



Some Thoughts on the Changing Global Economic Landscape – and the Outlook for 2012

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A Troubling Time 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 2011)

- ▶ Mounting concern in the Eurozone over sovereign (and other) debts. Plus, inherent tension of a currency/monetary union among 17 disparate members, without fiscal integration or a common approach to financial regulation
- ▶ Some of the world's biggest economies – US, UK, much of the EU – are struggling
- ▶ Significant stress in banking sectors of several major countries
- ▶ Evidence of slower economic growth in some emerging markets



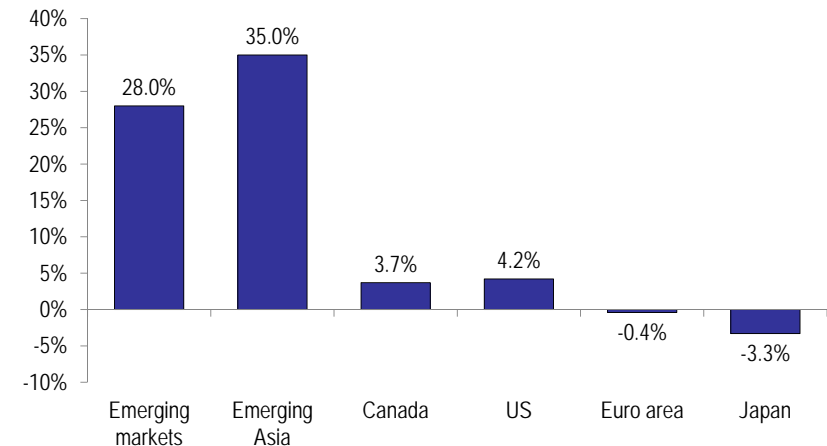
Broad-Brush Economic Snapshot: Q1-2012

- ▶ Global economic expansion is decelerating...
 - » EU headed for a recession – this will weigh on Canada through financial, confidence and trade channels
 - » But US economic data shows an improving trend overall
 - » weaker growth in China, manufacturing activity slipping
 - » Japan recovering from March 2011 natural disaster
 - » high oil prices
- ▶ Net result: more sluggish economic growth for Canada in 2012, with significant downside risks
- ▶ Interest rates stay lower for longer



Emerging Markets Driving World Economy

Change in level of real GDP, 2007 to Q3 2011

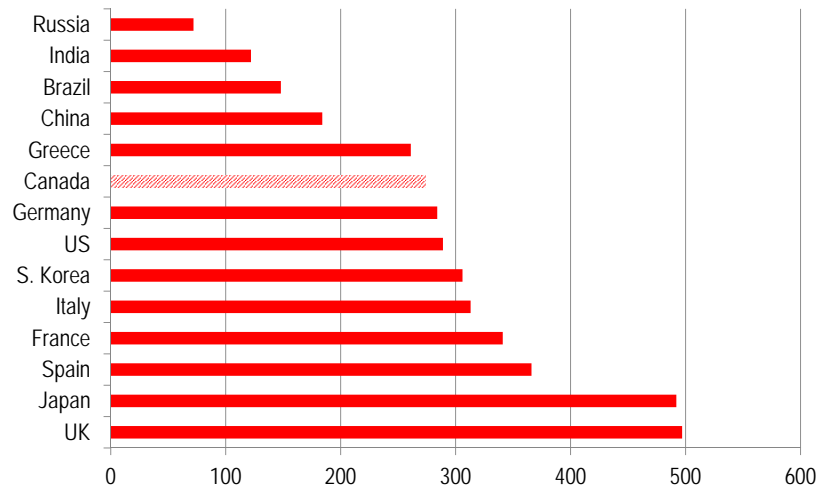




Total Public/Private Debt as Share of GDP, 2010

(public sector + households + non-financial corporate + finance sector)

