

The New World Economy: Some Implications for Canada and BC

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A Troubling Period for the Global Economy

"The world is facing the worst financial crisis since at least the 1930s, if not ever."

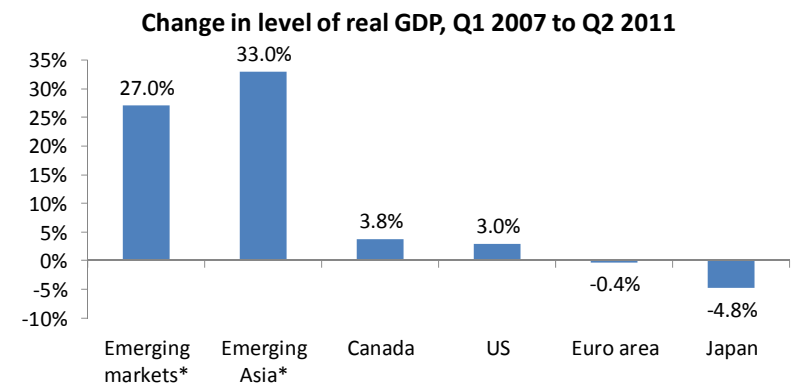
Mervyn King, Governor, Bank of England (October 8, 2011)

- Severe stresses in Euro zone owing to concerns over sovereign (and other) debts, plus the inherent unsustainability of a currency/monetary union absent fiscal integration.
- The world's two biggest economic engines – US and EU – are limping badly. No real global economic leadership is evident, despite the halting efforts of the G20.
- Fast-rising inequality in some nations, as competitive dynamics and labour market trends shift against low and middle-skilled workers, while the talented few reap outside rewards.

Latest World Economic Forecast

Real GDP Growth (per cent)			
	2010	2011 f	2012 f
United States	3.0	1.5 ↓	1.8 ↓
Euro zone (EU 17)	1.8	1.6 ↓	1.1 ↓
Japan	4.0	-0.5 ↓	2.3 ↓
China	10.3	9.5 ↓	9.0 ↓
Canada	3.2	2.1 ↓	1.9 ↓
World	5.1	4.0 ↓	4.0 ↓

Emerging Markets Driving World Growth

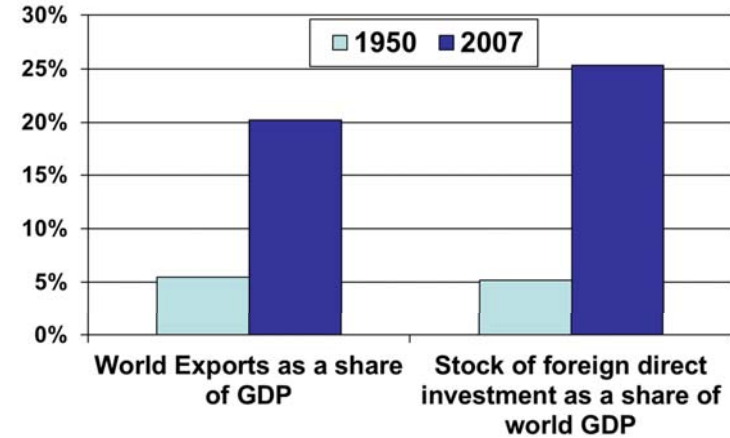


- Emerging market economies as a group have grown impressively since the global crisis began – by 25-30%. Canada and the US only recently surpassed their pre-crisis levels of output. The EU and Japan have yet to attain pre-crisis real GDP.

Macro-level Features of the "Post-Crisis" Global Economy

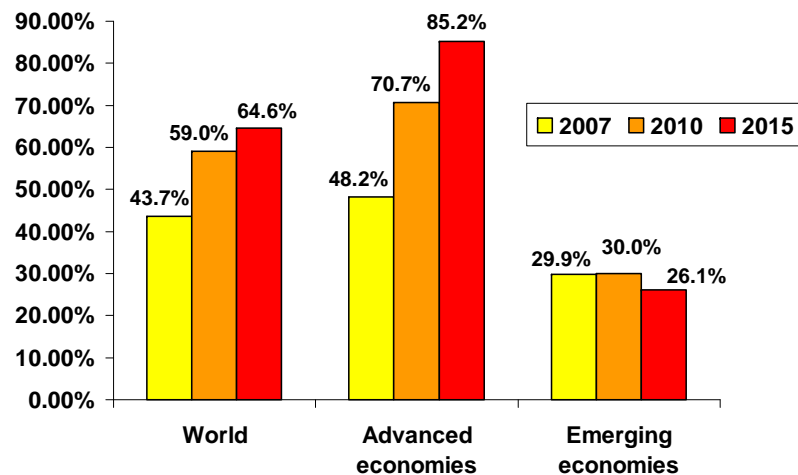
- » Growth dynamic has shifted decisively to emerging markets
 - » today EMS = almost half of world output (PPP basis)
- » Most advanced economies burdened by escalating debt (mix of public and private), aging populations, slow-growing/shrinking workforces, and heightened competition from EMS
- » Sluggish growth = low interest rates = subdued investor returns in most advanced economies, on the heels of a negative decade for equity investors over 2000-2009
- » The good news: the world-wide economic production (and consumption) frontier is being pushed outward – we are not in an era of global stagnation

