Global Economic Outlook

A slow-then-grow recovery

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

EDC Economics
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Canadä

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Stuart Bergman
Vice-President and Chief Economist

As the countdown to a new year began, the world's major central banks gave the global economy reason to party. Nearly two years of relentless monetary policy tightening appear to have done the trick. To be sure, high prices continue to hurt businesses and consumers around the world. But the pace of those increases has moved convincingly toward a threshold deemed acceptable by central bankers.

What's more, a series of one-off events, easing supply chains and a resilient U.S. consumer have mitigated the damage of higher interest rates on the labour market, increasing hopes for that ever-elusive soft landing. And so, in what marks a significant milestone for the economy's post-pandemic recovery, the balance now shifts to ensuring that the treatment doesn't cause more pain than what ails the system.

While financial markets have popped the cork on the new year policy pivot party, anticipating stronger asset pricing as rates ease from currently restrictive levels, the celebration may be slightly premature when it comes to the real economy. In our latest *Global Economic Outlook*, we expect central banks to cut rates, with a gaze firmly fixed on inflationary trends. The Bank of Canada, the U.S. Federal Reserve, and the European Central Bank will begin cutting this year, but it'll take them well into 2025 to get policy rates to their neutral levels—the point at which rates neither help nor harm economic activity.

In the U.S., consumers will continue to spend, albeit at a slower pace, as excess savings are finally exhausted by higher prices and interest rates, and pent-up demand runs its course. Higher costs are also constraining businesses' ability to spend, meaning that the pace of job gains and wage increases will continue to ease. A weaker consumer coupled with slower global growth will soften the U.S. outlook for 2024, generating growth of just 1.2%. We expect activity to bounce back in the second half of the year, bringing growth closer to trend in 2025, at 1.8%.

Canada's economy is also expected to see below-trend growth in the first half of the year. In the third-quarter, Canadian households spent more than 15% of disposable income on debt payments, as interest rate increases hit home. At the same time, the labour market was showing signs of weakness. This increases the chance that the Bank of Canada will cut rates earlier than the Fed, putting some pressure on the Canadian dollar, which we expect to average US$0.74 in 2024 and US$0.78 in 2025. Weaker demand dynamics will restrain consumption activity, hitting corporate profits and business investment. While the economy is expected to remain fragile early in the year, we don't anticipate recession or widespread job losses, with full-year growth hitting 0.8%. Stronger growth in the second half of the year, and a stronger global economy will pull growth up to 2% in 2025.

Executive summary

Global Economic Outlook: *A slow-then-grow recovery*

Stuart Bergman
Vice-President and Chief Economist

Germany has only managed to post growth in three of the last eight quarters, as weak Chinese growth and the loss of cheap Russian energy continue to weigh on industrial production in Europe's largest economy. Notwithstanding the positive impacts of increased tourism, resulting from the 2024 Olympics in Paris, German weakness will cause the Euro Area to achieve only meagre growth, of just 0.8% in 2024 and 1.4% in 2025.

China, meanwhile, continues to deal with the lingering effects of its property slowdown, lacklustre business and consumer confidence, record youth unemployment and weak external demand. While the government has undertaken some stimulus measures and the central bank has eased financial conditions, we anticipate that the current policy response won't be enough to buoy the outlook. Instead, we forecast Chinese growth of just 4.6% in 2024 and 4.4% in 2025, as the economy processes these challenges, and the regime tries to pivot toward a more self-sufficient, consumption-driven economy, rather than one fuelled by credit and real estate.

The bottom line?

Overall, the global economy will expand by just 2.8% in 2024, before generating more robust growth of 3.3% in 2025—a pace more in line with pre-pandemic levels. The weaker global outlook and subdued demand in the early part of our forecast will weigh on commodities. We forecast oil and copper prices to fall back modestly in 2024. Copper will benefit from renewed activity in 2025, while the oil market continues to adjust to new structural realities. Gold prices, meanwhile, will be supported in 2024 by worldwide election uncertainty and ongoing geopolitical volatility which, together with renewed supply chain disruptions, remain key risks to watch out for over the horizon.

Outlook overview

- Central banks have levied significant interest rates onto consumers and businesses alike, but it seems that this is finally paying off. Nations around the world are trending towards more favourable inflation levels as many are now thinking about long-awaited interest rate cuts.
- Central banks, for their parts, will be determinedly focused on cutting rates as soon as inflationary worries are fully overcome. For them, cutting too early could prolong any inflationary challenges, while cutting too late would impose unneeded burdens on the economy.
- Consumers and businesses are looking to rate cuts for some needed relief from elevated debt burdens and stifled economic activity. This relief, however, will take some time to reach those impacted as rate cuts are expected to be rolled out gradually, reaching a neutral level in 2025, and the effects from these changes will take some time to work their way through the economy.
- EDC is forecasting muted economic growth in the first half of 2024 before experiencing notable rebounds in the second half for regions such as Canada, the U.S., and Europe.

Note: A neutral rate of interest is a policy rate that central banks won't move away from because it allows the economy to run neither too hot nor too cold

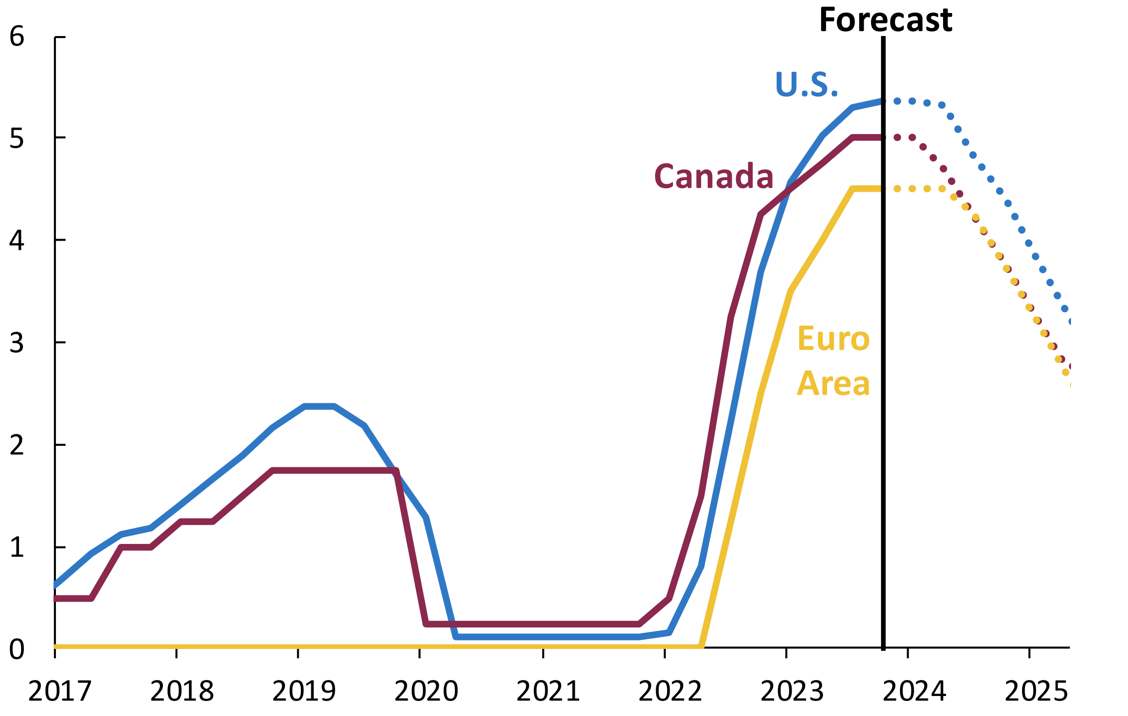
MACROECONOMIC CONTEXT

Inflation easing but remains elevated

As most measures of inflation moderate, including core inflation, which excludes food and energy prices, the impact of interest rate hikes are finally being felt. Food prices and other select items remain elevated and stubborn. The U.S. Federal Reserve and Bank of Canada are expected to maintain higher rates for longer until reaching "restrictive territory" and ultimately pressuring inflation down to their 2% targets. EDC Economics forecasts rate cuts for these markets to begin in mid-2024.

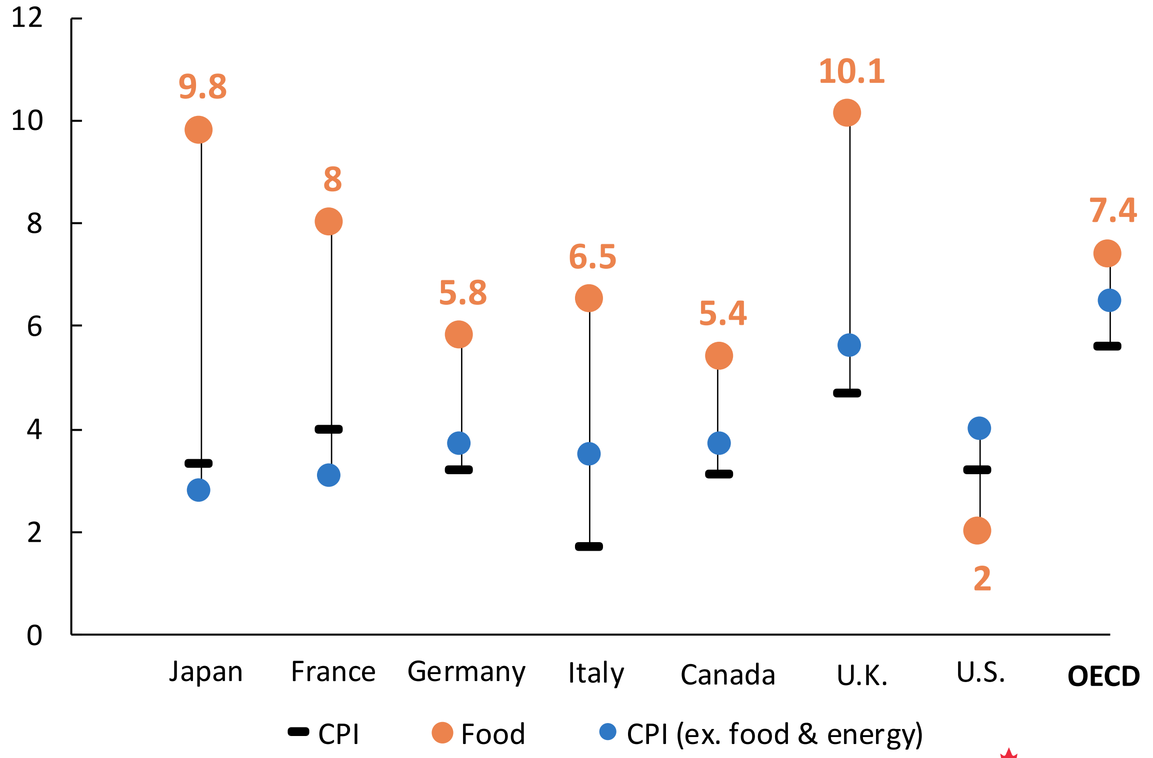
Policy interest rates

Quarterly, end-of-period, %



Consumer Price Index (CPI)

Annual growth rate, %



Sources: Haver Analytics, Organisation for Economic Co-operation and Development (OECD), EDC Economics

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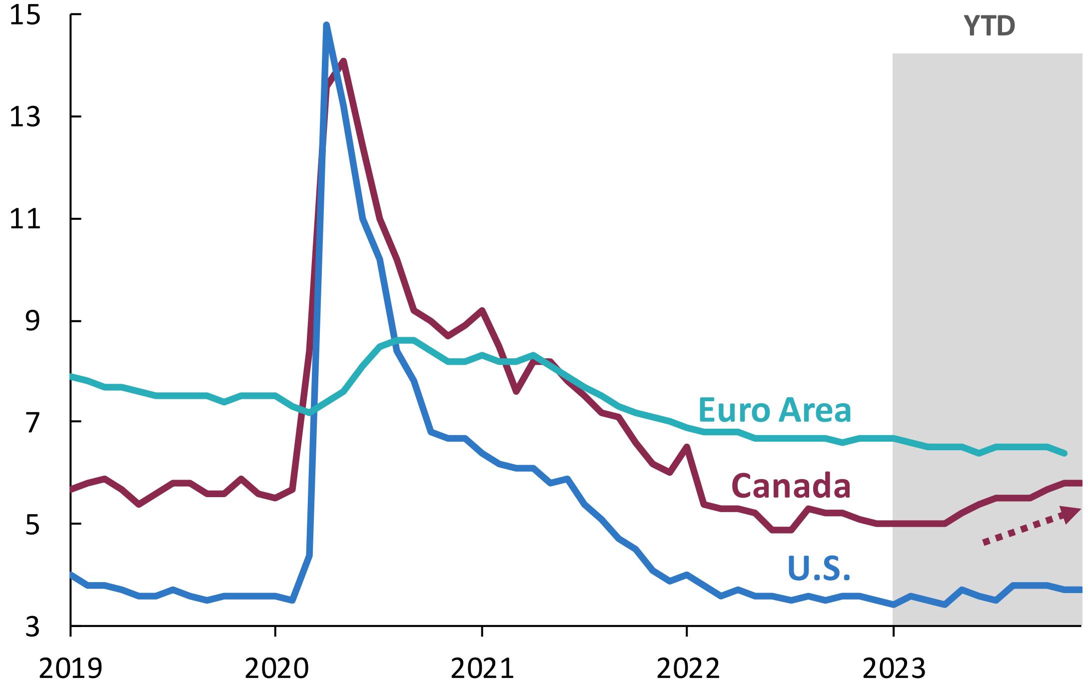
Labour markets diverge further

Unemployment and job vacancy rate data shows minimal improvements for Euro Area labour markets, while U.S. counterparts are slightly tightening. Canada's situation has loosened notably as population growth, fuelled by immigration, has led to unemployed and employed populations growing in tandem. This benefits the inflationary outlook and lets the Bank of Canada look to rate cuts in 2024. Canada's growing labour force is also a relief to businesses who've grappled with severe labour shortages for more than two years.