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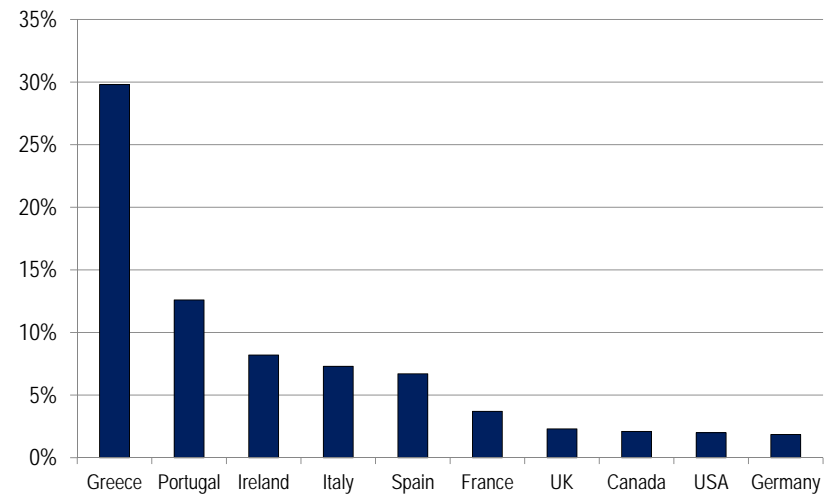


Source: McKinsey Global Institute.



The Cost of Government Borrowing: Ten-Year National Gov't Bond Yields (Dec 2011)

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Source: Scotiabank.



...What Eurobonds Look Like to Germany

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World Economic Forecast

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Real GDP Growth (per cent)			
	2011	2012 f	2013 f
United States	1.7	1.8	2.2
Euro Zone (17)	1.6	0	1.3
Japan	-0.4	3.3	1.8
China	9.1	8.9	8.5
World*	3.7	3.6	3.9

Source: Scotiabank Group, Global Economics Research, January 2012. * Based on purchasing power parity exchange rates.



US Economy Continues to Recover

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- Most forecasters have downgraded their 2012 outlook
 - but there have been positive economic signs in recent months
- Europe's woes expected to spill over to US
- Modest job gains, continued household sector de-leveraging
- Housing markets remain sickly
 - housing starts running 650-680k
 - 23% of mortgages under water
- Government fiscal austerity is beginning to bite, with more to come
- But...most of the American corporate sector is in good shape, balance sheets are strong, up to \$2 trillion in cash is available
- US could provide upside surprises in 2012



Further Observations on US

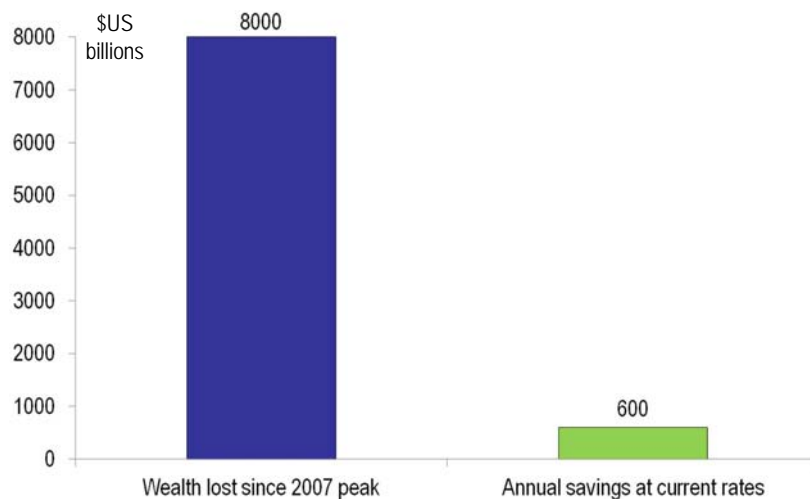
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- Jobs crisis**
 - unemployment = 8.5%, but really closer to 15% counting discouraged workers and part-timers who want full-time work
 - average duration of employment has increased sharply since 2007
- Household economic well-being**
 - net worth down by one-fifth since 2006
 - real median household income is now 7% below 1999 peak
- Government finances**
 - federal debt is rising at a war-time pace
 - significant fiscal stress for many state/local governments



