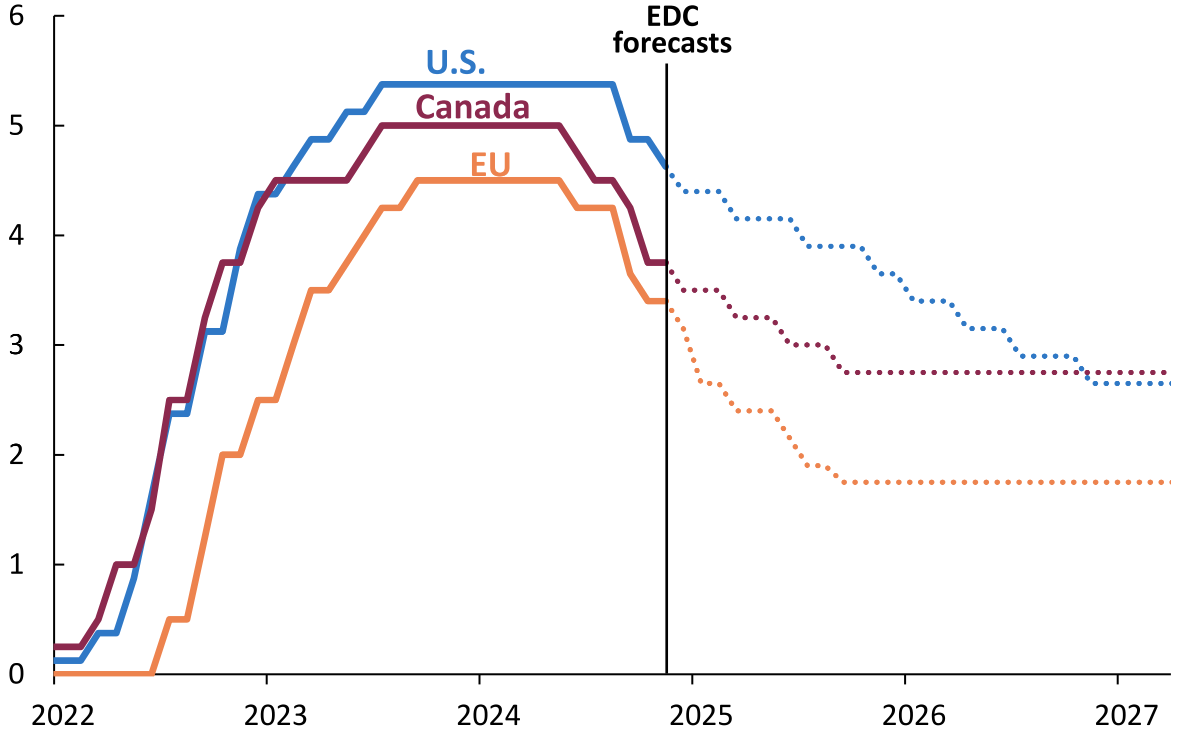
Central bank policy rate changes of select countries

Basis point changes aggregated to a quarterly basis



Select central bank policy rate forecasts

Central bank target policy rates*



Sources: Haver Analytics, EDC Economics

(*) Canada is the overnight rate, U.S. is the federal funds rate, and European Union (EU) is the main refinancing rate

(**) Select countries includes: the U.K., Japan, Australia, Switzerland, Brazil, Czechia, India, Mexico, Norway, Peru, South Africa, South Korea, Sweden.

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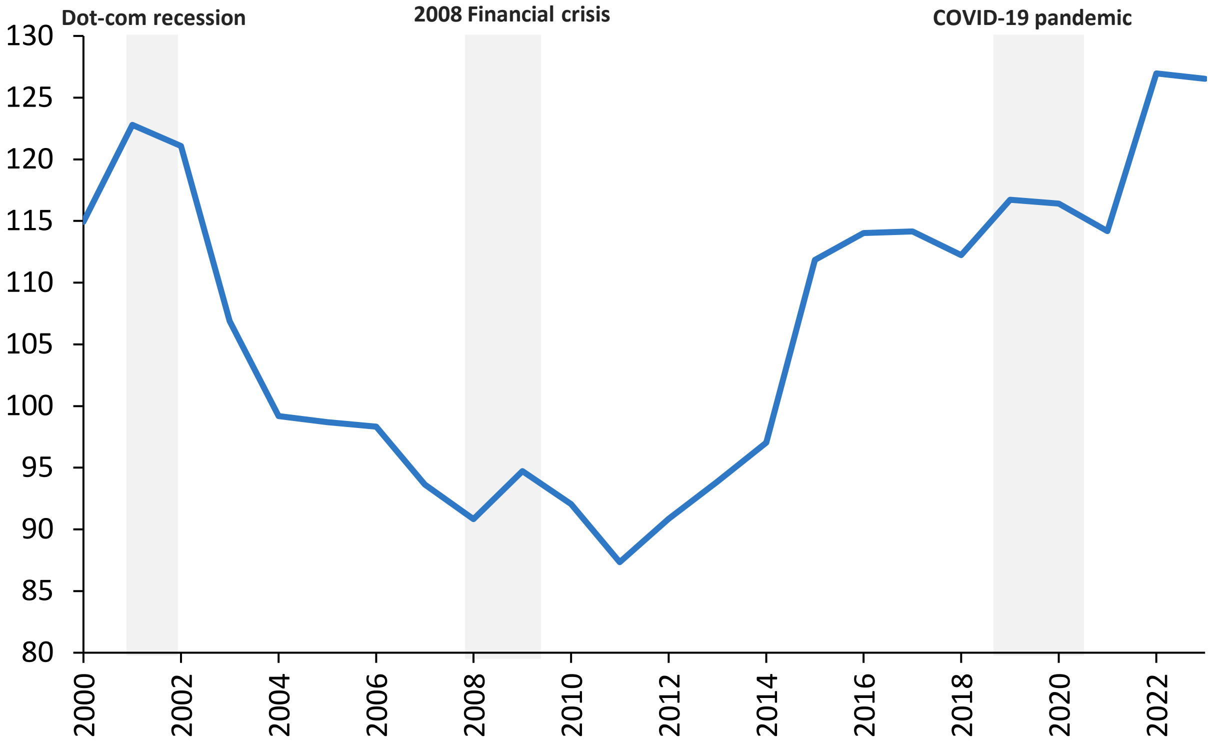
U.S. dollar puts pressure on global currencies

The USD has demonstrated significant strength, outpacing the Canadian dollar and euro. This is driven by a robust U.S. economy, optimistic consumer sentiment, persistent inflation pressures and a strong labour market. Fewer interest rate cuts by the Federal Reserve have also bolstered the USD's resilience. In contrast, the European Central Bank and the Bank of Canada have implemented higher interest rate cuts, leading to a clear divergence between the CAD, euro and USD.

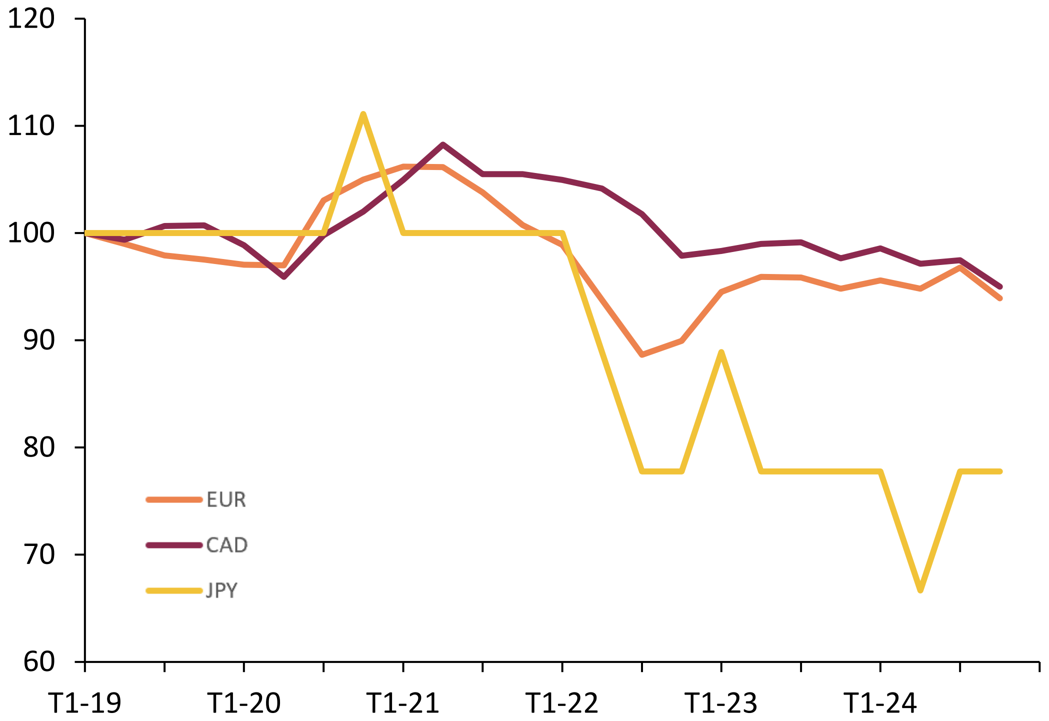
U.S. dollar trade-weighted index

Jan-06=100



The strength of USD compared to CAD, EUR and JPY

Normalized exchange rate, quarterly



Source: Federal Reserve Board/Haver Analytics

Note: The U.S. dollar trade-weighted index shows USD purchasing power against a basket of major foreign currencies, including the euro and CAD

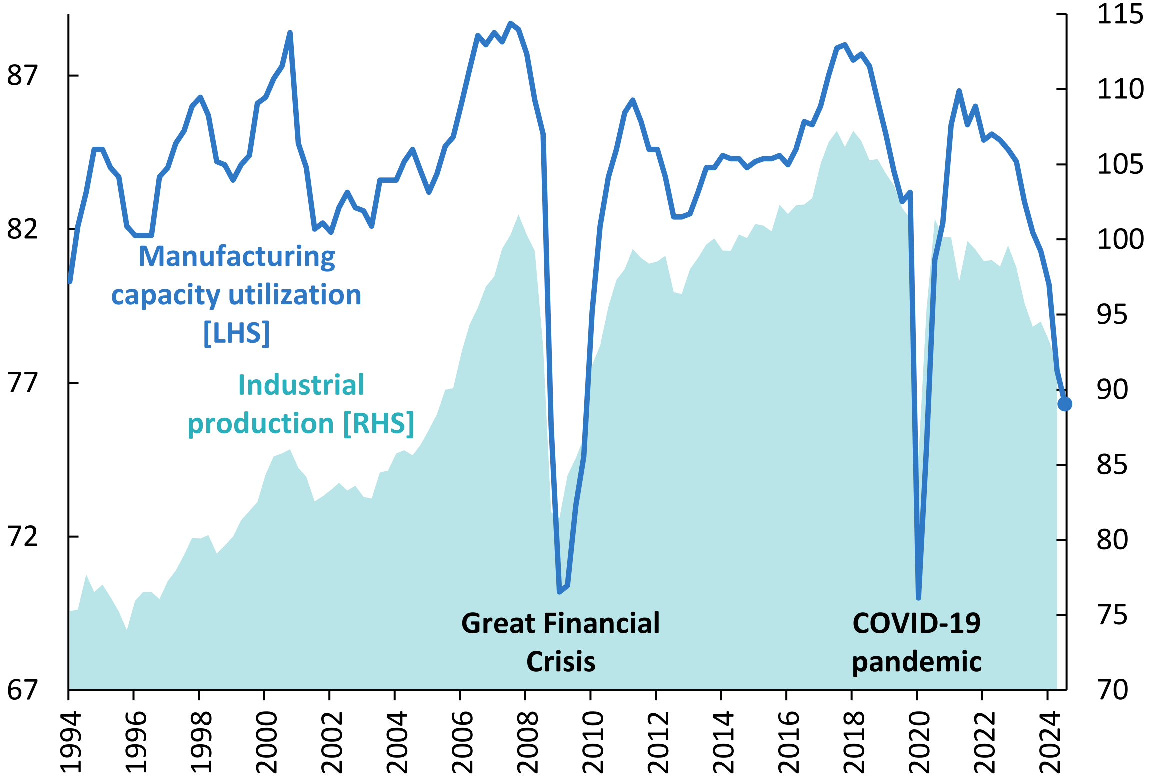
- Jan-06=100 indicates that data is normalized to January 2006 as the base value.
- Japanese yen (JPY)

European challenges persist

Germany is grappling with declining capital utilization, industrial production and investment flows, driven by structural challenges with no rebound in sight. France, the EU's second-largest economy, is also struggling. Recently, its 10-year government bond yield rose above those of Spain and Greece, the latter having recovered from a decade-long financial crisis in 2018. This signals growing financial market unease with France's fiscal laxity and debt expansion.

