



# UNIVERSITY OF TORONTO



GLOBAL OVERVIEW



US ECONOMY



CANADIAN  
ECONOMY



BASE CASE  
FORECAST



DOWNSIDE RISKS



POLICY  
RECOMMENDATION

## Governor's Challenge 2019

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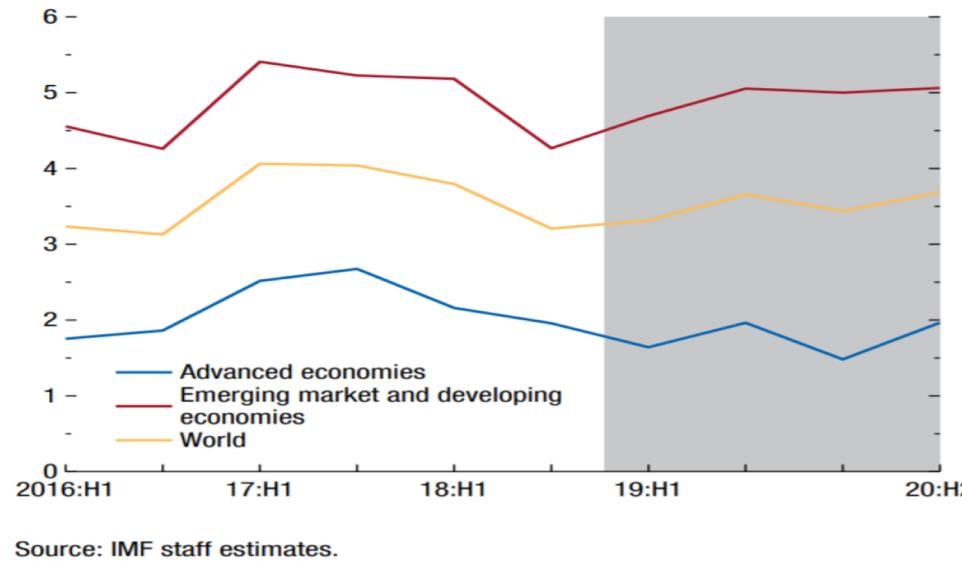
Presented by Julien Bernardo, Zack Young, Matthew Kronberg, Fikremariam Gedefaw, Jaykumar Parmar



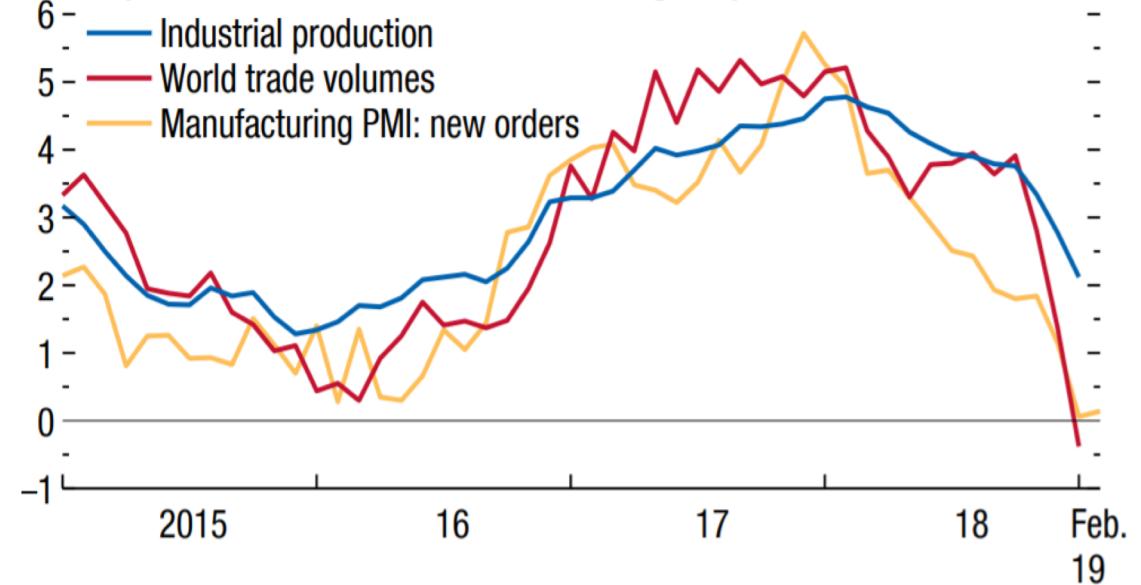
# Global Overview

**Figure 1. Half-Yearly Growth Rates**  
(Annualized semiannual percent change)

Global growth is expected to level off in the first half of 2019 and firm up after that.

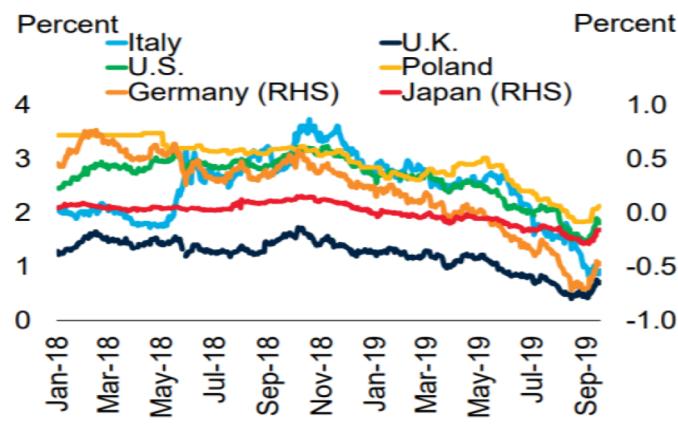
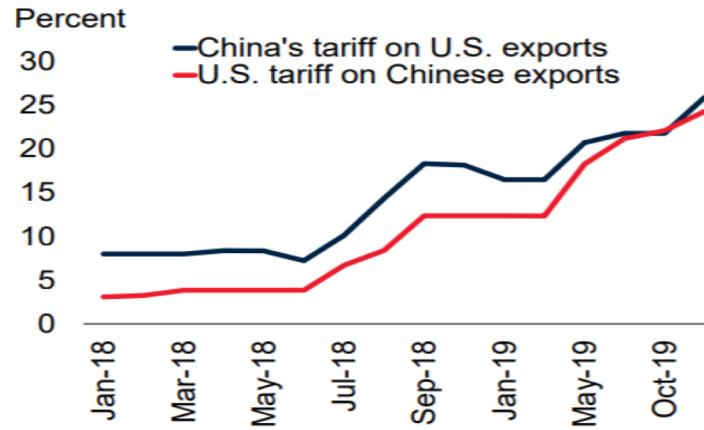