US Households – A Long Climb to Rebuild Net Worth

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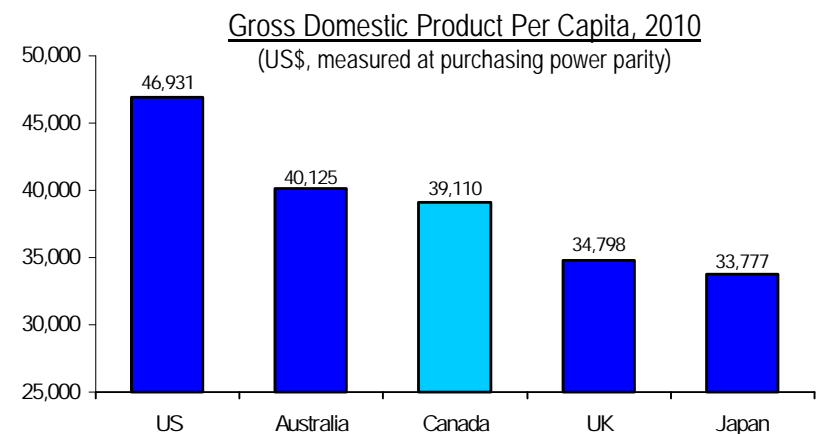


Source: U.S. Bureau of Economic Analysis, U.S. Federal Reserve and Bank of Canada calculations.



But...the US Still Leads in Overall Prosperity

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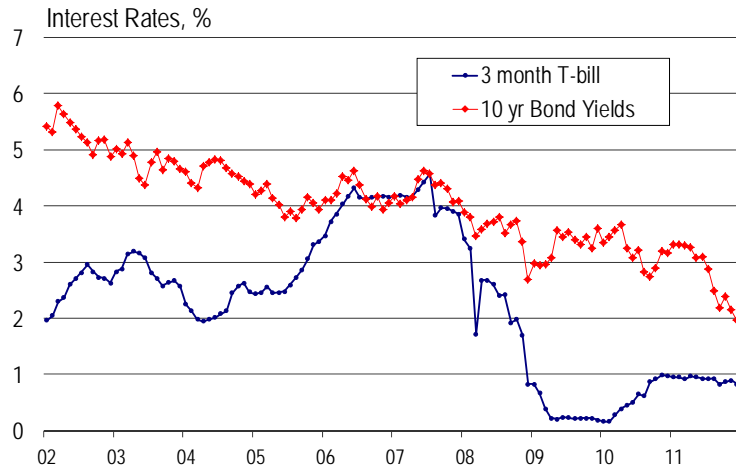
- Despite its recent troubles, the US remains the richest nation among the main advanced economies, with a per capita GDP 20% higher than Canada's.

Source: Economist Intelligence Unit.



Canada: Interest Rates at Rock Bottom Levels

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Source: Bank of Canada

Latest: December 2011



Canadian Economy – Outlook Revised Down

(% change, annual, unless noted otherwise)

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	2010	2011	2012f	2013f
Real GDP	3.2	2.1	1.7	2.2
Real consumer spending	3.3	1.9	1.6	2.0
Real business investment	7.3	11.7	3.1	9.8
Nominal GDP	6.3	5.4	2.9	3.9
Employment	1.4	1.6	0.8	1.4
Housing starts (000)	190	192	181	172

Source: TD Economics, December 14, 2011.



BC Economy Also Downshifts Slightly in 2012

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BC Economic Forecast – BCBC

	Forecast			
	2010	2011	2012f	2013f
Real GDP	3.0	2.0	1.9	2.6
Employment	1.7	1.1	1.2	1.7
Retail sales	6.0	1.7	3.5	4.7
Housing starts (units)	26,500	25,500	25,000	25,000

Source: Business Council, Statistics Canada for history.