Long-Term Indicators of Globalization



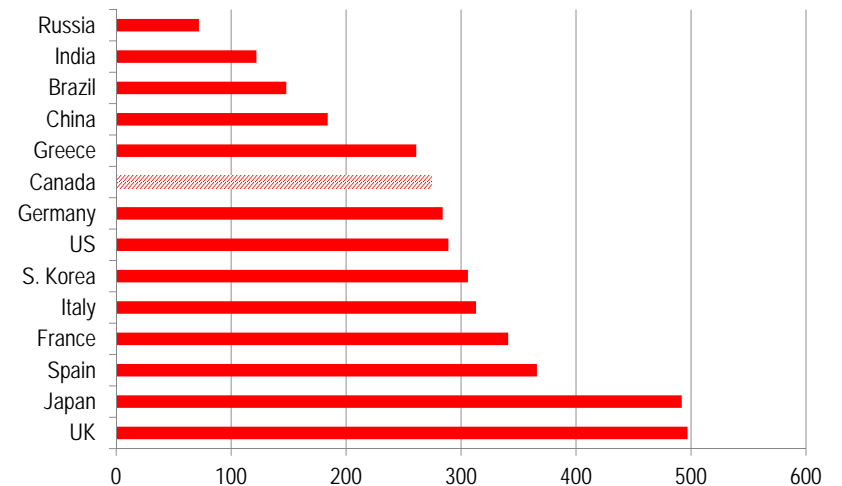
Source: World Trade Organization, *World Trade Report* (2008).

Net Government Debt to GDP (in percent)



Source: Brookings Institution.

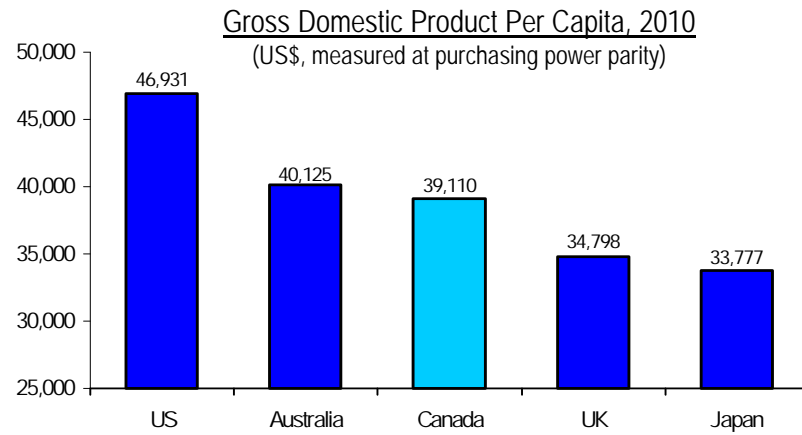
Total Public/Private Debt as Share of GDP, 2010 (public sector + households + non-financial corporate + finance sector)



Source: McKinsey Global Institute.

US... Still Ahead in Overall Prosperity

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- Despite its recent troubles, the US remains the richest nation among the main advanced economies, with a per capita GDP 20% higher than Canada's.

Source: Economist Intelligence Unit.