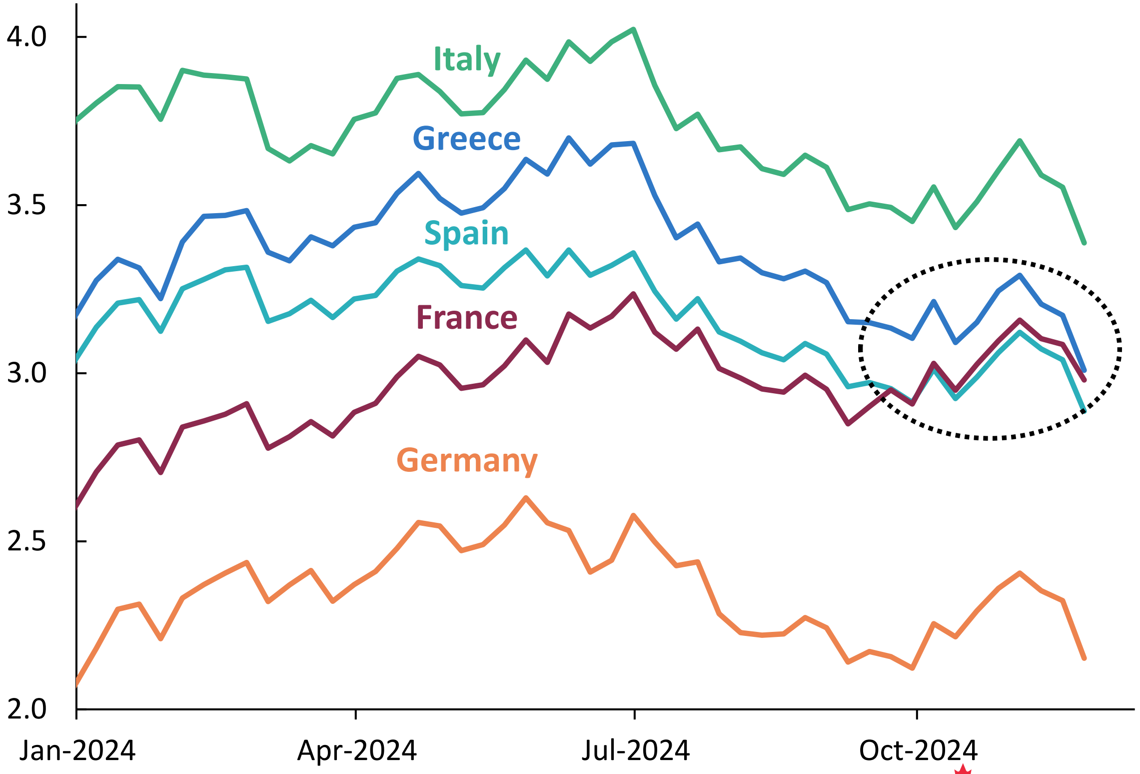
German industry continues its descent

LHS: Utilization rate (percent); RHS: Production index (2021=100, SA)



10-year bond yields of select EU countries

Weekly average mid yield of bonds



Note: SA = Seasonally Adjusted

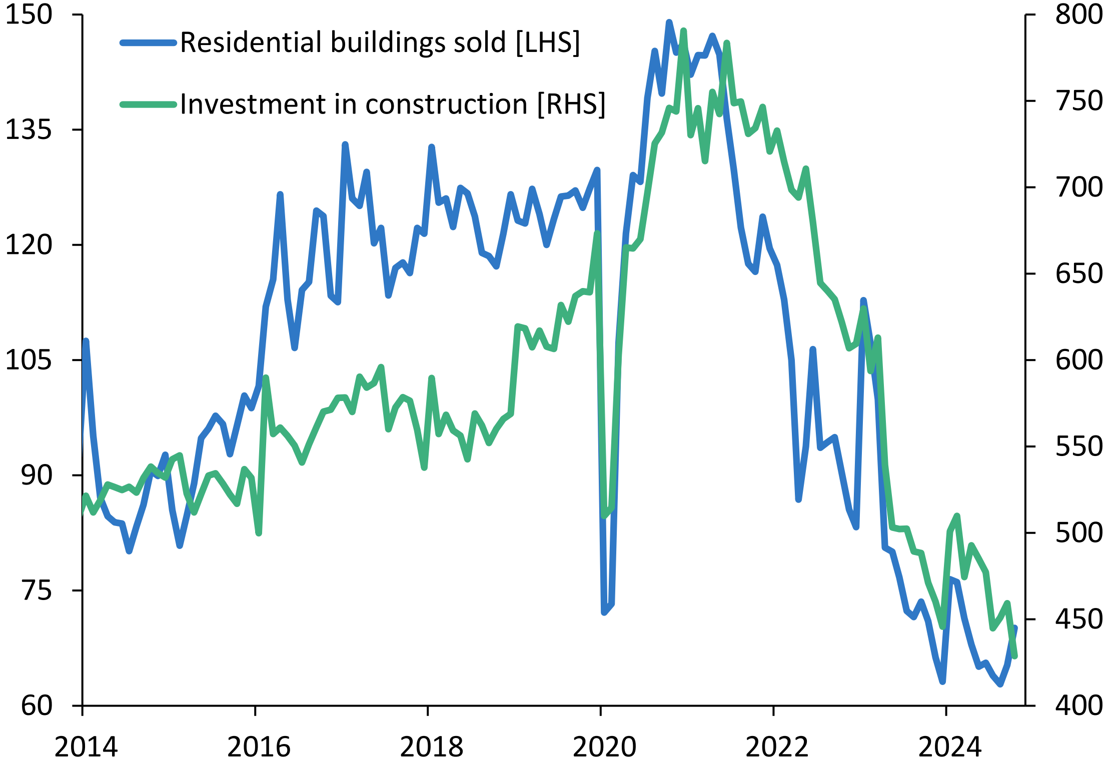
Sources: Haver Analytics, EDC Economics

China boosts exports amid sluggish domestic economy

The effects of China's 2021 property market crisis persists, slowing consumer spending and weakening domestic demand, which has led to lower producer prices. In 2024, exports are up due to efforts to offload overcapacity and likely front-loading of orders. However, the outlook remains uncertain with potential anti-trade policies in 2025 and the extent of China's fiscal stimulus measures.

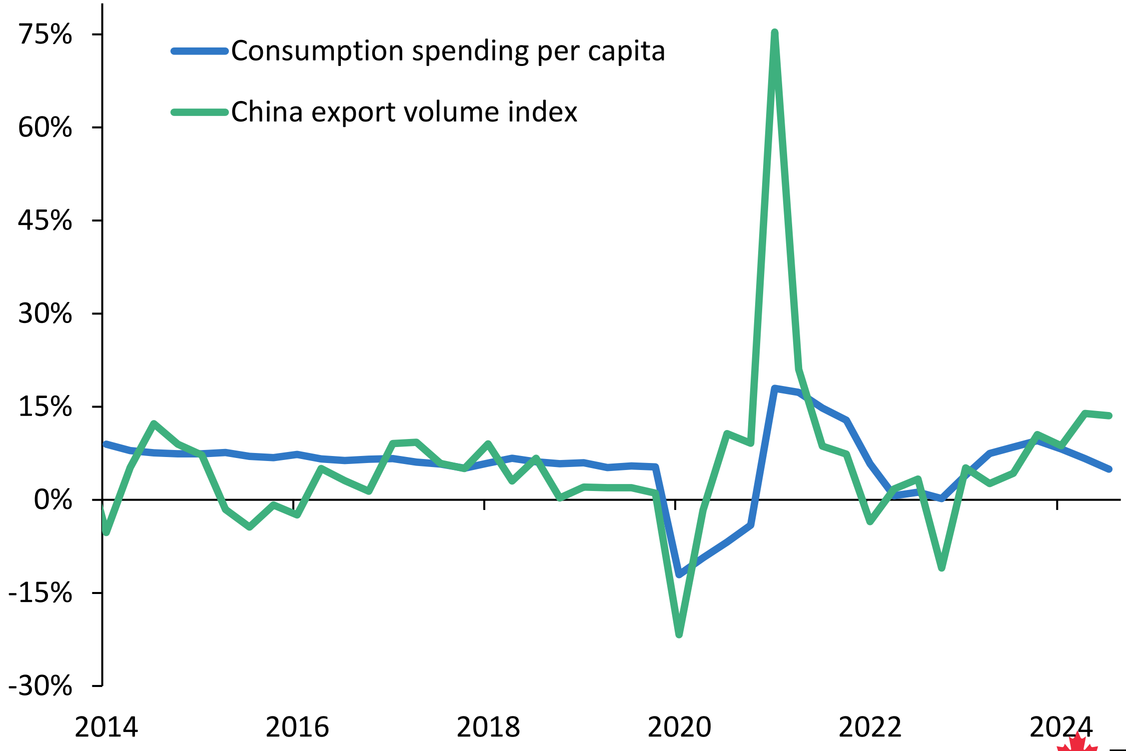
The effects of China's property market crisis persist

LHS: Millions of square metres sold (SA); RHS: Billions of yuan (SA)



Slowing consumption and providing a 2024 export boost

Year-over-year change (%) (SA)



 Sources: China National Bureau of Statistics, General Administration of Customs, China, Haver Analytics, EDC Economics

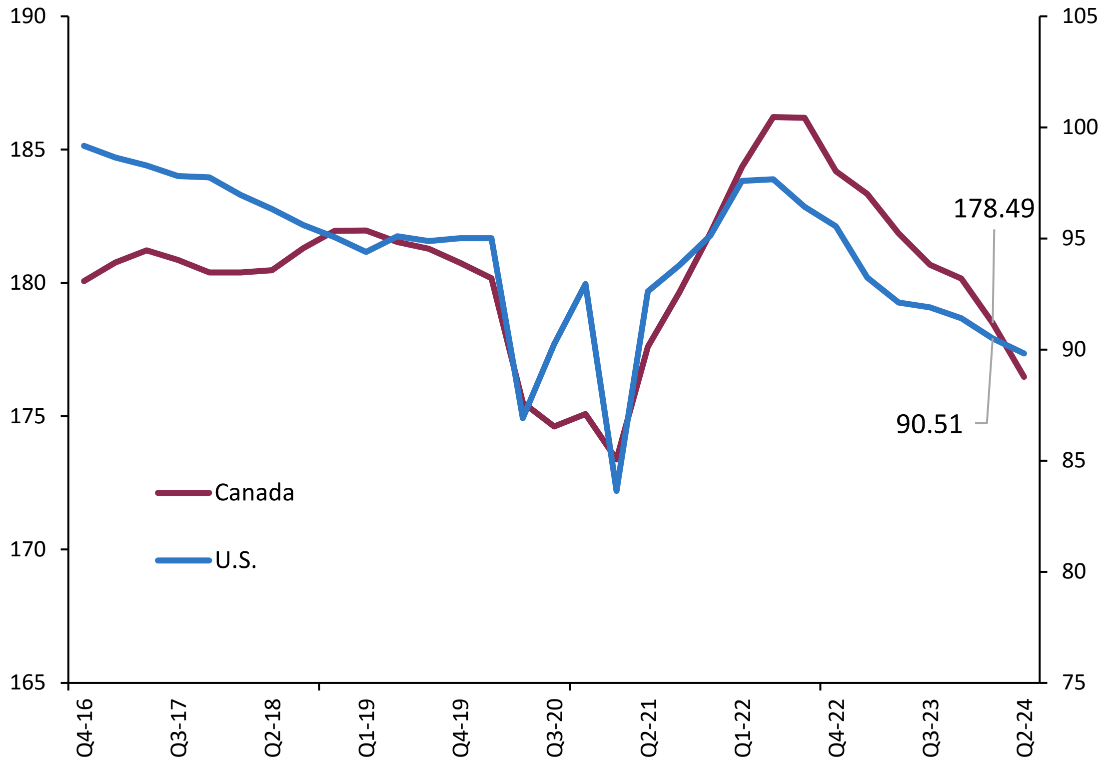
Note: "Investment in construction" is real estate investment in construction. "Residential buildings sold" is by floor space. China export volume index (2010=100). SA = seasonally adjusted.

Uncertainty drives diverging consumer behaviours: Canada saves as U.S. spends

Amid economic uncertainty, a clear divergence in post-pandemic consumer behaviour between the U.S. and Canada is evident. U.S. consumers are spending more, leveraging their pandemic savings to boost economic growth. In contrast, Canadians are saving more due to higher household debt levels relative to disposable income, increasing their sensitivity to interest rate changes. The disparity in household debt to disposable income ratios further underscores these differing behaviours, with Canada's ratio being significantly higher.