Some Key Global Economic Trends to 2020

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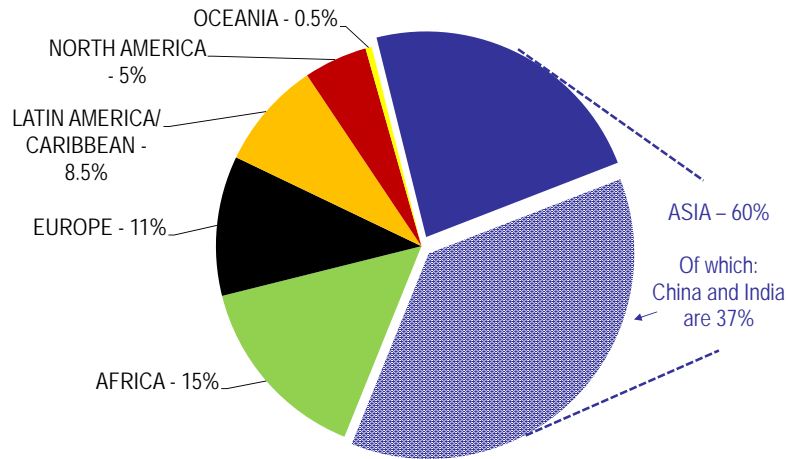
- ▶ Steady rise of emerging markets
- ▶ Growing importance of Asia – in terms of production, demand for imported goods/services, and as a source of investment
- ▶ Subdued growth expected in most advanced economies
- ▶ A likely global up-cycle for many commodities and resource-based goods
 - » McKinsey Global Institute*: "...the rise of 3 billion more middle class consumers [by 2030] will strain natural resources. The race is on to boost resource supplies, overhaul their management, and change the game with new technologies."

* "Mobilizing for a resource revolution," McKinsey Quarterly (January 2012).



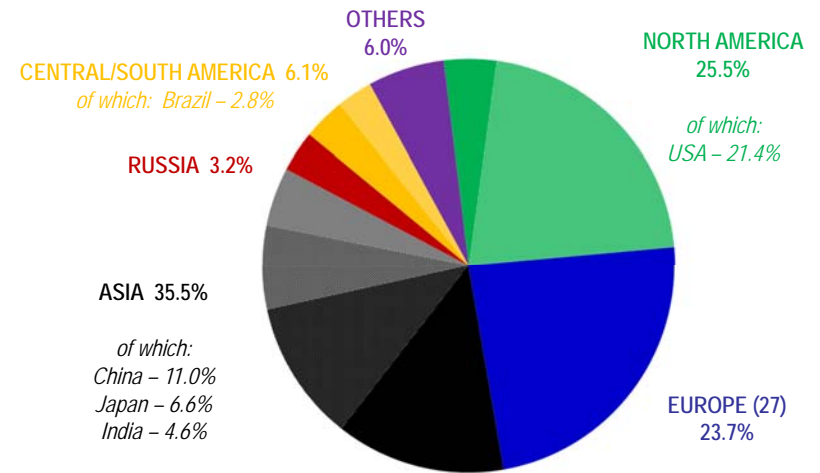
World Population Distribution (2010)

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Global Economic Output, by Region (2010)

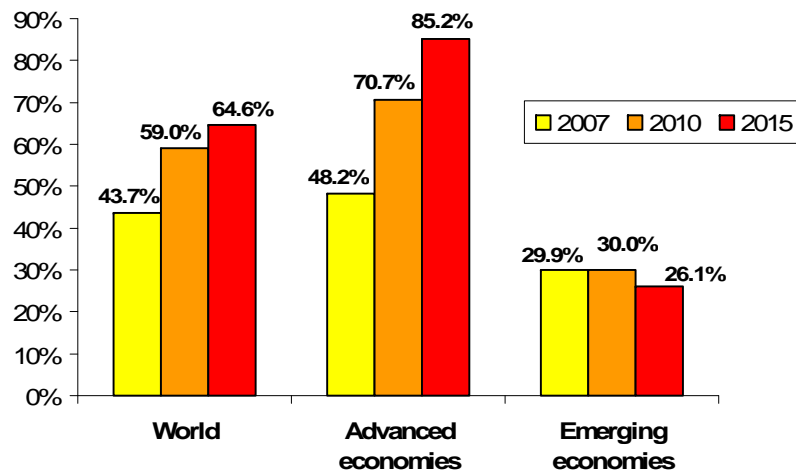
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Source: TD Bank Economics.

Net Government Debt to GDP (in percent)

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Source: Brookings Institution.