## 1. World Trade, Industrial Production, and Manufacturing PMI (Deviations from 50 for Manufacturing PMI)



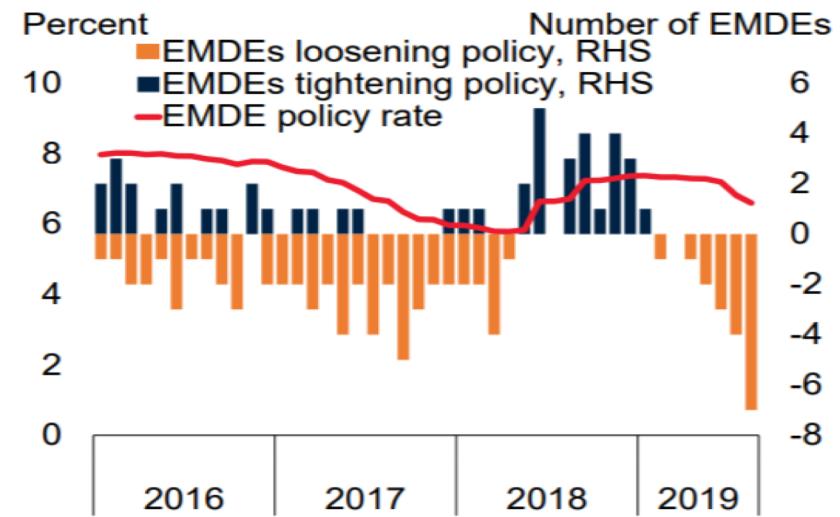


# Global Overview



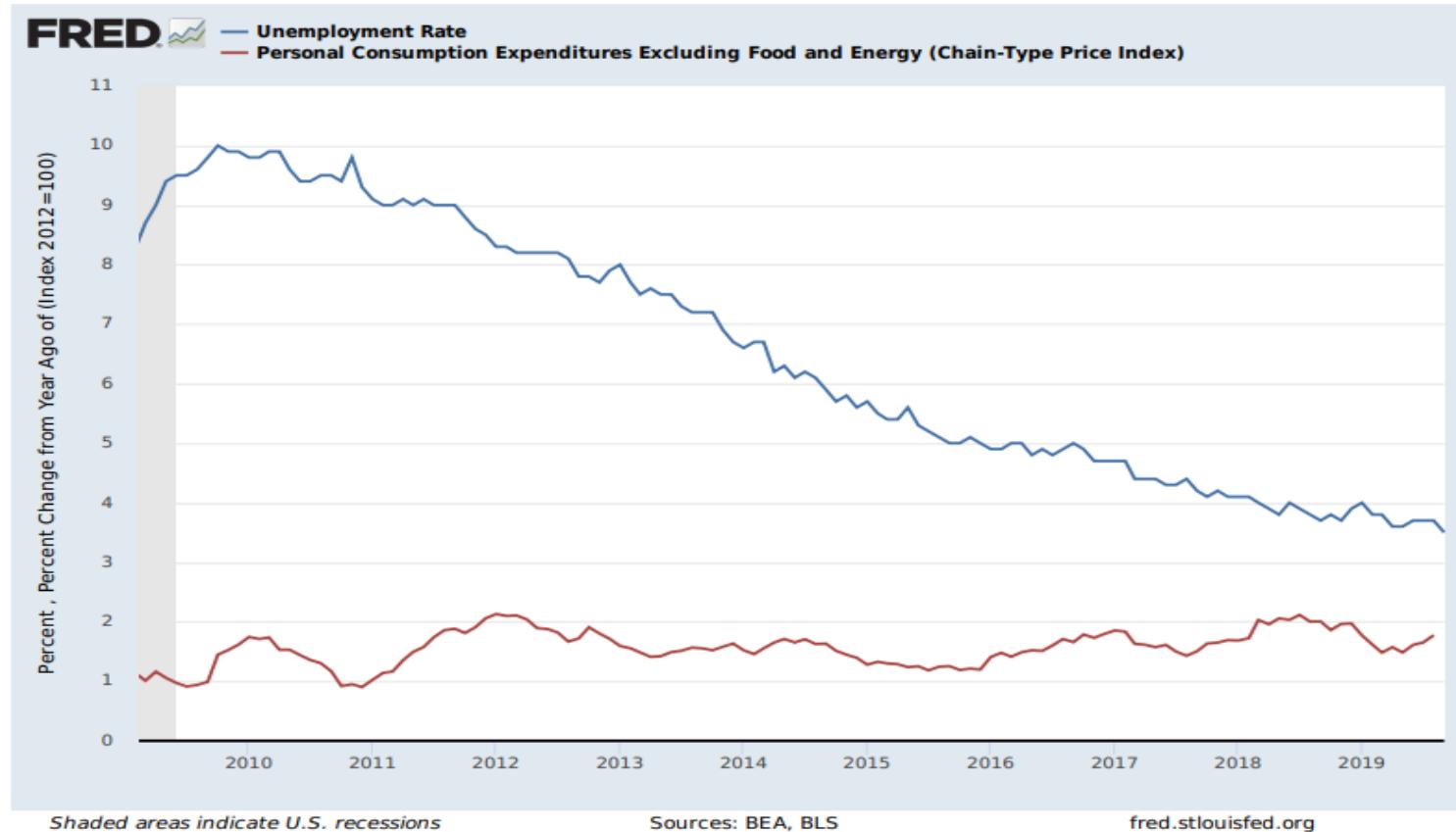
Source: Bown (2019), Haver Analytics, World Bank.

- Drop in bond yields and flight to safety capital outflows
- More economies following a widespread easing of monetary policy