Unemployment rate

Percent



Canadian population changes over 2023

Thousands of people*

Sources: Haver Analytics, Statistics Canada, EDC Economics

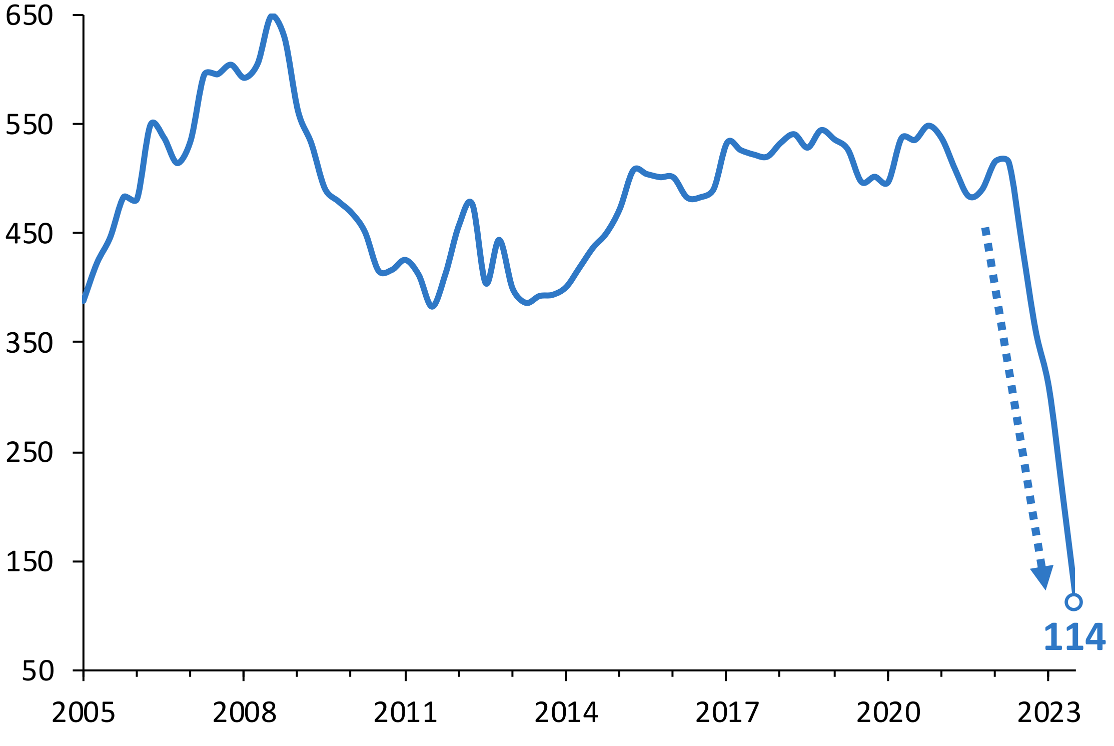
*Canadian populations are of those 15 years or older, seasonally adjusted by Haver Analytics, parenthesize are YTD growth **Immigration data is a three-month moving average of landed immigrants

U.S. corporations withstand high interest rates, but not for long

Despite the current environment of high interest rates, U.S. corporations have recuperated heightened interest payments on loans by using interest-bearing investments. However, a wave of debt in the corporate bond and loan markets is coming due soon and will threaten corporations' ability to weather high rates. In tandem, governments around the world will bear the costs of high rates as interest payments and debt-servicing costs increase. This will stifle corporate and government spending in 2024.

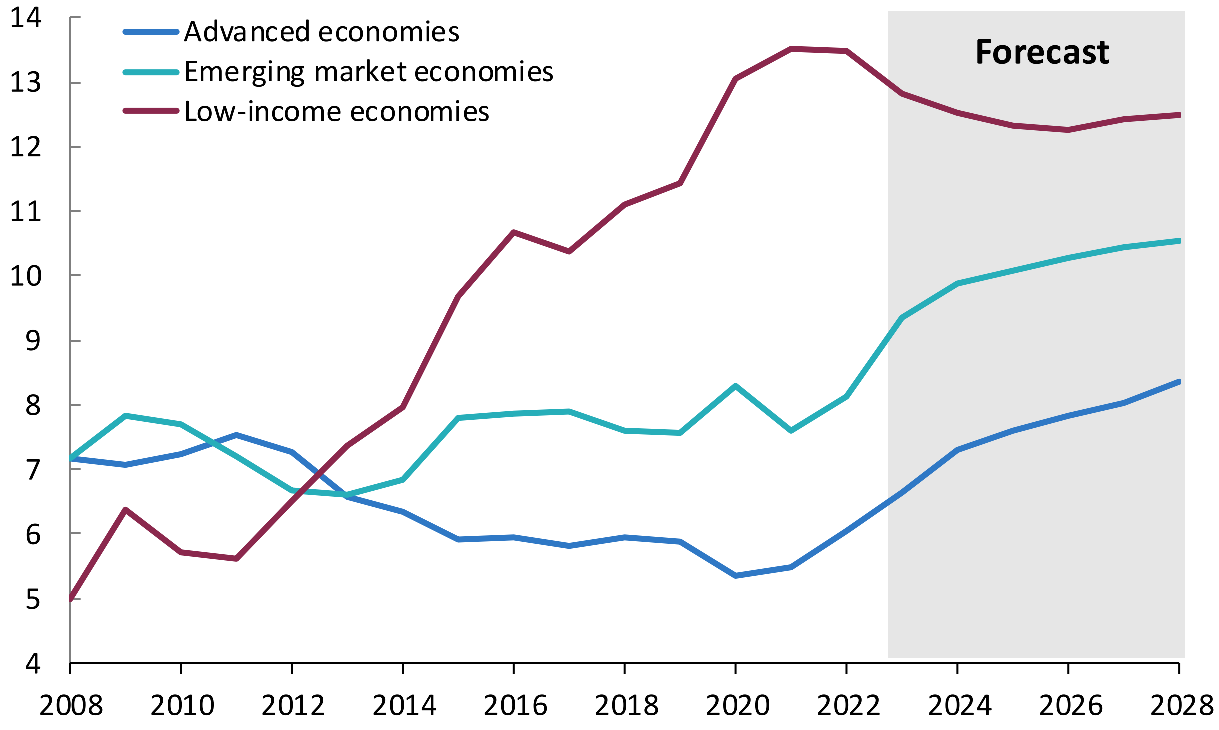
U.S. corporate debt payments minus interest earned

Quarterly (USD, billions), SAAR*



Government interest payments are rising across the globe

Percent of general government revenues**



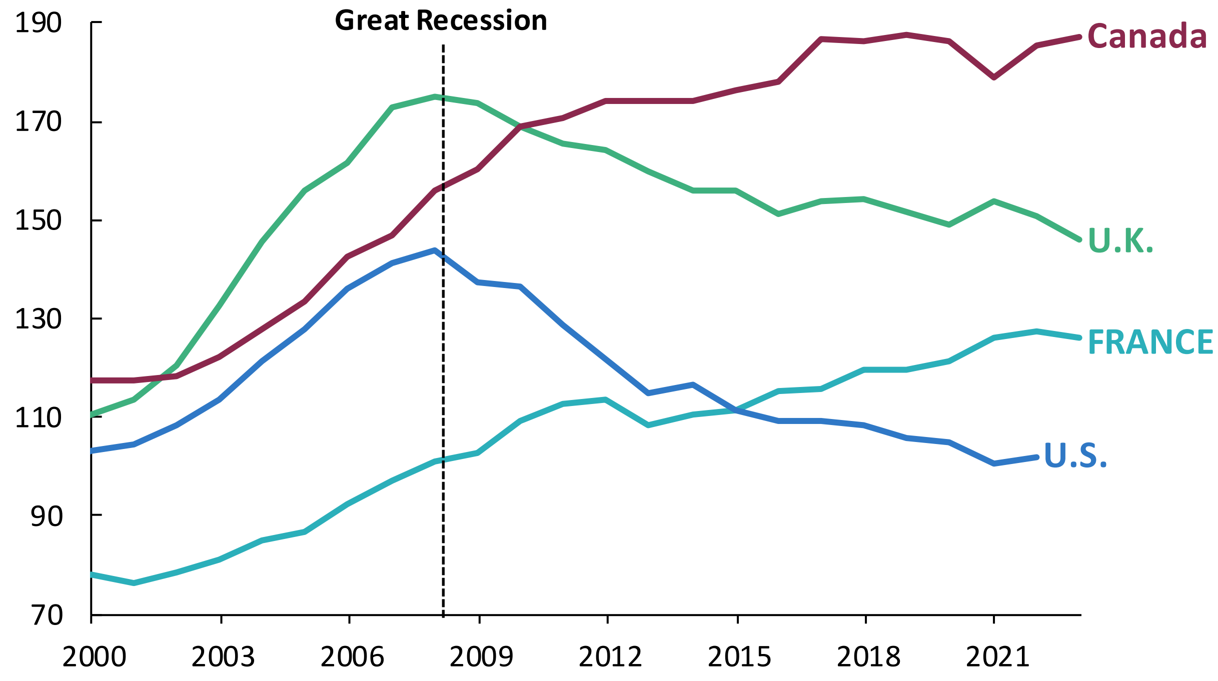
Sources: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, International Monetary Fund (IMF)
Note: *SAAR: Seasonally adjusted annual rate. **Forecasted data is from IMF World Economic Outlook October 2023

Impacts of interest rates weigh heavily on consumers

Canadian households have accumulated considerable debt, holding the ninth-highest debt-to-income ratio of all OECD countries. This heightens vulnerabilities to interest rate changes, as the effective interest rate on Canadian households has almost tripled over the last two years—reaching levels not seen since the early 2000s. This is expected to drag on Canadian consumer demand as well as consumers of other debt exposed nations (such as Australia, Korea, and Norway) until interest rates fall.

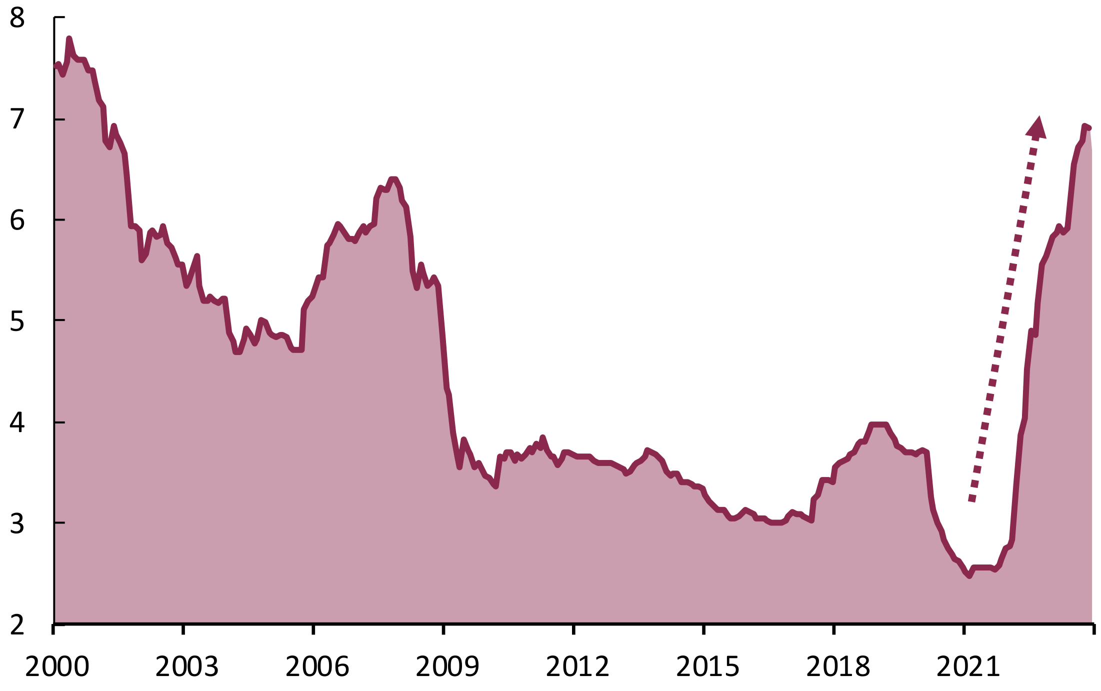
Household debt-to-income ratios

Percent



Canadian effective household interest rates

Percent



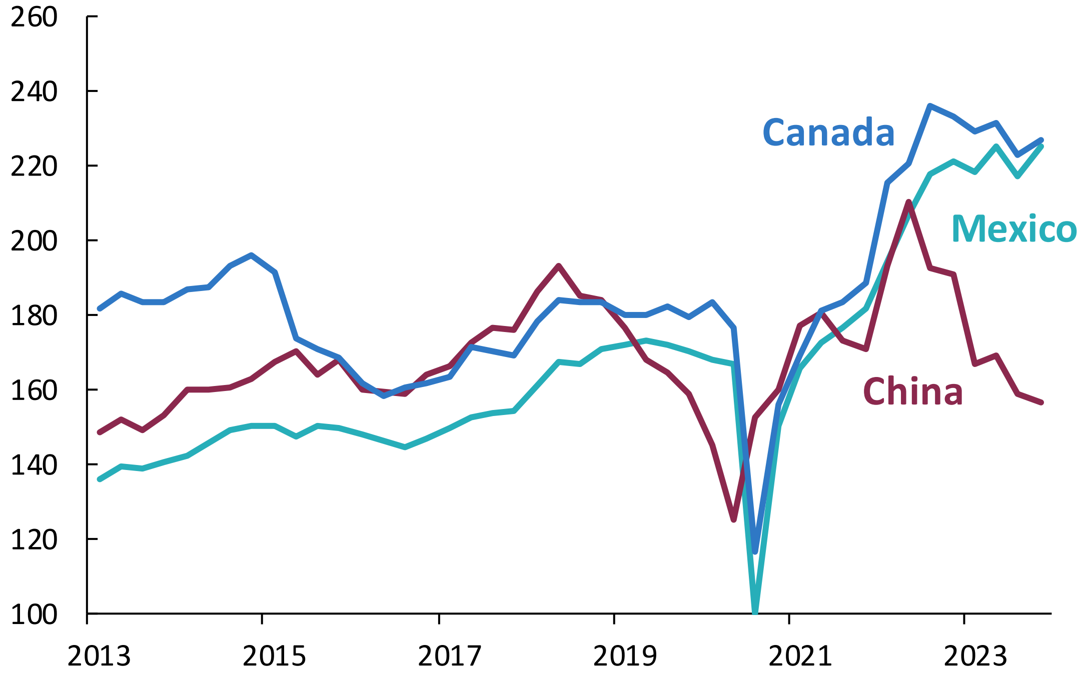
Sources: Haver Analytics, EDC Economics, OECD, and Bank for International Settlement

Nearshoring provides economic boon to Mexico

Geopolitical tensions between China and the U.S. have triggered a nearshoring shift in favour of Mexico. The relocation of manufacturing operations to that country addresses risks of supply chain disruptions and is pulling U.S. trade back to North America, especially in the automotive industry. Yet, Chinese investments have also been pouring into Mexico, stoking concerns of Chinese companies circumventing tariffs and undermining North American free trade agreements.