But US Near-Term Economic Prospects Dim

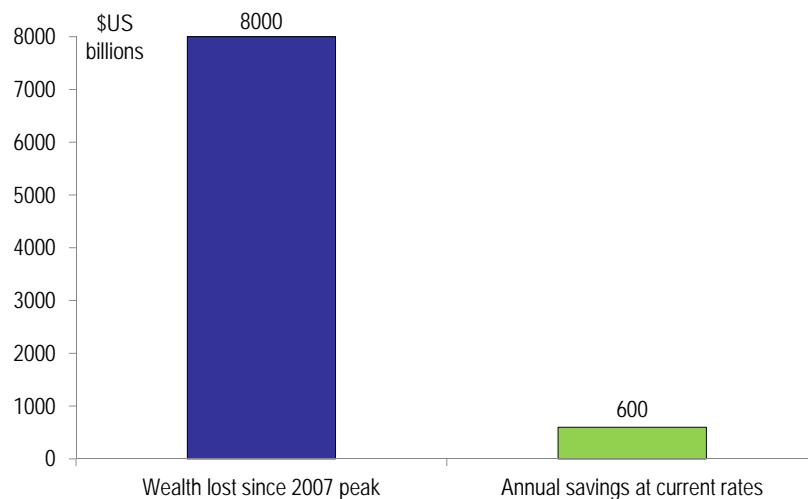
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- Forecasters downgrading US growth outlook
 - Q2 growth revised down to 1%
- Tepid job gains, high unemployment, weak consumer confidence
- Housing markets remain sickly
 - housing starts just over 600,000, sideways over past two years
 - prices falling again in many urban markets
- Economy-wide leverage remains very high
- Fiscal austerity is beginning to bite into growth, with much more to come over the rest of the decade
- But... US corporate sector is in good shape, balance sheets are strong, up to \$2 trillion in cash is available



US Households – A Long Struggle to Rebuild Net Worth

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Source: U.S. Bureau of Economic Analysis, U.S. Federal Reserve and Bank of Canada calculations.



Further Observations on US Economy

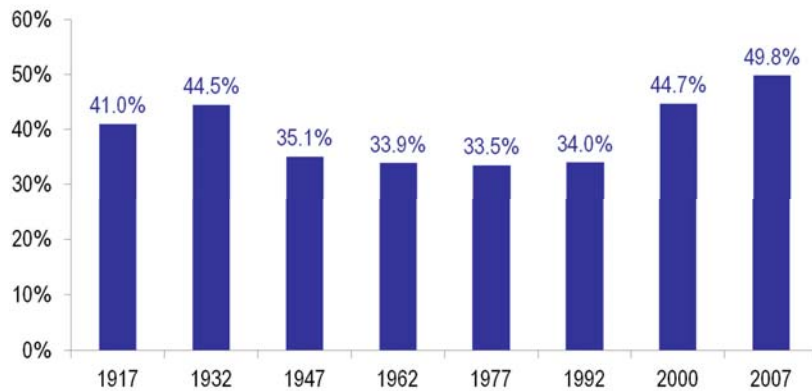
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- Jobs crisis
 - Unemployment = 9.1%, but = 15-16% counting discouraged workers and part-timers seeking full-time work
 - 4.6 unemployed workers per job opening today; over 2000-2007, average was 2
 - average duration of employment = 40.3 weeks; in 2007 = 17 weeks
 - Working-age employment/population ratio has fallen sharply
- Household finances
 - Net worth down 20% since 2006; 23% of mortgage holders in negative equity positions
 - Real median household income is now 7% below 1999 peak
 - Poverty rate climbing, 47 million Americans on food-stamps
- Public finances
 - Federal debt is rising at a war-time pace
 - Significant fiscal stress for many state/local governments



Share of Income Accruing to the Top 10% of US Families

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- Also note that the **top 1%** of US families captured 2/3 of total income growth from 2000 to 2007, compared to 45% from 1992 to 2000.

Source: E. Saez, "Striking It Richer: The Evolution of Top Incomes in the United States," University of California, Berkeley, Department of Economics.



Biggest National Economies by 2050 (constant US dollars)

- China #1, US#2, India #3,
- China, India, Japan, Brazil and Mexico all in top 10 ...along with Canada
- Turkey, S. Korea, Indonesia, Australia, Argentina and Malaysia all in the next 10
- Of the biggest 30 in 2050, only one-third are currently classified as "advanced" economies

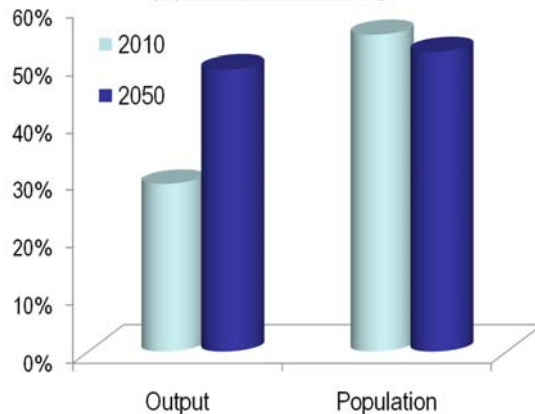
Source: HSBC Global Research: "The World in 2050".



Asia's Remarkable Economic Ascent

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Asia's % share of world output and population, 2010 and 2050



- Asia-Pacific region's share of global economic activity will increase. By mid-century Asia could account for half of global output. This assumes real GDP growth rates of 5-6% per year for Asian markets in the two decades to 2030, falling to 4-5% from 2030 to 2050. Asia here is defined to include **all** Asian economies.