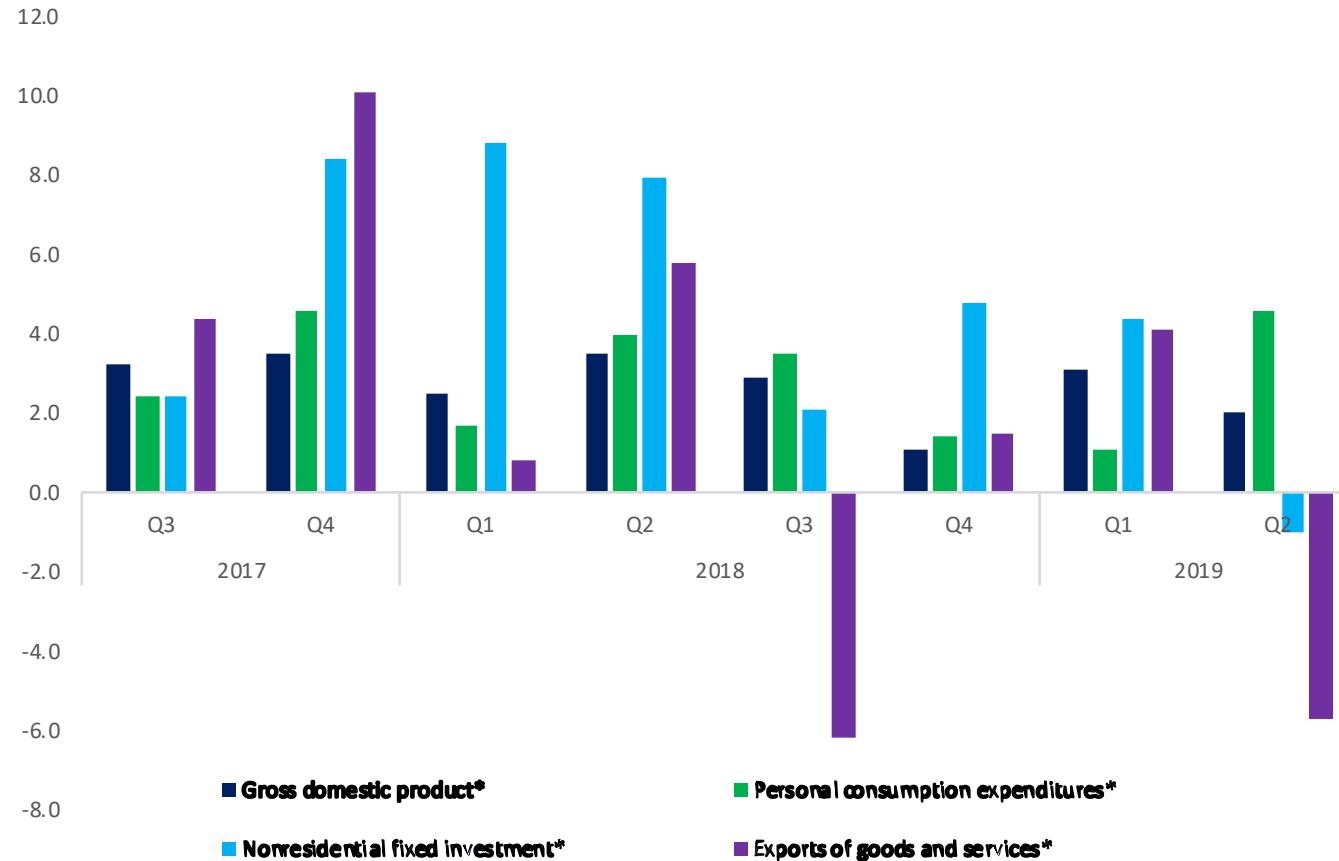
# United States' Economy



- Unemployment rate is 3.5%, lowest since 1969
- Core inflation stands at 1.7% and inflation expectation has also been stable



# United States' Economy

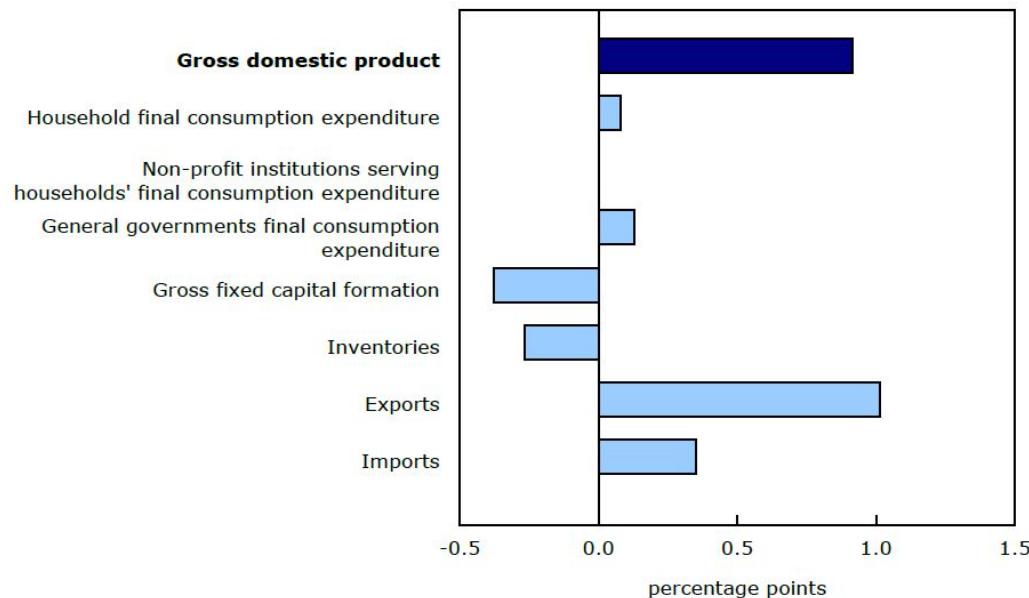


- Growth in real GDP has slowed down in the second quarter
- Private fixed investment and net exports have shown a decline
- Personal consumption expenditure was the main driver of real GDP growth



# Exports drive Canadian GDP growth

Chart 2  
Contributions to percentage change in real gross domestic product, second quarter of 2019

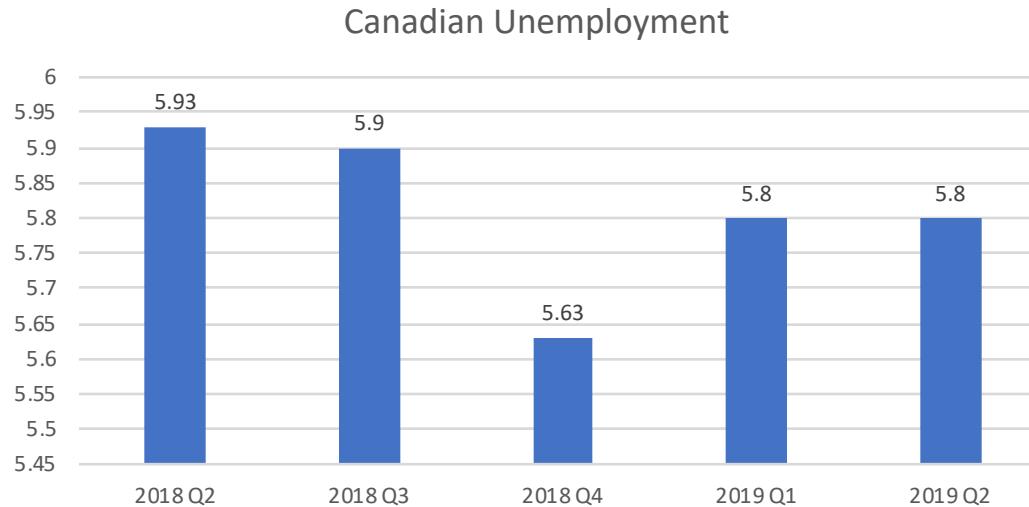


- Real GDP increases by 0.9%, faster than previous quarters
- Exports increased by 3.2% in 2019 Q2
- Trade uncertainty is expected to depress export demand

Source(s): Table 36-10-0104-01.