Biggest National Economies by 2050 (constant US dollars)

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- According to a new study by HSBC Bank...
- 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

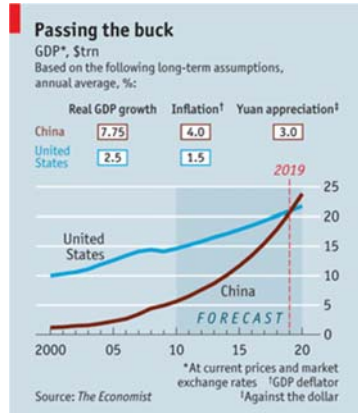
Source: HSBC Global Research: "The World in 2050".

China Will Surpass the US

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When will China's economy be larger than the US?

- » in 2003 Goldman Sachs projected it would happen in 2041
- » in 2007 GS revised the date to 2027
- » now, 2019 or 2020 is a common date, and some say as soon as 2016*

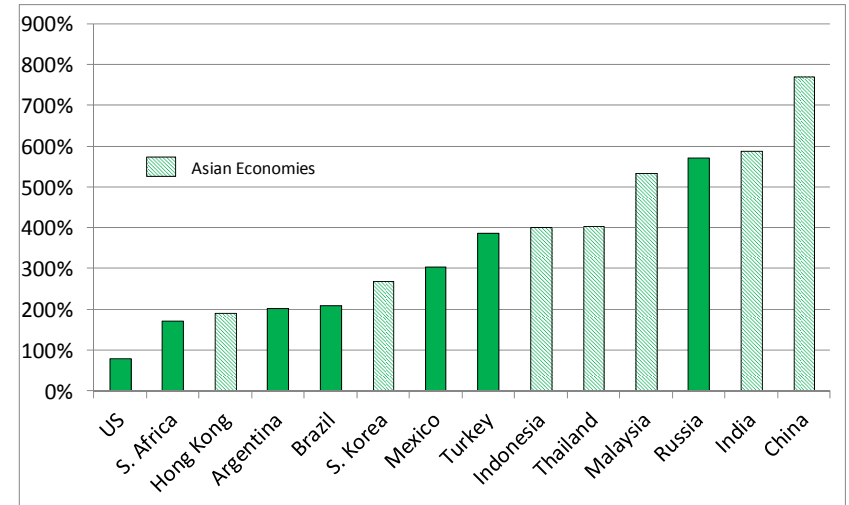


See John Ross, "The Central Date For China's GDP to Overtake the US at Market Exchange Rates in 2019" Economist, Dating Game: When Will China Overtake America?, December 16, 2010.



Projected Increase in Real Income Per Person 2010-2050

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Source: HSBC Global Research.



"The world is using up its natural resources at an alarming rate, and this has caused a permanent shift in their value."

Thomas Malthus?

No...

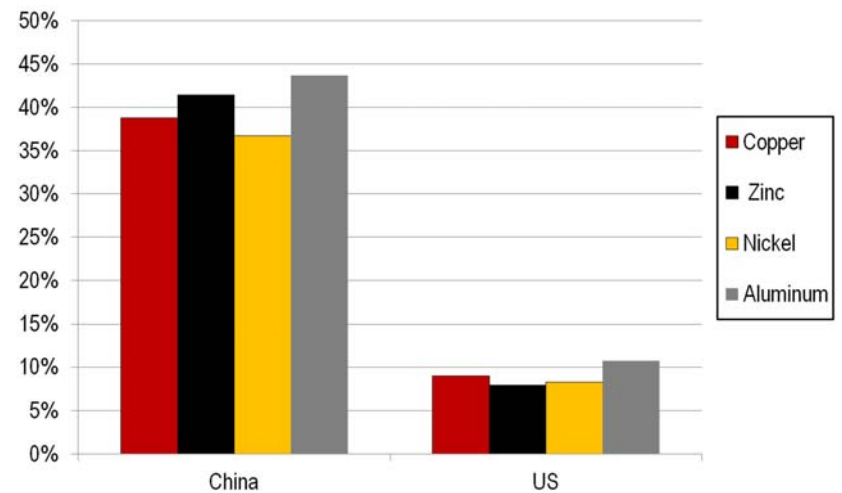
Jeremy Grantham, Chairman, GMO Capital

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China and US: Shares of World Commodity Consumption in 2010