Source: Asian Development Bank; Bank of England.



China Will Surpass the US

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- Question of when Chinese economy will be larger than US attracts lots of attention
 - in 2003 Goldman Sachs originally projected 2041
 - then advanced the date to 2027
 - now 2019 is a common date*



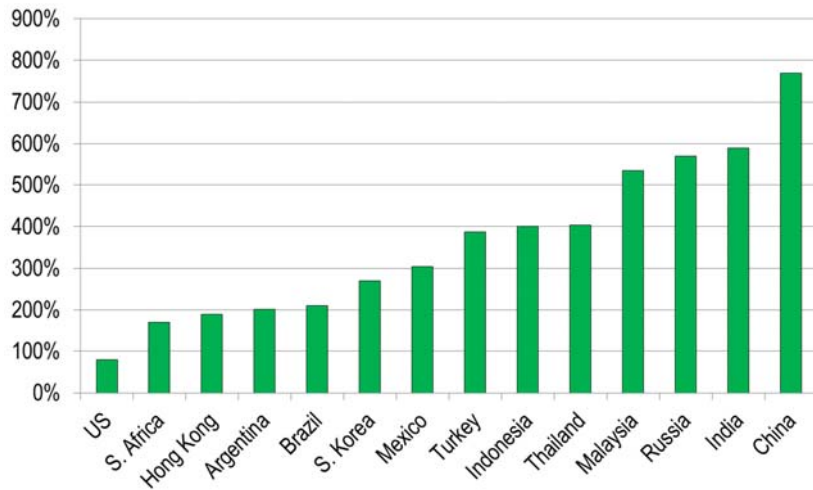
See John Ross, "The Central Date For China's GDP to Overtake the US at Market Exchange Rates in 2019" Economist, Dating Game: When Will China Overtake America?, December 16, 2010.





Projected Rise in Real Income Per Capita, 2010-2050

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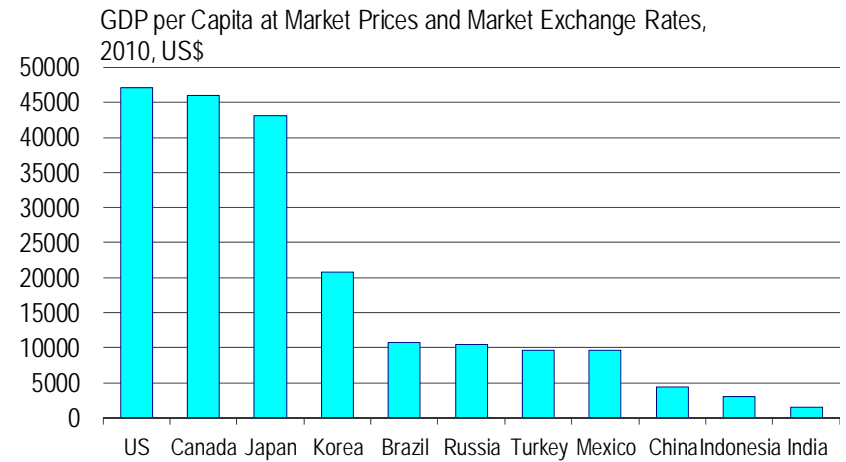


Source: HSBC Global Research.



... But Convergence in Incomes is Long Way Off

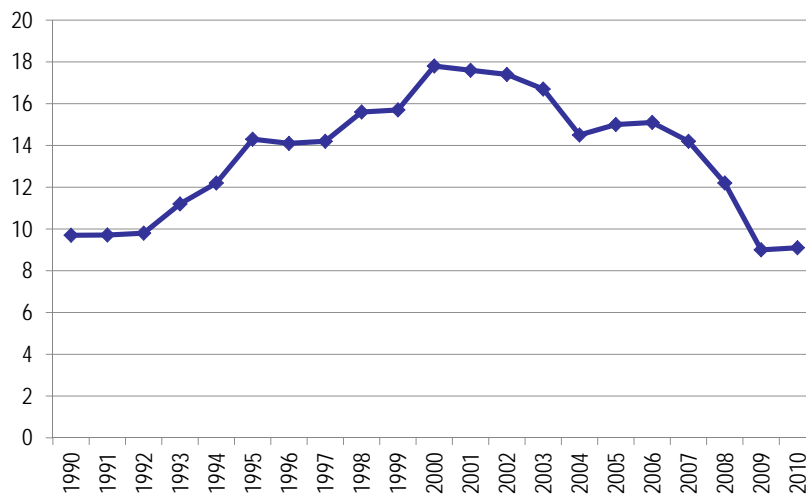
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Source: World Bank Development Indicators database.