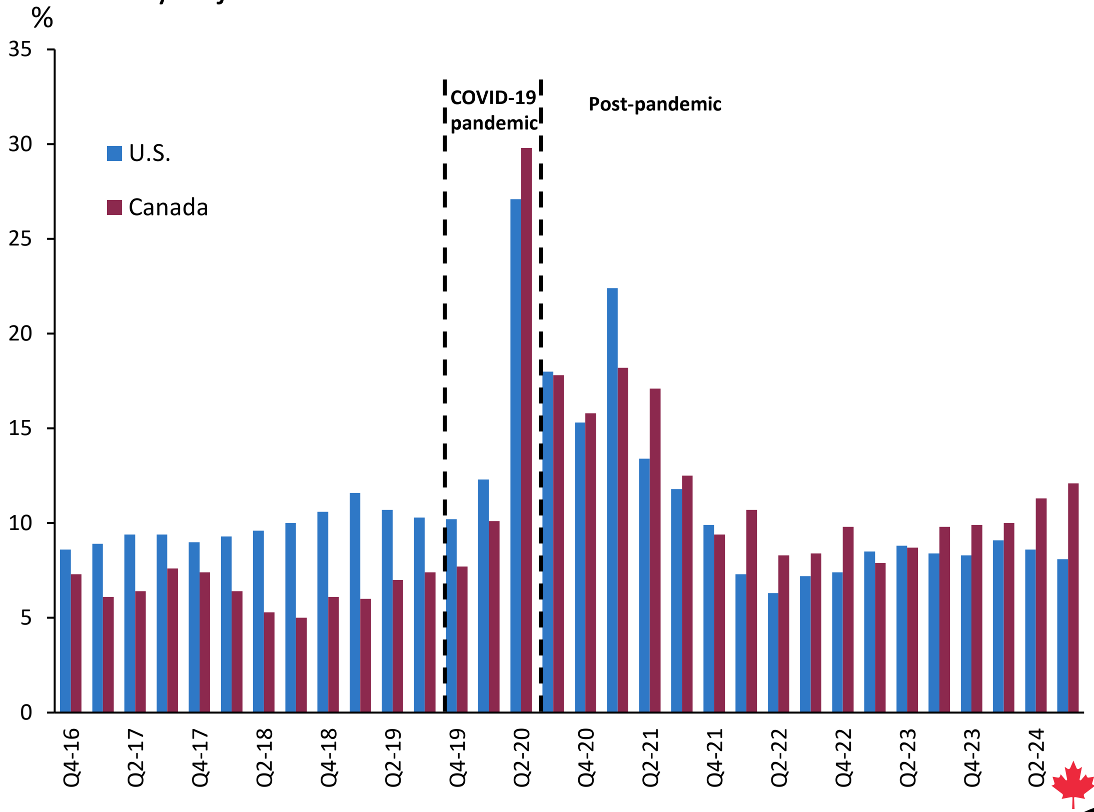
Canada and U.S. household debt to disposable income EOP %

Seasonally adjusted



U.S. and Canada savings rate

Seasonally adjusted



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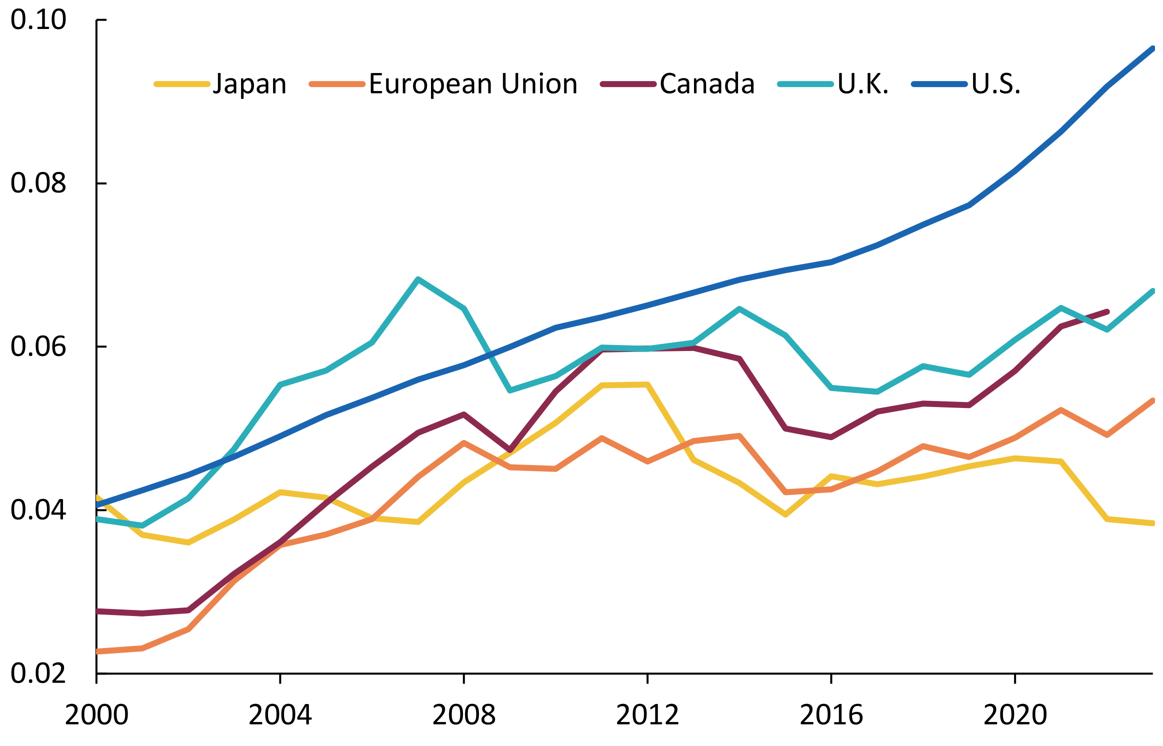
Source: Haver Analytics/Bureau of Economic Analysis

U.S. productivity outpacing global peers

The U.S. has historically outpaced OECD peers in productivity growth, consistently widening its lead and showcasing the efficiency of its labor force. A sustained commitment to innovation has been a major driver, fuelled by rising investments in machinery, equipment, intellectual property and R&D. In 2021, the U.S. allocated 3.5% of its GDP to R&D, compared to 2.7% from total OECD and 2.1 % for the EU. Recent policies, such as the *Inflation Reduction Act* and CHIPS Act are also accelerating these trends, further widening the competitive gap.

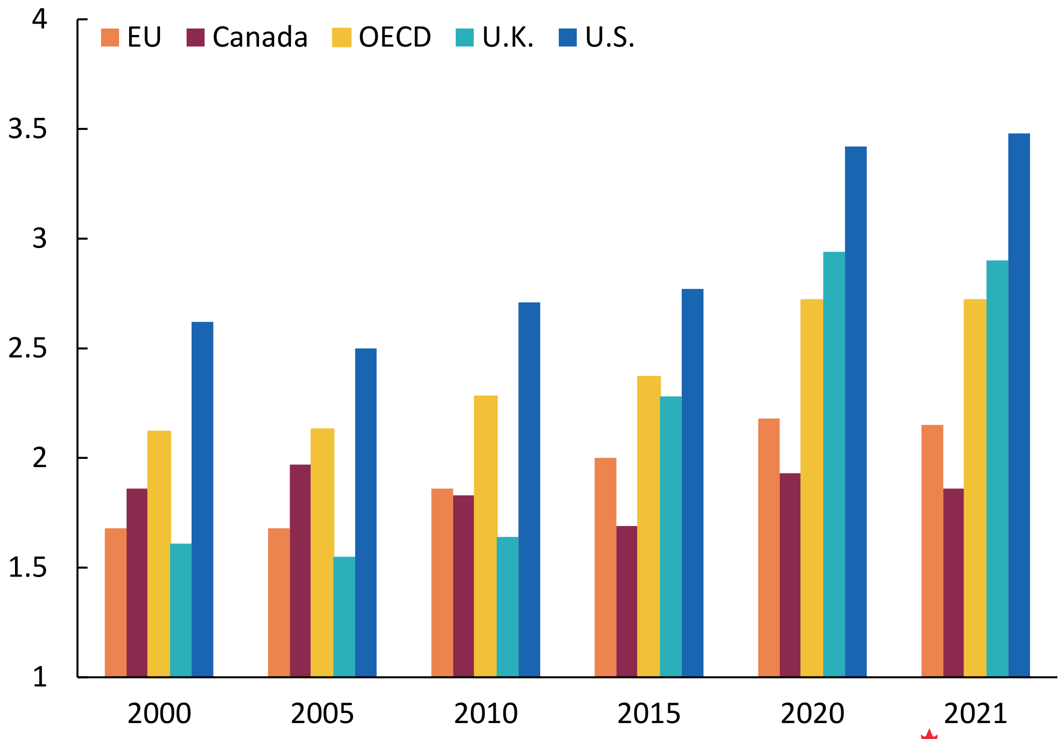
U.S. productivity growth leaves OECD peers behind

GDP per hour worked (Thousands US$, 2000-2023)



Higher R&D drives U.S. productivity dominance

Gross domestic expenditure on R&D as % of GDP (%)



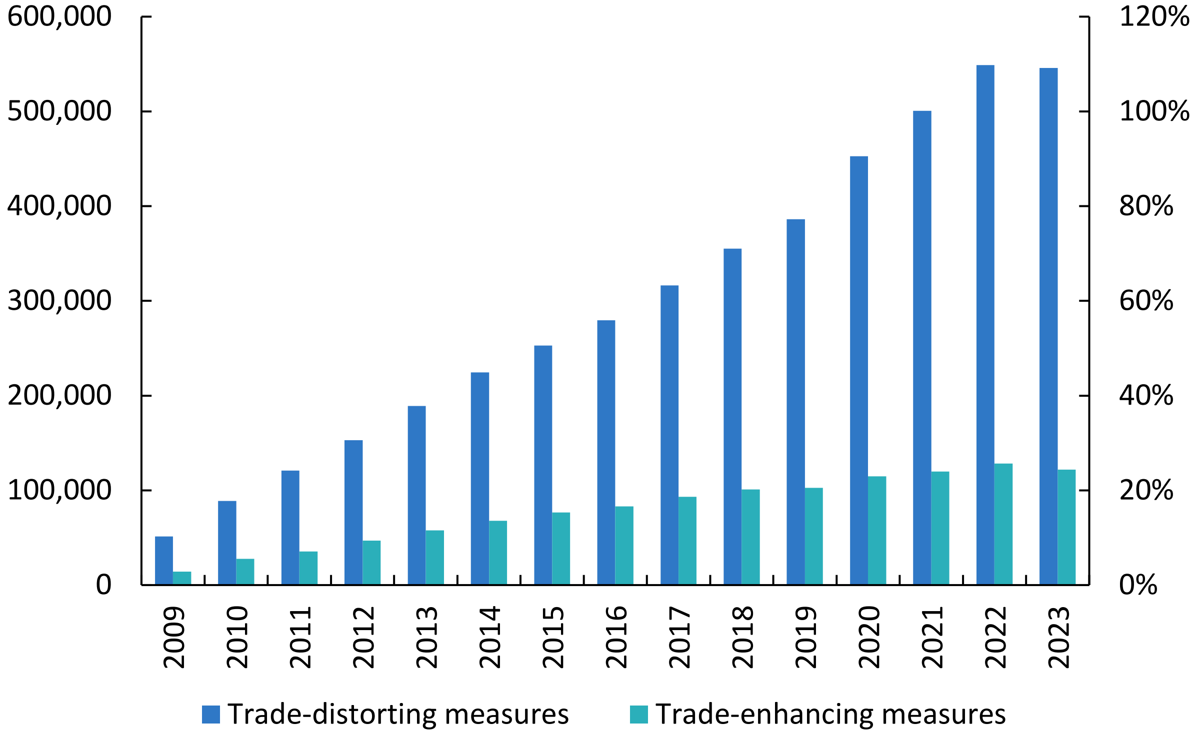
Source: Haver Analytics
Note: OECD: Organisation for Economic Co-operation and Development

Post-pandemic global trade struggles

Over the past 15 years around the world, countries have implemented import tariffs. These measures increase the cost of imported goods, making them less competitive compared to domestic products. Trade-distorting measures are more prevalent in the form of import tariffs and subsidies. Trade-enhancing measures are often associated with compliance with trade agreements and to promote regional integration through regional trade agreements, which have significantly increased over the same period.