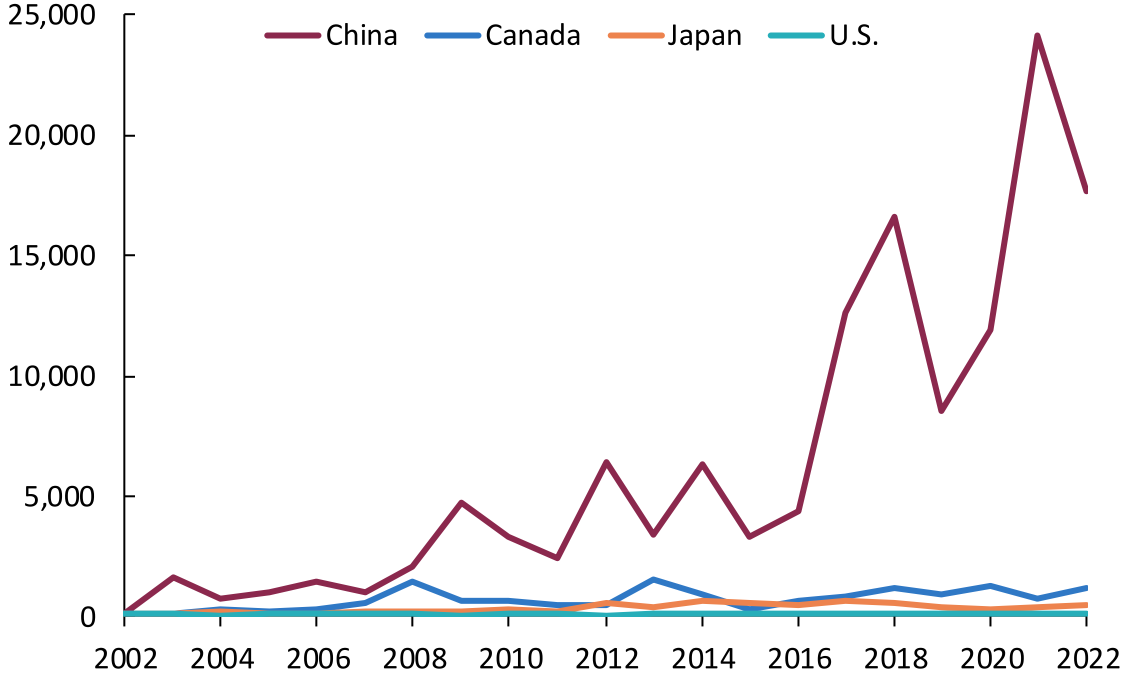
Mexico inches closer to being U.S.'s top trade partner

Total trade with the U.S. (USD, billions), SA*



Chinese investments to Mexico have soared after 2016

Index of foreign direct investment inflows to Mexico (2002=100)



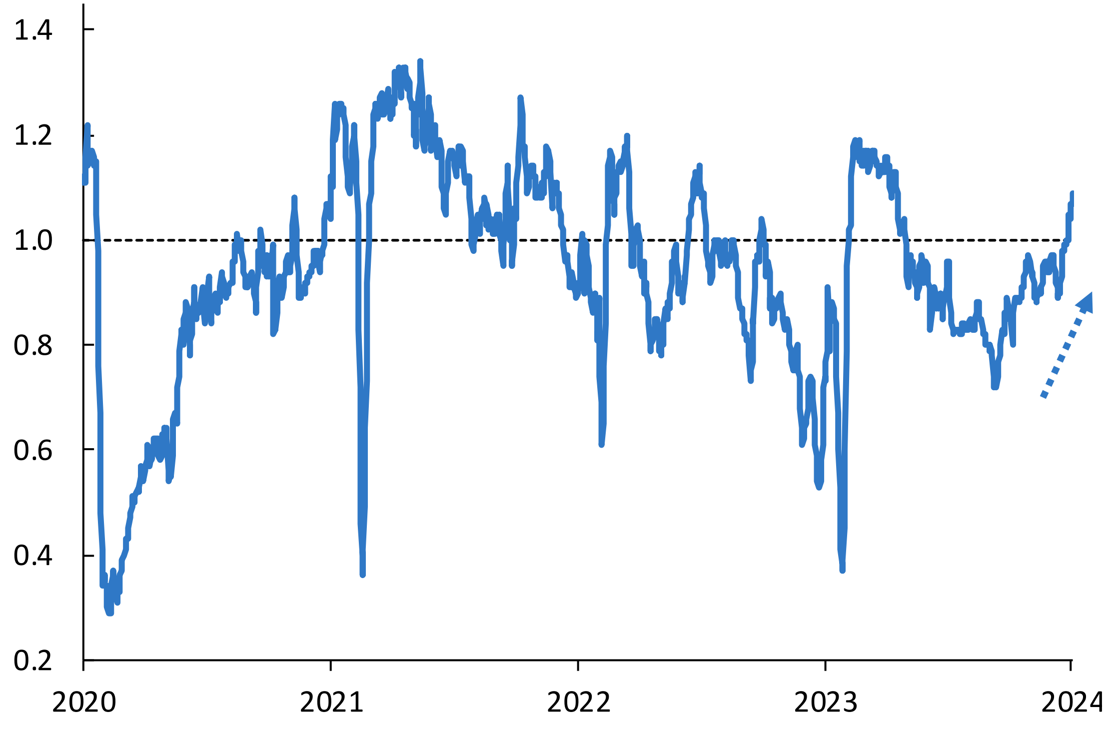
Note: *data up to September 2023, SA: Seasonally adjusted, data is total trade = goods + services
Sources: Haver Analytics, EDC Economics

Chinese economy sends mixed signals, but vulnerabilities remains

There are signs of improvement with the rise in economic activity, but consumer confidence remains low. Depressed global demand continues to hamper exports while the downturn in the property sector persists. Uneven economic recovery along with continuous geopolitical tensions are keeping investor confidence in China weak.

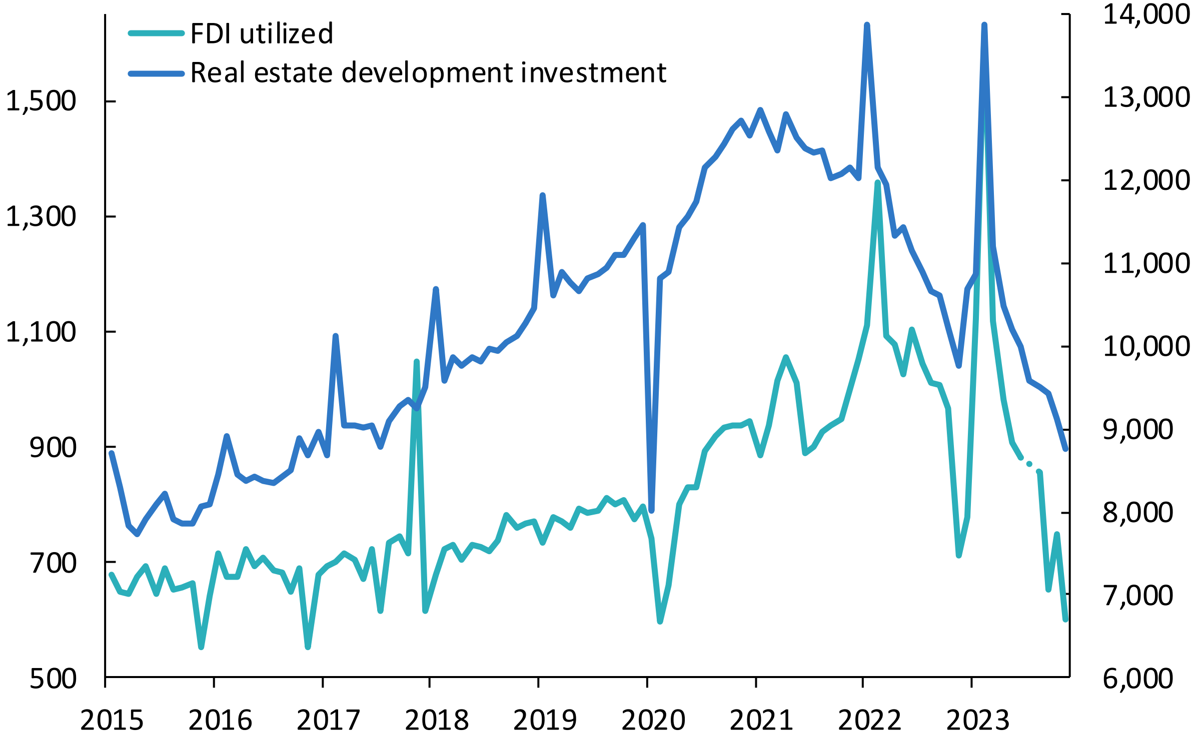
Economic activity is rising in China

*YiCai High Frequency Economic Activity Index**



Declines in Chinese investments

100 million yuan's, seasonally adjusted**



Source: Haver Analytics

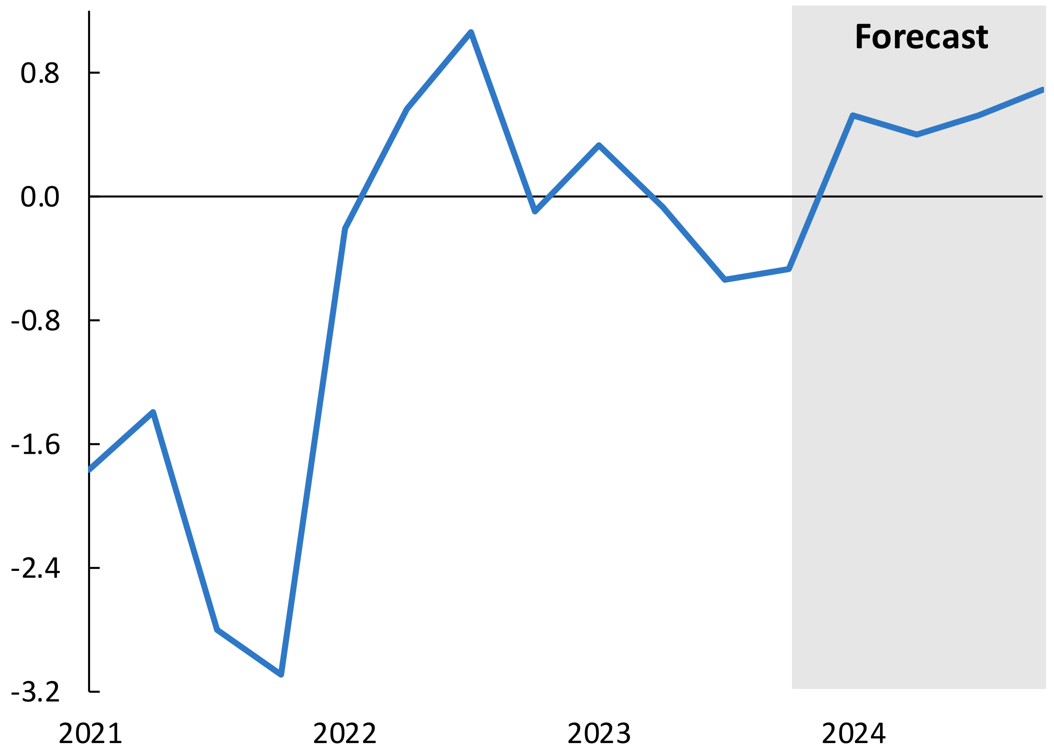
*The index is normalized so that the 2019 average equals one **Real estate data seasonally adjusted by Haver Analytics, FDI = foreign direct investment, and the dotted line is interpolated data

Commodity prices continue to fall

Subdued demand and adequate supply has kept the commodity market in balance overall and prices continue to fall. While the downward trend is expected to continue with the slow recovery of global demand, any material supply-side shock would disrupt this trend and push prices upwards.