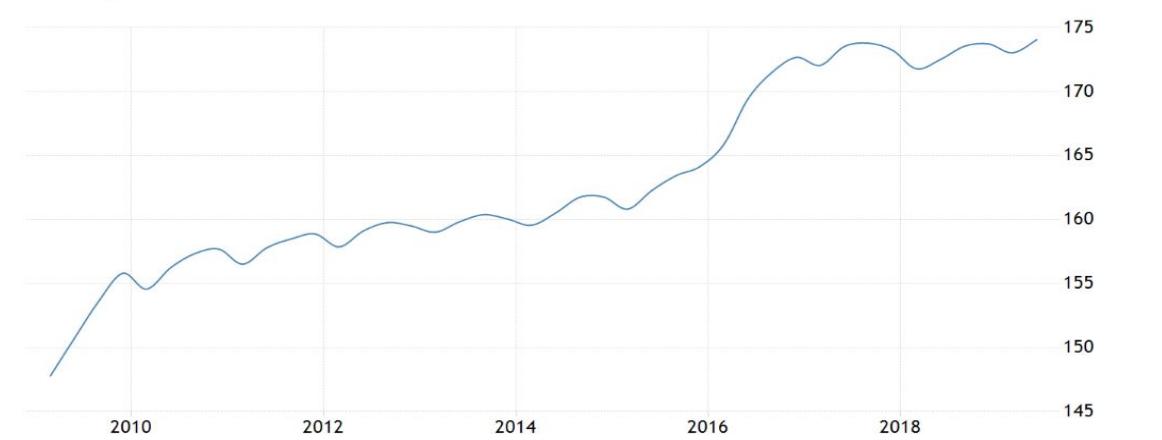


# Consumption slows amidst high debt



- Credit market debt to disposable income ratio increased to 174%

## Credit Market Debt to Disposable income Ratio

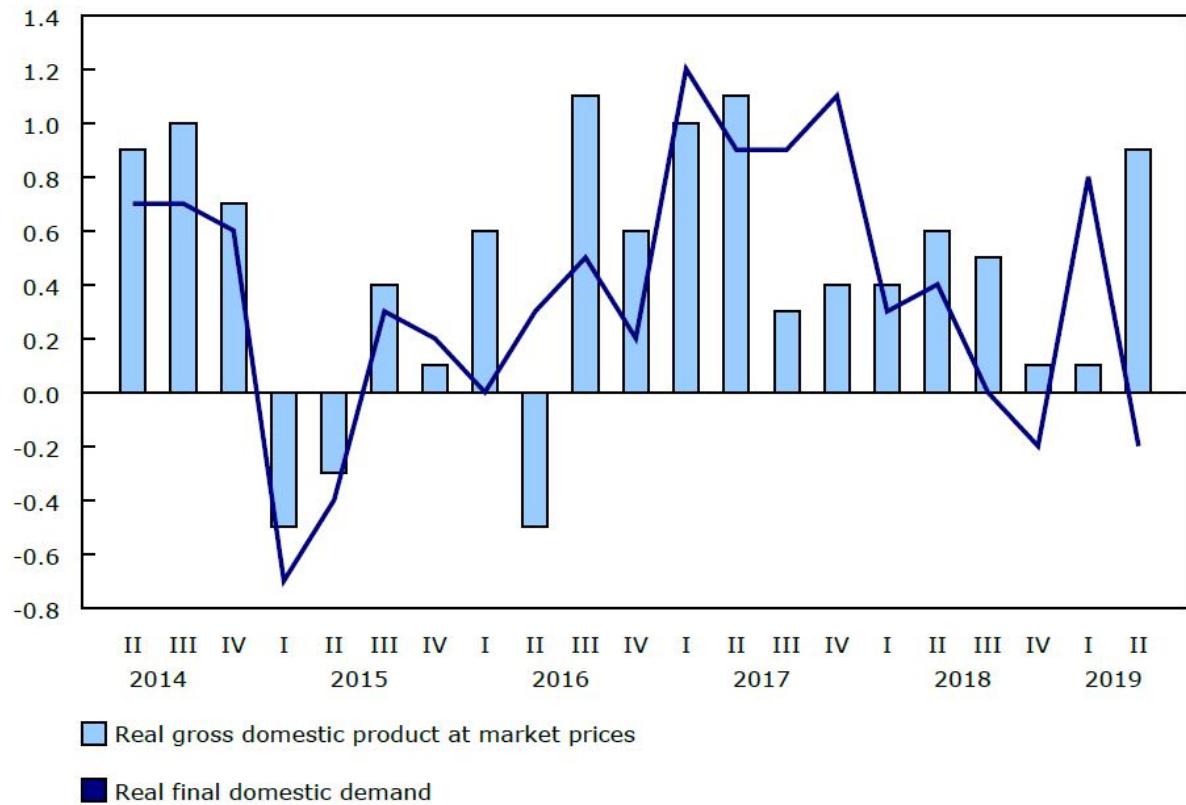


SOURCE: TRADINGECONOMICS.COM | STATISTICS CANADA



# Non-residential investment falls, dampens domestic demand

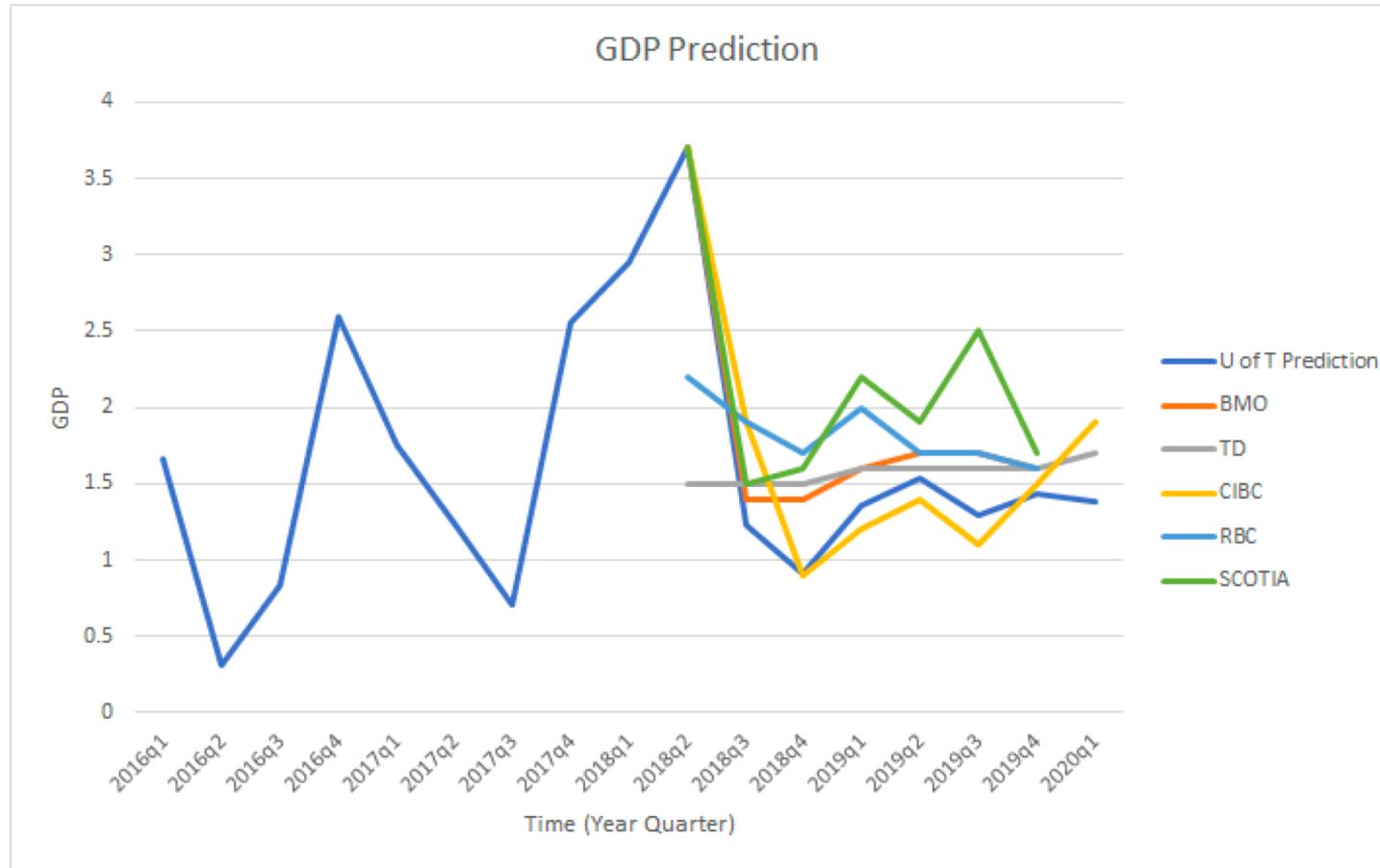
quarterly % change, chained (2012) dollars



- Final domestic demand fell by 0.2% in 2019 Q2
- Non-residential investment fell by 4.3% in 2019 Q2
- Residential investment increased by 1.4%, as housing market strengthens