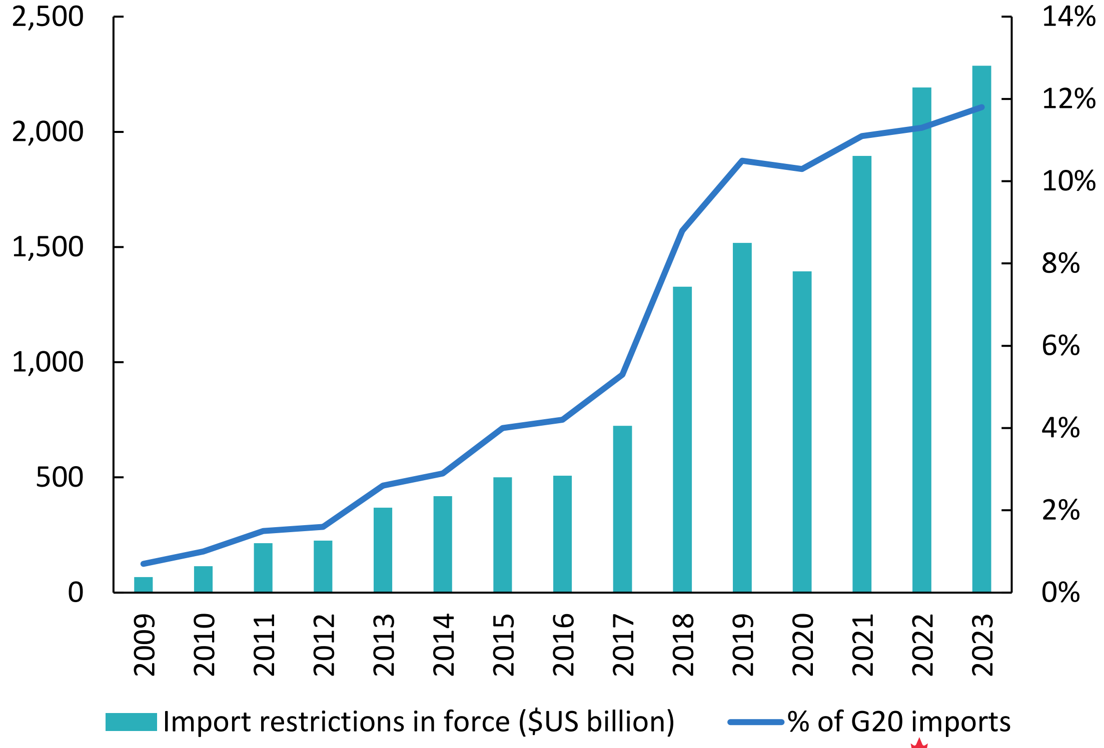
Recorded trade measures across the world

LHS: Number of measures. RHS: % of measures.



Trade coverage of G20 import-restrictive measures

LHS: restrictions in force in $US billion. RHS: % of G20 imports.



Note: Countries that are only part of the G20 through the African Union or European Union are excluded.
Sources: Global Trade Alert, WTO Secretariat.

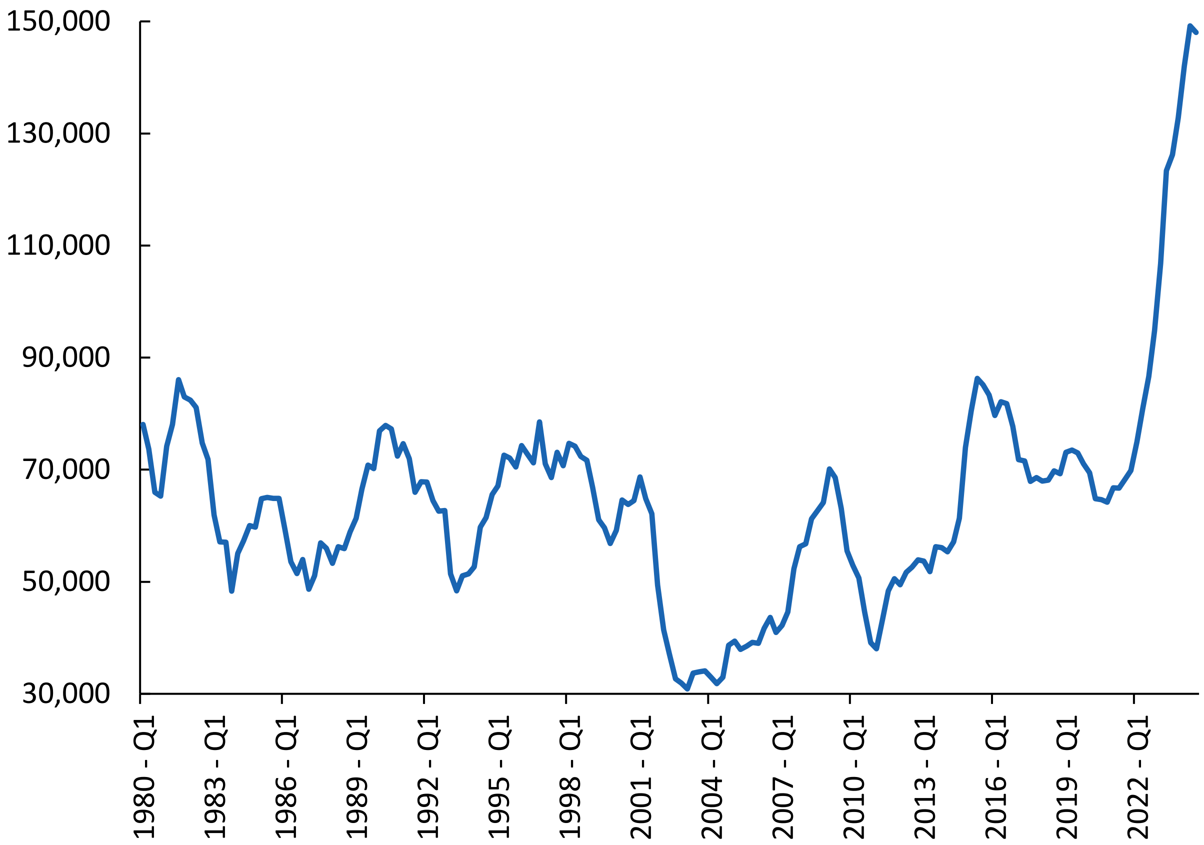
COUNTRY OUTLOOKS

United States

Prince Owusu, senior economist

Economic outlook: Stability amid policy and trade uncertainties

Millions, inflation adjusted in 2017 dollars



The U.S. economy appears to be on the cusp of a soft landing. After reaching 40-year highs two years ago, inflation has fallen significantly and is now within the Federal Reserve's (Fed) target range of between 1% to 3%. Despite interest rates that are high by recent historical standards, the labour market has continued to perform well. The unemployment rate has averaged 4% from January to November 2024 and it's significantly below the long-term historical average of 5.7% and is consistent with what is considered a full-employment economy.

With overall economic activity holding up, labour market stability and inflation within its comfort zone, the Fed is unlikely to be in hurry to cut interest rates. While the recent cuts totaling 0.75% will gradually filter through the economy, they will provide support for consumers and businesses that have been facing tighter access to credit. This easing should also allow consumers to rebalance as consumer debt levels have increased in recent quarters. We forecast that the U.S. consumer will continue to drive the economy, though it will be at a slower pace than the past three years.

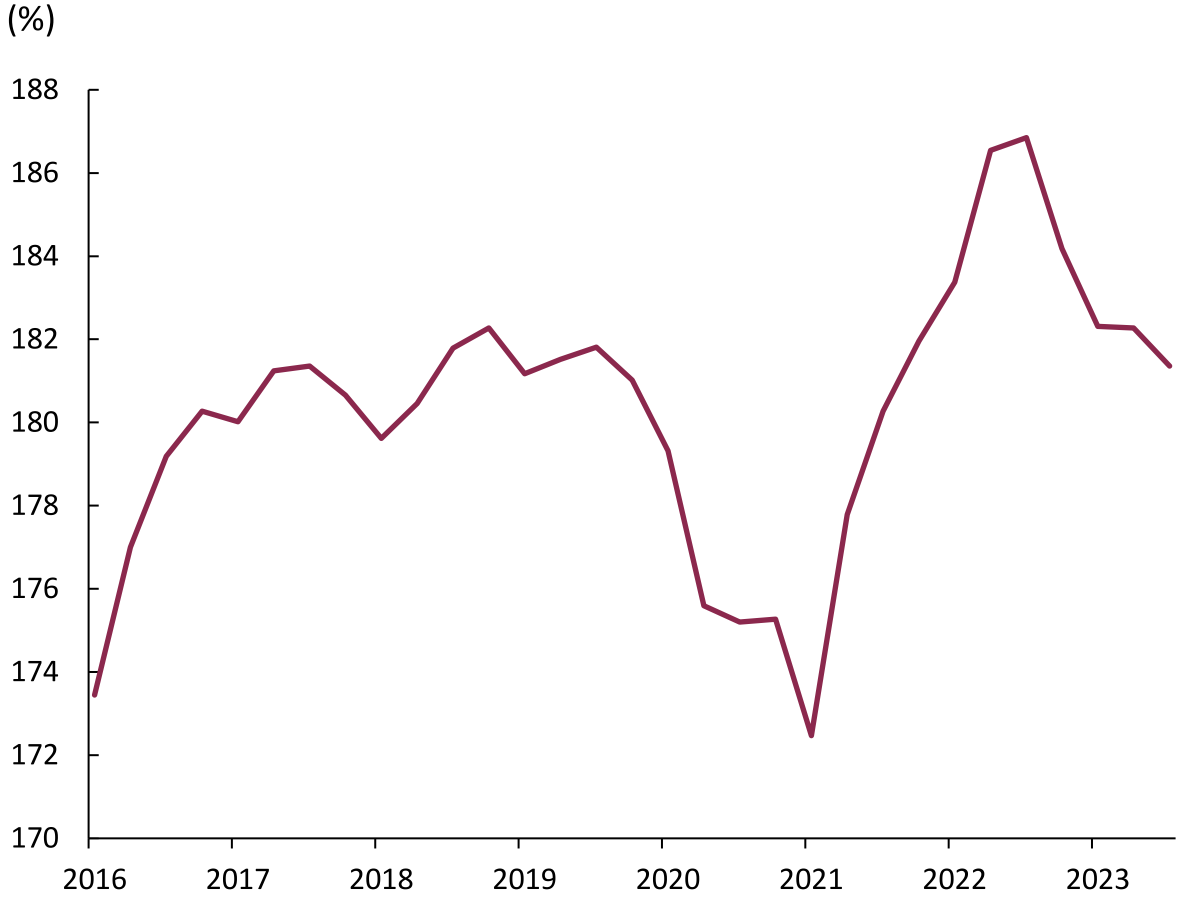
With consumption relatively stable, business investment is likely to continue given the U.S. government's currently industrial policies. Across several sectors including semiconductors, clean energy and manufacturing the government is providing support that has enabled more than $1 trillion of private investments to be announced. Potential changes to policy and the global trade environment may occur and alter the outlook in the coming quarters as the new administration takes office.

Source: Haver Analytics, EDC Economics

Canada

Prince Owusu, senior economist

Canadian household debt to disposable income



The outlook for the Canadian economy this year remains subdued, with growth expected to be 1.8%. Canadian consumers continue to be exceptionally pessimistic, despite easing inflation and the Bank of Canada cutting interest rates five times since June 2024. This caution has led households to build up savings above the pre-pandemic trend, resulting in slower consumer spending. Lower interest rates will reduce the debt burden on consumers and ease the pain as mortgages taken out during the pandemic renew at higher rates. However, the increase in consumer spending is likely to be gradual and modest given global uncertainty.

Throughout this period, Canadian businesses have matched consumers in their pessimism. Business sentiment is below its historical average, and business investment has consistently lagged. But, in 2025, major projects such as the final stages of construction of LNG Canada's export terminal and new investment in electric vehicles and batteries will support investment.