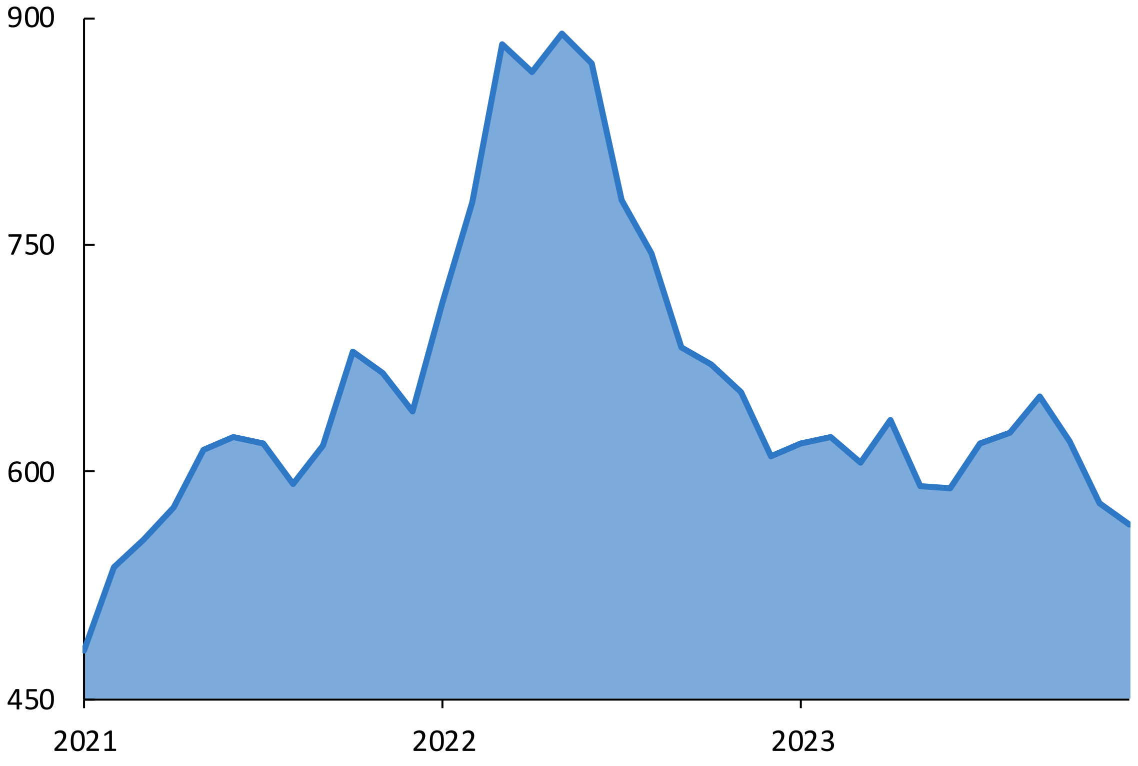
Oil supply and demand balance

Stock change needed to balance, million barrel per day



Bank of Canada commodity price index

Index, not seasonally adjusted, January 1972 = 100



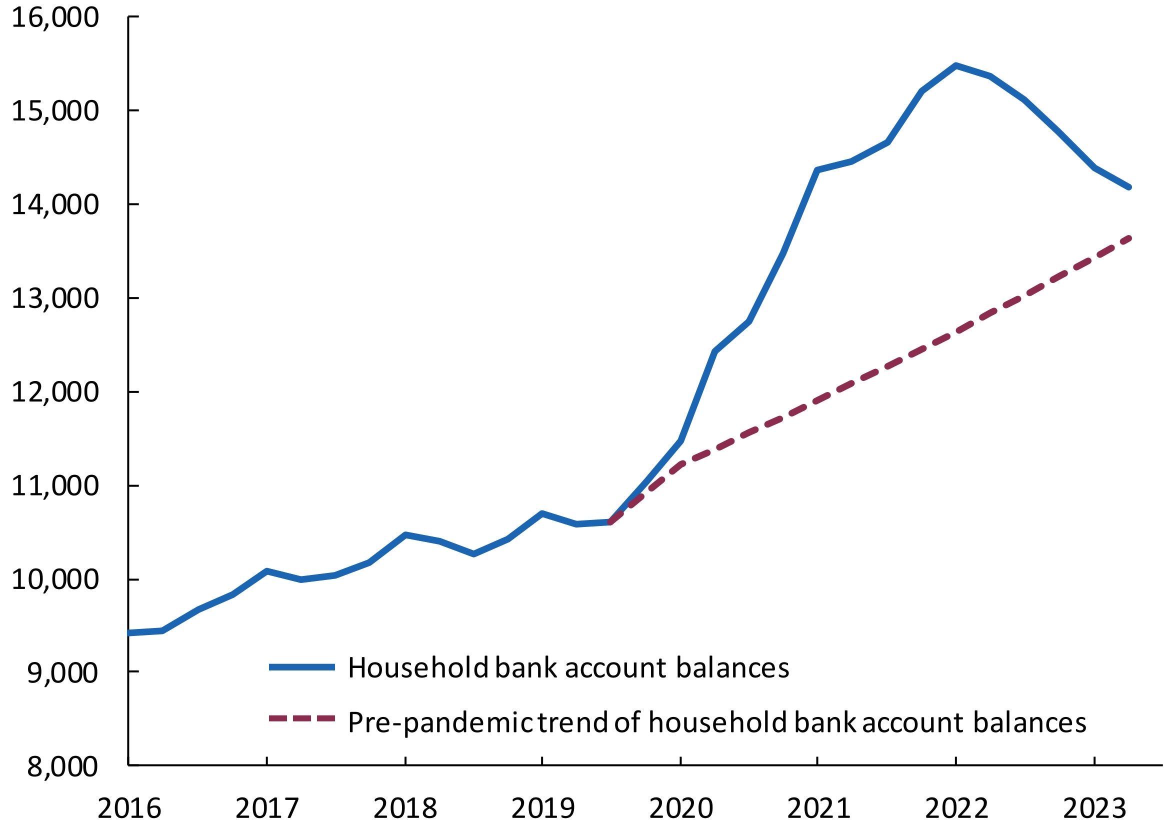
Source: Haver Analytics, FAO

COUNTRY OUTLOOKS

United States

Excess pandemic household bank balances almost drawn down

Billions of US$



The U.S. economy will face headwinds early this year as consumer and business spending fatigue will curb economic growth. EDC Economics forecasts real GDP to grow by 1.2% in 2024 and bounce back up to 1.8% in 2025.

- We expect the pace of hiring to continue to slow. Monthly non-farm job gains over the last 10 months have averaged 239,000, which is down significantly from 426,000 a year ago.
- Wage growth is running well-below the rates that employees saw in 2022.
- Excess pandemic savings are almost depleted, so some households are racking up credit card debts and beginning to experience payment delinquencies.
- Consumer confidence, retail sales, and housing are all expected to be down in early 2024.
- Student loan repayments are taking $436 to $900 out of the already tight monthly budgets of many Americans, depending on the degree and program.

High interest rates and inflation will limit purchases of business machinery and equipment for 2023. The good news is that inflation will continue to ease, allowing the Federal Reserve to cut interest rates by mid-2024.

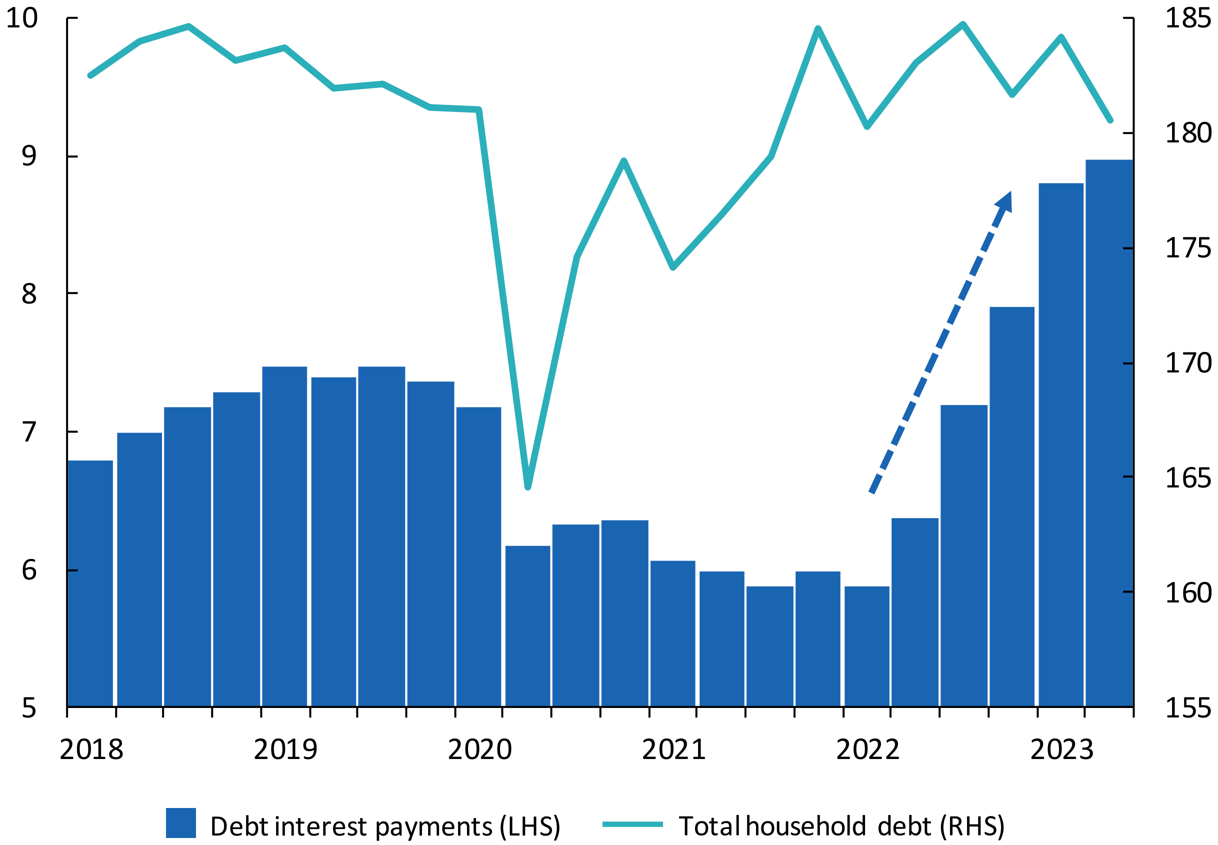
While the economy will slow, we don't expect a recession this year.

 Source: Haver, EDC Economics

Canada

Canadians drowning in household debt

Percent shares of household disposable income



Source: Haver, EDC Economics

Note: LHS=Left hand side axis, RHS=Right hand side axis

Canada's economy will slow this year as elevated interest rates continue to weigh down on over-indebted households and drag on business spending. Weaker external demand will also contribute to Canada's overall economic prospects with gross domestic product (GDP) forecasted to slide to 0.8% in 2024 before bouncing back to 2% in 2025.

Cooling labour markets, elevated borrowing costs, and a less enthused consumer will make for a dismal spending period in 2024. The Canadian consumer is expected to hunker down until inflation and interest rates ease. Canada's soaring population has boosted the labour pool for employers and is likely to weigh down on wage growth this year, contributing to households stifled spending power.

While businesses become less worried about labour scarcity due to the large pull of new immigrants, slowdowns in consumer demand will dampen spending on business investments. However, the slowdown in business investment isn't likely to result in mass layoffs since the economic malaise is expected to be short-lived.

In addition to weak domestic demand, the Canadian economy will face external headwinds. Canada's largest trading partners face equally weak growth prospects in 2024. With dry conditions destroying Canada's principal crops in 2023, agri-food exporters will have less stock to ship out early this year. Canadian exports will also be impacted by notable retooling and shutdowns of auto plants in 2024, as well as lower demand for lumber in response to slower U.S. home building activities.

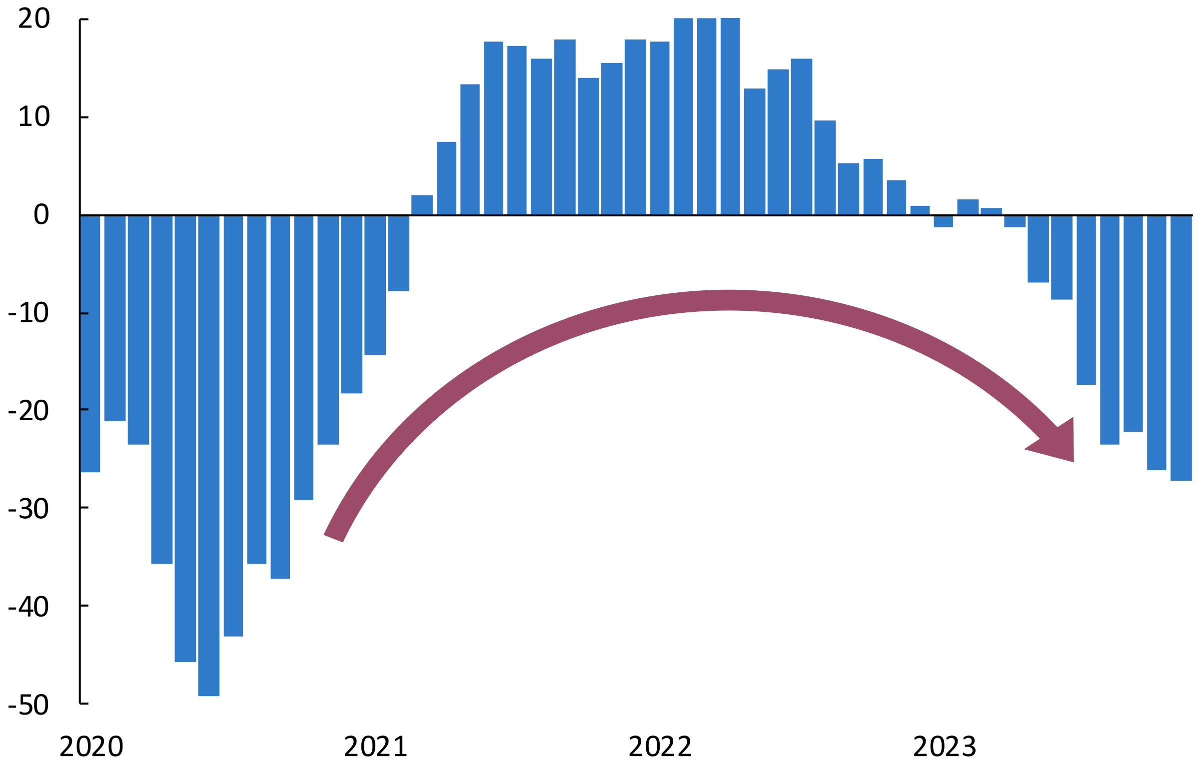
Risk to the outlook is largely dependent on how the inflation profile unfolds throughout this year. Geopolitical risks that disturb global commodity trade could exaggerate upswings in prices and reverse progress on the fight against inflation. Ultimately, these scenarios could lead to stricter monetary policy and subsequently damage overall consumption.