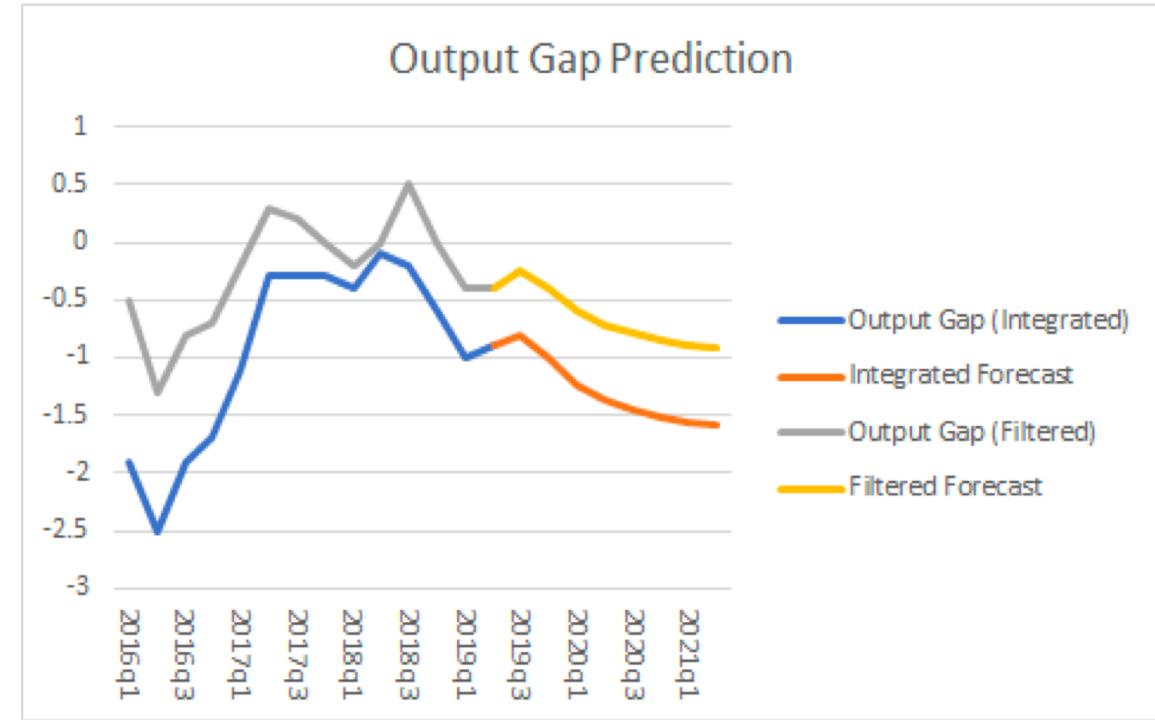
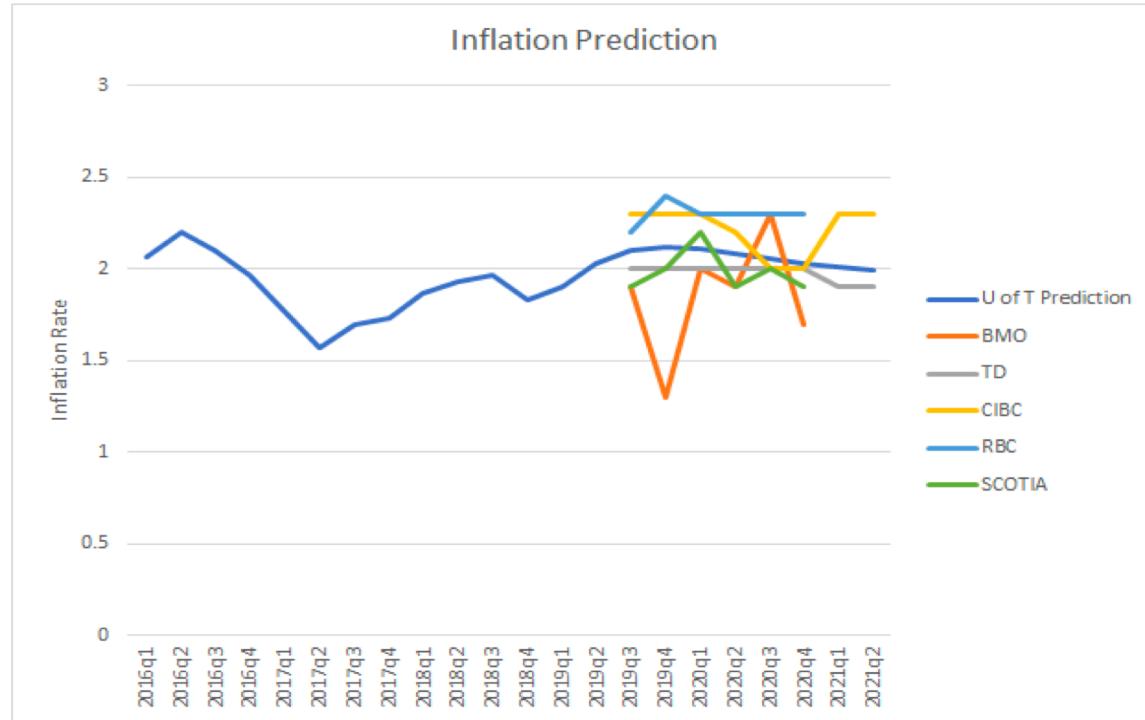
# Base Case Forecast: VAR Model



- GDP is forecasted to stabilize around 1.5%
- Exports are expected to fall after the second quarter of 2019
- Investment is expected to grow at a robust rate
- Investment is driven by strong residential investment