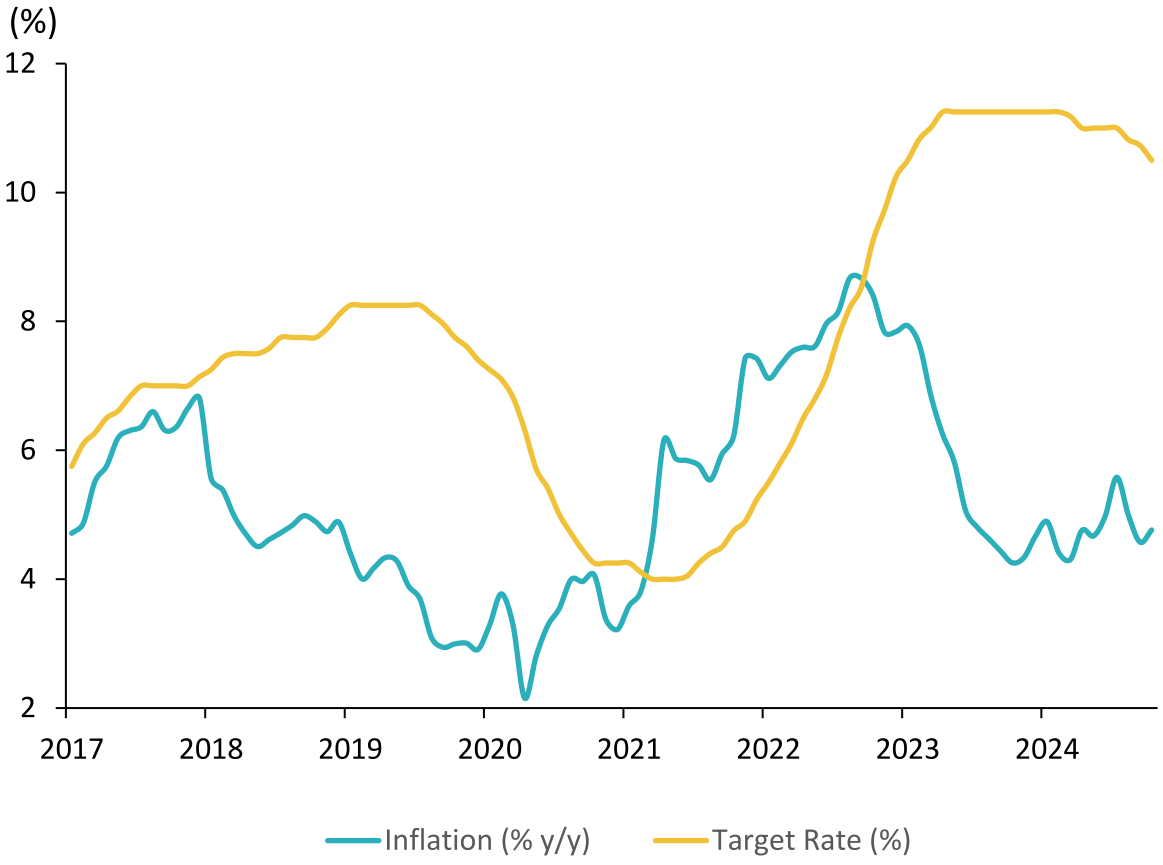
Having brought inflation under control, the Bank of Canada is now focusing on weak domestic demand and a softening labour market, which will support further interest rate cuts in 2025. With global uncertainty and the Bank of Canada pursuing a more aggressive approach to cutting interest rates, the value of the Canadian dollar is likely to be volatile, though we expect it to average US$0.70 in 2025.

Source: Haver Analytics, EDC Economics

Mexico

Prince Owusu, senior economist

Falling inflation paves way for more rate cuts



Mexico's economy slowed in 2024 due to higher interest rates and the increased borrowing costs. Despite a significant boost to the minimum wage, the weakening labour market and a slowdown in remittances have dampened consumer demand. Job growth averaged around 31,000 per month in 2024, down from 92,000 per month in 2022-2023. Remittance, grew by 8% annually in real terms between 2021-2023, contracted by 2% in real terms in September compared to the same month in 2023, further impacting consumer demand.

An additional complication for Mexico's outlook has been the impact of 2024 elections on business confidence. The June 2024 elections gave the government a majority capable of implementing constitutional reforms. These reforms include new laws allowing judges to be elected by popular vote and reducing the power of independent institutions and regulatory agencies. These changes are seen as weakening the rule of law, making businesses cautious about new investments. In inflation-adjusted terms, foreign direct investment inflows to Mexico declined by 3.5% in the first nine months of 2024 compared to the previous year.

In addition to domestic policy uncertainty, Mexico also faces uncertainty related to the incoming U.S. administration. This, coupled with the likelihood that the central bank will cut interest rates as inflation eases, is expected to put further deflationary pressure on the value of the peso.

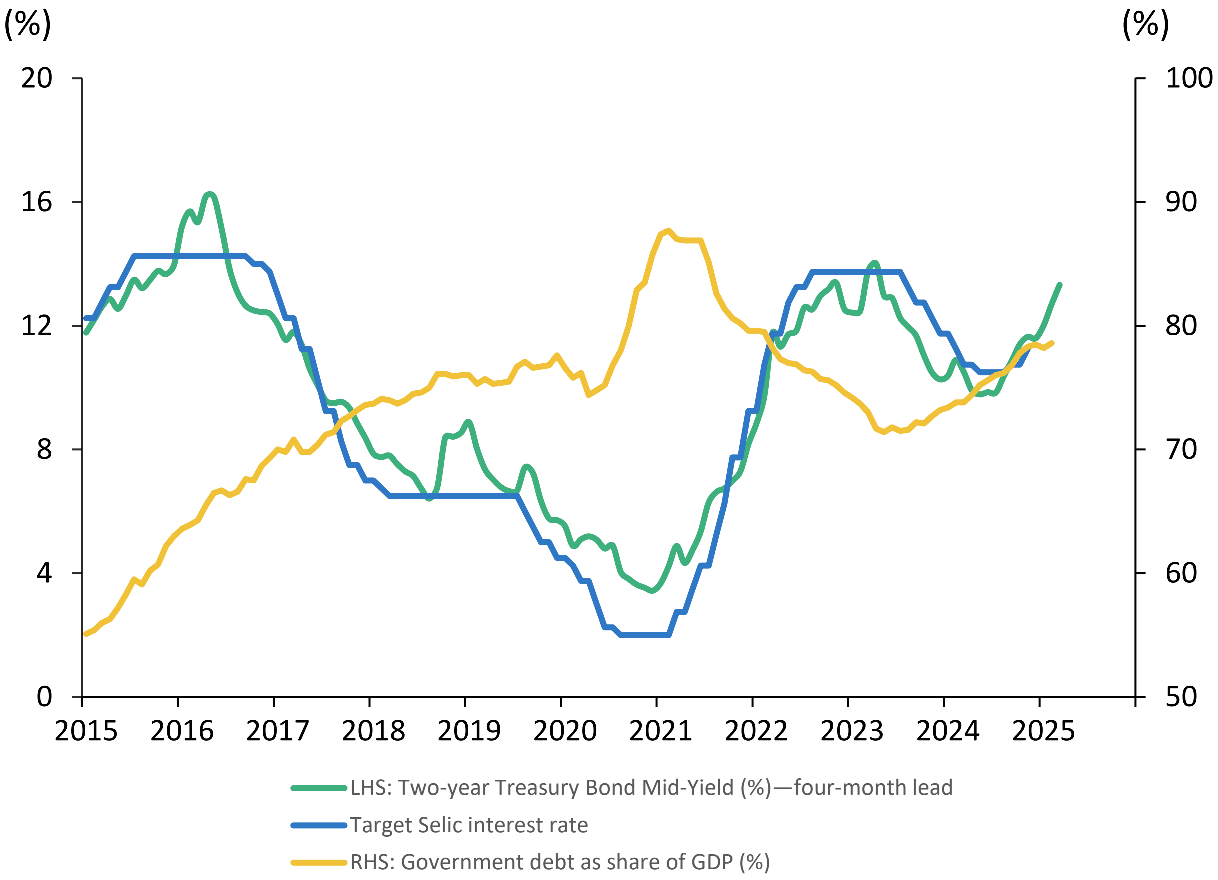
 Sources: National Institute of Statistics and Geography (INEGI), EDC Economics

Note: Data for real remuneration and employed people refer to global indices in all sectors of the economy.

Brazil

Daniel Benatuil, senior country risk analyst

Rising interest rates will cool Brazil's hot economy



Sources: Brazilian Institute of Geography and Statistics, Fundação Getulio Vargas, Haver Analytics, EDC Economics
Selic interest rate is the benchmark interest rate set by Brazil's central bank

Brazil's economy remains on solid footing, with expected growth of 3.1% in 2024 and positive momentum in 2025. However, EDC Economics forecasts a slowdown, with growth of 2% in 2025 and 1.6% in 2026, as the current growth rate is unsustainable and will require more restrictive fiscal and monetary policies.

Our outlook is mixed. Strong growth is positive, supported by record-low unemployment, solid real wage increases, high social transfers, positive business sentiment and expectations of another near-record crop harvest. But Brazil's economy is running hot, with domestic demand exceeding supply capacity, lifting imports.

Inflation and public debt are rising, reflecting an unsustainable macro-fiscal path. Investors' confidence in the government's commitment to fiscal adjustment has been shaken by modest spending cuts and changes to income taxes that would reduce revenues. The negative market reaction has sent the Brazilian real to record lows and raised borrowing costs due to a higher risk premium. This pressures the central bank to accelerate its pace of interest rate hikes, likely pushing the Selic rate to the 13%-14% range by mid-2025. Higher borrowing costs will dampen domestic demand, with the peak impact expected mid-2025 into early 2026, even as interest rate cuts resume.

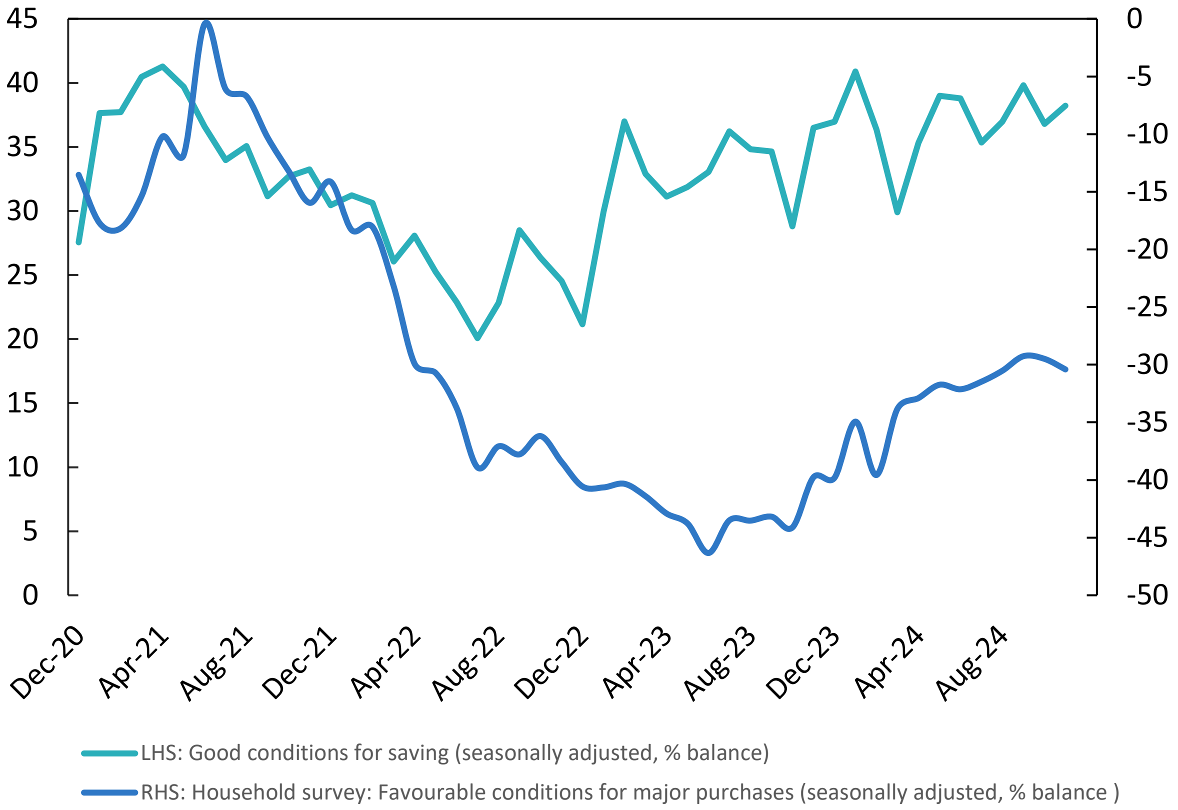
Fiscal risk remains central to the outlook amidst political tension ahead of the crucial 2026 general elections. A strong U.S. dollar, due to potential significant policy shifts under U.S. President-elect Donald Trump's new administration, is another headwind for Brazil's financial stability, potentially leading to weaker growth in key trading partners, particularly China, and lowering exports.

France

Lili Mei, senior economist

Economic uncertainty drives French consumers to save more

Consumer propensity to save increases while propensity to spend falls



The French economy has benefited from resilient private consumption and public spending during the first three quarters of 2024. However, sentiment has become more negative for both households and businesses due to weak demand and uncertainty surrounding domestic political turmoil. We forecast growth to be slow at just 0.4% in 2025 and 1.4% in 2026.