The outlook could improve markedly against the base-case if inflation falls more rapidly than expected, causing monetary policy to loosen and stimulate demand.

Germany

Export order books declining due to weak Chinese recovery

Volume of export order books, percent balance, not seasonally adjusted



Germany's economy is expected to contract by -0.2% in 2023 followed by growth of 0.4% in 2024. At the beginning of 2023, the country was in a technical recession with the economy contracting by 0.3% in the first half of that year after a 0.5% contraction in the latter part of 2022.

While the anticipated energy crunch following the Russian invasion of Ukraine failed to materialize in the winter of 2022 to 2023, the fallout from the energy shock is ongoing given the sheer size of the energy-intensive industrial sector in Germany.

Germany has recorded the lowest growth of all the Euro Area economies since the beginning of the pandemic. While the government enacted measured assistance to prevent deeper economic scarring, domestic demand and abroad demand in key markets are the primary factors weighing down the German economy. Fiscal policy is also in disarray following several court rulings, which severely restrict the government's ability to use alternative methods to stay within debt limits.

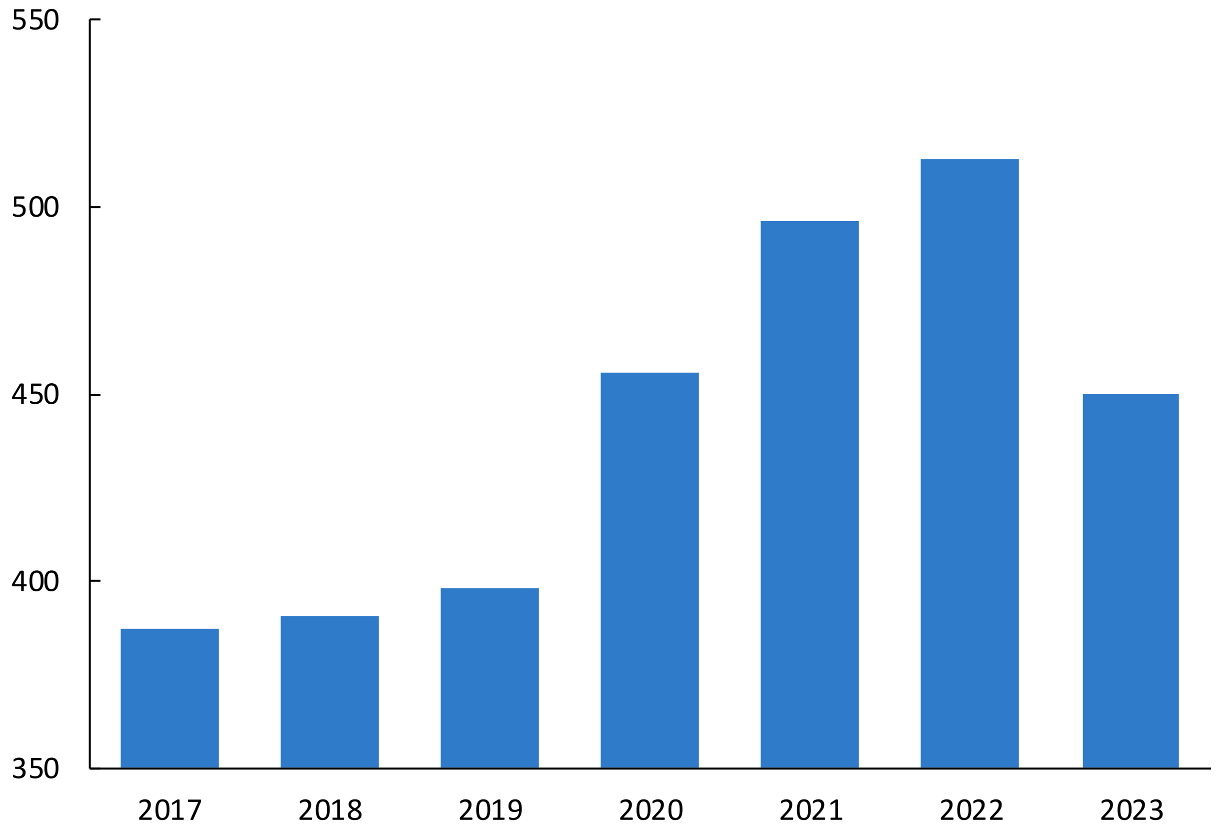
Over the medium to long term, aging population and demographic challenges could put a ceiling on growth.

Sources: Haver Analytics, EDC Economics

France

Government expenditure declining after pandemic splurge

General government budget expenditure, billions of 2014 euros



French GDP is expected to grow by 0.8% in both 2023 and 2024.

With consumption driving 55% of GDP in France, this weakness has had a ripple effect on economic data for Europe. While the economy is expected to perform relatively well in 2023—a forecast growth of 0.8%—French unemployment has been rising and is expected to continue in 2024. This comes largely due to regional job destruction as well as recent reforms lifting the retirement age.

Strengths for France include access to abundant nuclear power that guarantees energy security—which will grow in importance as Europe moves towards electric vehicle targets. France is also expanding its nuclear capabilities through a greater focus on small-modular-reactors. The French government is on a structural mission to reduce the role of government in the economy, which remains on the higher side compared to peers.

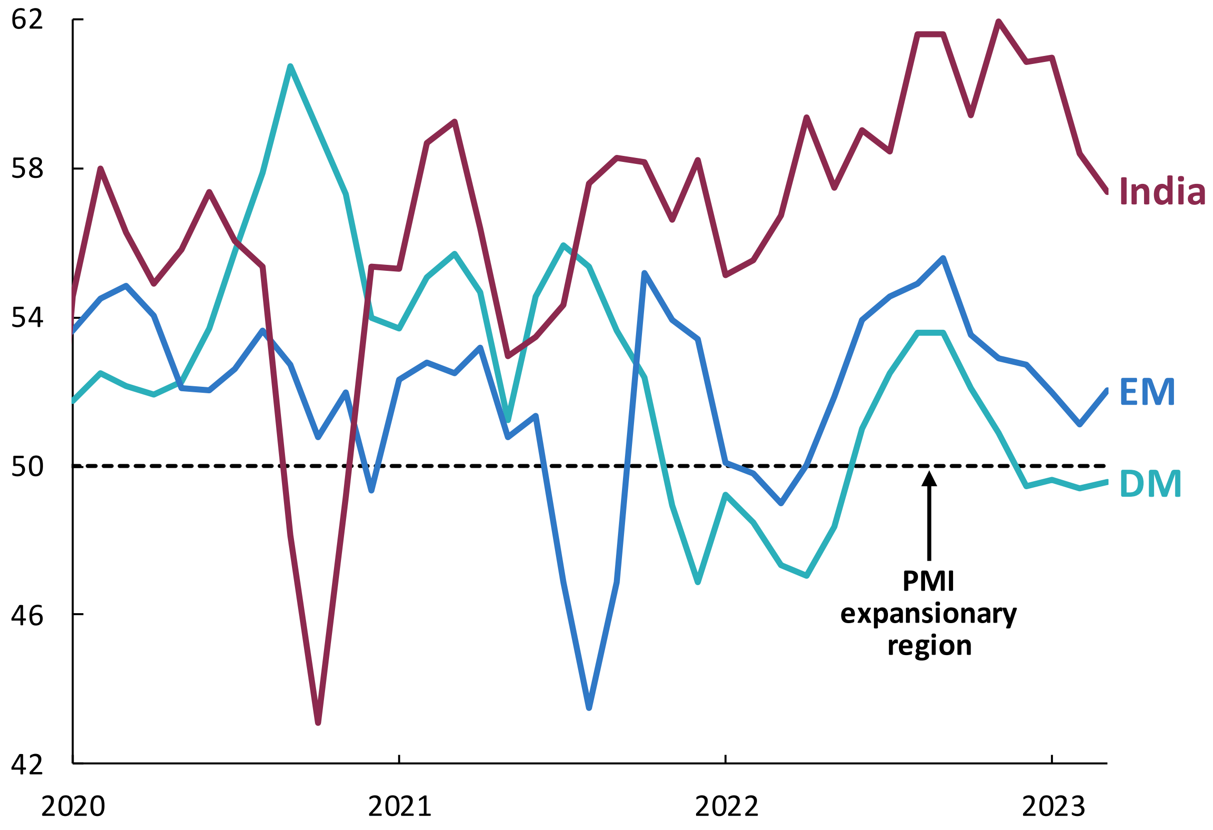
Some structural challenges include an aging population, as well as economic outcomes of immigrant population that could impact the structural growth of the economy. Reliance on services is a net positive for the energy insecure continent as France became Europe's top electricity exporter in 2023.

Sources: Haver Analytics, Agence France Trésor, EDC Economics
Note: 2023 expenditure value is the forecast from the September government budget release

India

PMI indicates Indian economic activity to expand rapidly

Composite output PMIs: Total economy; seasonally adjusted



Continuing its growth momentum, the Indian economy was the fastest-growing among the G20 countries in 2023. Growth is expected to be 7.5% in 2023 and moderate to a healthy rate of 6% in 2024 due to base effects.

There was stronger than expected growth in the third-quarter of 2023, which was broad based and led by the strong pace of government spending as well as a sustained recovery in private investment. Consumption growth was relatively weak and may take some time to fully recover as monsoons could hamper agricultural production and in turn adversely impact rural demand. High-frequency indicators, such as PMIs, signal that India's economy will likely continue to be in the expansionary zone with resilient positive sentiment. India is expected to remain as one of the top performers of the region through next year, as both foreign investment and government spending will remain robust. Goods and services exports will be buoyed by the recovery in global demand in late 2024.

While inflation has eased substantially from earlier peaks, it still poses a downside risk to the outlook and sustained economic growth. On the other hand, better-than-expected inflation readings in the coming months can lead to a faster credit-easing cycle, which serves as an upside risk.

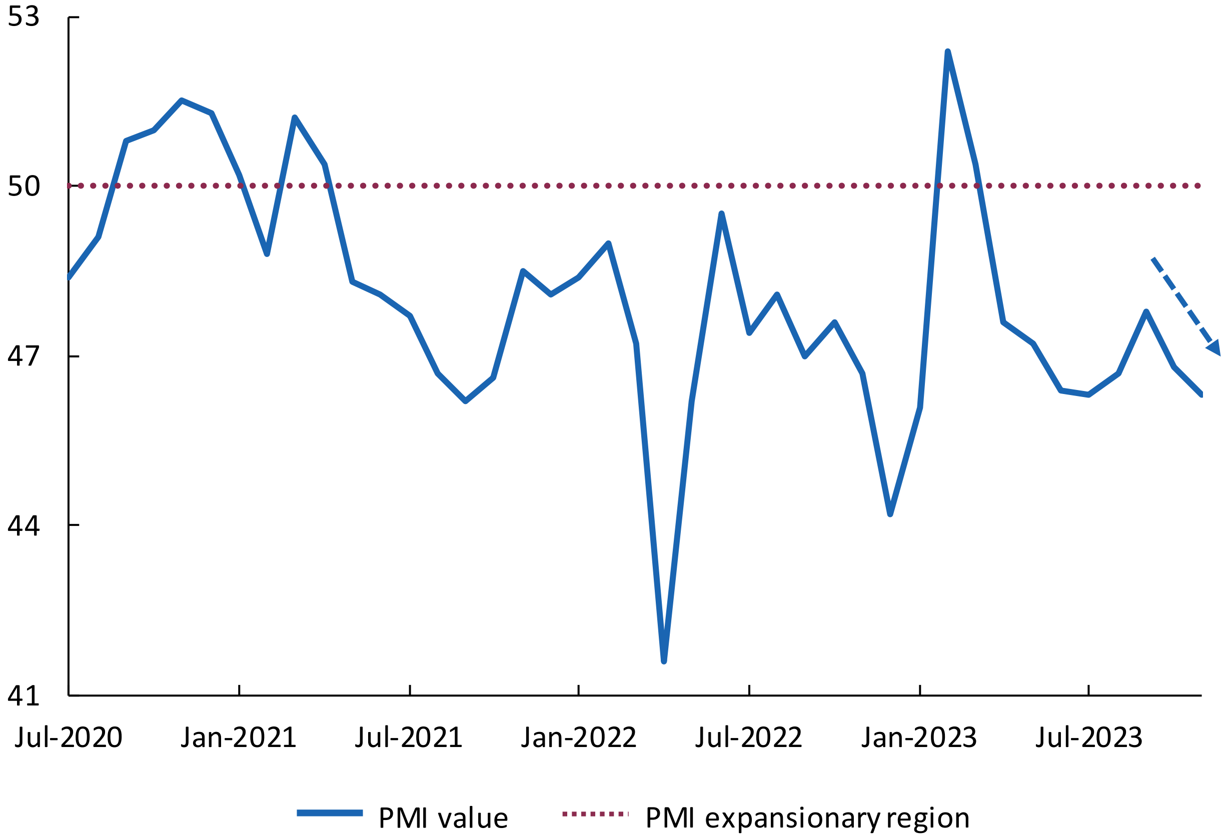
Source: Haver Analytics

Note: PMI=*Purchasing Manager's Index*; EM = emerging market; DM = developed market; PMI's above 50 indicate expansionary economic activity

China

Weaker export outlook from the close of 2023

PMI: Manufacturing new export orders; seasonally adjusted



While China's impressive third-quarter growth exceeded expectations, the picture remains mixed: Retail sales rose, exports fell, and housing sales remained in a slump. Amid stronger government efforts to stabilize growth, the October announcement of special government bonds to support local flood reconstruction should help lift industrial demand—particularly early this year.