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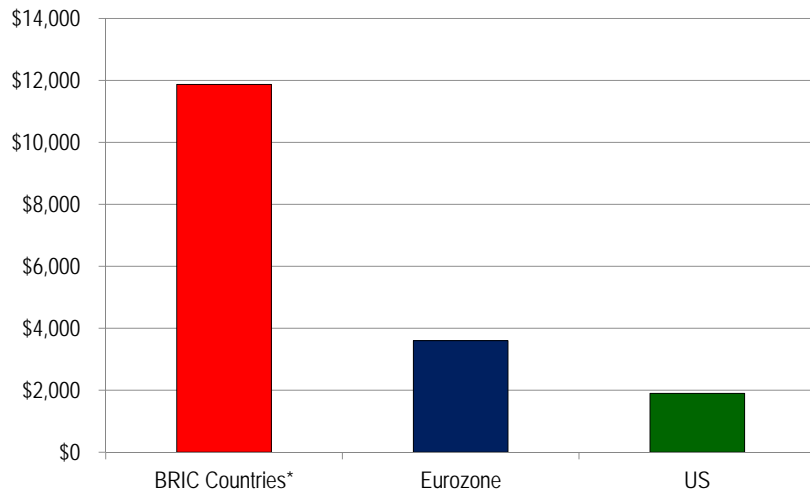


Source: Scotiabank Economics.



Base Metals Consumption Per \$1 Million in GDP (2011)

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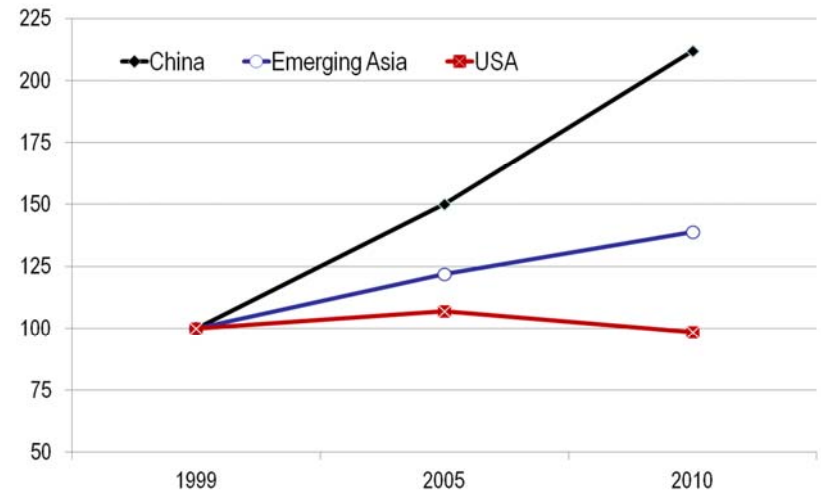
Source: CIBC World Markets.

* Brazil, Russia, India and China.



Change in World Oil Consumption (1999 = 100)

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Source: Scotiabank Economics.



China and Other Markets Propelling BC Exports

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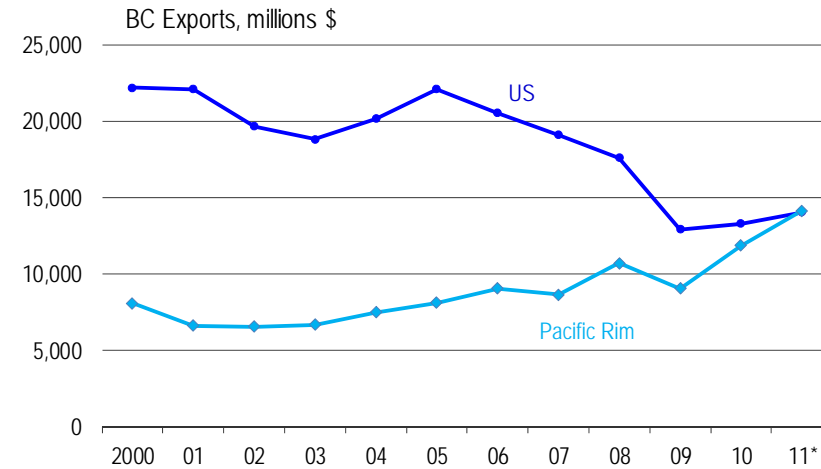
Source: BC Stats.