Through 2024, growth has been supported by government spending, which has continued to expand at a rapid pace. A planned fiscal consolidation to bring the budget closer to European Union guidelines didn't materialize following an increase in political instability following the June 2024 snap parliamentary elections. Former prime minister Michel Barnier's government collapsed after being in power for only 90 days. Centrist leader François Bayrou has become France's latest prime minister, chosen by President Emmanuel Macron on Dec. 13 in a bid to end months of turmoil.

A polarized national assembly is struggling to reduce France's growing deficit. As the country goes into 2025 without a budget, policy uncertainty cast shadows on business sentiment. Businesses are holding back investment decisions, with the *Composite Purchasing Managers' Index*—a key signal of investment intentions—falling to its lowest since the start of the year in November 2024.

Consumer confidence has also fallen, erasing the gains made since summer as worries about the labour market increase. While the pace of inflation has fallen, service sector inflation remains sticky. Although income increased due to a rise in the minimum wage, households are planning to save, which is reducing consumption and will drag on growth.

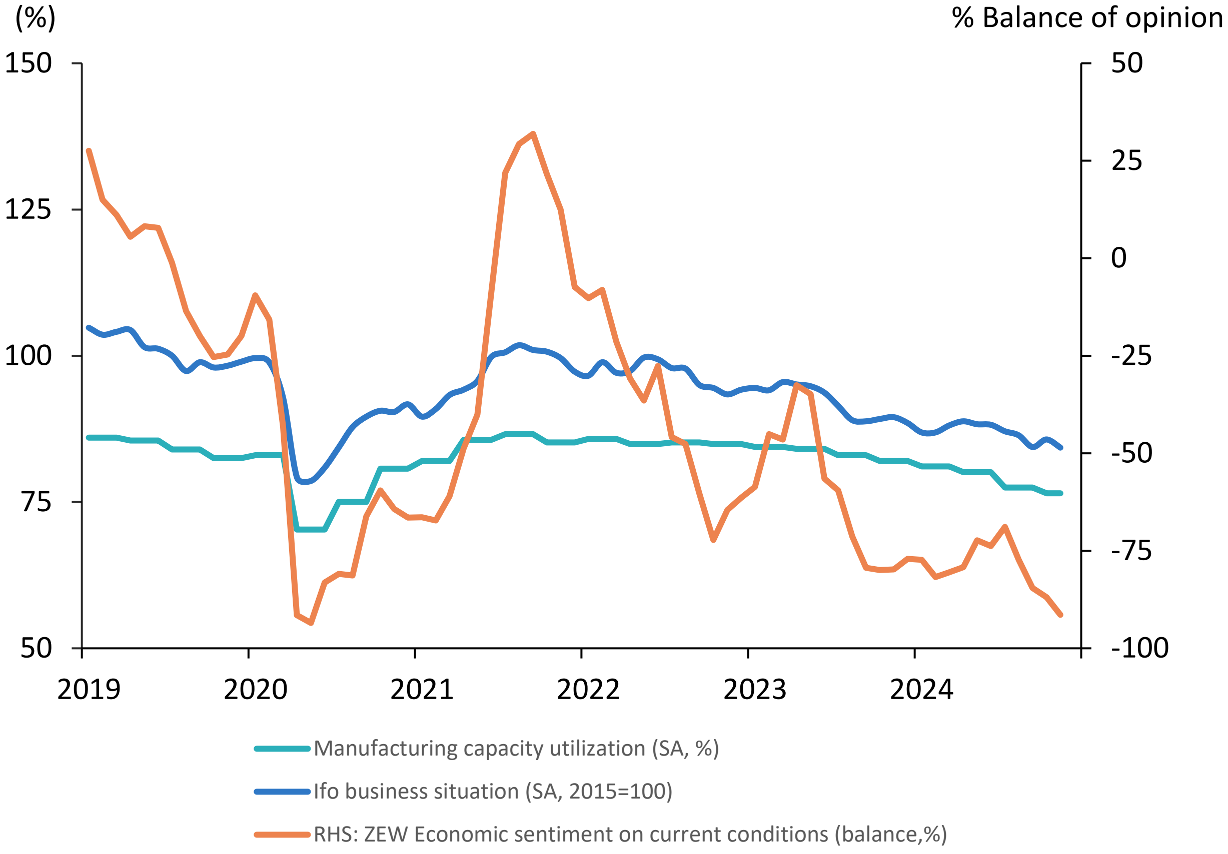
Meaningful structural reforms pushed by Macron are unlikely to be realized, as Bayrou must now form a cabinet capable of passing legislation through France's hung parliament. Such domestic political gridlock, combined with geopolitical tension, will put pressure on public spending while a rise in bond yields will gradually translate into a higher cost of public borrowing.

 Source: Haver Analytics/INSEE: France's National Institute of Statistics and Economic Studies

Germany

Daniel Benatuil, senior country risk analyst

Germany's industrial economic engine in dire need of spark



Sources: Ifo Institute for Economic Research, ZEW Centre for European Economic Research, Haver Analytics, EDC Economics

Germany's economic model has been severely challenged in the aftermath of Russia's invasion of Ukraine. Growth remains stagnant and will contract by -0.1% in 2024. The outlook has been downgraded to reflect a lack of robust growth catalysts amid a rising political and geopolitical uncertainty. Activity will stay anemic and will only pick up modestly later next year, growth to 0.4% in 2025 and 1.3% in 2026.

Industrial production and capacity utilization rates continue to contract, converging to levels comparable only to crisis lows. Business sentiment will likely remain subdued over the coming quarters. The collapse of the coalition government over disagreements about the "debt brake" will fuel policy uncertainty and likely keep major investment plans on hold (elections in February 2025, transfer of power by mid-year). German exporters also face strong headwinds. Shifting geopolitical sands and threats of increased trade protectionism amidst U.S. President-elect Donald Trump's potential escalation of the U.S.-China trade spat risk weakening foreign demand and further eroding German competitiveness.

But not all is doom and gloom. Continued interest rate cuts by the European Central Bank will lower borrowing costs and support domestic demand, albeit with a lag. Additionally, robust disinflation and a multi-decade high rate of negotiated wage increases have boosted real wage growth and consumer confidence. However, consumer tailwinds are bound to soften as the disinflation process has largely run its course and as squeezed business margins weigh on employment prospects, keeping households in precautionary savings mode.

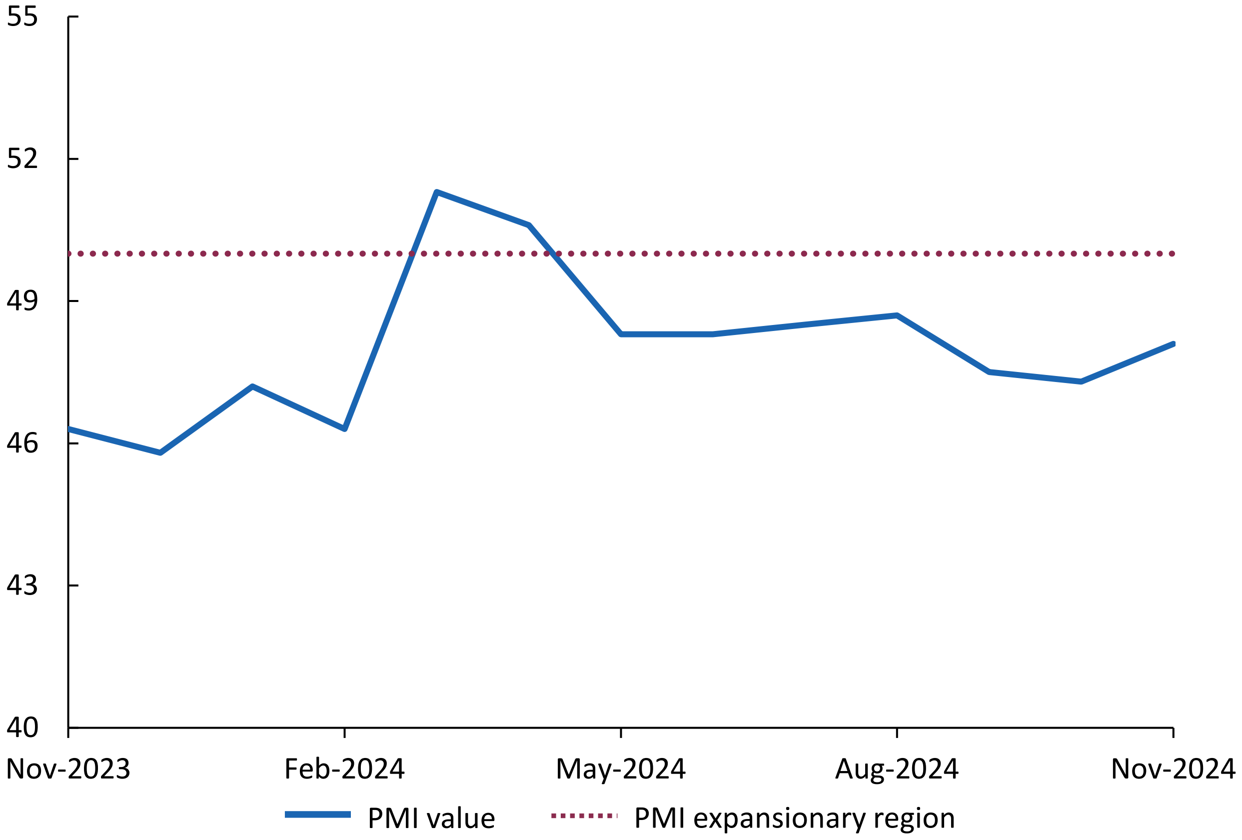
Germany's economy requires deeper structural reforms and higher government investments to address infrastructure gaps and lagging competitiveness. Upside risks could arise if the incoming administration reaches a consensus toward a more relaxed approach to the "debt brake."

China

Susanna Campagna, economic principal

Current surge in exports contrasts with negative export outlook

PMI: Manufacturing new export orders; seasonally adjusted



China has continued to benefit from solid export growth, helping it comfortably achieve the government's goal of around 5% GDP growth for 2024. We're maintaining our 4.8% GDP growth forecast for 2024 and 4.5% for 2025.

In the first quarter of 2024, exports picked up, industrial profits grew and the *Purchasing Managers' Index* (PMI) for new export orders moved into expansion in March and April after a year of contraction. However, despite a mild improvement in the PMI from October to November, it's remained in contraction since May. This negative outlook might seem at odds with the ongoing export boom. October export data surged by slightly more than 12% year-over- year, a trend expected to continue until the end of year. This boom likely reflects a front-loading of export orders due to current and looming tariffs against China.

Looking ahead, China is expected to ramp up efforts to grow its advanced manufacturing and technology sectors while providing ongoing government support to tackle its growing local government debt problem, which will increase the government's debt burden.

Upside risks to our forecast include a stronger-than-expected export boom that boosts GDP growth. Key downside risks include any spillover from the property sector crisis into the financial sector or an escalation of current geopolitical and trade tensions with the U.S.