We expect these stronger policy measures to feature prominently in 2024 and we have revised upward our 2023 real gross domestic product (GDP) growth forecast from 4.8% to 5.1%, followed by 4.6% for 2024.

Consumer confidence remains weak, and the export slump continues amid stifled global demand. While the most recent export data shows a modest uptick in November, we expect the overall export picture to remain weak. The *Purchasing Managers Index* (PMI) for new export orders has been in contraction for the past eight consecutive months. The bright spot remains auto sector exports, as noted in our previous forecast.

Upside risks to our forecast include faster and deeper than expected government stimulus measures to support stronger consumption and economic growth.

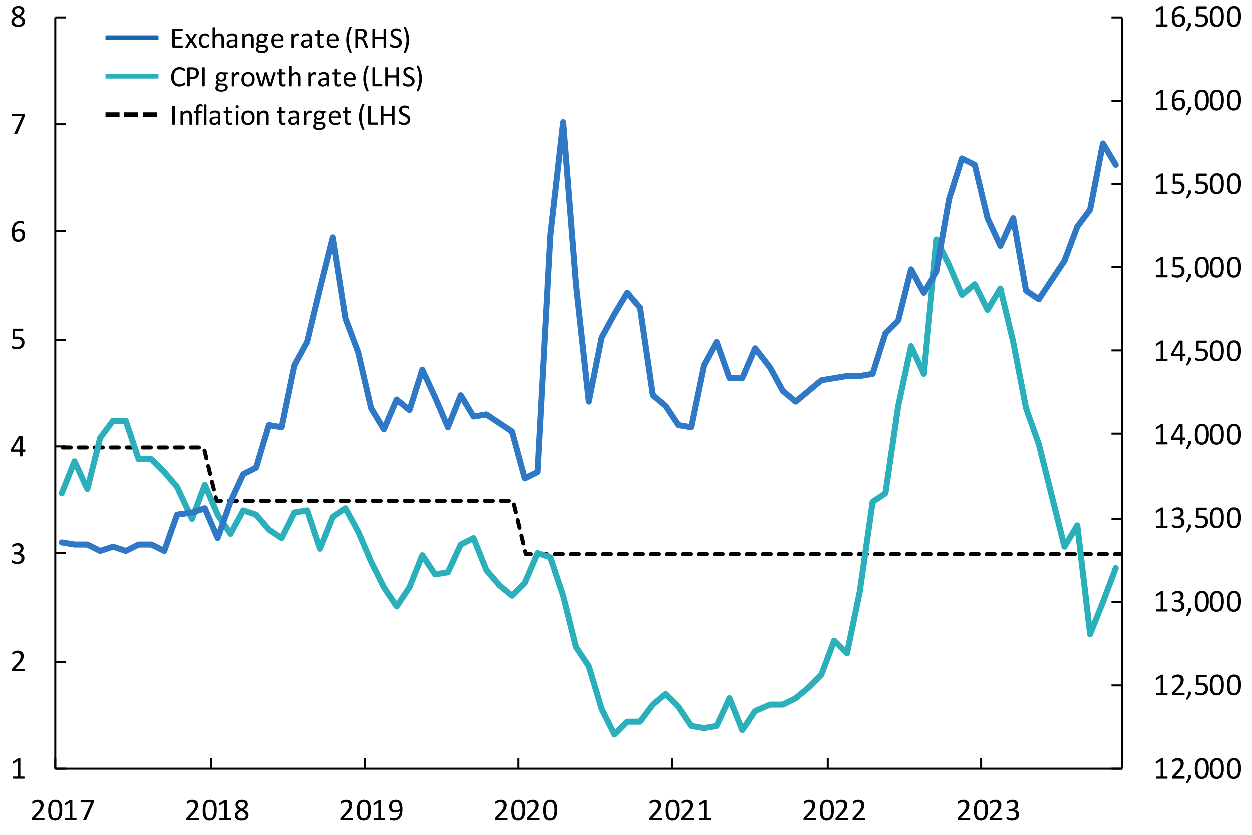
While not our baseline scenario, a key downside risk would be a rapid escalation of challenges in the real estate sector, which could spill over into the financial sector. Any escalation of geopolitical tensions with the United States is also a top risk.

Source: Haver
Note: PMI=*Purchasing Manager's Index*; PMI above 50 indicates expansionary outlook

Indonesia

A balancing act between inflation and currency pressures

Percent changes; average rupiah per US$



Amid tight credit conditions and a weakening currency, Indonesia's economic growth is expected to lose steam this year, despite surprising us with a stronger-than-expected performance last year. Subsequently, EDC Economics revised our 2023 forecast upwards to 4.9%, while adjusting this year's forecast downwards to 4.7%.

Consumption and investment growth sustained momentum in an upside surprise for the third-quarter of 2023, as the Indonesian economy continues to power through a difficult global backdrop and high interest rates. After holding for most of 2023, the Bank of Indonesia raised interest rates in October, indicating that its primary concern has shifted to the performance of the rupiah instead of inflation, which has held close to the bank's mid-range target. The bank's decision postpones the expected interest rate cuts in early 2024 and adds to the headwinds building for the region this year—which is already starting to materialize in Indonesia's monthly trade data.

Downside risks emanate from upcoming U.S. Federal Reserve decisions in 2024. With the Bank of Indonesia looking to emulate the direction of any Federal Reserve policy changes, as a means of protecting the Indonesian currency from further depreciation, this could result in significant economic shifts following monetary policy changes.

Upside risk stems from faster diversification in export products and trading partner, as well as the possibility of renewed demand and economic activity from China in 2024.

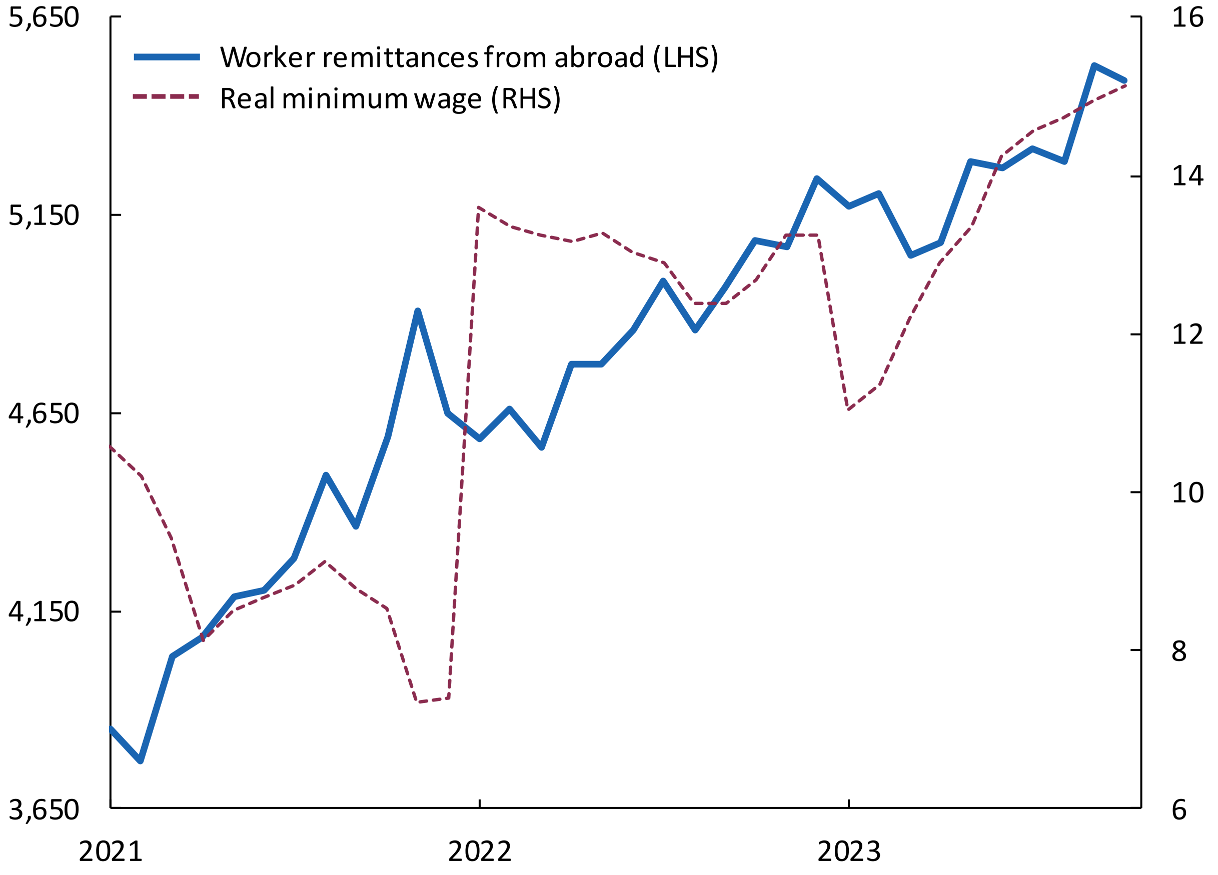
Sources: Bank Sentral Republik Indonesia, Haver Analytics, EDC Economics

Note: CPI = *Consumer Price Index*, CPI growth is year-over-year change of seasonally adjusted data

Mexico

Consumer demand fuelled by income strength

Millions of US$ of remittances; year-over-year percent change in real wages



Mexico's economy has enjoyed strong economic growth after emerging from the pandemic with prospects remaining bright for next two years. Buoyed by strong consumer and business spending, Mexico is expected to see above-trend growth again over the next two years.

Unlike its northern neighbours, consumer confidence remains strong in Mexico, and is supported by strong wages, low unemployment, and high remittances. Real minimum wages are close to 15% higher than last year, and unemployment is below 3%. In addition to a strong labour market, worker remittances from abroad were up 9% year-to-date in October 2023 and could easily reach US$65 billion for 2023 (compared to US$59 billion in 2022) if they continued their trajectory.

Strong consumer demand has stimulated business investment over the last three years and will continue to support business growth over the forecast. In addition to domestic demand, global supply-chain challenges encouraged nearshoring investment and organic growth of Mexican businesses as they bid to make inroads for critical supply components. Business confidence is expected to remain high in 2024.

Several international businesses have expressed interest to nearshore their operations in Mexico to be closer to the U.S. market. Chinese businesses are hoping to set up operations there to circumvent American restrictions of certain Chinese goods. This has sparked a greater need for industrial and commercial spaces and will likely boost business investment in the coming years.

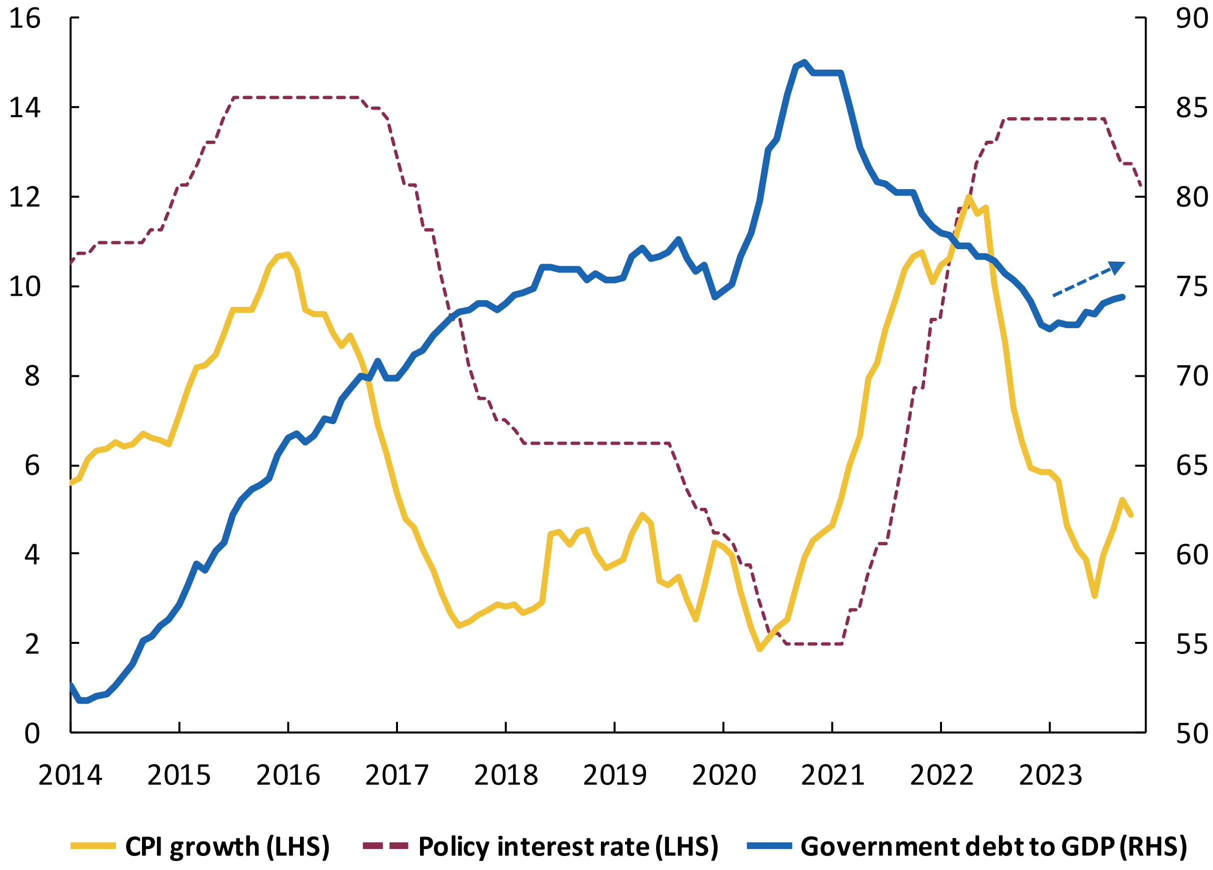
Hoping to boost its nearshoring potential, the government has announced generous tax incentives for 10 key export-oriented sectors to encourage companies to relocate their offshore operations to Mexico. The government has also embarked on rail infrastructure developments to link the country's expansive coasts and to foster faster movement of goods and people. The government's 2024 fiscal budget has further notable increases in spending and will most likely add to growth.

