Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2008	2009	2010	2011
Real GDP growth				
World	2.8	-0.9	3.7	3.5
US	0.4	-2.4	2.8	1.6
EU27	0.7	-4.1	0.9	1.1
Exchange rates				
¥:US$	103.4	93.7	88.0	87.0
US$:€	1.470	1.393	1.345	1.368
SDR:US$	0.629	0.646	0.650	0.644
Financial indicators				
¥ 3-month money market rate	0.85	0.38	0.30	0.63
US$ 3-month commercial paper rate	2.18	0.26	0.55	1.50
Commodity prices				
Oil (Brent; US$/b)	97.7	62.0	78.0	73.0
Gold (US$/troy oz)	871.8	973.0	1,148.8	1,231.3
Food, feedstuffs & beverages (% change in US$ terms)	29.5	-20.6	2.0	-3.0
Industrial raw materials (% change in US$ terms)	-5.1	-25.6	31.5	0.6

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Global economic activity has continued to pick up steam in early 2010, on the back of fading inventory reductions and with the increasing impact of aggressive fiscal and monetary stimulus. The outlook for Asia, which is of increasing importance to the Canadian natural resources industry, is the most favourable, although tightening in China could weaken demand for raw materials. The recovery in the US is continuing, but the withdrawal of stimulus will lead to a renewed weakening of GDP growth in 2011. US consumers are under pressure from low growth in wages and high household liabilities and banks need to rebuild their balance sheets. The weak outlook for US domestic demand will remain a constraint for Canada's economic performance. Tighter monetary and fiscal conditions in 2011 will also have a negative effect on growth in other countries in Europe and Asia. On the upside, we forecast that oil prices (dated Brent Blend) will rise to an average of US$78/barrel in 2010, supported by stronger global economic growth, the positive impact of fiscal stimulus on consumption, investor optimism and constraints on OPEC output. As the impact of the stimulus fades in the second half of 2010, oil demand from OECD countries will weaken, resulting in an easing of prices to US$73/b in 2011.

Economic growth

Gross domestic product by expenditure

(C$ bn at chained 2002 prices where series are indicated; otherwise % change year on year)

	2008[a]	2009[a]	2010[b]	2011[b]
Private consumption	810.8	812.2	828.6	842.5
	3.0	0.2	2.0	1.7
Public consumption	264.1	272.1	281.2	283.4
	3.7	3.0	3.3	0.8
Gross fixed investment	315.3	283.0	299.1	303.4
	0.9	-10.3	5.7	1.4
Final domestic demand	**1,390.2**	**1,367.3**	**1,408.9**	**1,429.2**
	2.7	-1.6	3.0	1.4
Stockbuilding	13.0	-4.7	3.2	3.7
	-0.2[c]	-1.3[c]	0.6[c]	0.0[c]
Total domestic demand	**1,403.2**	**1,362.6**	**1,412.1**	**1,432.9**
	2.5	-2.9	3.6	1.5
Exports of goods & services	486.0	418.0	444.5	453.5
	-4.7	-14.0	6.4	2.0
Imports of goods & services	-577.0	-499.9	-534.0	-538.6
	0.9	-13.4	6.8	0.9
Foreign balance	**-91.0**	**-81.9**	**-89.4**	**-85.2**
	-2.2[c]	0.7[c]	-0.6[c]	0.3[c]
GDP	**1,321.4**	**1,286.4**	**1,324.0**	**1,347.9**
	0.4	-2.6	2.9	1.8

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Contribution to real GDP growth (as a percentage of real GDP in the previous year).

According to official data, Canadian real GDP fell by 2.6% in 2009, owing to a decline in investment and inventories and a weakening of private consumption. A recovery in the second half of the year has set the stage for a strong performance in 2010, with a forecast growth rate of 2.9%. A well-functioning financial system, low interest rates and the government's fiscal stimulus package will support growth. As a result of weaker fiscal and monetary stimulus globally and in Canada itself from the second half of 2010 onwards, Canadian GDP growth will ease to 1.8% in 2011.