Latest: October 2011



BC Exports to Pacific Rim Now Surpass US

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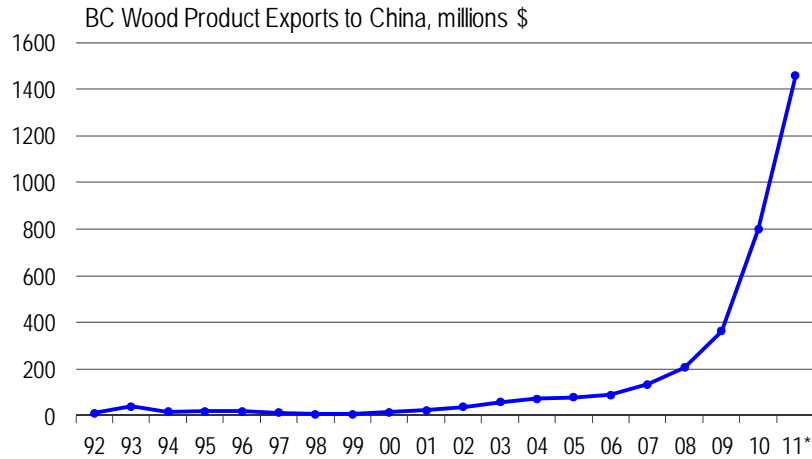
Source: Statistics Canada.

* 2011 projection based on January to October exports



China Buying More BC Wood!

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Source: Statistics Canada.

* 2011 projection based on January to October exports



Economic Renaissance for "Northern BC"

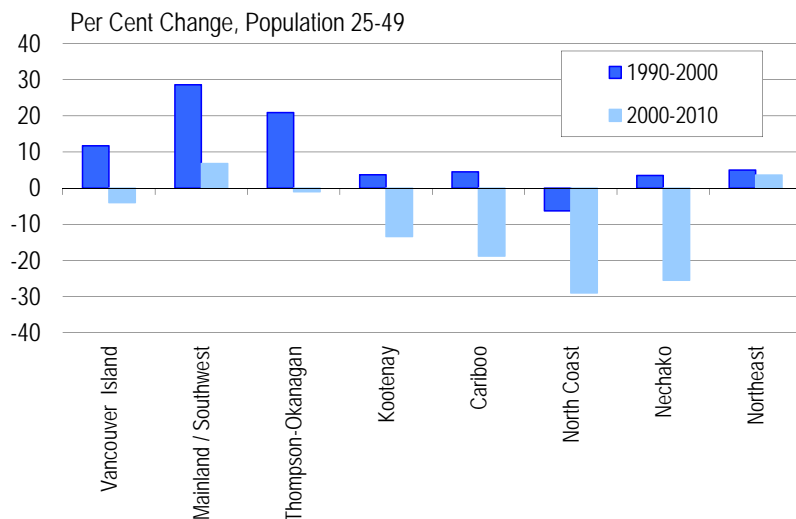
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- Mining (coal, metals) – BC Jobs Plan targets 8 new mines by 2020
- Construction – many significant projects
- Wood products (but from a low base)
- Transportation/logistics – PG and Prince Rupert Gateway development and expansion
- Energy (Northwest Transmission Line, IPPs, one planned LNG terminal in Kitimat, other shale gas and LNG plays, pipeline development, bio-energy opportunities)
- Rio Tinto Alcan smelter modernization
- But...regional skill shortages expected (already emerging)



Decline in Core Working Age Population in Many Areas

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Source: BC Stats



Some Implications of the Shifting Global Economy for BC and Western Canada

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- An increased orientation, in trade and investment, toward Asian markets in particular and emerging markets generally
- Canada urgently needs to establish the infrastructure, policies, business strategies and mind-set suited to doing business and succeeding in the 'Asian century'
- Strong offshore demand for many natural resource-based products will raise issues around the pace of development, sustainability concerns, First Nations' perspectives, and opportunities for value-added upgrading of Western Canadian resources
- Requirement for greater federal-provincial and pan-Western Canadian collaboration and policy coordination in order to compete and prosper in the new world economy