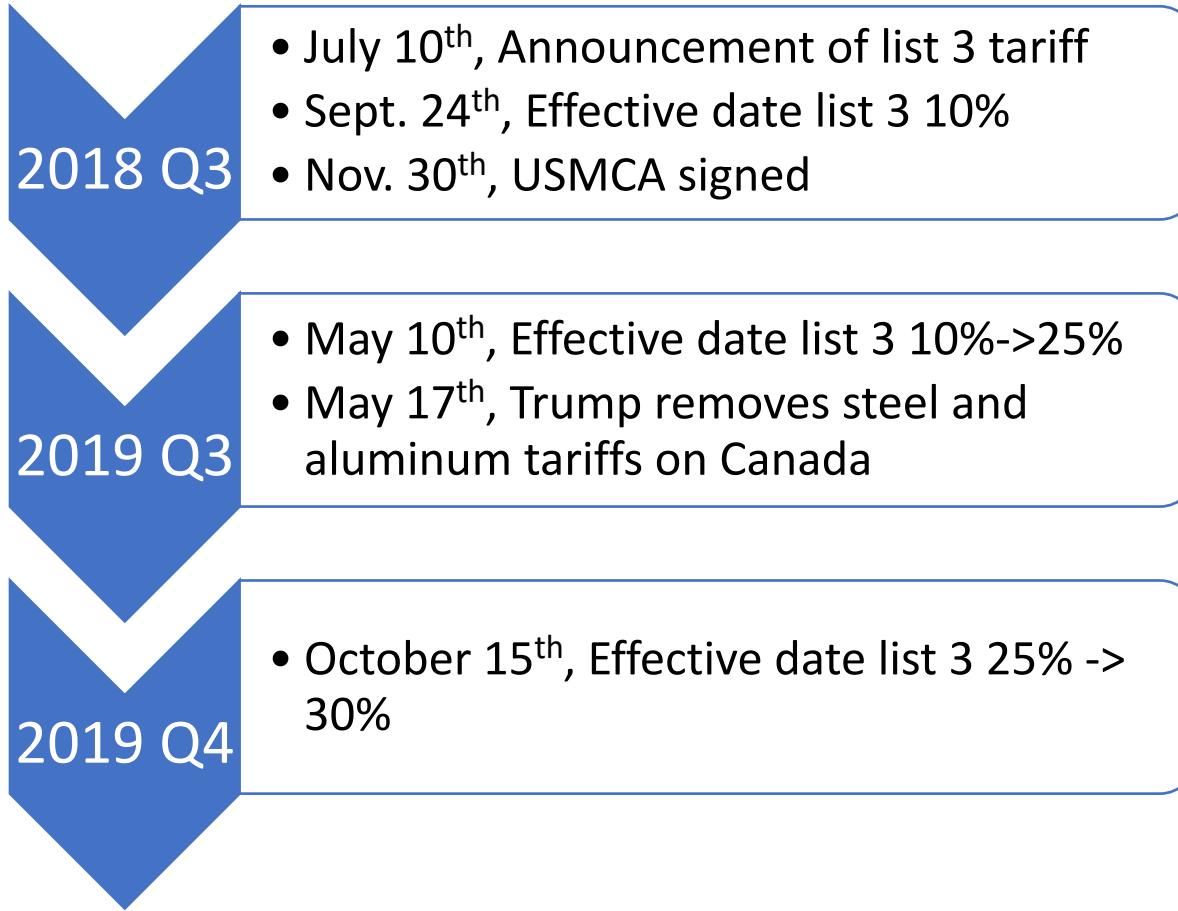


# Base Case Forecast: VAR Model





# Downside Risk: Trade Uncertainty

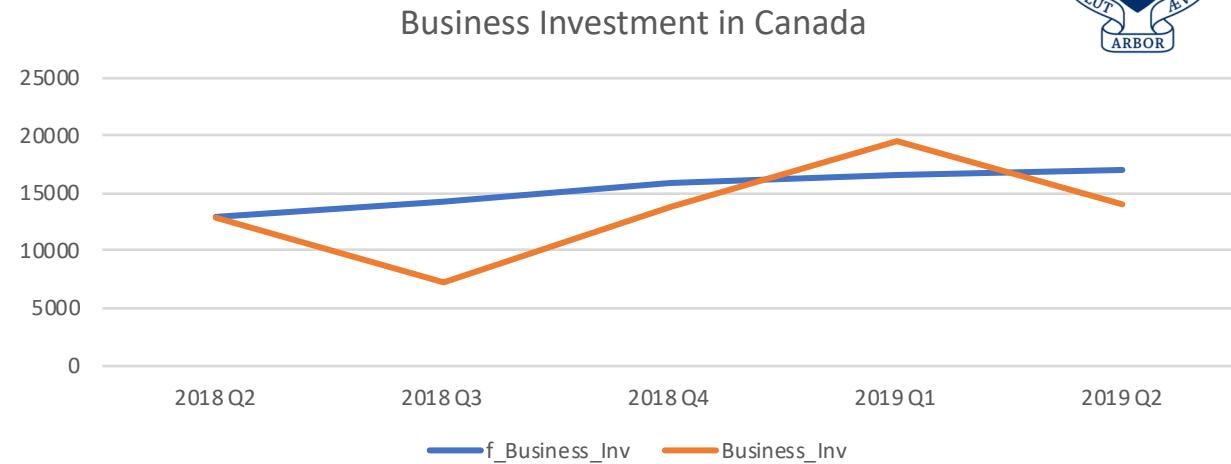


- Measure the impact of the tariff on list 3 items from China worth \$200b
- Extrapolate difference between forecast w/o tariffs and reality

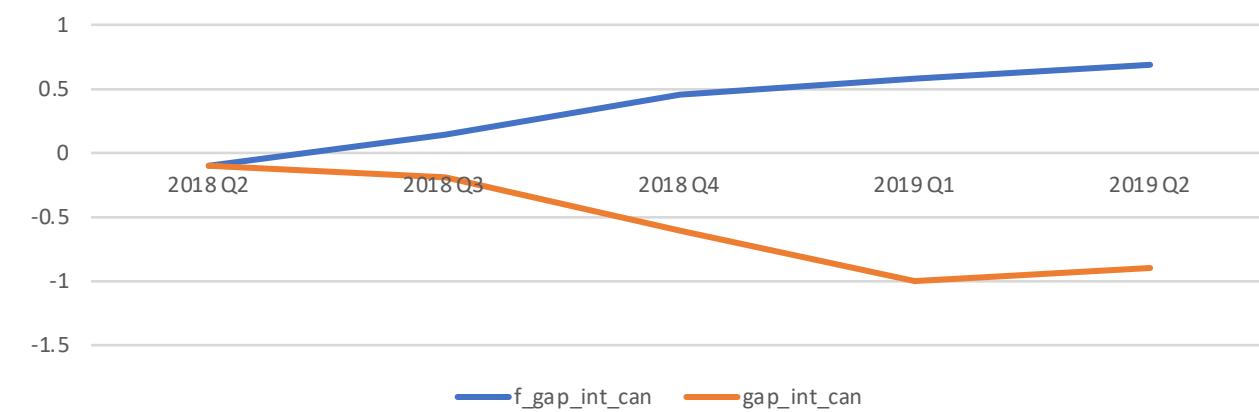


# Effects of the list 3 tariff on Canada

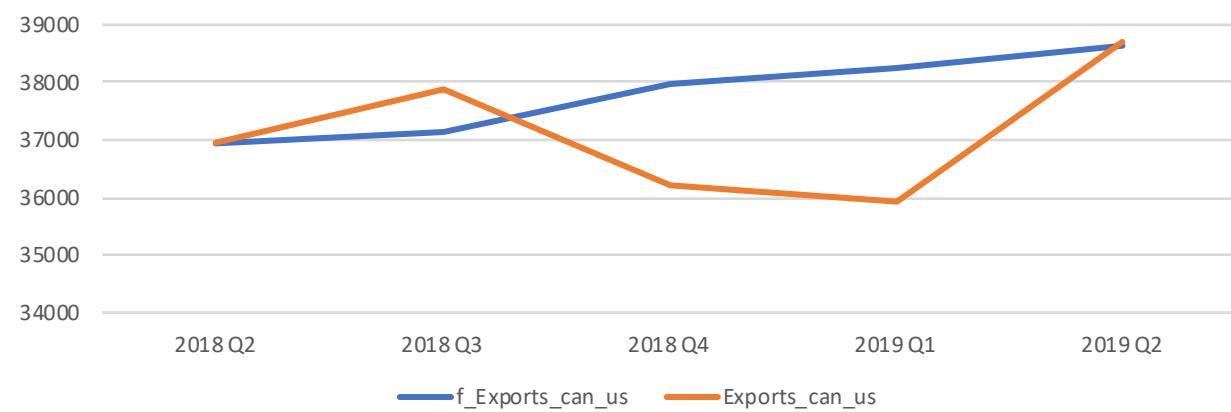
- Business investment negative reaction but then recovery
- Exports recover within three quarters
- Output gap's significant divergence from forecast