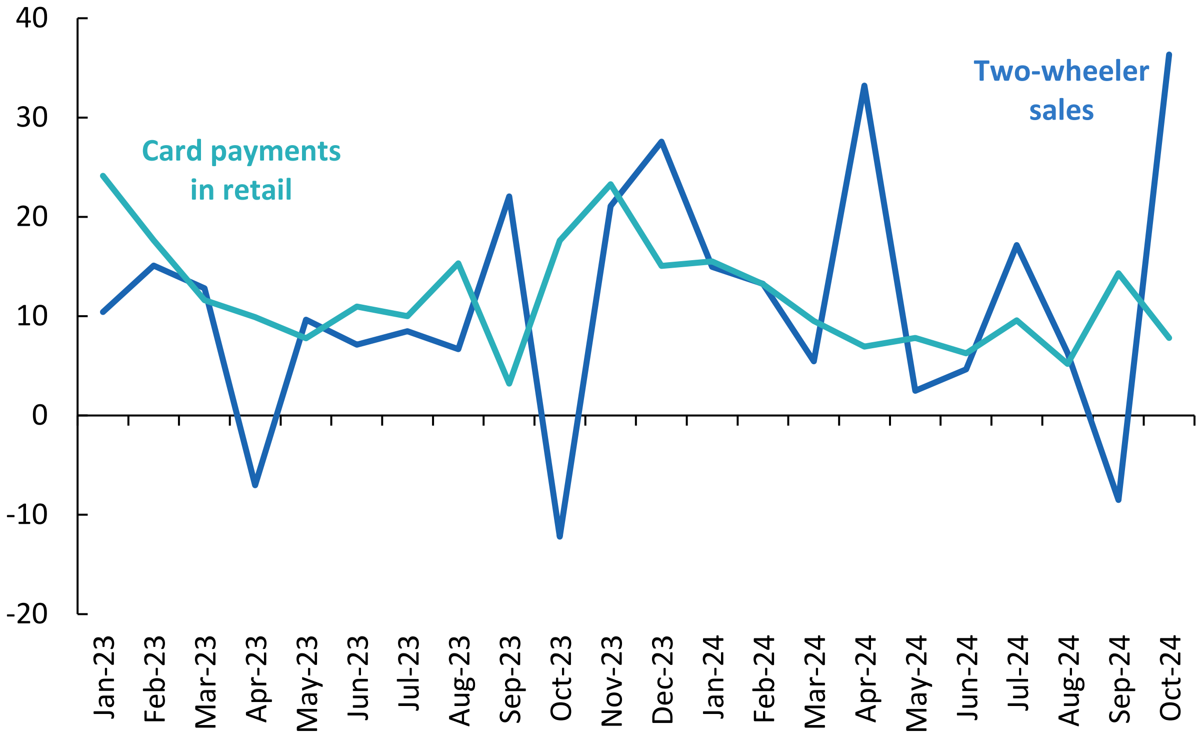
Source: Haver Analytics
Note: PMI=*Purchasing Managers' Index*; PMI more than 50 indicates expansionary outlook

India

Nadeem Rizwan, country risk analyst

Consumption steady, driven by strong rural demand

Year-over-year percent growth



India's growth remains robust, though it has weakened due to declining consumption and stagnant investment. EDC Economics has revised the growth forecasts to 6.3% for 2024 and 6.8% for 2025 due to the recent slowdown.

Growth was softer than expected in the second quarter of 2025 fiscal year (i.e., third quarter 2024), primarily due to a deceleration in consumption and flat investment caused by a sudden rise in inflation and continued tight financial conditions. Quarter-over-quarter, government spending revived from previous quarter, while net trade remained a drag on growth.

While consumption slowed down in Q3 2024, it's expected to remain resilient with festival-related spending and robust rural demand resulting from a normal monsoon and good harvest. Private investment will remain moderate, as indicated by flat private sector credit growth and marginal improvement in the PMI. Continued tight financial conditions will also weigh on investment decisions. Government expenditure, particularly capital spending, is expected to increase in the latter half of the fiscal year. Export growth will be led by services exports.

Global trade and economic uncertainty due to geopolitical developments pose a downside risk. However, an earlier-than-expected easing of interest rates could improve the outlook.

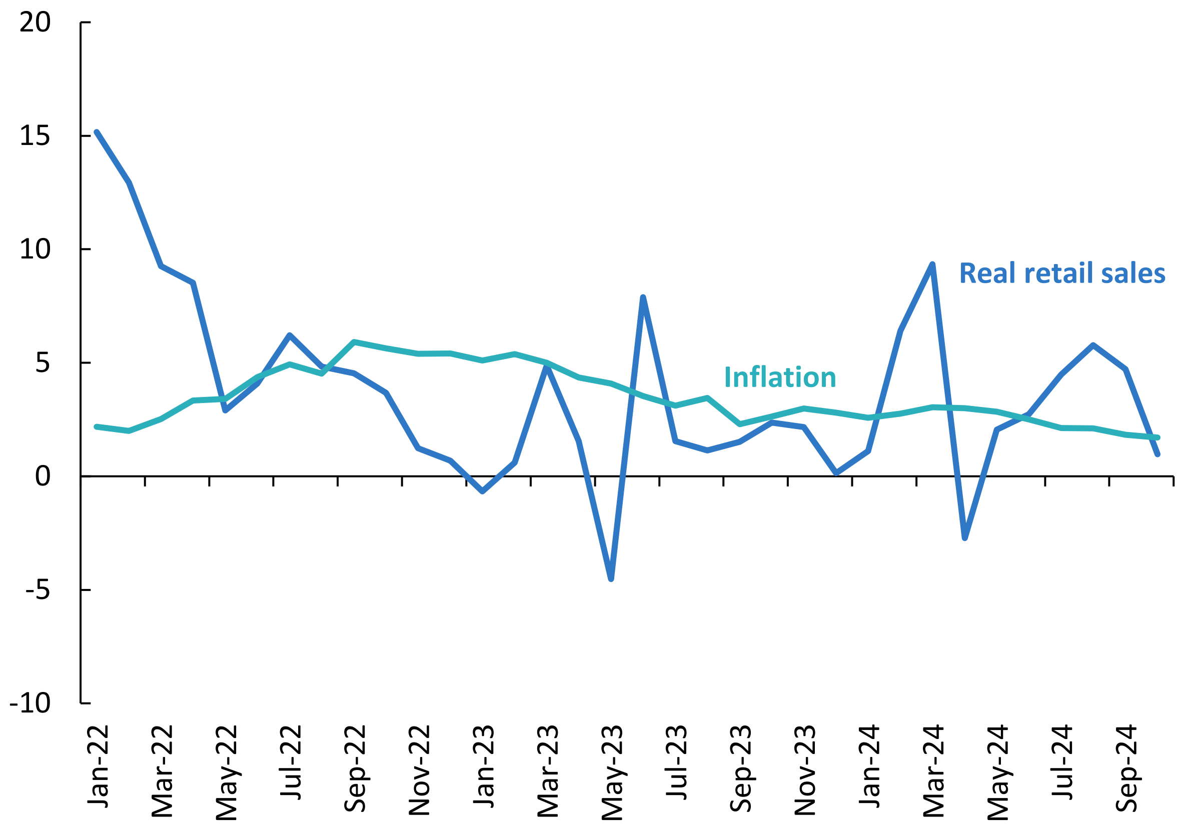
Source: Reserve Bank of India, FADA, Haver Analytics
Note: India growth rates are based on fiscal year data (i.e., 2024 FY = Q2 2023 – Q1 2024, 2025 FY = Q2 2024 – Q1 2025)

Indonesia

Nadeem Rizwan, country risk analyst

Consumption holds steady despite tight conditions

Growth, year-on-year



Growth in Indonesia is expected to remain stable in 2024, despite a slowdown in consumption and continued tight financial conditions. EDC Economics has slightly revised its growth forecasts for 2024 and 2025 downwards to 5% and 5.1%, respectively.

In the third quarter of 2024, growth decelerated as consumption increased at a slower pace compared to the second quarter. The rise in investment activity led to higher import growth, which outpaced exports, resulting in net trade exerting a drag on overall growth.

Looking ahead, consumption spending is anticipated to remain stable, supported by controlled inflation and steady food prices. Investment is expected to maintain its current momentum without significant acceleration, as the easing cycle is delayed due to exchange rate pressures. Government spending is projected to rise with the implementation of the new administration’s spending plans. However, weak external demand from key markets such as China is expected to keep exports subdued.

Global trade and economic policy uncertainty, particularly stemming from political developments in the United States, poses a downside risk. Conversely, higher commodity prices and increased demand from China could buoy exports and enhance growth expectations.

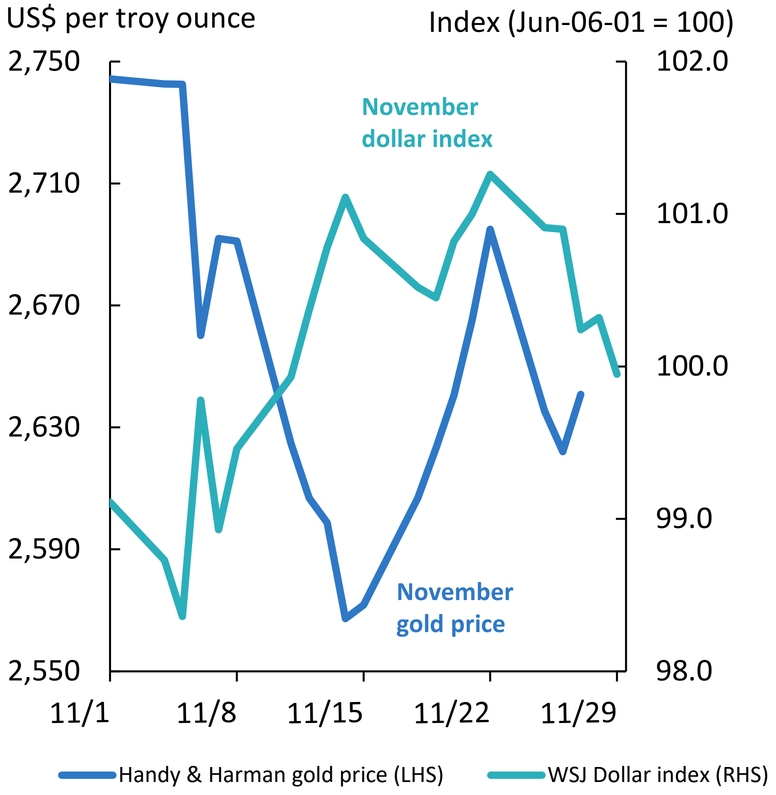
Sources: Bank Sentral Republik Indonesia, Badan Pusat Statistik, Haver Analytics

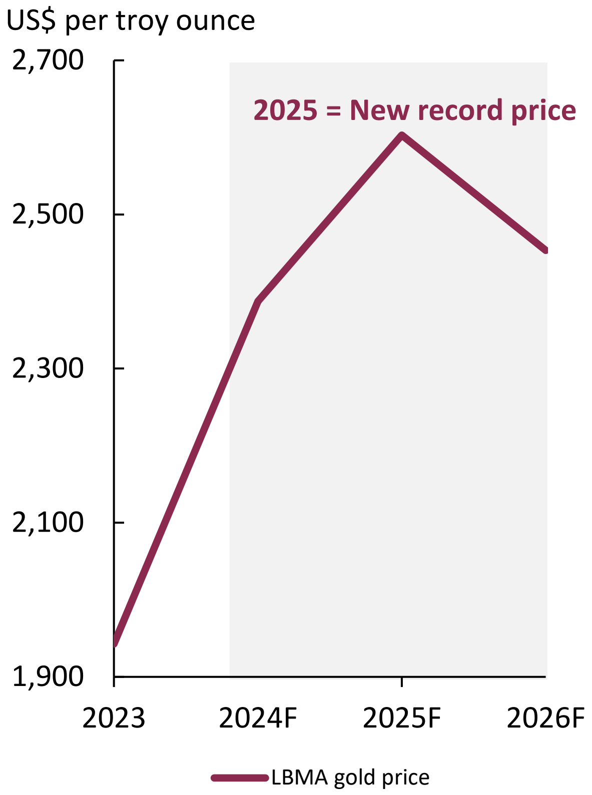
COMMODITY OUTLOOKS

Gold

Karicia Quiroz, economist

Gold rally cools, but price expected to hit peak in 2025





Driven by uncertain economic and geopolitical uncertainty, 2024 saw record gold prices. Despite a recent dip post-U.S. election, we expect gold to average US$2,603 per troy ounce in 2025, softening to US$2,453 in 2026.

The third quarter of 2024 set a new high for gold prices due to the election and geopolitical uncertainties. However, Donald Trump's win boosted the U.S. dollar, cooling the gold rally by year-end. Despite this, 2024 will mark a record year for gold.

In 2025, ongoing geopolitical tensions and policy uncertainty around the new Trump administration will drive demand for gold as a safe haven. Central banks are expected to increase gold purchases and anticipated Federal Reserve rate cuts will boost gold trading, setting a new record price. In 2026, we foresee a price correction as demand from central banks and investors declines—assuming eased geopolitical and policy uncertainties, and a forecasted gold surplus.

Upside risks include heightened policy uncertainty and renewed safe haven demand. Downside risks include the Trump administration's policies potentially leading to higher inflation, delaying Fed rate cuts.