 Source: Haver Analytics, EDC Economics

Brazil

Fiscal policy risks weigh down an otherwise resilient economy

Percent



Sources: Central Bank of Brazil, Brazilian Institute of Geography and Statistics, Haver Analytics, EDC Economics
Note: CPI = *Consumer Price Index* and growth is year-over-year change of seasonally adjusted data, debt is gross values

Brazil's economic performance is running out of steam, weighed down by the delayed effects of monetary tightening and the global economic slowdown. Increased structural resilience and robust exports will cushion the economy, but fiscal concerns will drag on investor confidence and the central bank's (CB's) rate cutting decisions. Our outlook has been notched up to 1.5% for 2024, while we're trimming our 2025 forecast to 2.3% given our higher-for-longer interest rate expectations.

The transitory boost from the record bumper crop was a positive supply shock that's unlikely to be repeated amid weather challenges from the El Niño system. Even so, Brazil's export performance remains a bright spot. The tightening labour market and lack of material inflationary pressures are signalling improved resilience following recent reforms. Alongside this, boosted social transfers, a minimum wage hike, and a bank debt restructuring program for the indebted, has buoyed consumption resilience.

Despite the approved new fiscal framework and progress on a crucial tax reform, fiscal risks predominate. Markets remain concerned about the credibility of the government's commitment to fiscal prudence. Public debt is forecast to increase due to political challenges with implementing fiscal consolidation ahead of the 2024 municipal elections. Long-term inflation expectations remain unanchored and will keep the CB's interest rate higher-for-longer, weighing on investment. This could hinder the government's growth accelerator program of infrastructure projects.

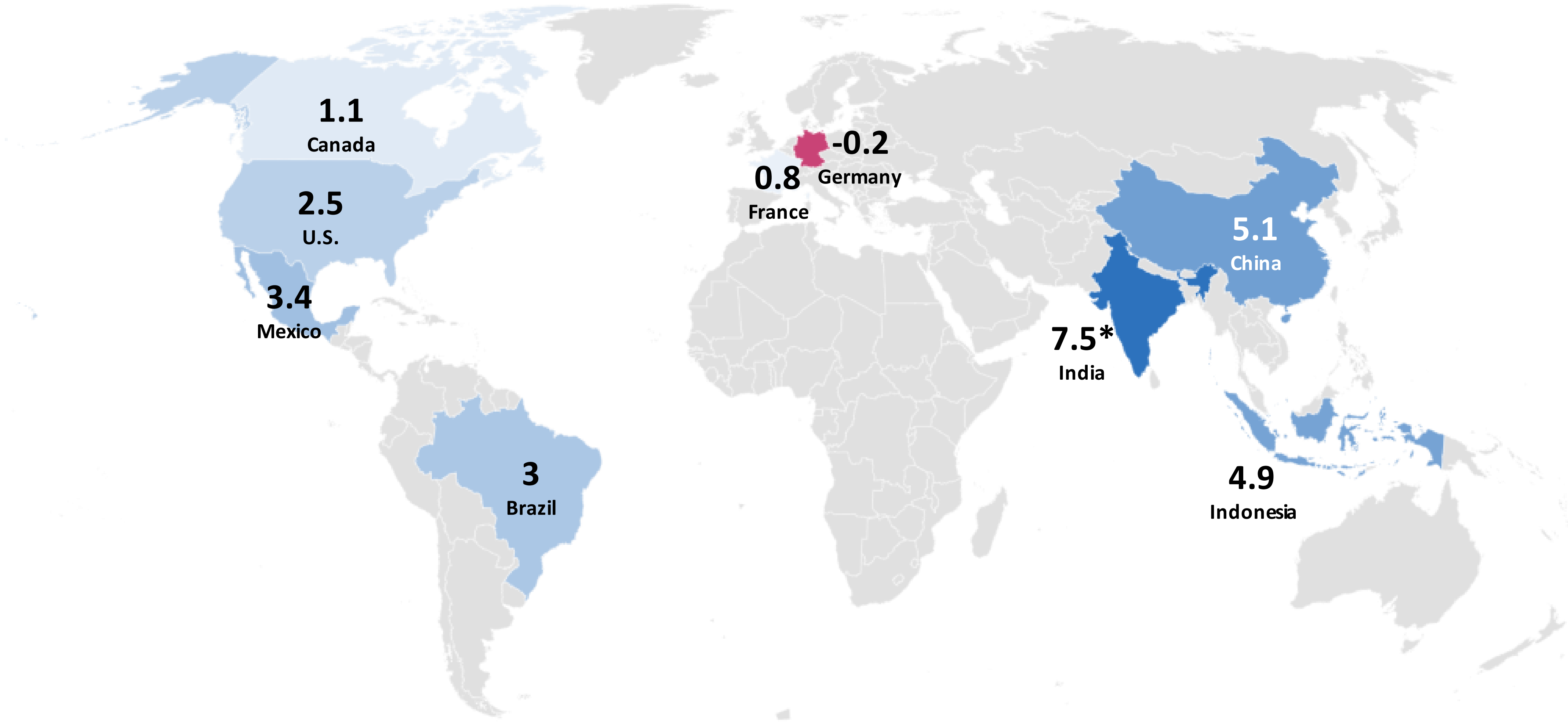
Domestic risks are dominated by the fiscal path. Achieving a balanced primary budget target next year would allay fiscal concerns and support deeper CB rate cuts, but the opposite scenario would raise financial volatility and weigh on asset prices.

External risks relate to a scenario of weaker global growth and tighter financial conditions, as well as faltering commodity demand from China. Climate risk from a strong El Niño system could hit agriculture production capacity.

EDC FORECASTS

2023 growth outlook

Real GDP growth, %



3% World

1.8% Developed

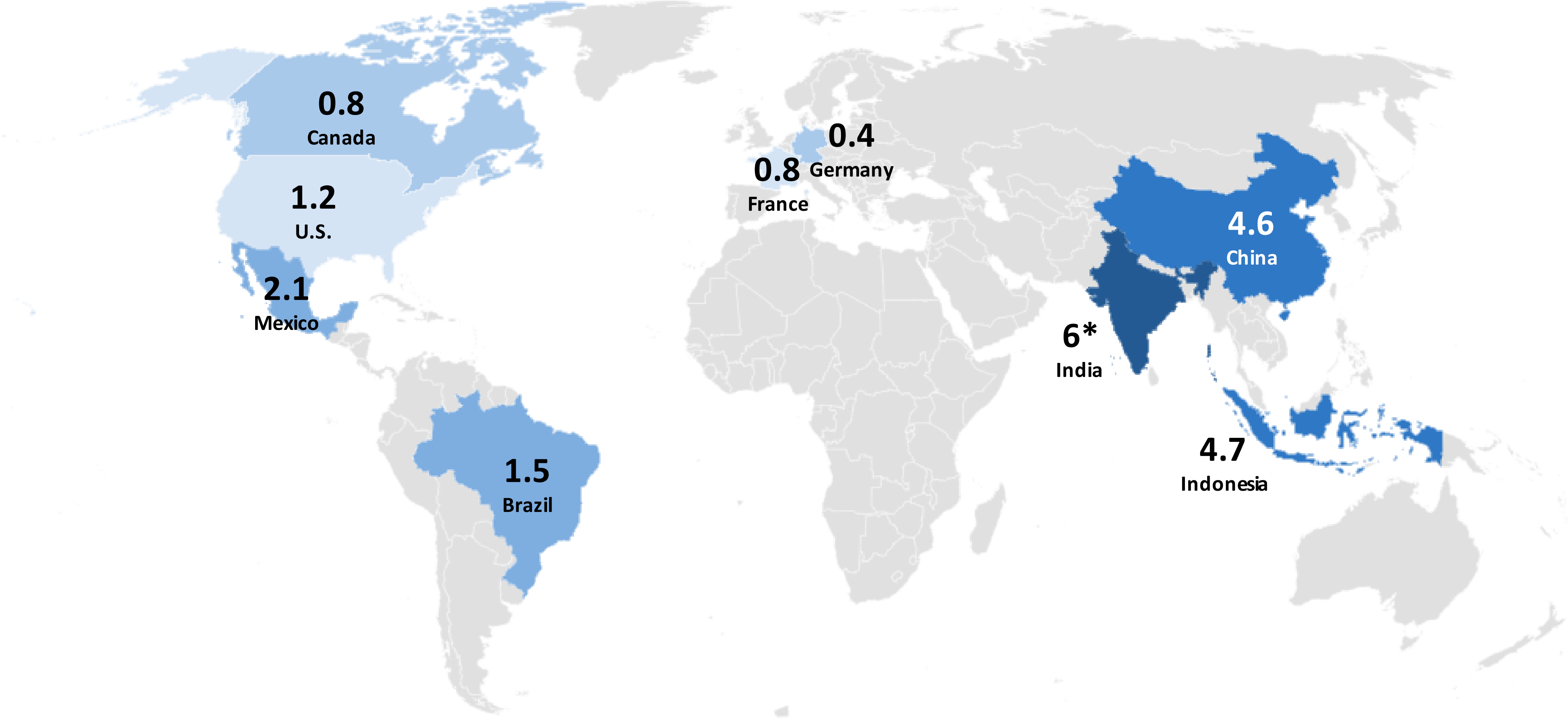
3.9% Developing

Source: EDC Global Economic Outlook, December 2023

Note: Red shading indicates negative growth, *India's 2024 FY = Q2 2023 – Q1 2024

2024 growth outlook

Real GDP growth, %



2.8% World

1.1% Developed

4.1% Developing

Source: EDC Global Economic Outlook, December 2023
Note: Red shading indicates negative growth. *India's 2025 FY = Q2 2024 – Q1 2025

Real GDP growth

Global Economic Outlook (Annual % change)	2022	2023*	2024*	2025*
Developed countries	**2.6**	**1.8**	**1.1**	**1.8**
Canada	3.8	1.1	0.8	2.0
United States	1.9	2.5	1.2	1.8
Eurozone	3.4	0.5	0.8	1.4
Germany	1.9	-0.2	0.4	1
France	2.5	0.8	0.8	1.2
Developing countries	**4.1**	**3.9**	**4.1**	**4.3**
China	3	5.1	4.6	4.4
India	7.3	7.5	6	6.6
Indonesia	5.3	4.9	4.7	5.3
Brazil	3.1	3	1.5	2.3
Mexico	3.9	3.4	2.1	2.5
World	**3.5**	**3**	**2.8**	**3.3**

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

Changes from previous forecast

Global Economic Outlook Real GDP growth (percentage point change)	**2023***	**2024***	**2025***
Developed countries	**0.2**	**0.2**	**-**
Canada	-0.2	0.2	-
United States	0.5	0.6	-
Eurozone	-0.2	-0.3	-
Germany	0.1	-0.5	-0.7
France	-0.2	0.1	0.2
Developing countries	**-0.1**	**-**	**-0.1**
China	0.3	0.2	-0.1
India	0.9	-0.9	-0.5
Indonesia	0.1	-0.4	-0.1
Brazil	-0.1	0.3	-0.2
Mexico	0.4	0.6	-
World	**0.1**	**0.1**	**-**

Note: * denotes the forecast period. Green shading represents upward adjustments; red shading represents downward adjustments ; dashes represent no change
Source: EDC Global Economic Outlook, October 2023 relative to December 2023.

Currencies and interest rates

Global Economic Outlook		2022	2023*	2024*	2025*
Currencies	**Exchange rate**				
U.S. dollar	USD per CAD	$0.77	$0.74	$0.74	$0.78
Euro	USD per EUR	$1.05	$1.08	$1.07	$1.12
Euro	CAD per EUR	$1.37	$1.45	$1.46	$1.44
Interest rates, annual average					
Bank of Canada *(Overnight target rate)*		1.93	4.74	4.42	2.88
U.S. Federal Reserve *(Fed Funds Target Rate - Upper limit)*		1.73	5.07	5.01	3.21
European central bank *(Policy interest rate)*		0.58	3.81	4.25	2.50

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, December 2023

Commodity prices

Global Economic Outlook	2022	2023*	2024*	2025*
Brent Crude Spot, *USD / barrel (bbl)*	$100.78	$83.31	$79.02	$73.87
West Texas Intermediate, *USD / bbl*	$94.6	$78.18	$76.04	$70.87
Western Canada Select, *USD / bbl*	$75.02	$60.45	$59.27	$58.87
Natural gas, *USD / MMBtu*	$6.37	$2.56	$3.16	$3.52
Gold, *USD / troy ounce*	$1,801	$1,935	$1,950	$1,908
Copper, *USD / tonne*	$8,813	$8,465	$8,344	$8,774

Note: * denotes the forecast period.

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, December 2023

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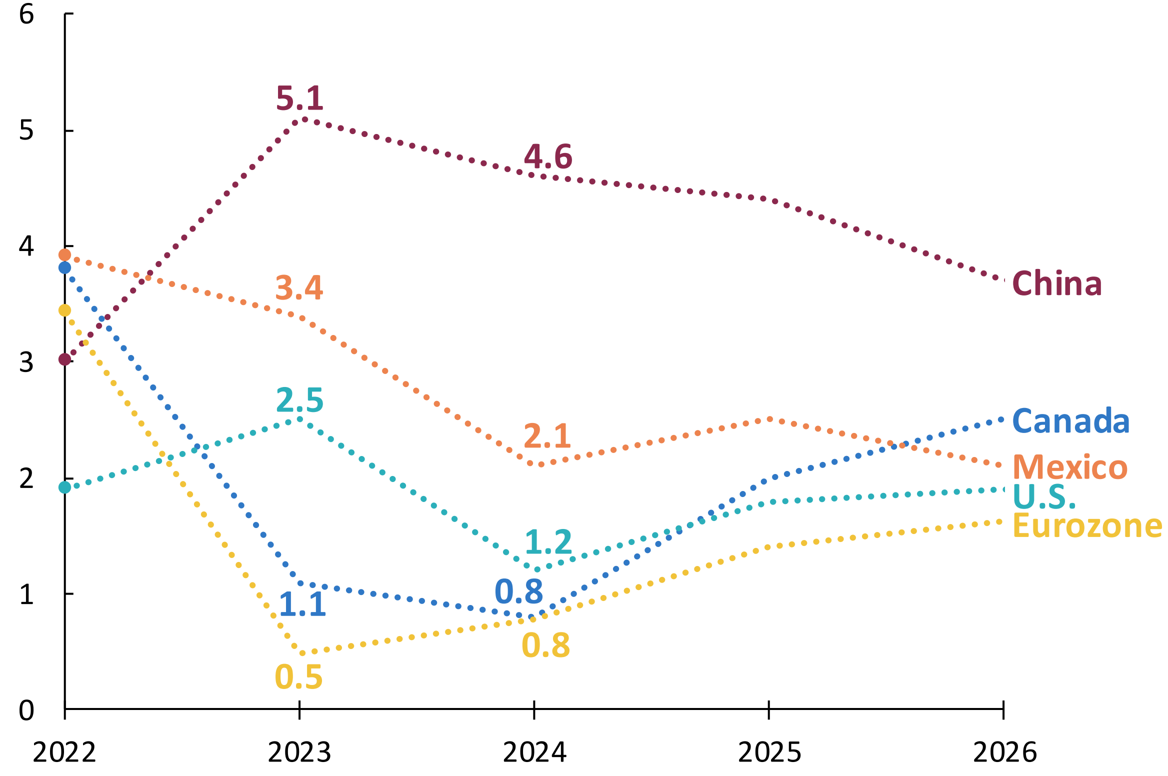
EDC GDP and energy forecasts

There'll be broad GDP growth weakness around the world in 2024—with even China falling below their normal pace. Economic growth will pick up again in 2025, but some nations, like Europe and China, will have longer lasting challenges. Oil prices are expected to continue to decline for the next few years as gas prices rise slightly. Overall, this should aid in taming inflation.

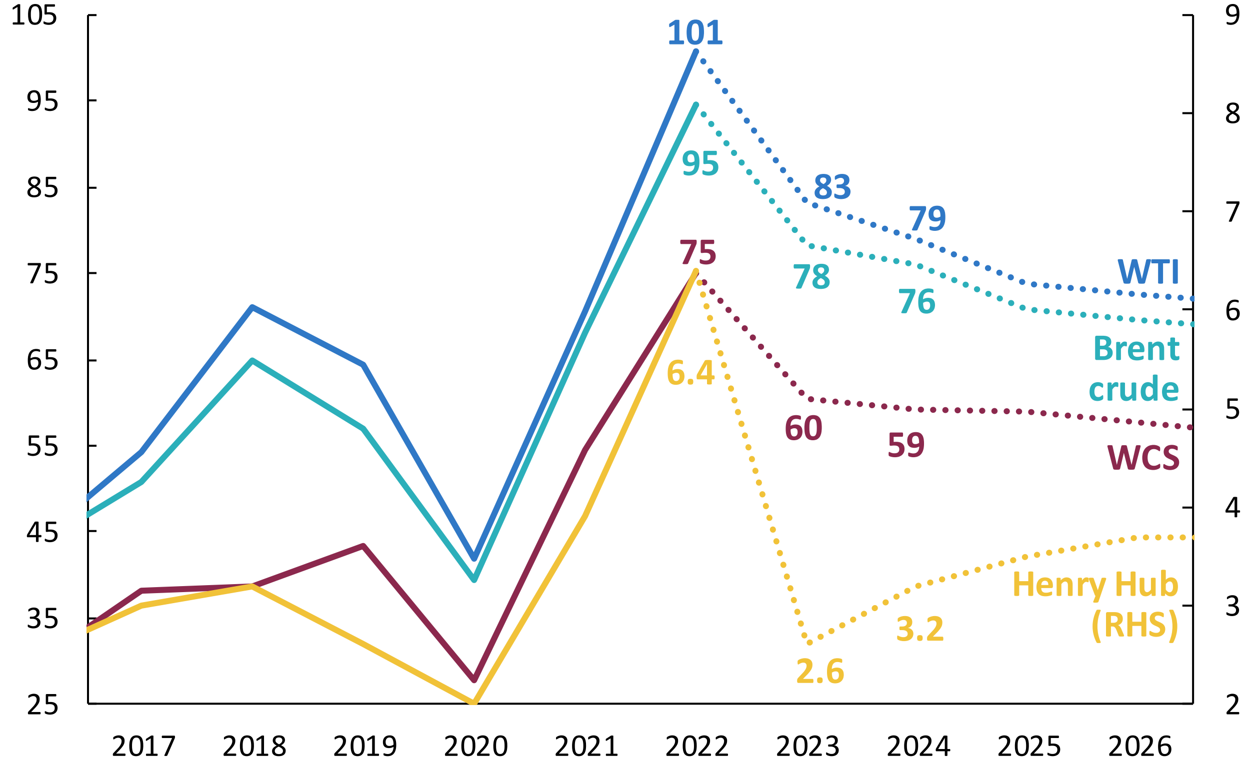
GDP growth rates for select countries

Year-over-year percent change of real GDP



Energy prices

Oil: US$ per barrel; Gas: US$ per million BTUs



Sources: Haver Analytics, EDC Economics, Oxford Economics

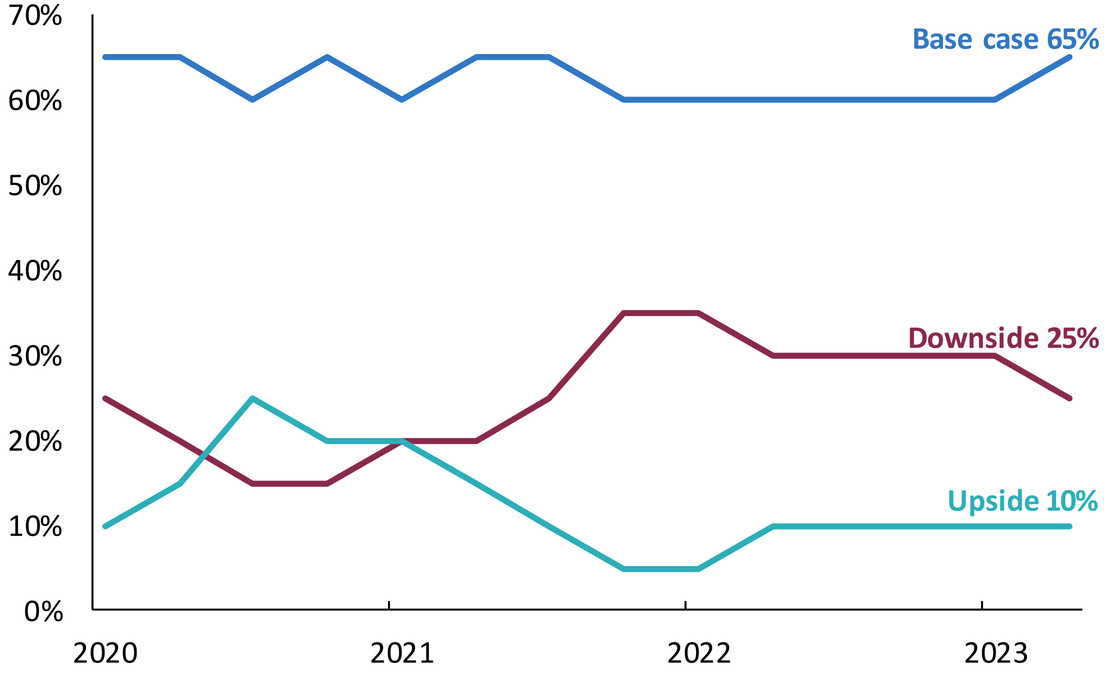
Note: Dotted line is EDC Economics' forecasts, WTI: West Texas Intermediate, WCS: Western Canadian Select, India's forecast based on fiscal year (e.g. 2024 FY = Q2 2023 – Q1 2024)

Forecast scenarios

The base case, upside, and downside scenario probabilities are 65%, 10%, and 25%, respectively. This comes as the base case probability has shifted upward 5% from last quarter, while the downside has dropped. Factors such as cooling inflation, robust labour markets, and easing financial conditions have suggested moderated recession risks compared to the outlook from last quarter. Since the effect of high interest rates may not be fully passed through the economy, we maintain a relatively high downside scenario risk.

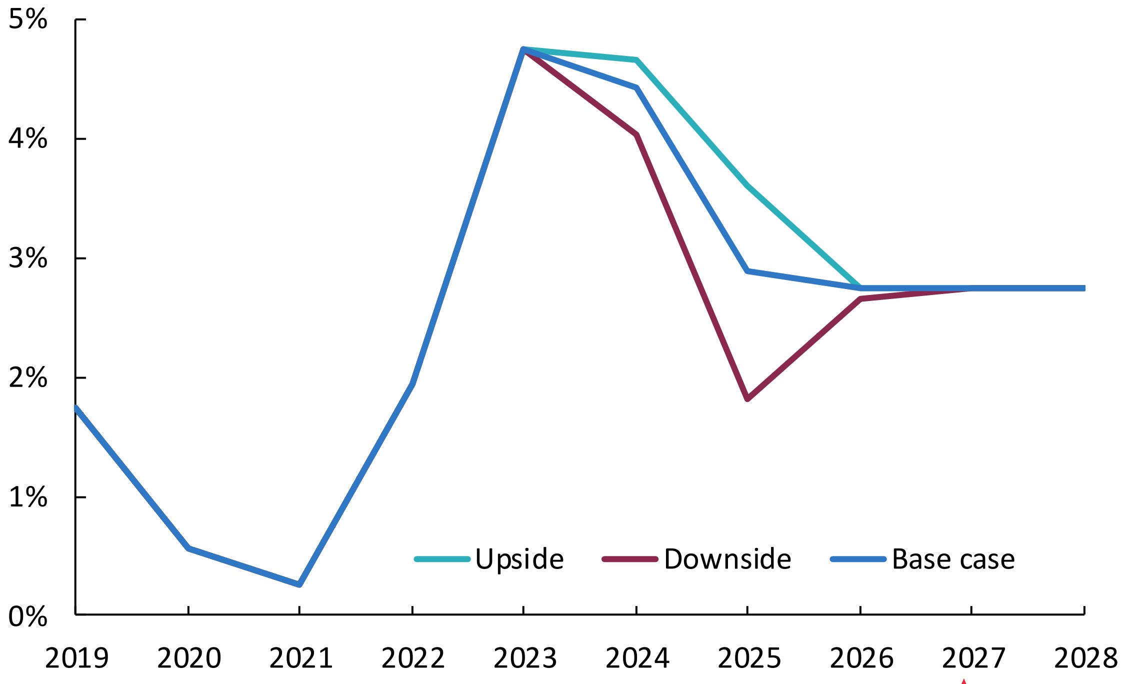
Assigned scenario probabilities over time

Percentage



Bank of Canada policy rate forecasts

Target rate, period average



 Source: EDC Economics

EDC

Key forecast assumptions: Base-case scenario

1. Financial conditions

- Bankruptcies and insolvencies will continue to increase to multi-decade highs led by sectors and corporations, which are highly leveraged or more exposed to variable interest rates.
- The effect of higher interest rates are passing through the economy with long and variable lags. Impacts will increase in the coming quarters, hitting activity well into 2024.
- Pressures on emerging market sovereign credit-worthiness and countries' balance of payments will continue to build due to higher interest costs and softening demand—particularly from China.
- Economic conditions are increasingly dependent on financial conditions. An ensuing recession would largely be driven by feedback between monetary policy and broader financial market conditions.
- While EDC Economics' baseline outlook doesn't anticipate a widespread financial crisis, there'll be additional strains beyond the U.S. banking sector (March 2023) and China's enduring property crisis.

2. Monetary policy

- Slowing inflation and softening growth suggest that policy rates in most developed markets are likely already at their peaks. Given that headline inflation is still above the 2% target, major central banks will keep policy rates where they are before gradually easing them in the second-half of 2024.
- Timing for central banks to pivot will be dictated by domestic market conditions. As such, there remains room for divergence in interest rates between Canada, the U.S., Europe, and China.

3. Geopolitical risks

- We expect the Russia-Ukraine war settling into a stalemate. Fighting will continue but conflict isn't expected to spillover beyond Ukraine. Western sanctions against Russia will remain in place beyond the forecast period with increasing risk of secondary sanctions to target non-U.S. and non-European Union (EU) companies or persons involved in commercial activities with Russia.
- We forecast limited spillover from the Israel-Hamas war, meaning that we don't expect large material impacts on global oil supply, shipping, and trade stemming from the conflict.
- China's rise in relation to the U.S. is slowly changing the global balance of power. Despite the November 2023 meeting between U.S. President Joe Biden and Chinese President Xi Jinping, there's no sign of material improvement in the broader U.S.-China relations. We continue to expect U.S., EU, and other bilateral relations with China to be constrained by increasing strategic influence and competition in key sectors.

Disclosure

Media inquires

1-888-222-4065

media@edc.ca

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