Private consumption growth will recover on the back of an improvement in labour markets and increased consumer confidence. Housing investment has also picked up strongly, reflecting both the low base after tumbling housing starts in early 2009 and very low mortgage rates. Canadian households have the added benefit of a healthier banking sector willing to extend credit at favourable mortgage rates. Government consumption has risen strongly as a result of fiscal stimulus, but this factor is likely to fade in 2011 as there is no appetite for fiscal support going beyond what is already improved, although fiscal tightening will not start before the second half of 2011.

Gross fixed investment will recover over the forecast period, as needed investments that had been postponed during the period of global economic contraction will finally be initiated. However, low capacity utilisation and uncertainty about the shape of the recovery will ensure that the investment revival will be lacklustre initially. Concerns about the strength of the recovery after the fading of fiscal stimulus will cause investment to weaken again in 2011.

Destocking started to ease in the third quarter of 2009, and stockbuilding should contribute strongly to GDP growth in 2010.

Trade flows are expected to pick up, but the contribution from the external sector will be negative in 2010. Export demand is expected to increase in 2010 as the US economy recovers. However, export performance will be hampered by the strong currency. In addition, currency strength will boost import growth, which will also be supported by relatively healthy domestic demand growth, particularly in 2010.

Inflation

Headline consumer price inflation surged from 1.3% year on year in December 2009 to 1.9% in January, largely reflecting base effects from oil prices. The oil price effect will fade during this year. By contrast, the renewed strength of the Canadian dollar in recent months and its expected slower continued appreciation will dampen inflation, particularly because many Canadians live close enough to the border to shop in the US to exploit the strength of their currency. At the same time, the higher unemployment rate will contain wage pressures and producer pricing power will remain weak. As a result, inflation is forecast to rise only slowly to an average rate of 1.7% in 2010 and 1.8% in 2011, still below the central bank's target rate of 2%.

Exchange rates

By mid-January, the Canadian dollar had strengthened by 28% against the US dollar from its low point in mid-March 2009, receding only slightly later in January and in early February. The rally in the loonie has been driven partly by increasing commodity prices, in particular oil prices. A broader decline in the US dollar resulted from a fall in demand for the safety of US assets as increased investor risk appetite was an important factor in the initial stages of the appreciation. The US currency has also suffered against a broader set of currencies because of its wider use as a funding currency for carry trades, in which investors borrow in currencies with low interest rates and purchase assets in economies with higher yields. We forecast that the Canadian dollar will average C$1.07:US$1 in 2010, implying a slight depreciation from current levels. The start of monetary tightening in the US in the second half of 2010 will lead to the unwinding of US dollar-funded carry trades. The currency will also depreciate against the greenback in 2011 as weakness in the US and elsewhere causes a softening of commodity prices.

External sector

Weak commodity markets and the US recession have led to the first current-account deficit for 11 years in 2009. The current-account deficit will narrow in 2010 on the back of higher commodity prices and a recovery of exports, but widen in 2011 on the back of the renewed slowdown in the US. The stronger loonie (relative to the US dollar) will make exports less competitive, boost tourism by Canadians and discourage foreign travellers from visiting Canada. An important trend for the external accounts will be the further development of the economy in China, as the country has become increasingly important as a buyer of natural resources produced in Canada.

Forecast summary
(% unless otherwise indicated)

	2008[a]	2009[a]	2010[b]	2011[b]
Real GDP growth	0.4	-2.6	2.9	1.8
Industrial production growth	-5.2	-11.6[c]	7.6	1.9
Unemployment rate (av)	6.2	8.6	8.3	7.7
Consumer price inflation (av)	2.4	0.3	1.7	1.8
3-month prime corporate paper rate	3.2	0.6	0.8	2.0
Government balance (% of GDP)	1.5	-4.0[c]	-3.7	-2.9
Exports of goods fob (US$ bn)	459.1	331.4[c]	407.7	390.5
Imports of goods fob (US$ bn)	415.2	319.4[c]	365.5	367.0
Current-account balance (US$ bn)	7.6	-35.3[c]	-9.1	-23.5
Current-account balance (% of GDP)	0.5	-2.6[c]	-0.6	-1.6
Exchange rate C$:US$ (av)	1.07	1.14	1.07	1.13
Exchange rate ¥:C$ (av)	96.9	82.0	82.1	77.2
Exchange rate C$:€ (av)	1.57	1.59	1.44	1.54

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.