Canadian Business Sales Diversifying (share of total corporate sales to US)



Source: CIBC World Markets.



Canadian Economy – Outlook Revised Down (% change, annual)

	2010	2011	2012
Real GDP	3.2	2.1	1.7
Real consumer spending	3.3	1.9	1.8
Real business investment	7.3	12.9	6.8
Nominal GDP	6.3	4.9	2.9
Employment	1.4	1.6	0.9
Housing starts (000)	190	186	180

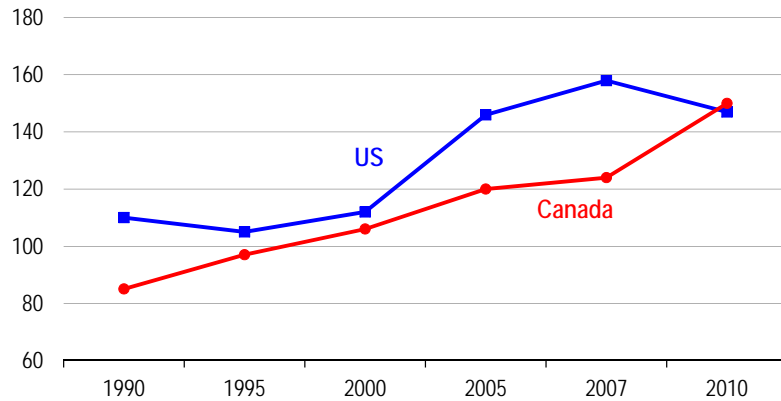
Source: Scotiabank Group Economics, October 7, 2011.



Canadians Become Enthusiastic Borrowers

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Household Debt as a Share of Personal Disposable Income, %



Source: TD Economics.



Canada's Advantage

- Relatively healthy public finances
- Increasingly competitive tax regime, especially for business
- Rich mix of resources in a world hungry for energy, minerals, food, water
- Human capital – well-educated population, immigration
- Canada ranks 6th in the Canadian Business 'Prosperity Potential Index'

But...we need to work on innovation (17th in the world), productivity, technology diffusion, and developing more globally oriented companies



China and Other Non-US Markets Driving BC Export Growth

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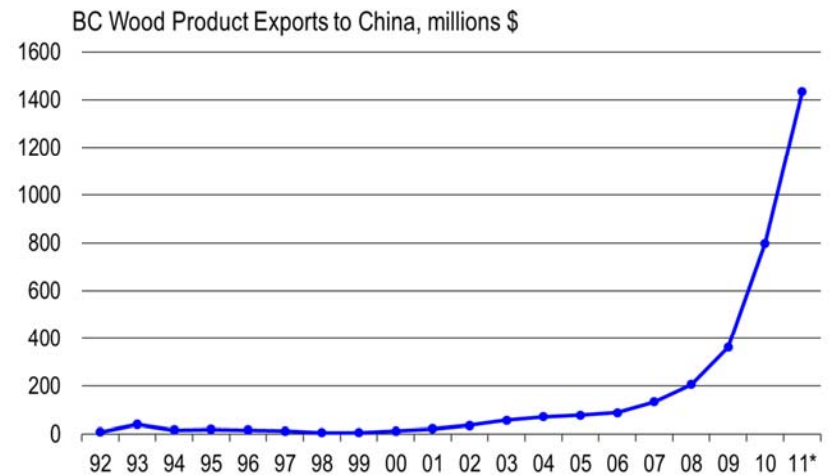
Source: BC Stats.

Latest: June 2011



China Buying More Wood!

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Source: Statistics Canada.

* 2011 projection based on January to July exports





Conclusions

- › Add it all up, and the challenge for many companies will involve finding ways to “go for growth in a go-slow world” (McKinsey Global Institute).
- › The hoped for “V” shaped recovery is unlikely to materialize; most advanced economies, including Canada, will be stuck in the slow lane for some time. Growth will be focused on emerging markets.
- › Some risk of “de-globalization” and rising protectionism in OECD nations if economic conditions remain poor, job creation sputters, and public sector retrenchment takes hold.
- › The US and the EU, previously the main suppliers of the “public goods” needed by an open and well-functioning global economy, may not be in a position to “lead”.
- › For Canada, the implications of the shifting global economic landscape are twofold:
 - › Stepped up efforts to build new markets and commercial ties
 - › Consolidate the elements that make up Canada’s current advantage (fiscal prudence, human capital development, competitive tax structure, etc.)