Canadian Output Gap



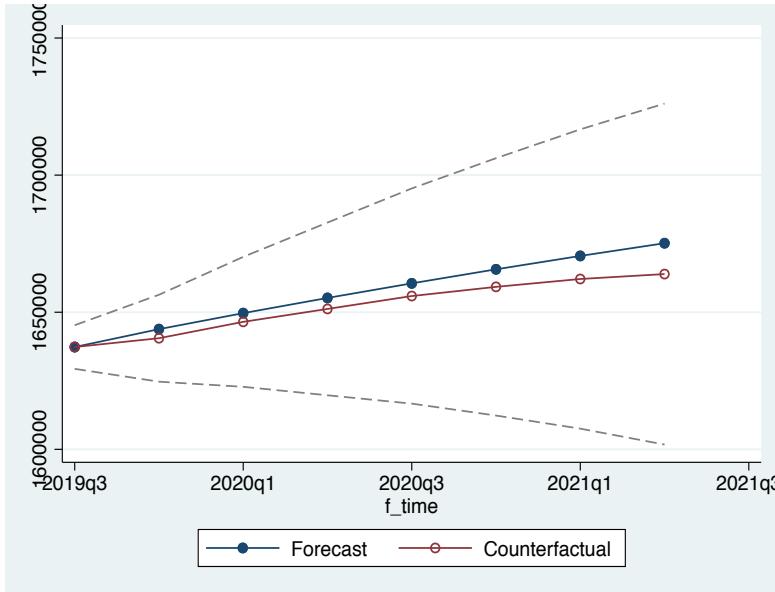
Exports Canada to USA



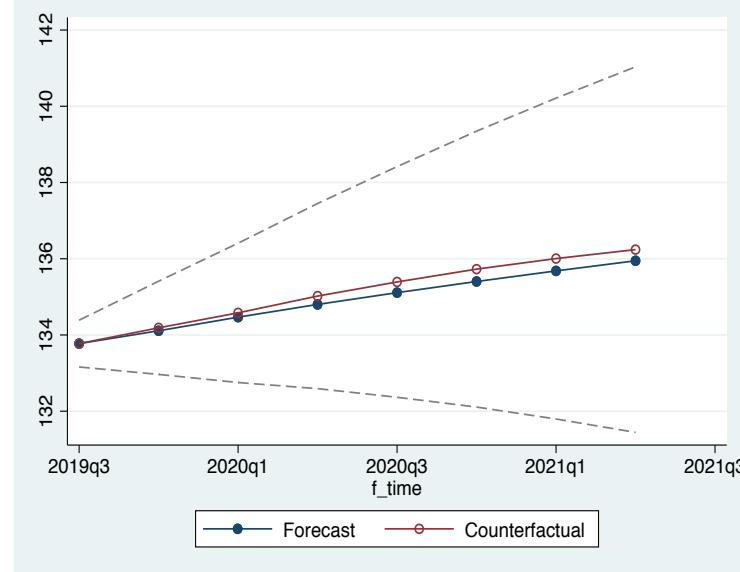


# Counterfactual scenario

Canadian GDP



Canadian CPI



- Incorporate list 3 tariff hike to 30% and an additional tariff increase to 40% in a year
- Inflationary pressure and slower GDP growth caused by dampened exports



# Policy Recommendation

## **Hold rates at 1.75%**

Despite trade uncertainty we believe that Bank of Canada should hold:

- Canadian CPI: 2.06
- US interest rate range: 1.75% – 2%
- Despite trade uncertainty with US China, Canadian US relations have solidified