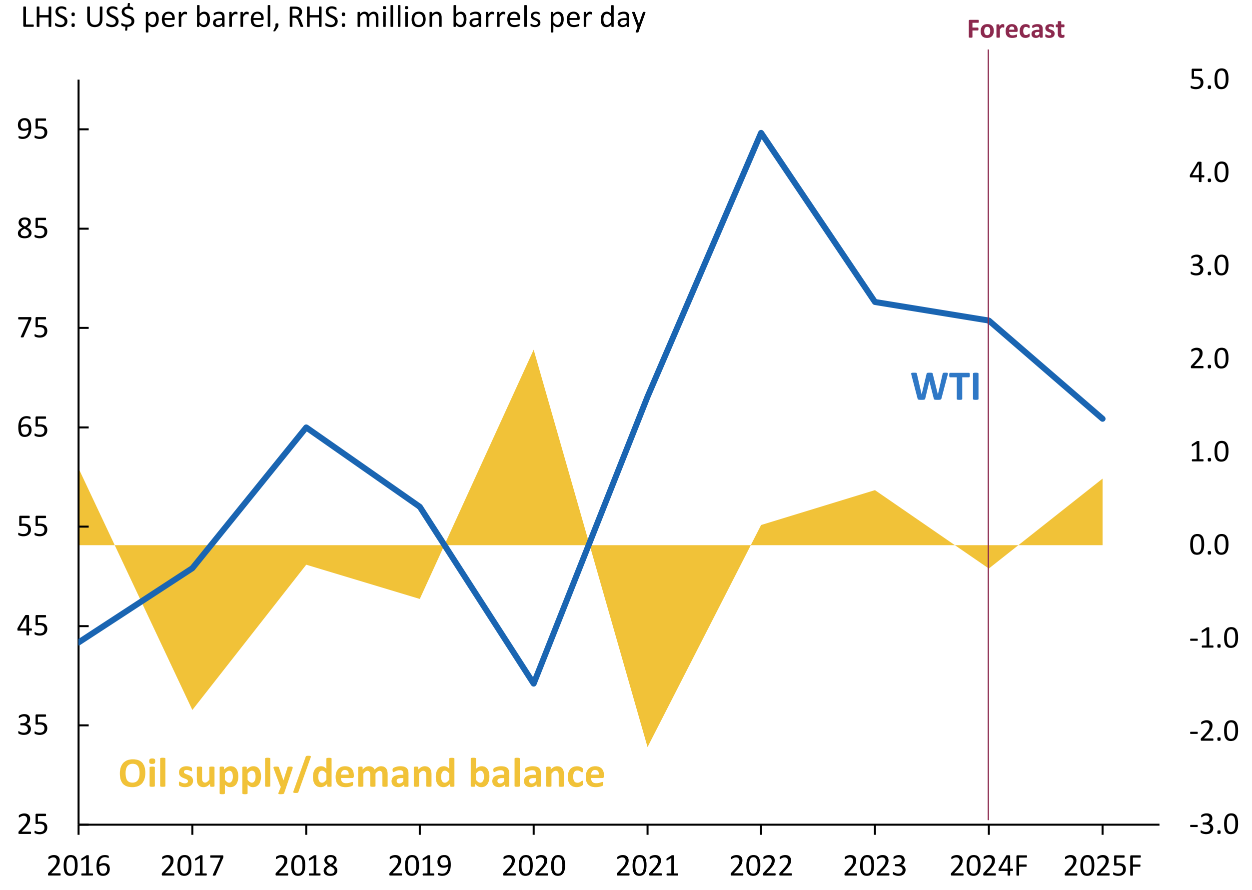
Sources: Haver Analytics, EDC Economics.
Note: WSJ = Wall Street Journal. LBMA = London Bullion Market Association. F = forecast.

Oil

Zhenzhen Ye, economist

Oil prices prepare for headwinds

LHS: US$ per barrel, RHS: million barrels per day



Entering the third quarter of 2024, West Texas Intermediate (WTI) has been "inelastic" to geopolitical risks surrounding major oil producers and dropped below US$70 a barrel following the ceasefire agreement between Israel and Hezbollah in late November.

Despite a supply-demand deficit since mid-2024, oil prices are balanced by significant inventory draws. Geopolitical risk premiums from swing producers in the Middle East and Russia are offset by OPEC+ (the Organization of the Petroleum Exporting Countries and allies) ample spare capacity and the steadily increasing market share of non-OPEC+ countries, including the U.S., Canada and Guyana.

In the short term, geopolitical risks are expected to keep a floor on oil prices until the global oil market balance improves in 2025, which will add downward pressure. In the medium and long term, energy efficiency and the transition to clean energies, led by electric vehicles (EVs), will reduce demand and push prices towards long-term targets. Notably, EVs accounted for around 18% of all cars sold in 2023, up from 14% in 2022 and only 2% in 2018. As the EV market matures, oil demand will likely decrease, considering road transportation accounts for nearly 50% of global oil consumption.

Upside risks to the baseline forecast include stronger-than-expected economic growth in China and further conflicts in the Middle East and Euro Asia. Conversely, increased production by OPEC+ to gain market share could drive prices down.

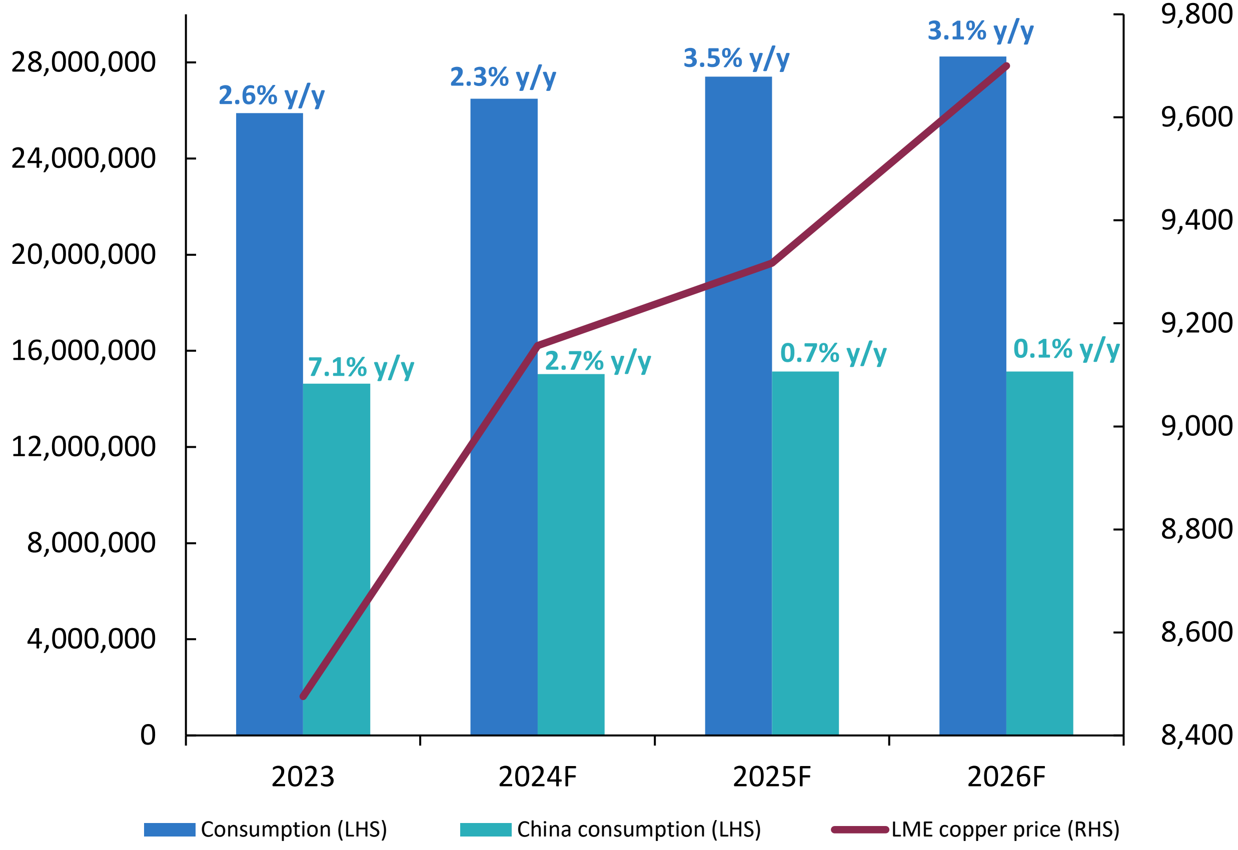
Source: Haver Analytics
Note: WTI = West Texas Intermediate.

Copper

Karicia Quiroz, economist

Global demand elevates price despite slower Chinese consumption

Tonnes of global refined copper; US$ per metric tonne



Copper prices have cooled in the second half of the year due to weaker Chinese demand and market uncertainty. However, prices are still expected to rise in 2024 and 2025 due to global demand and supply tightness. We forecast the copper price to average US$9,317 per tonne in 2025 and US$9,700 per tonne in 2026.

The Chinese property market crisis and weaker domestic consumption continues to weigh on copper prices. As the world's largest consumer of copper, China's slower consumption will likely limit price growth in the short term. China's fiscal stimulus measures announced in fall 2024 haven't provided the expected price uplift, further impacted by uncertainty around President-elect Donald Trump's policies and slower electric vehicle (EV) adoption, with decelerated PEV (battery) sales growth expected for 2024.

Expected Federal Reserve interest rate cuts in 2025 and 2026 will support a recovery in industrial production, which relies on copper inputs. We expect global demand for copper to grow faster pace than in China, and with tight supply, this will help elevate prices over the 2024-2026 period. Despite current uncertainty on decarbonization policies such as the U.S.'s *Inflation Reduction Act*, higher copper demand in clean energy technologies (i.e., EV, renewables, electricity networks) is expected in the longer term, continuing to raise prices.

Upside risks include Chinese fiscal stimulus measures that boost consumer spending, particularly in sectors requiring copper. Downside risks include reduced spending on clean energy technology investments (i.e., reduction in *Inflation Reduction Act's* EV policies) and/or delayed net zero goals.

Sources: Wood Mackenzie, Haver Analytics, EDC Economics.
Note: LME = London Metal Exchange. % y/y = Year-on-year percent growth. F = forecast. PEV = plug-in electric vehicle

EDC FORECASTS

Annual real GDP growth

Global Economic Outlook (Annual % change)	2023	2024F	2025F	2026F	2027F	2028F
Developed countries	**1.7**	**1.7**	**1.7**	**1.8**	**2.0**	**1.9**
Canada	1.5	1.3	1.8	1.8	2.0	2.1
United States	2.9	2.8	2.2	2.1	2.5	2.3
Eurozone	0.5	0.7	1.0	1.4	1.5	1.6
Germany	-0.1	-0.2	0.2	1.3	1.5	1.5
France	1.1	1.0	0.4	1.4	1.7	1.9
Developing countries	**4.4**	**4.0**	**4.2**	**4.3**	**4.0**	**3.9**
China	5.2	4.8	4.5	4.2	3.8	3.6
India	8.2	5.8	7.1	7.0	7.2	6.9
Indonesia	5.0	5.0	5.1	5.2	5.0	4.6
Brazil	2.9	3.1	2.0	1.6	2.0	1.9
Mexico	3.3	1.5	1.4	1.9	2.2	2.0
World	**3.3**	**3.0**	**3.1**	**3.2**	**3.1**	**3.1**

Note: F denotes the forecast period. India's forecast based on fiscal year (2024 FY = Q2 2023 – Q1 2024, 2025 FY = Q2 2024 – Q1 2025). Red indicates negative values
Source: *EDC Global Economic Outlook,* October 2024

Currencies and interest rates

Global Economic Outlook		2023	2024F	2025F	2026F	2027F	2028F
Currencies	**Exchange rate**						
U.S. dollar	USD per CAD	$0.74	$0.73	$0.70	$0.74	$0.79	$0.80
Euro	USD per EUR	$1.08	$1.08	$1.04	$1.09	$1.14	$1.18
Euro	CAD per EUR	$1.46	$1.48	$1.48	$1.48	$1.43	$1.47
Interest rates, annual average							
Bank of Canada *(Overnight target rate)*		4.74	4.56	3.07	2.75	2.75	2.75
U.S. Federal Reserve *(Fed funds target rate – Mid-point)*		5.07	5.19	4.03	3.08	2.62	2.62
European Central Bank *(Policy interest rate)*		3.81	4.13	2.18	1.75	1.75	1.75

Note: F denotes the forecast period.
Source: *EDC Global Economic Outlook*, October 2024

Commodity prices

Global Economic Outlook	2023	2024F	2025F	2026F	2027F	2028F
Brent Crude Spot, *USD/barrel (bbl)*	$82.5	$79.9	$71.7	$70.2	$69.4	$70.4
West Texas Intermediate, *USD/bbl*	$77.6	$75.8	$65.8	$66.0	$66.1	$67.1
Western Canada Select, *USD/bbl*	$59.5	$61.4	$56.4	$54.9	$54.1	$55.1
Natural gas, *USD/MMBtu*	$2.5	$2.2	$2.9	$3.2	$3.4	$3.5
Gold, *USD/troy ounce*	$1,943	$2,388	$2,603	$2,453	$2,289	$2,125
Copper, *USD/tonne*	$8,476	$9,157	$9,317	$9,700	$9,817	$9,976

Note: F denotes the forecast period.
Source: *EDC Global Economic Outlook*, October 2024

EDC

Disclosure

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