



The Global and North American Outlook

Glen Hodgson, Senior Vice President and Chief Economist of The Conference Board of Canada

The global recovery was slowly building positive momentum up to the end of August. However, financial markets have come under pressure due to a number of negative factors -- economic slippage in Europe, a sharp drop in global oil prices, increased geo-political risks in Ukraine and the Middle East, and slower growth in a number of emerging markets. Recent tragic events in Ottawa have added a Canadian risk factor.

The Conference Board believes that the psychological “fear factor” has amplified the downward impact on financial markets of these negative economic and geo-political factors. But markets may have underestimated the positive economic forces at work, notably the strengthening U.S. recovery and the benefit of lower oil prices for consumers. Notwithstanding the steady withdrawal of exceptional monetary stimulus by the Fed, all the evidence points toward a recovery in the U.S. economy that is real and sustainable, driven by the private sector. We expect U.S. growth to exceed 3 per cent in 2015. As a result, Canadian exports and private investment should strengthen in 2015, helping to lift Canadian GDP by 2.5 per cent next year. Growth in Alberta and western Canada will be stronger than growth in other regions.

In addition, sharply lower oil prices are obviously bad news for oil producers and their suppliers, but good for consumers almost everywhere, plus good for businesses that use oil-based inputs. Consumers and many businesses will have more cash available to spend on other goods and services. Markets and oil producers in particular will have to adapt their business practices if prices remain lower for an extended time, but overall, lower oil prices are a net positive for the global economy, and more or less neutral for Canada.

Our advice? Keep calm, adapt, and carry on.



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The Economic Outlook:

Despite the Turmoil, Better Prospects in 2015

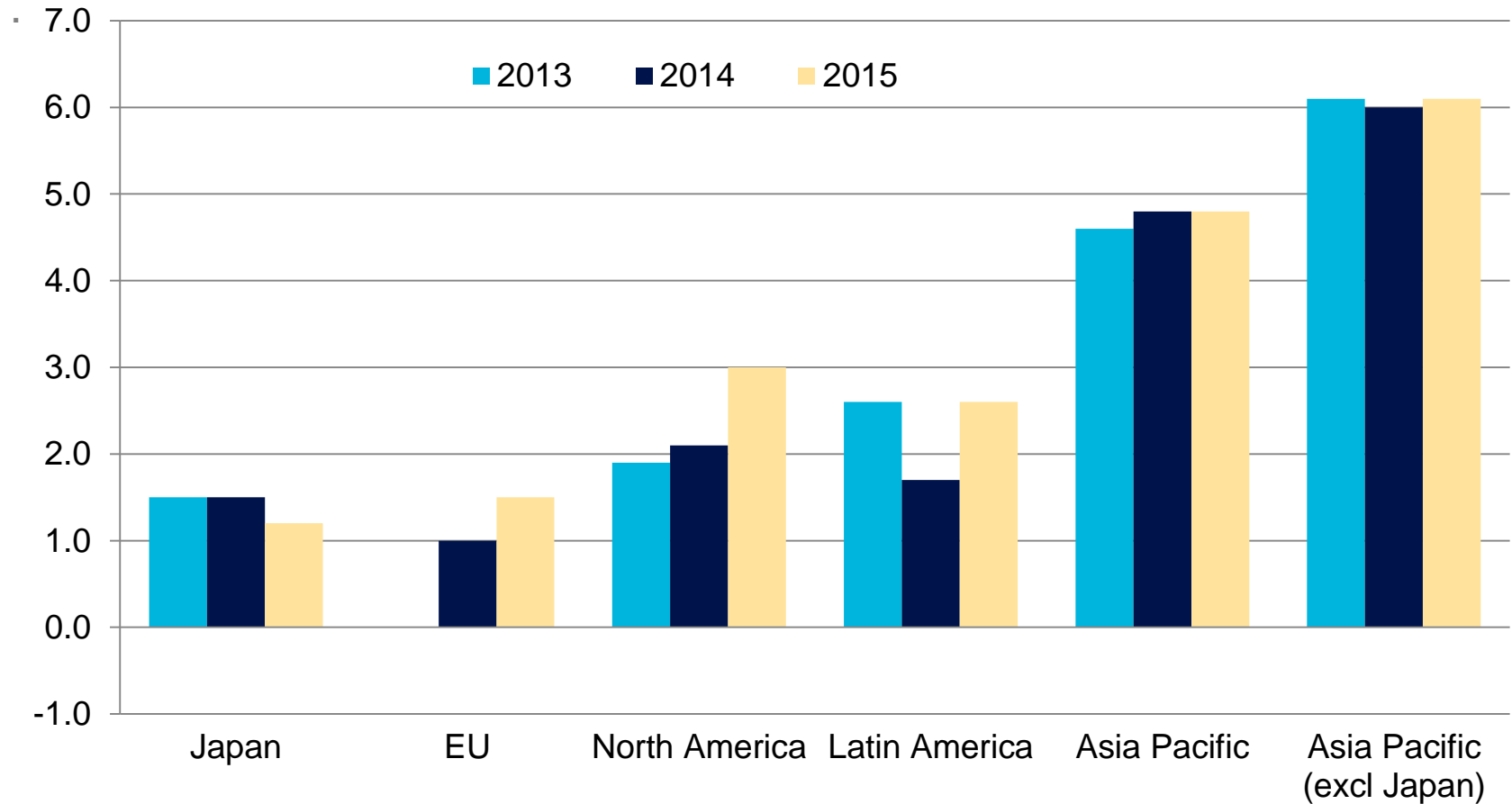
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Uneven Growth in Global Economy

Per cent change, real GDP



Source: Consensus Economics



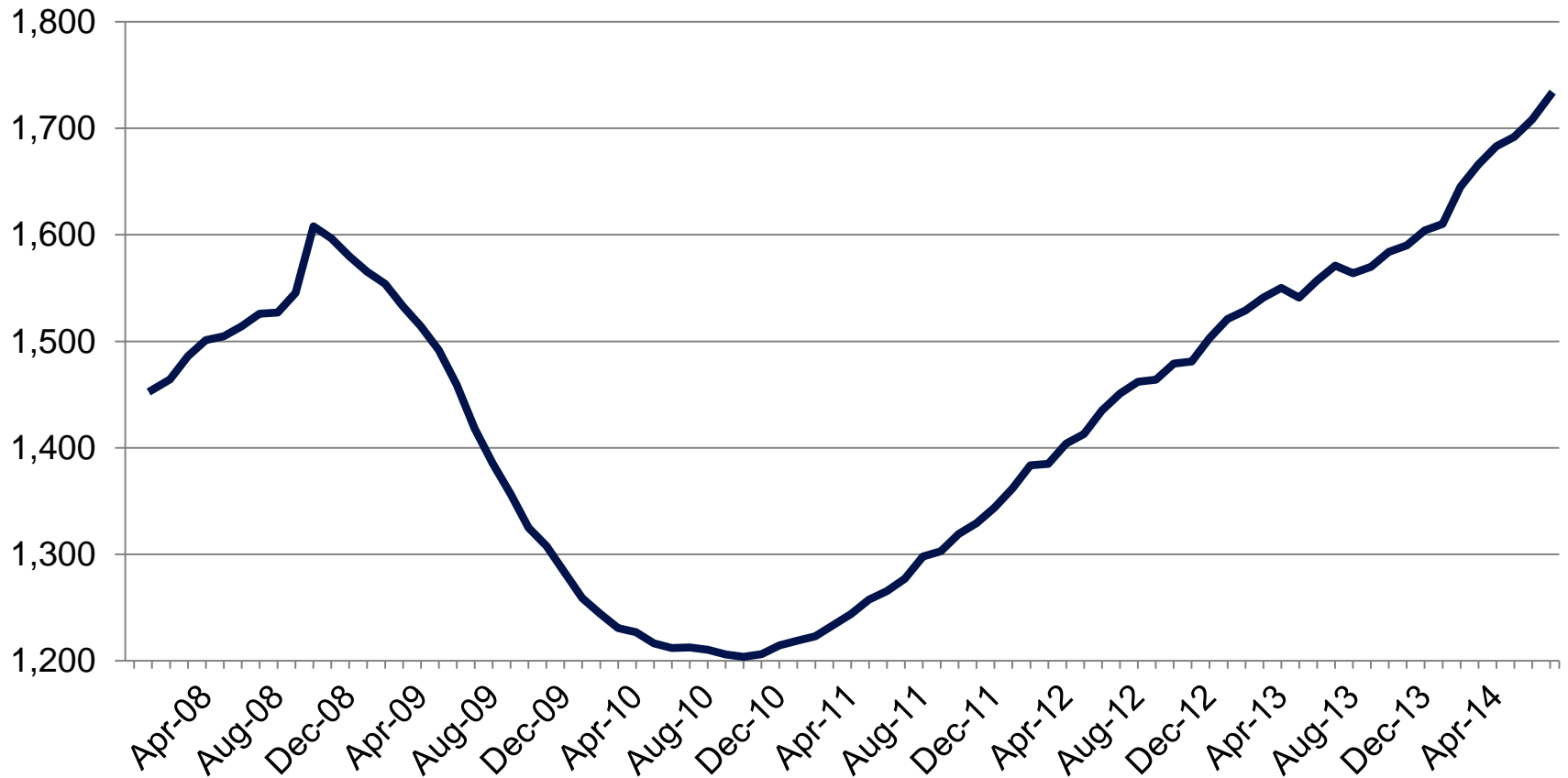
U.S. Outlook

- Despite recent financial turmoil, U.S. economy to expand near 3 per cent pace in second half of 2014
- U.S. growth even stronger in 2015
- Robust recovery in the private domestic economy– jobs, housing, autos, investment
- QE ramping down, will end in 2014
- Federal deficit declining, but will rise again due to entitlements driven by aging population
- Increasing U.S. energy self-reliance fueling re-shoring of investment and jobs



U.S. Commercial Bank Lending On the Rise

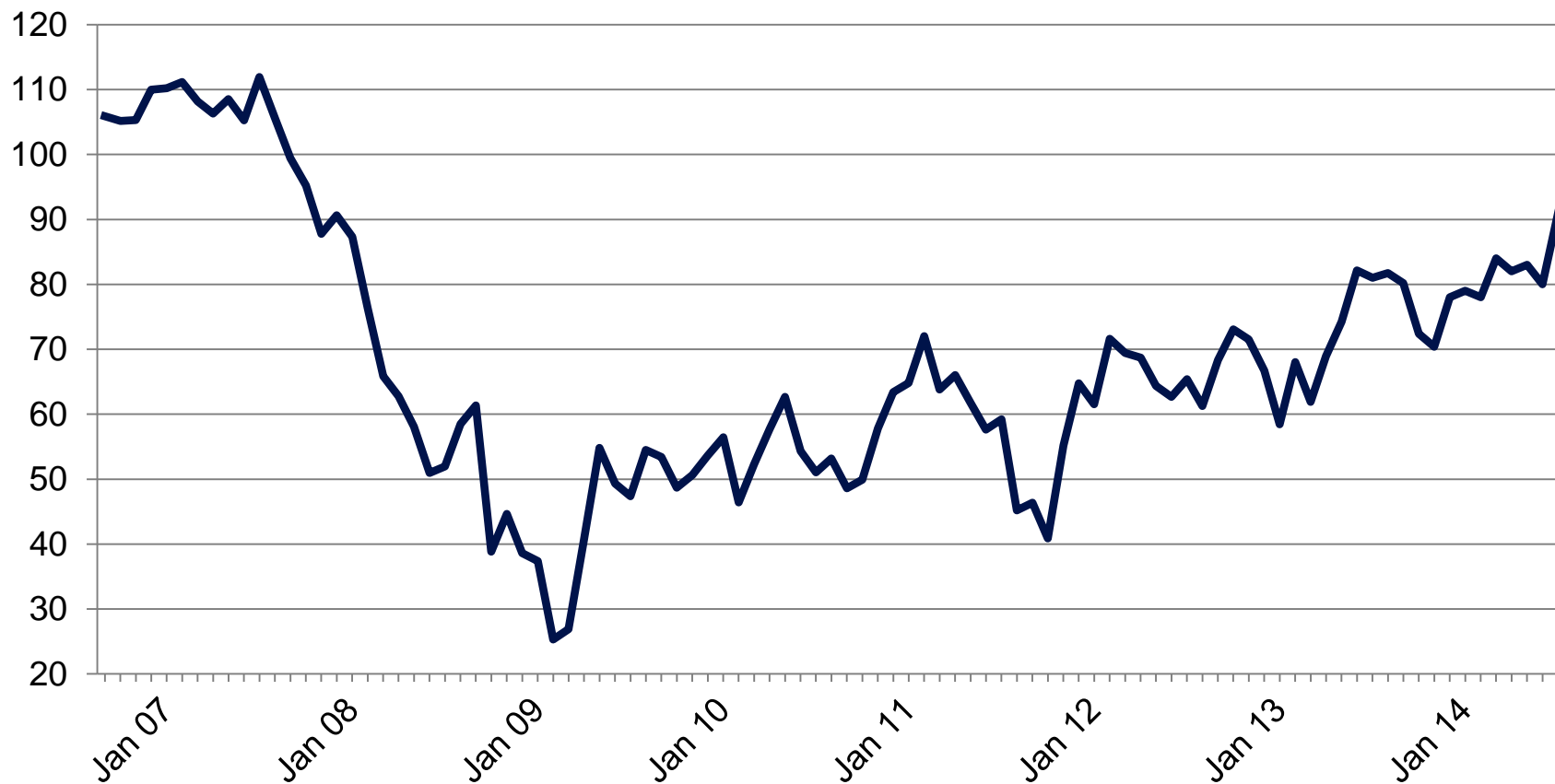
\$ billions, commercial and industrial loans



Source: Federal Reserve

U.S. Consumer Confidence.

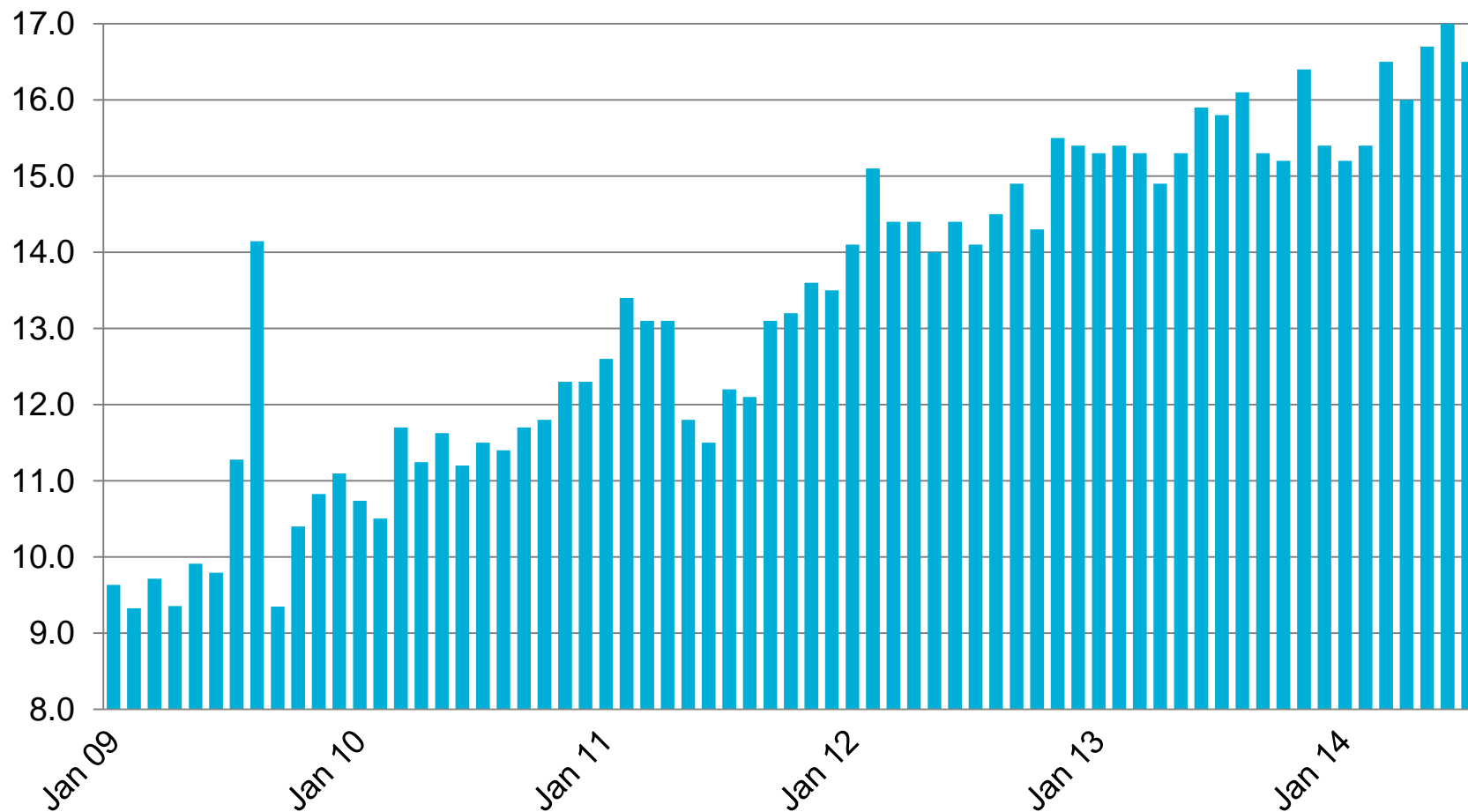
1985 = 100.



Source: The Conference Board Inc.

U.S. Vehicle Sales Back to Normal.

millions, annualized.

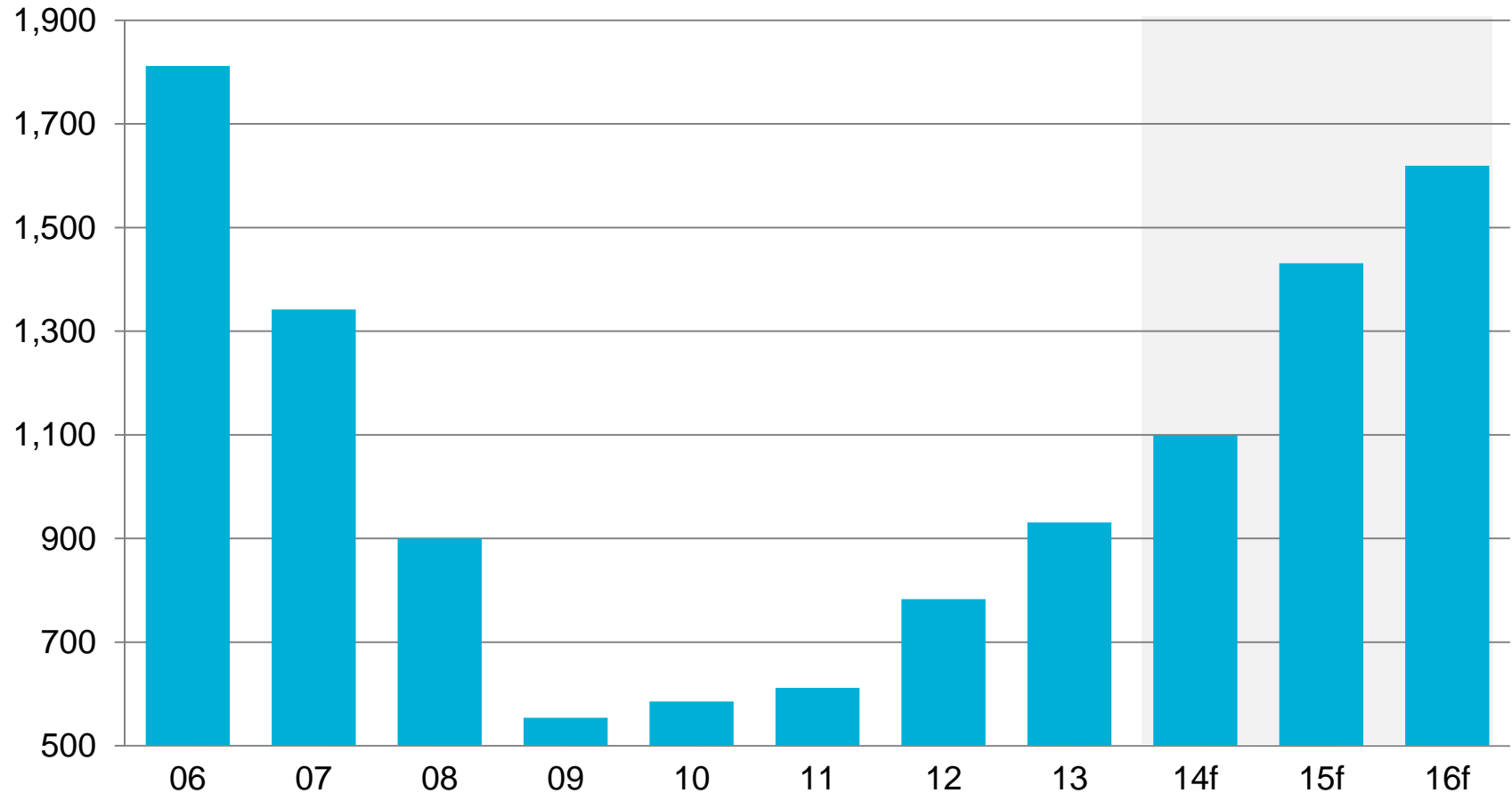


Source: Moody's Economy.com



U.S. Housing Starts.

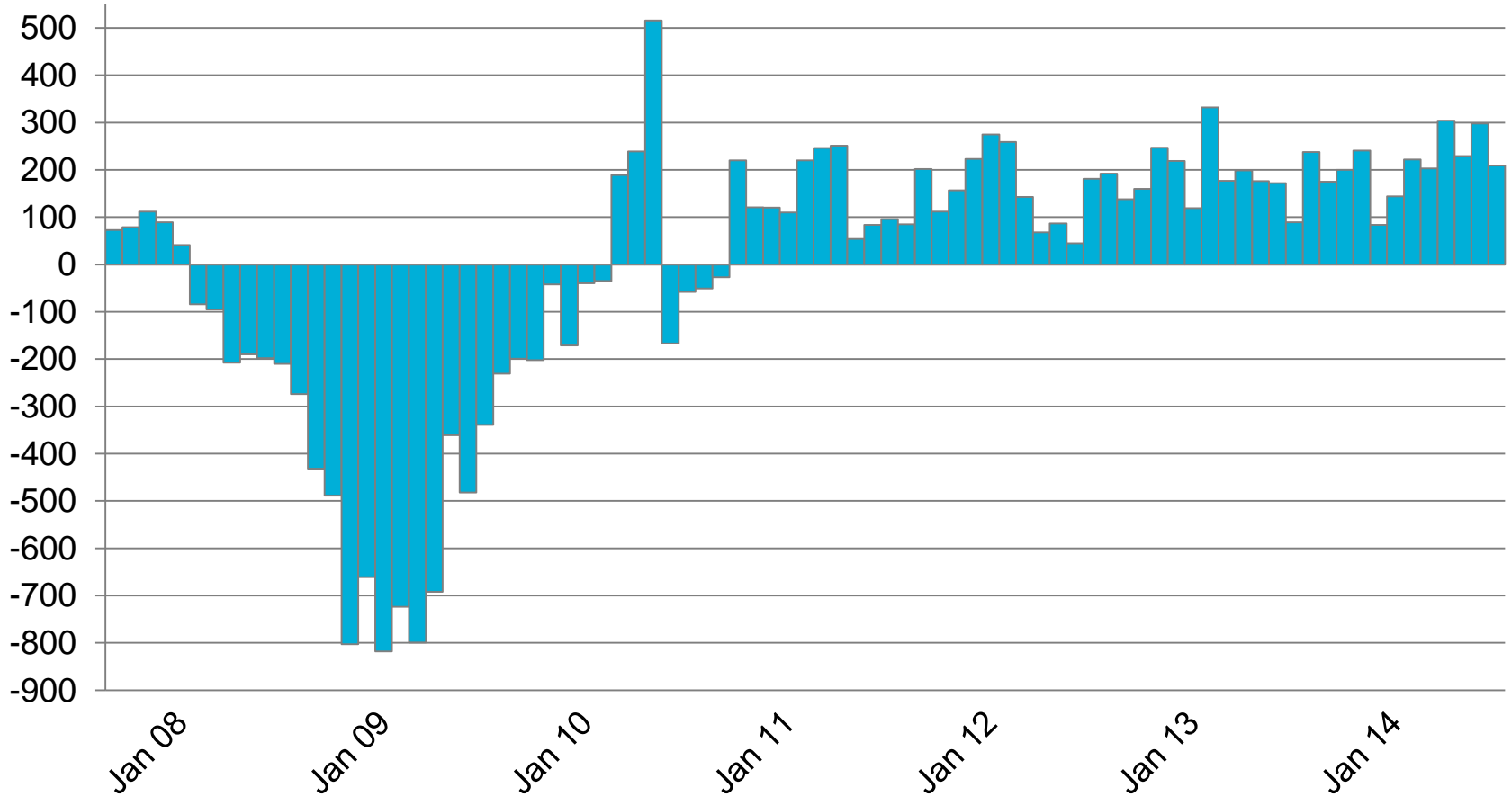
000s



Sources: Bureau of Economic Analysis; The Conference Board of Canada.

U.S. Labour Market.

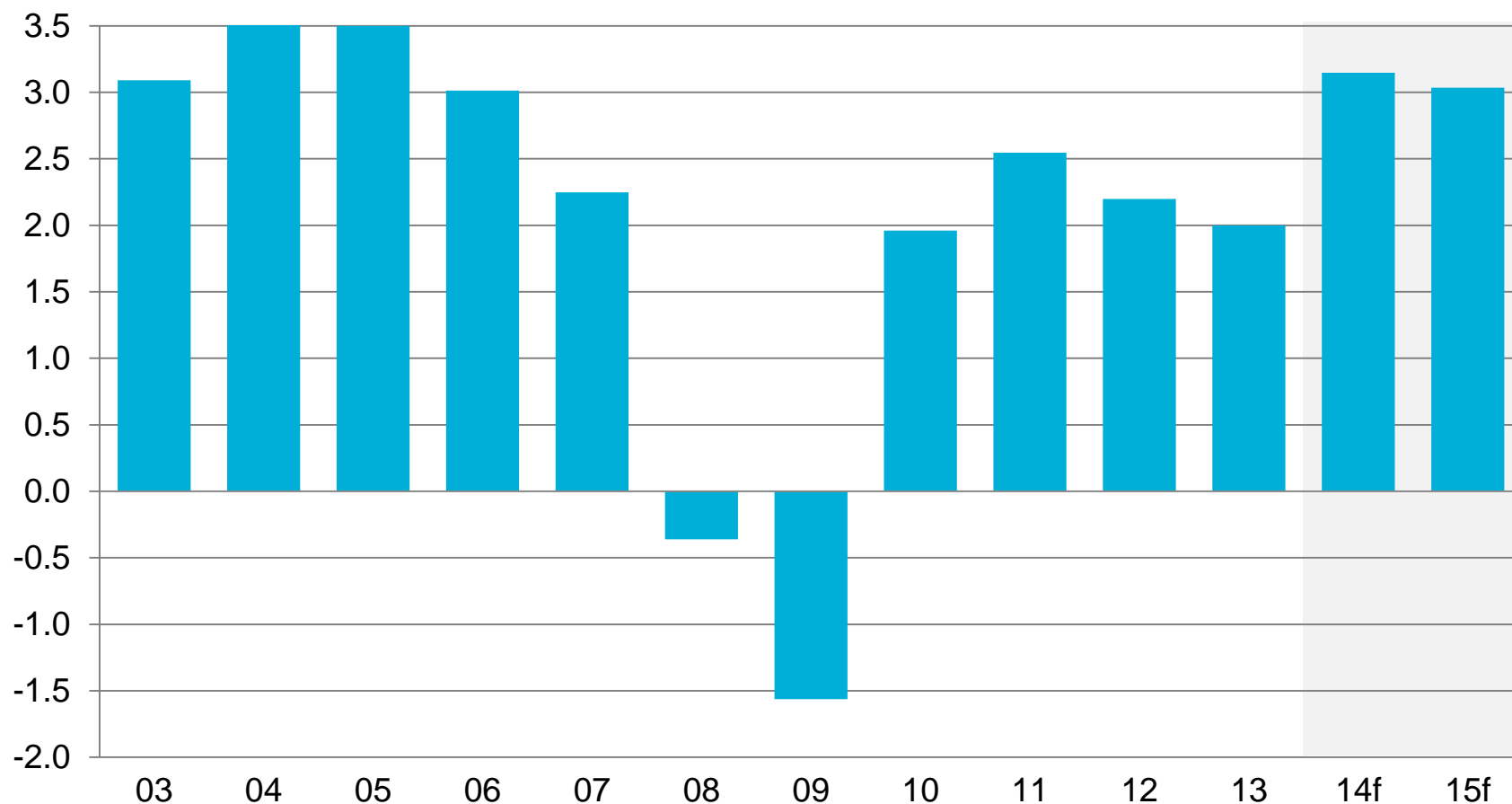
change in U.S. employment, 000s.



Source: Bureau of Economic Analysis.

U.S. Real Consumer Spending

per cent change



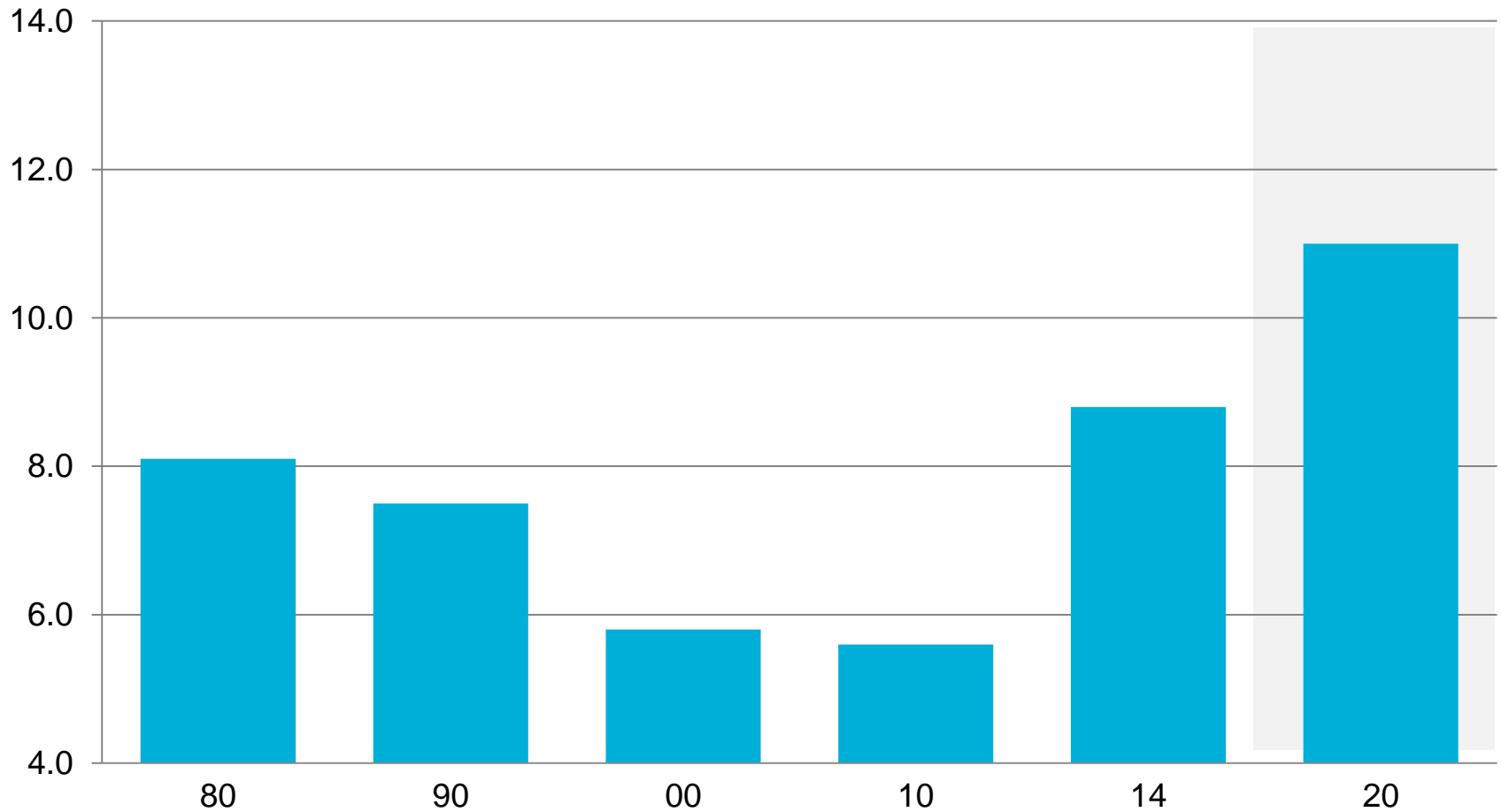
Sources: BEA; The Conference Board of Canada.



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US Oil Production

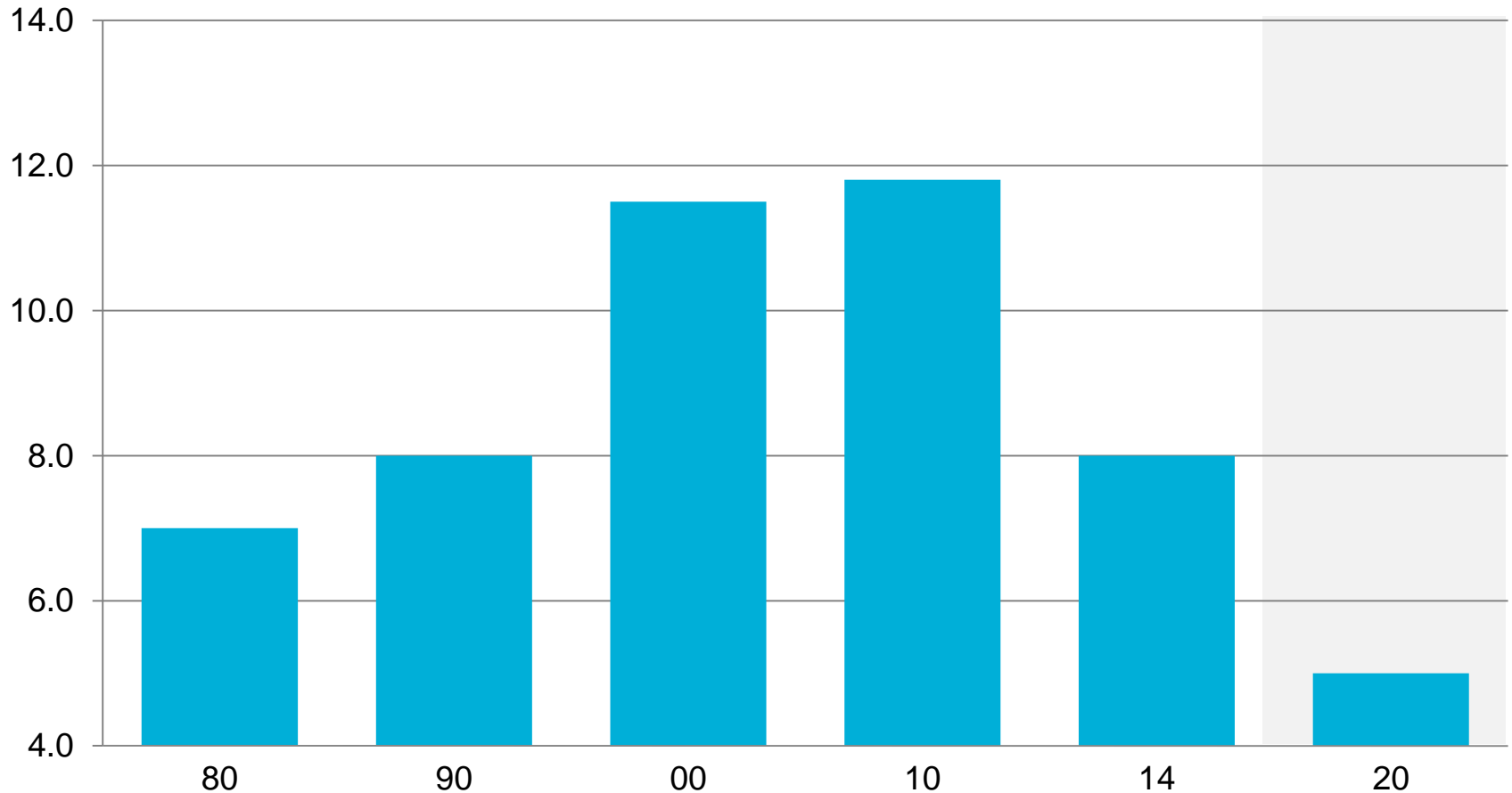
millions of barrels per day



Source: IEA.

US Oil Imports

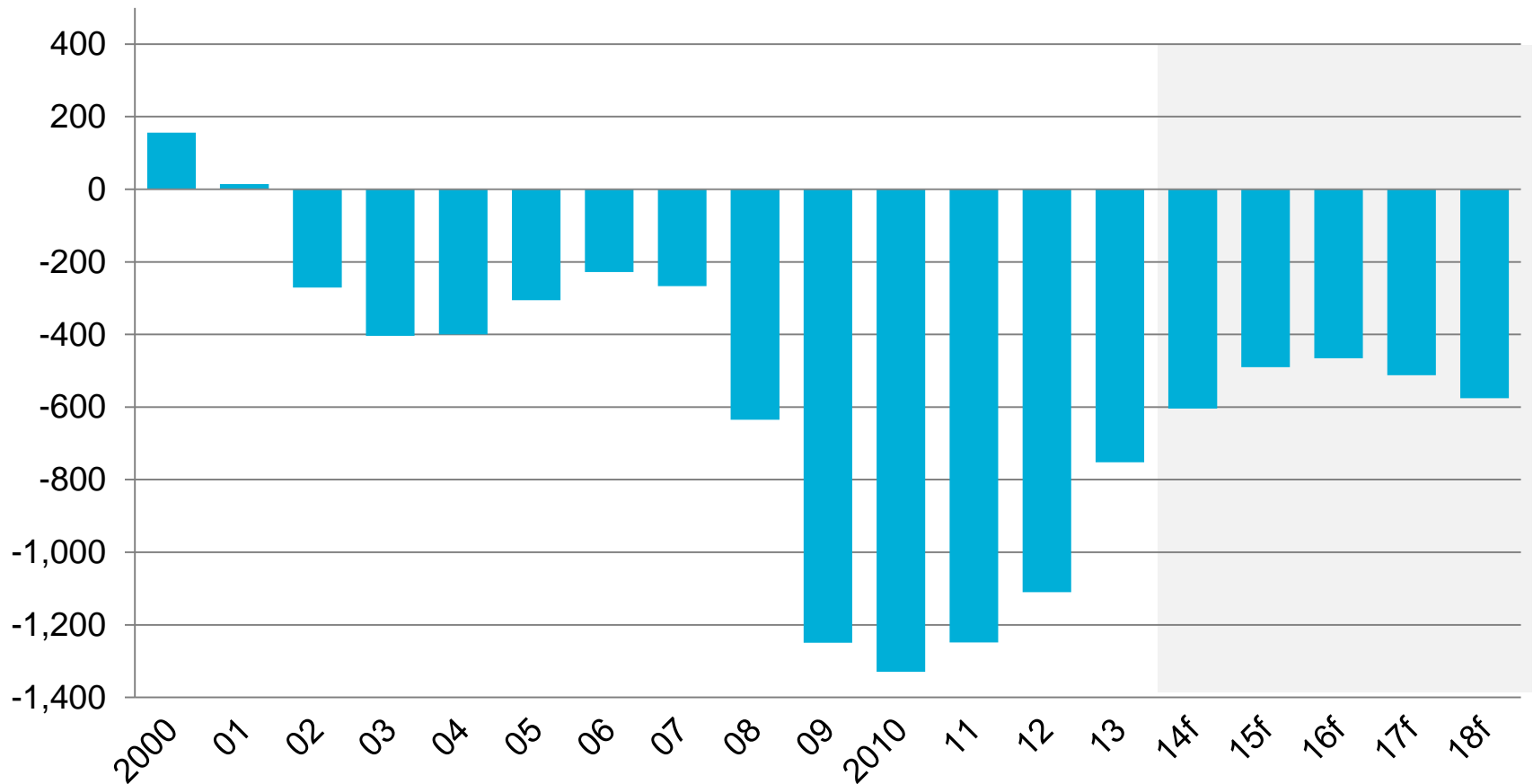
millions of barrels per day



Source: IEA.

U.S. Federal Deficit

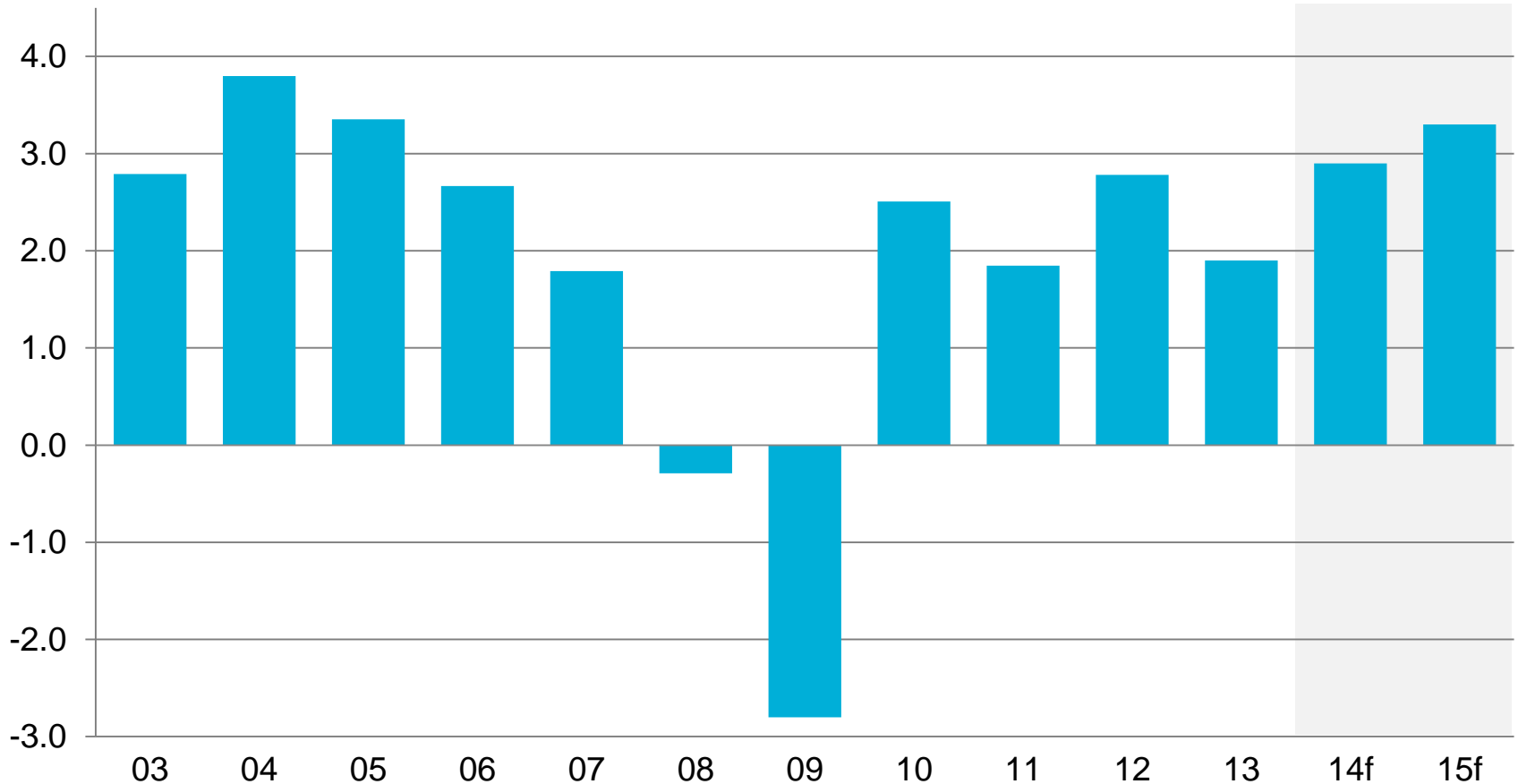
NIPA basis, billions of current \$



Sources: BEA; The Conference Board of Canada.

U.S. Real GDP Growth

per cent change



Sources: Bureau of Economic Analysis The Conference Board of Canada.



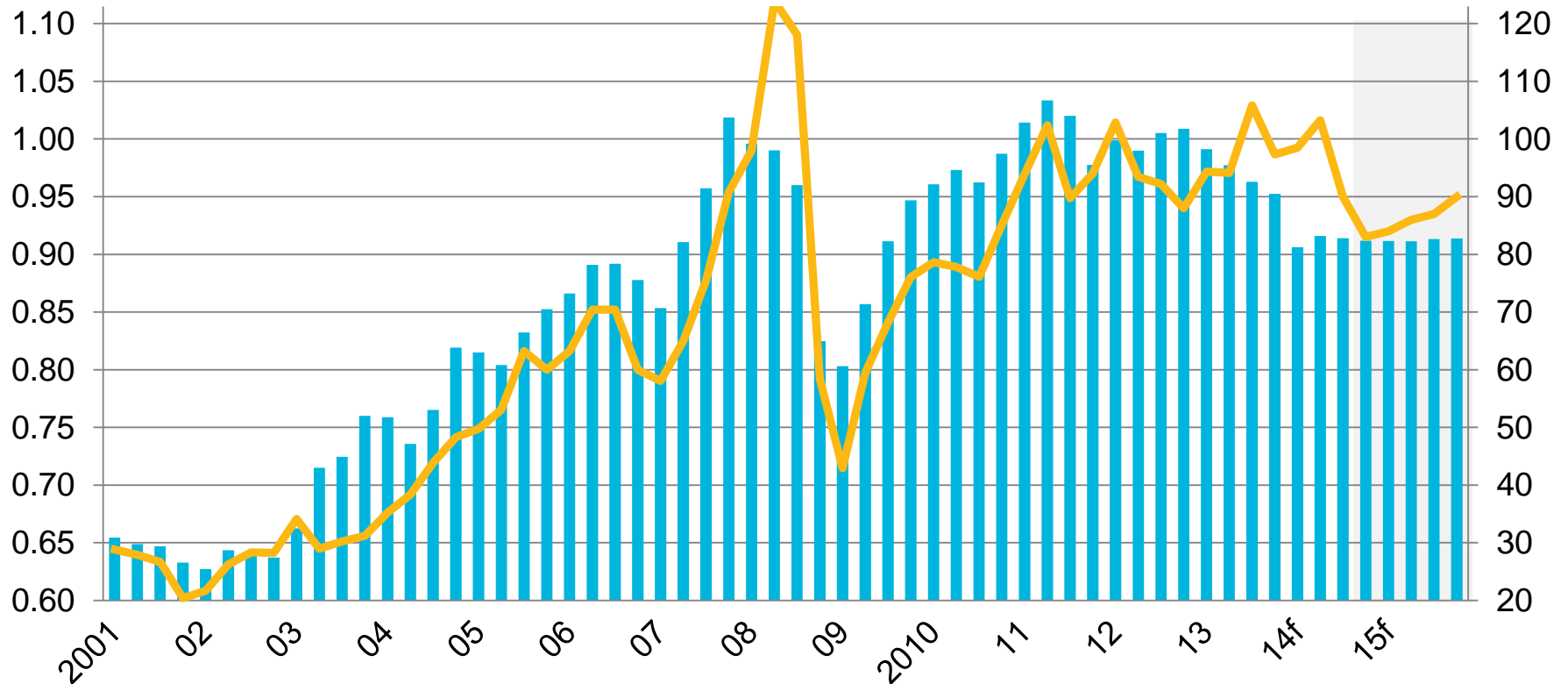
Weak Canadian Performance: the “New-Normal”

- Canadian growth continues to hover at 2 per cent
- Export sector recovery in 2015 should boost GDP growth
- Labour markets will slowly tighten, limiting growth
- Rising interest rates (eventually) will constrain increases in household spending
- Business investment growth remains weak
- Fiscal restraint will continue through the foreseeable future

The Loonie and the Oil Price

(WTI \$US, \$US/\$C)

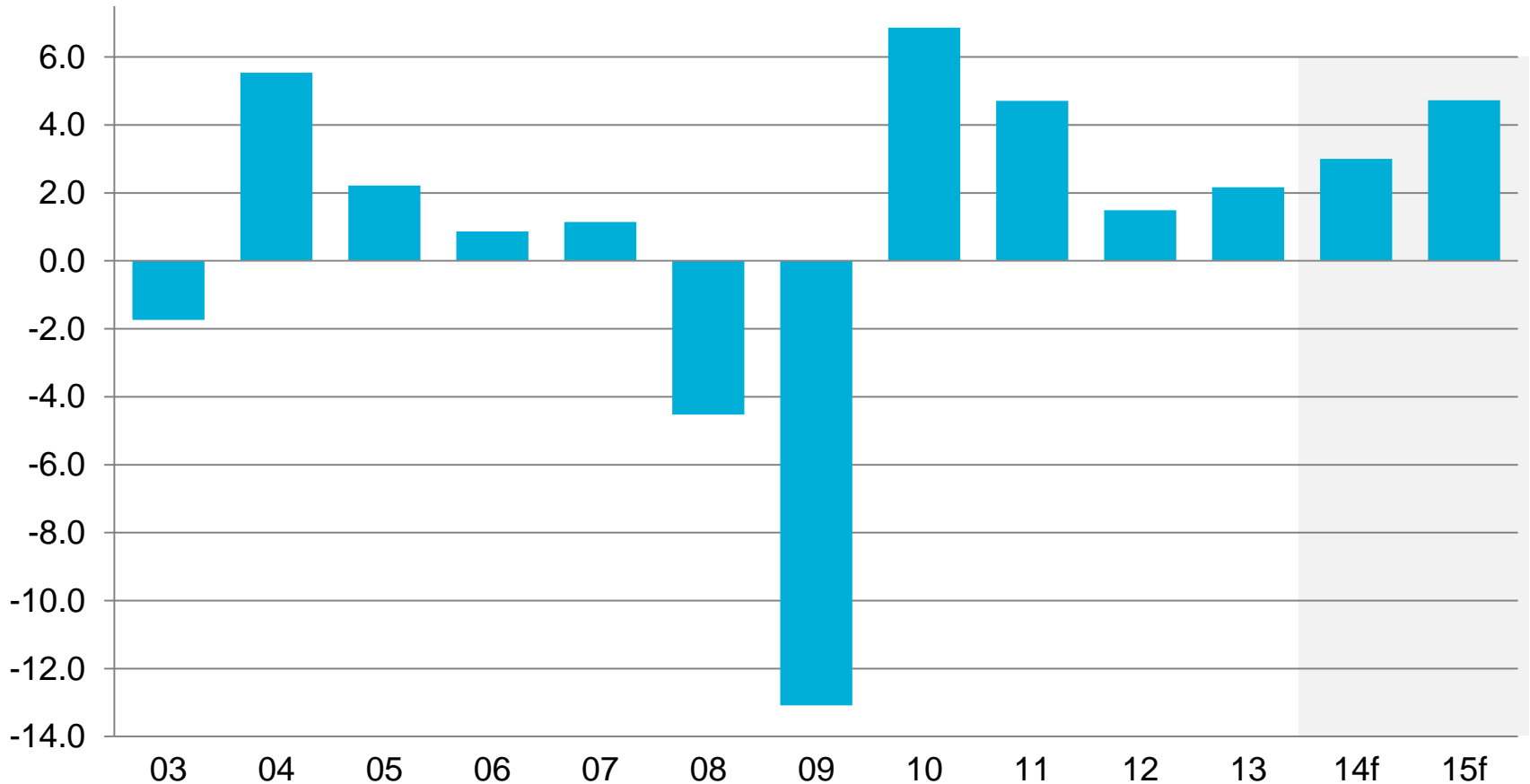
■ Dollar (left) — Oil Price (right)



Sources: The Conference Board of Canada; U.S. EIA; Statistics Canada.

Export Volumes

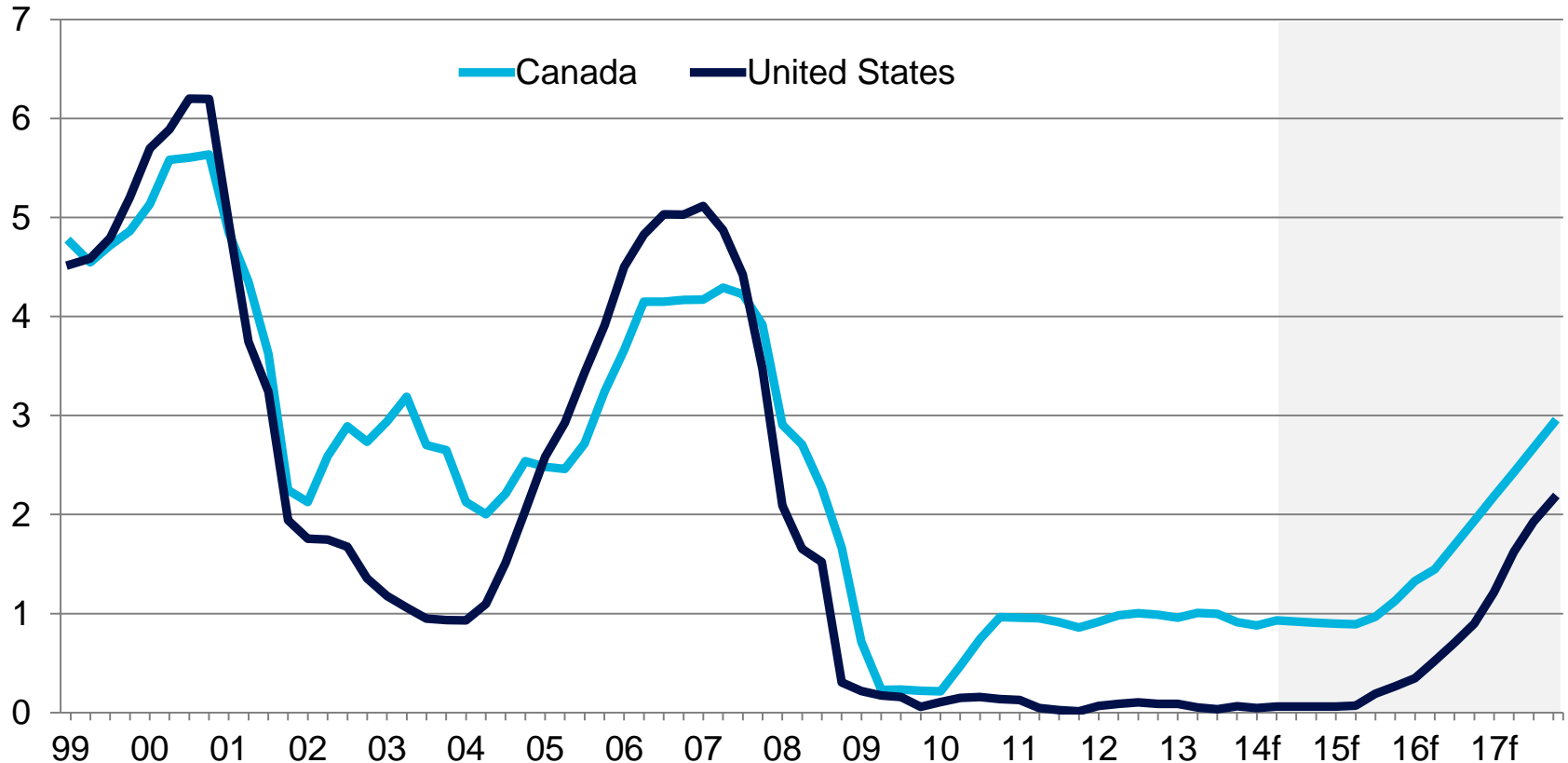
per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Short-Term Interest Rates

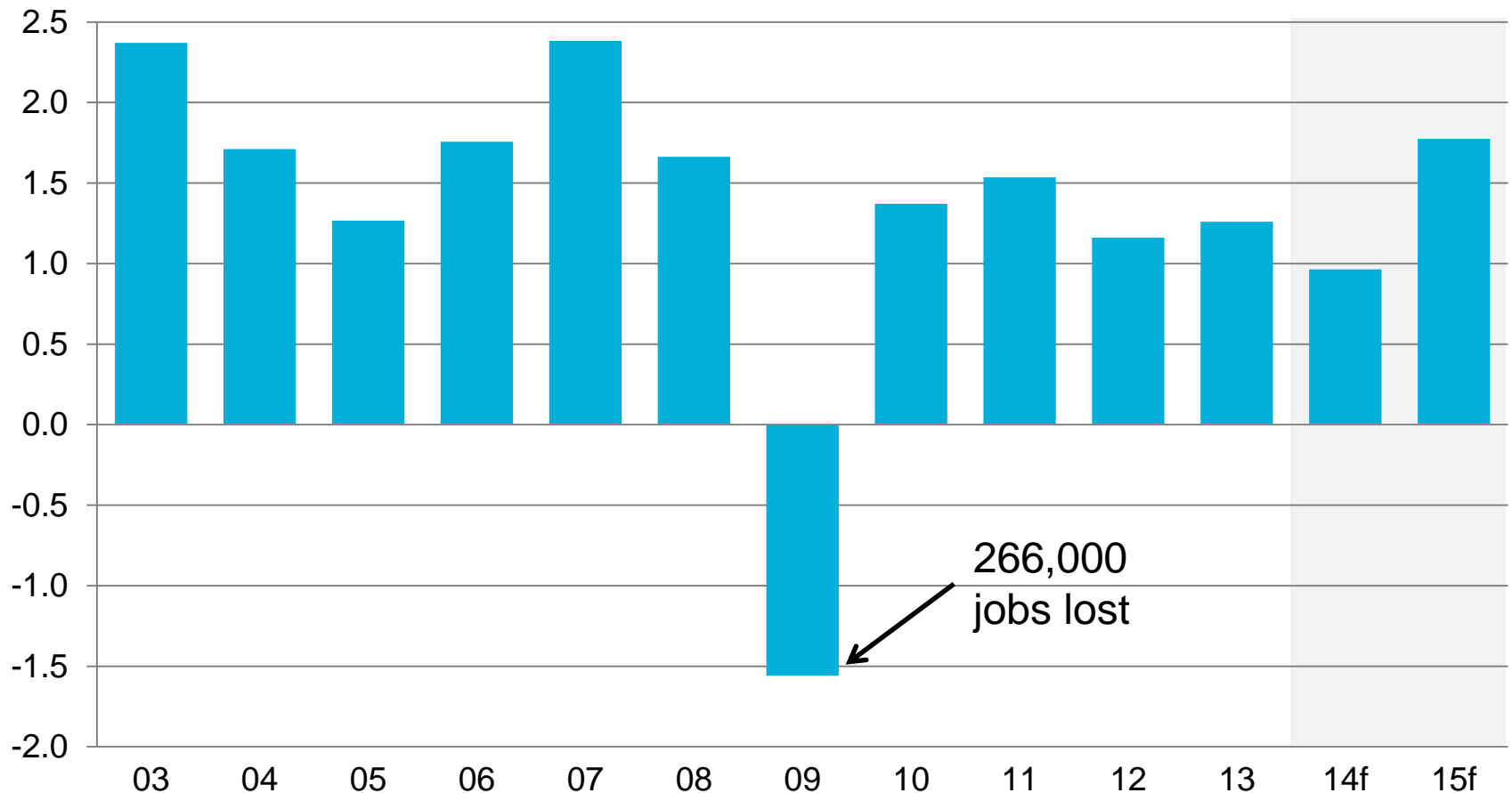
90-Day Treasury Bill Rates



Sources: Statistics Canada; U.S. Bureau of Economic Analysis; The Conference Board of Canada.

Employment Growth

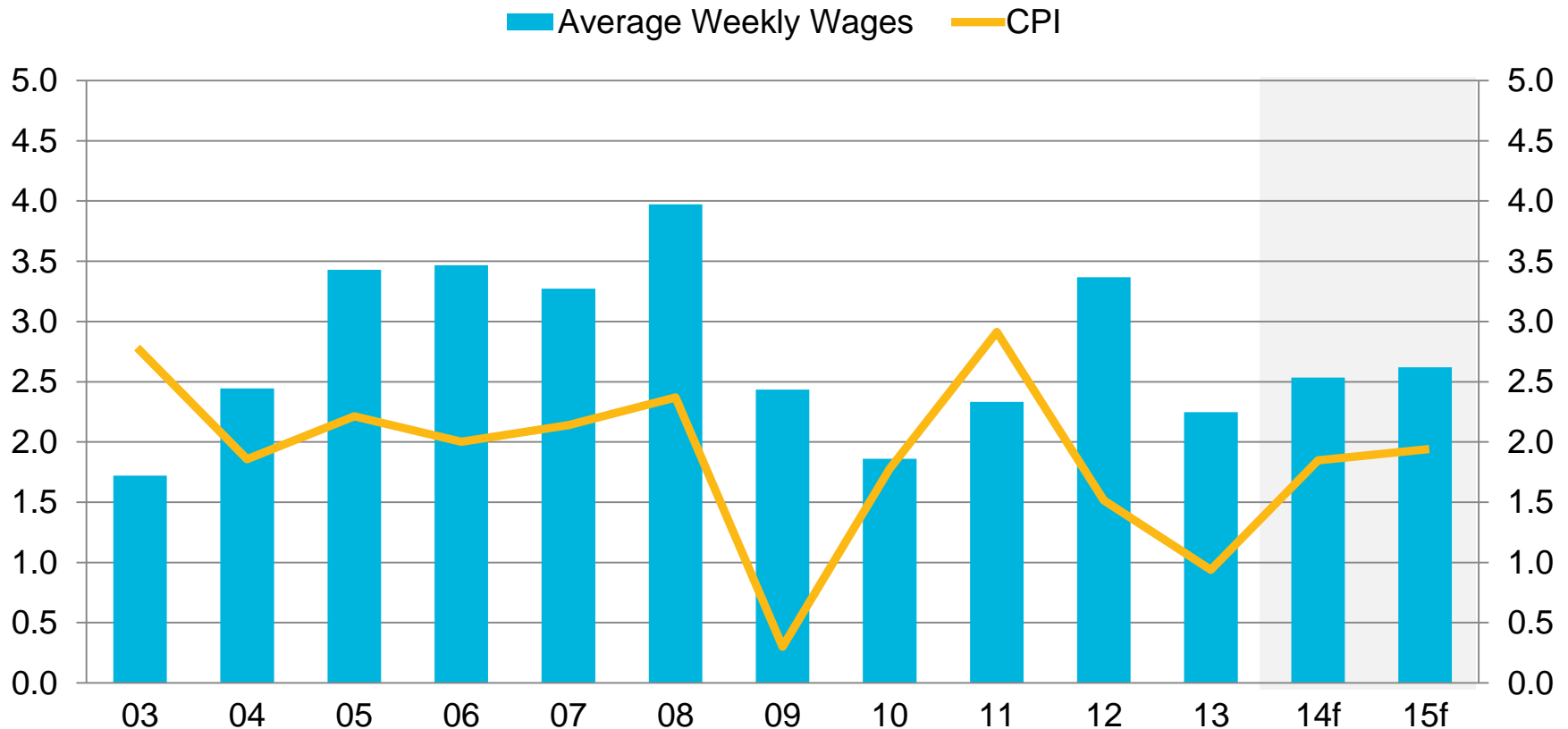
per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Growth in Industrial Composite Average Weekly Wage versus CPI

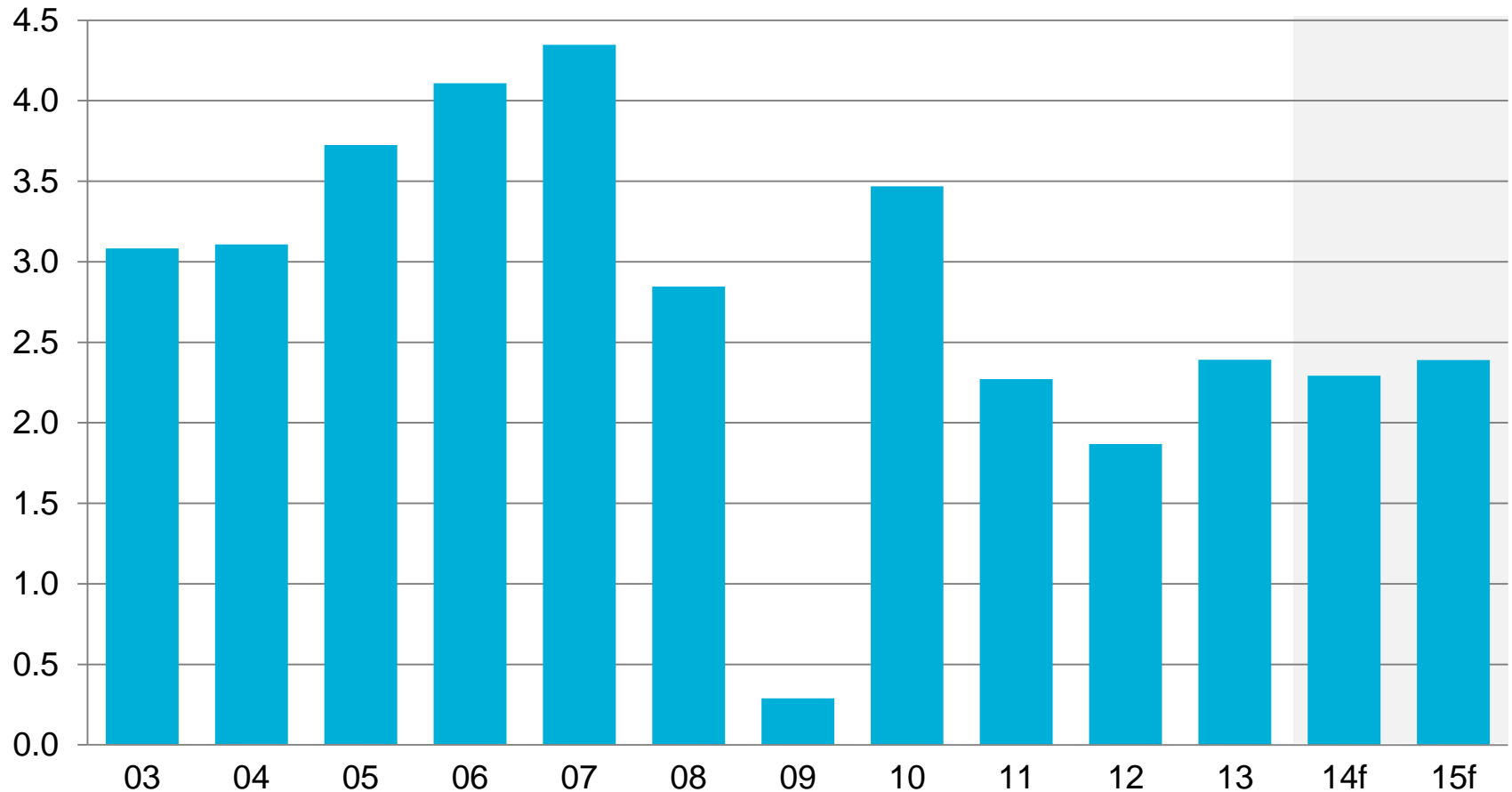
per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Real Consumer Spending

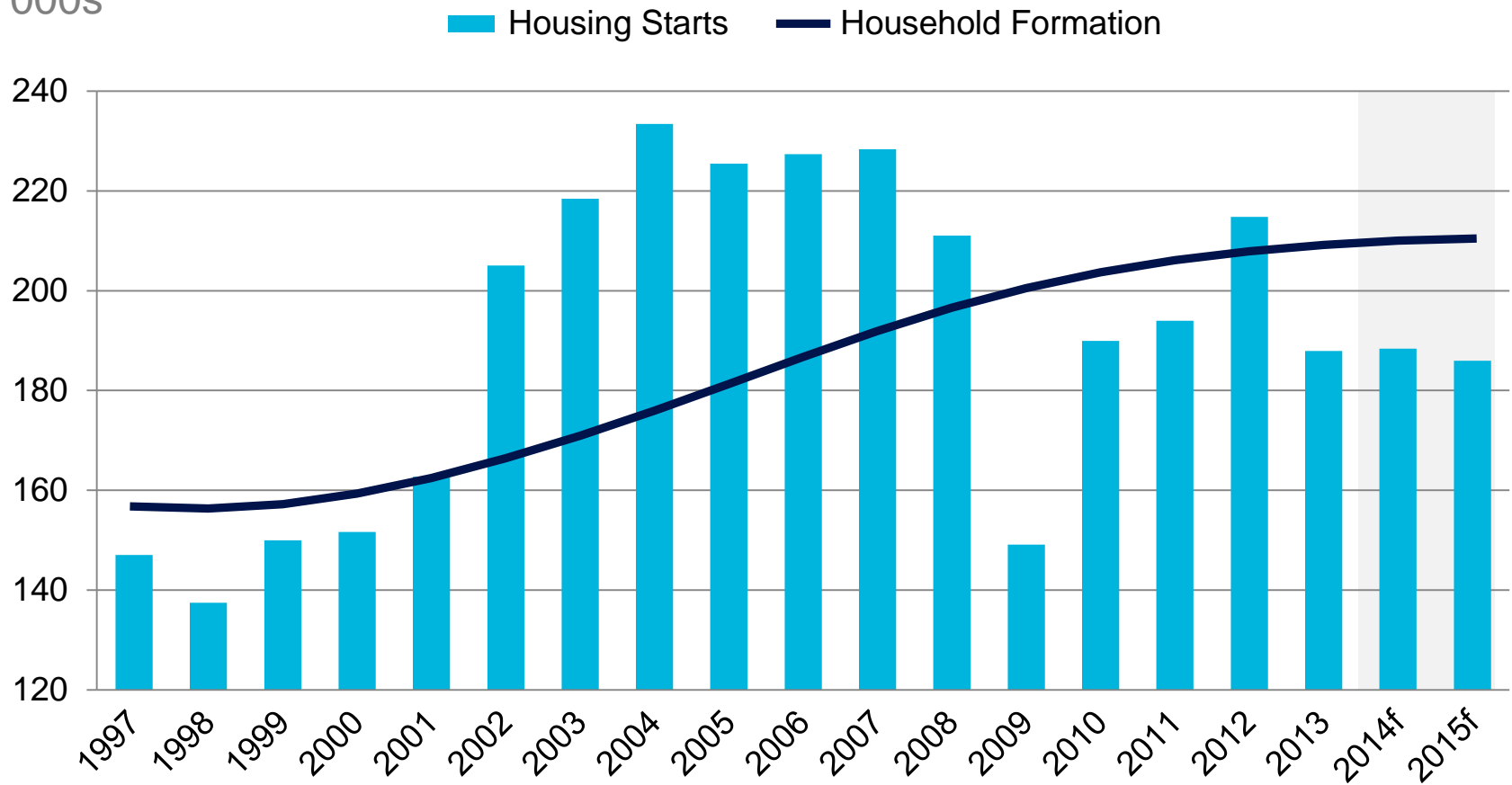
per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Canada, Housing Starts vs. Demographic Requirements

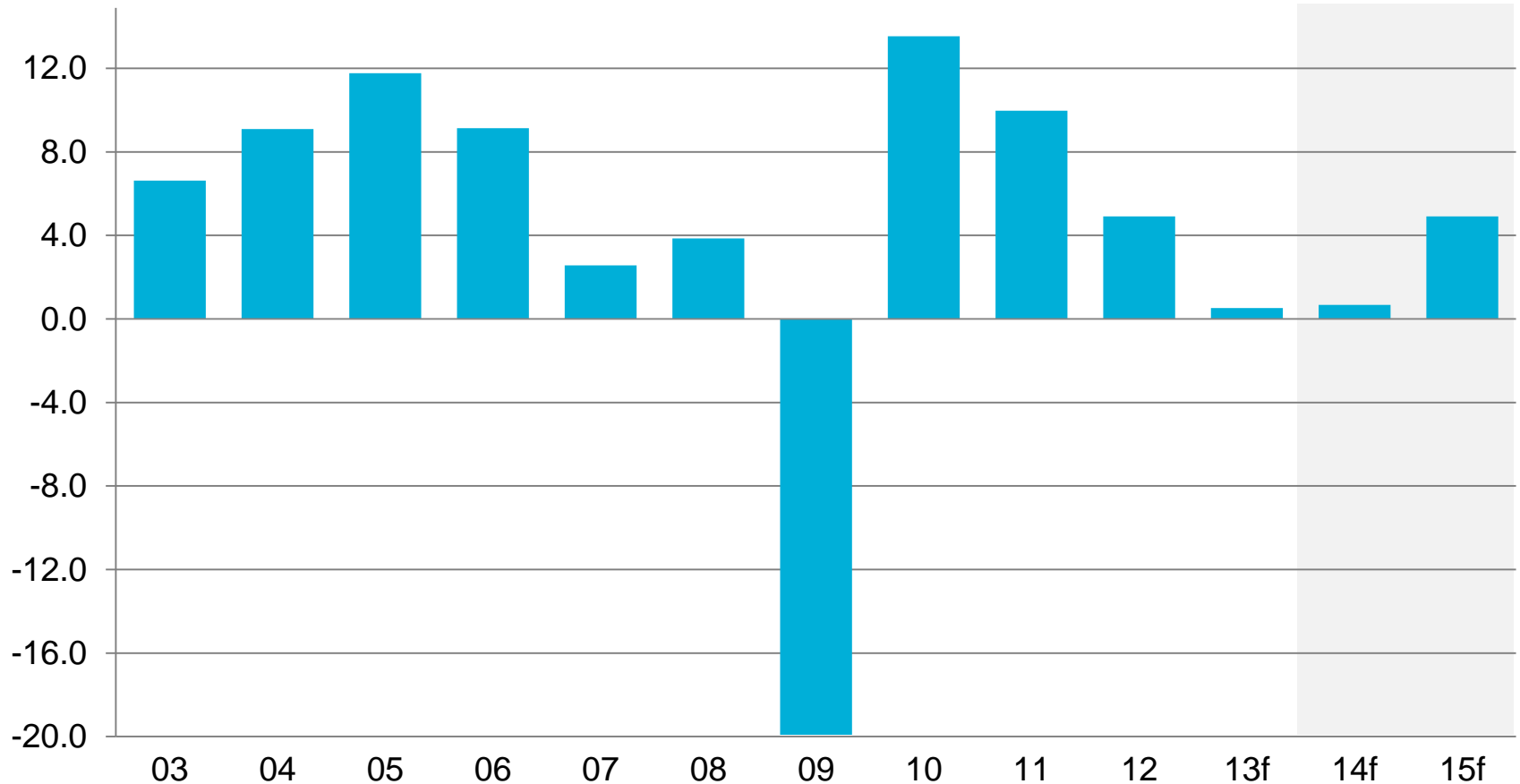
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Sources: Canada Mortgage and Housing Corporation; The Conference Board of Canada.

Real Business Investment

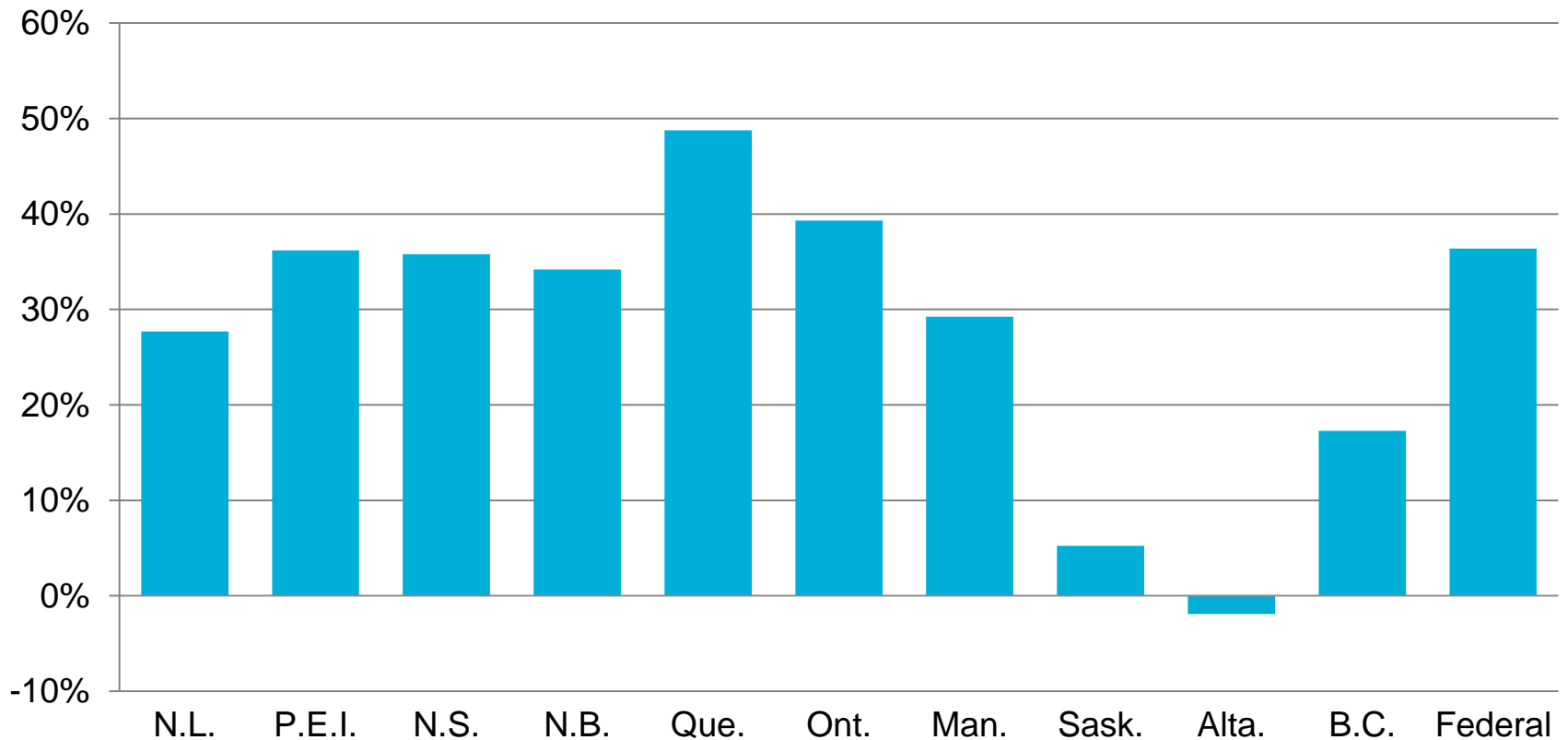
non-residential structures and machinery, per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Federal and Provincial Gov't Net Debt

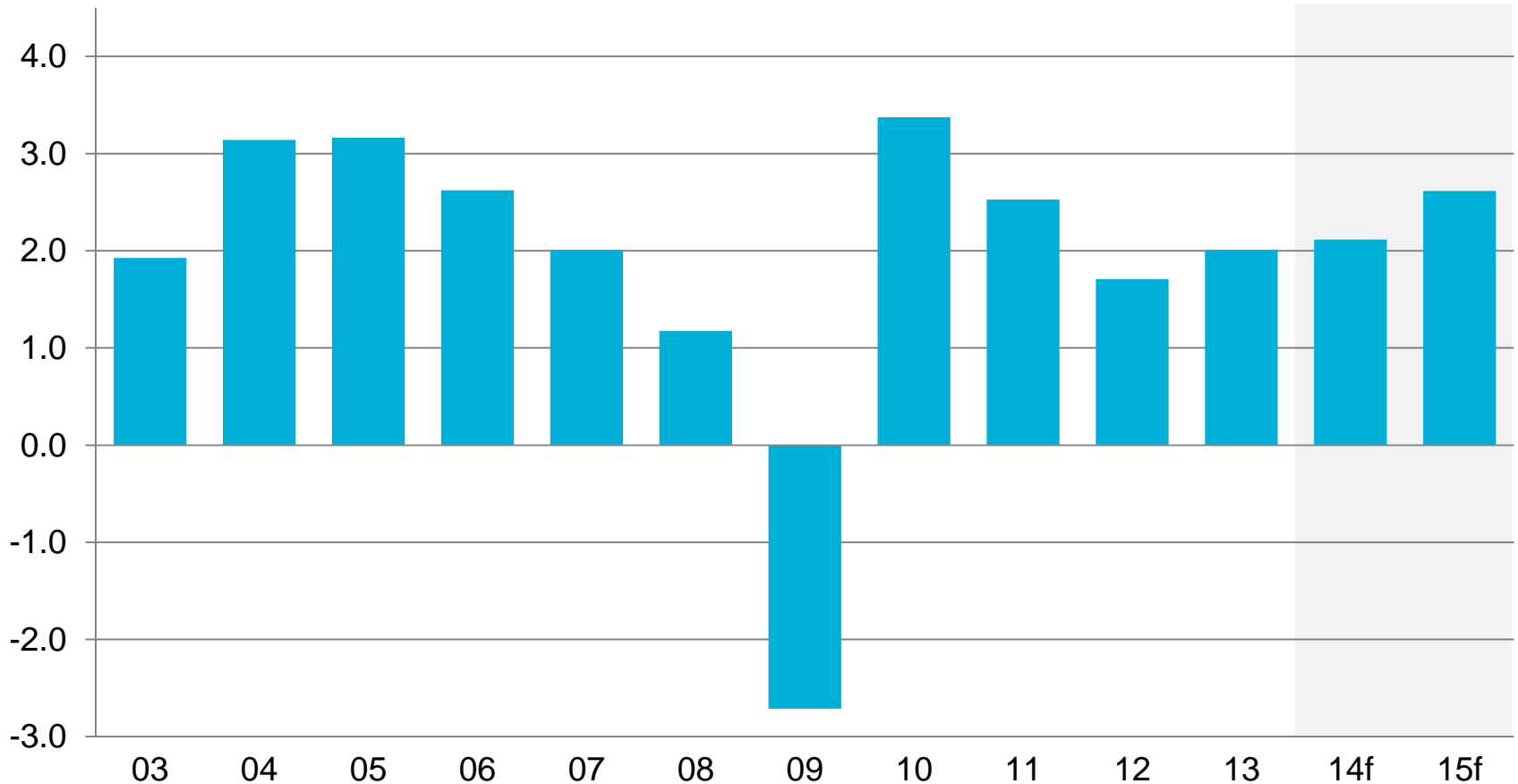
as a share of GDP, 2013-14



Sources: The Conference Board of Canada; Statistics Canada; various government budgets.

Canada's Real GDP Growth

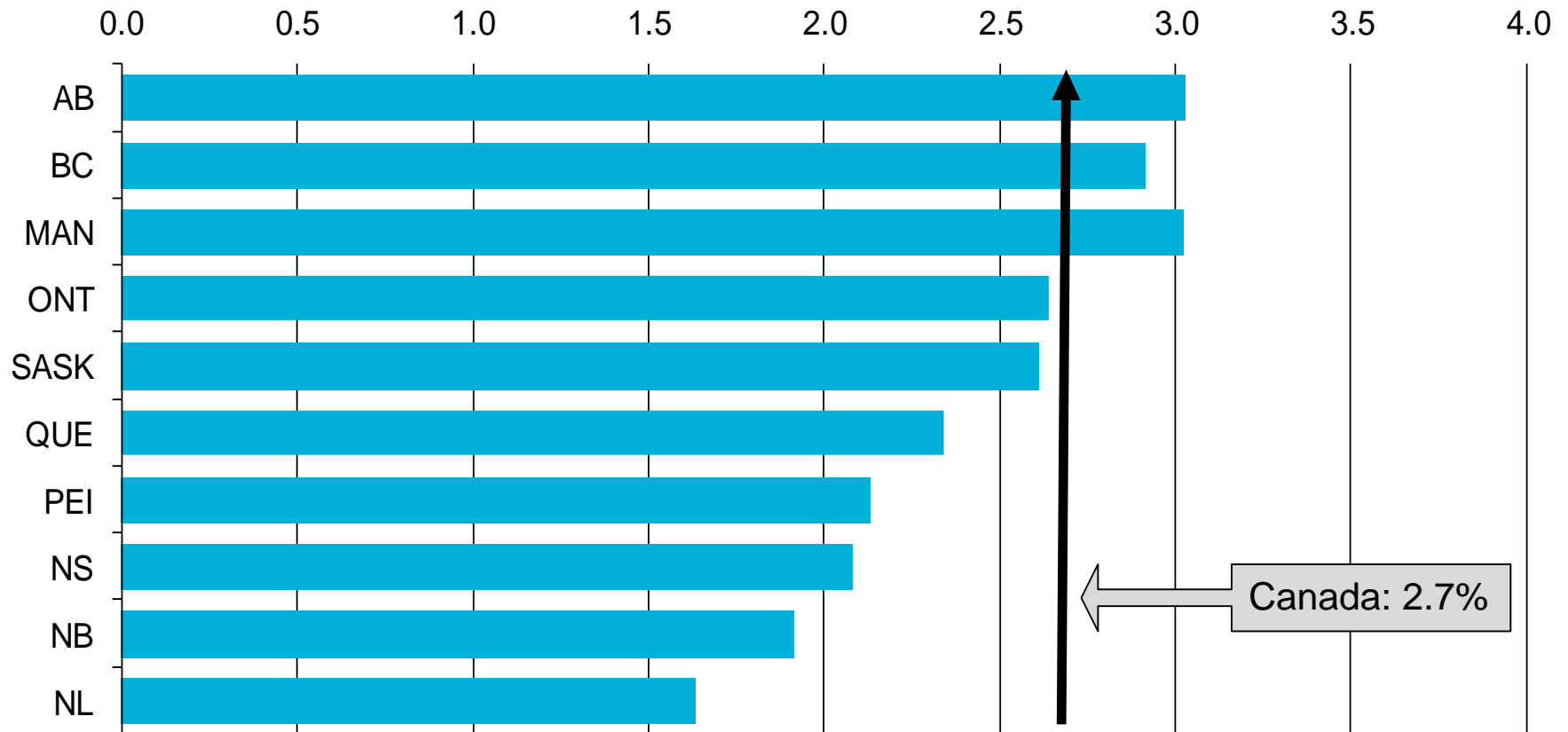
per cent change



Sources: Statistics Canada; The Conference Board of Canada.

2015 Real GDP by Province.

per cent change, basic prices, \$2007.



Sources: The Conference Board of Canada; Statistics Canada

Implications

- Financial market turbulence, geo-political risks
- Resurgence in U.S. economy should sustain global economy and fuel Canada's trade performance
- Canadian growth moderate due to government and consumer de-leveraging, weak business investment
- Wages growing faster than inflation as labour markets slowly tighten
- Restoring fiscal balance a priority for feds and provinces



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