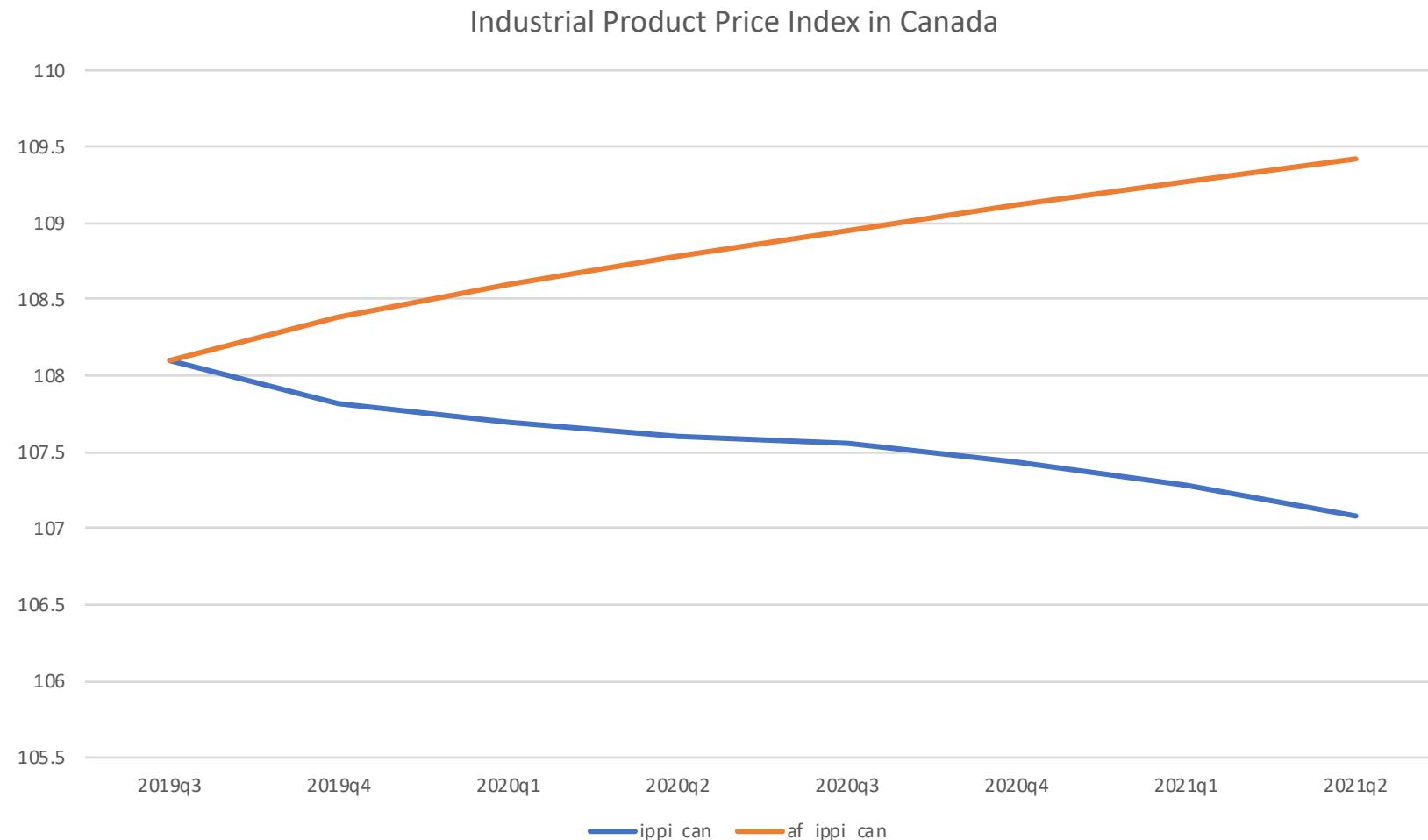
# Q&A

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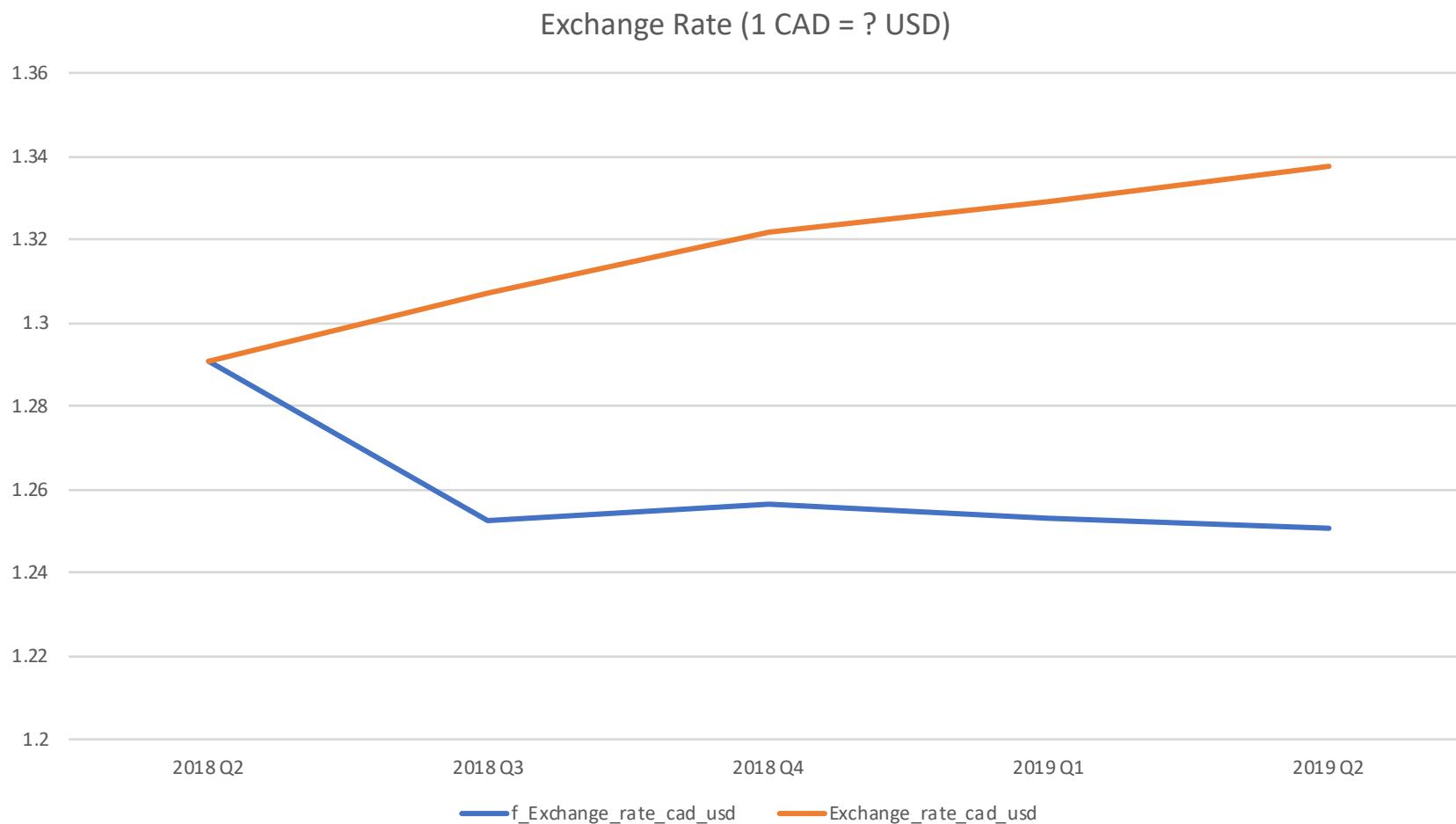
# Appendix

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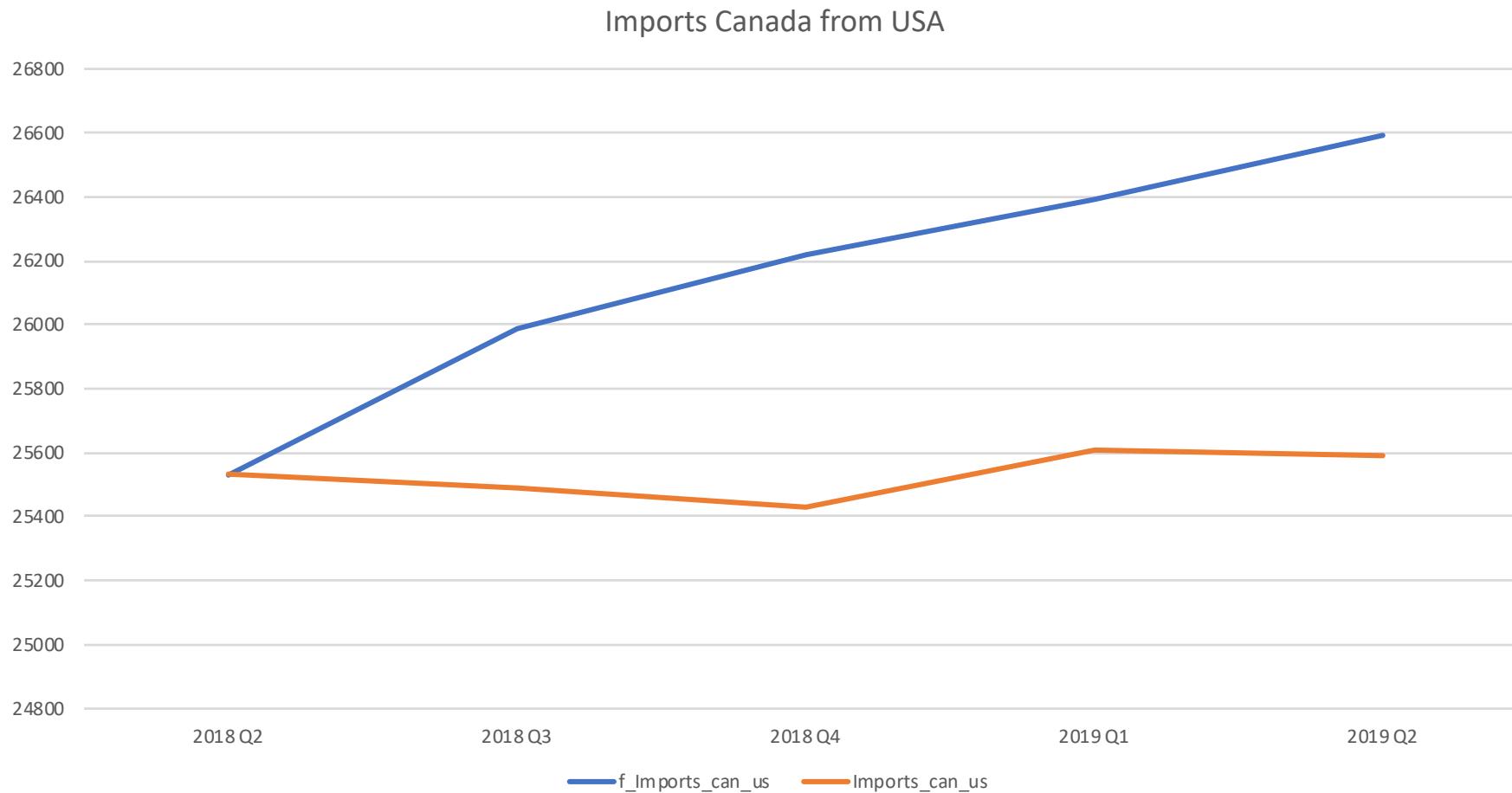
# Appendix 1:



# Appendix 2:



# Appendix 3:



# Appendix 4:

