



uOttawa

Economic and Fiscal Outlook

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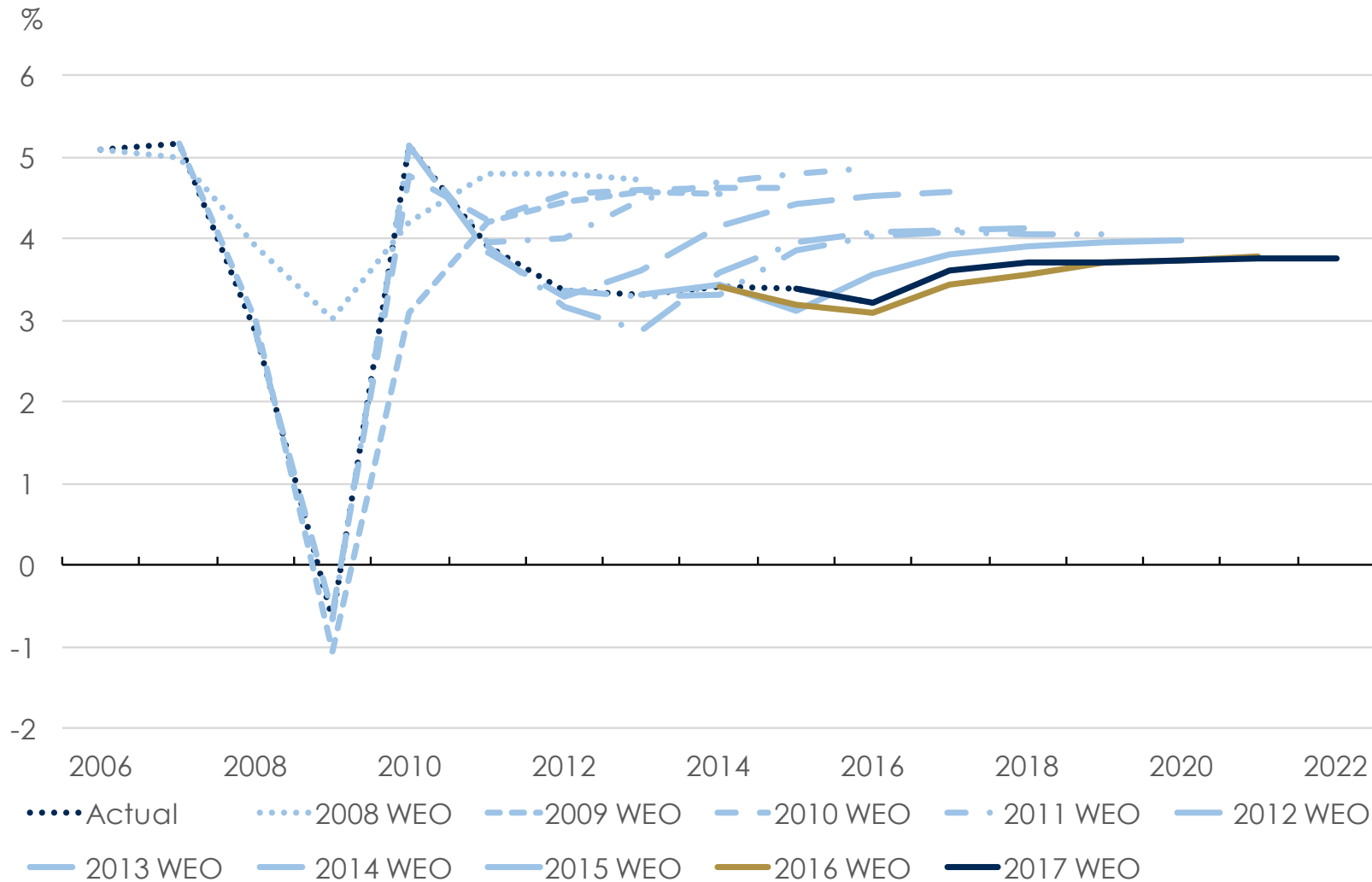
Institute of Fiscal Studies and Democracy

Presentation to la section de l'Outaouais de l'Association des économistes québécois

November 3, 2017

Global growth outlook has improved

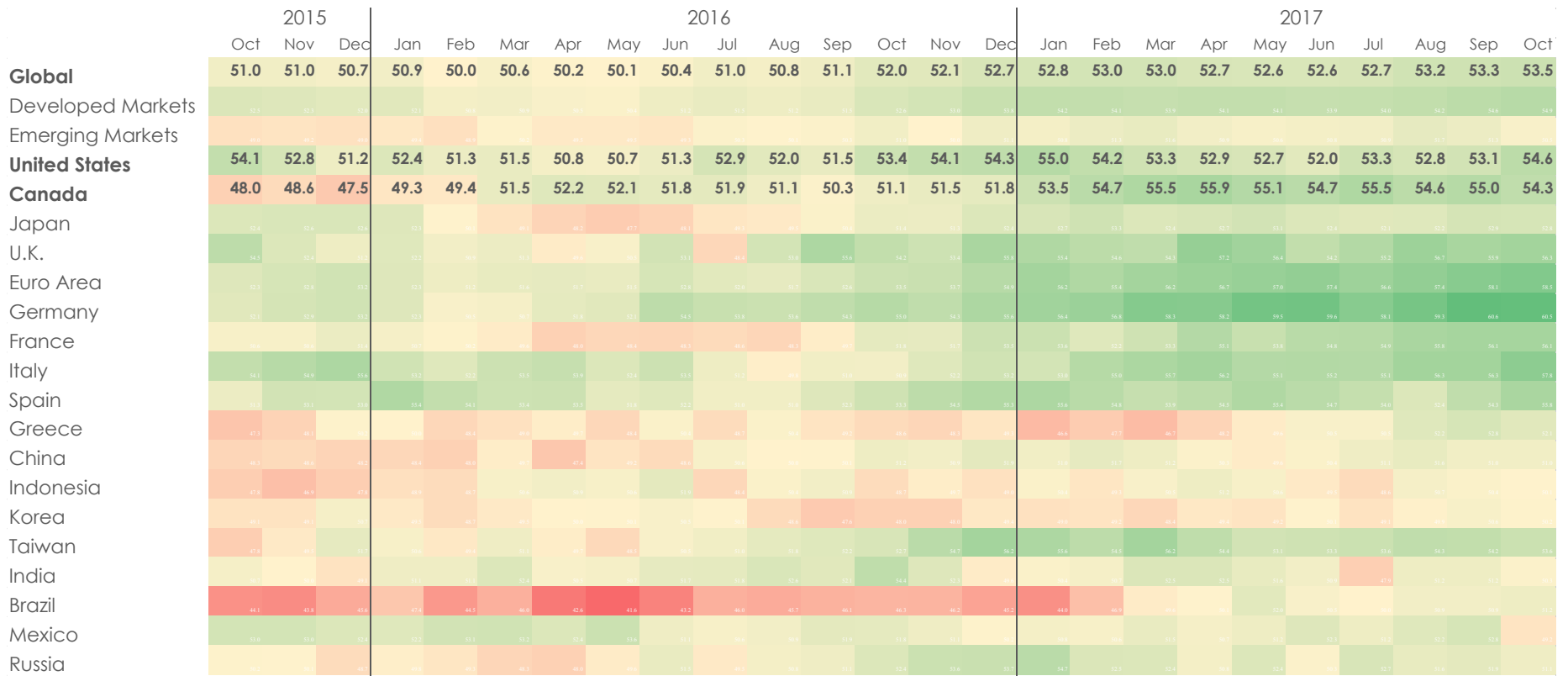
IMF Global Real GDP Growth Forecasts



Source: International Monetary Fund, various October World Economic Outlook (WEO) vintages.

Coordinated global growth recovery

Manufacturing Purchasing Managers Index (PMI)

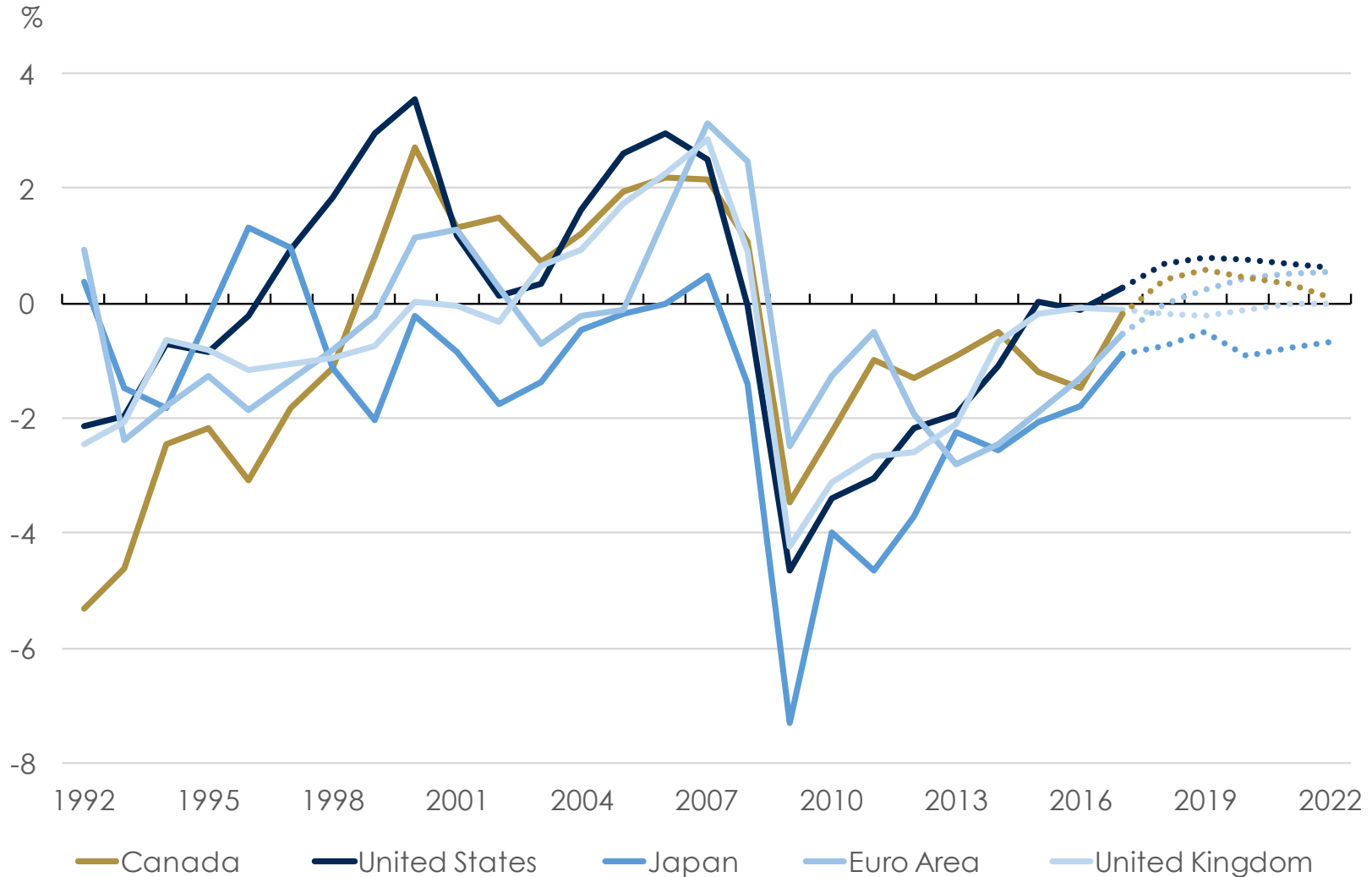


Source: IHS Markit, J.P. Morgan Asset Management (Guide to the markets).

Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown.

Global output gaps are closing

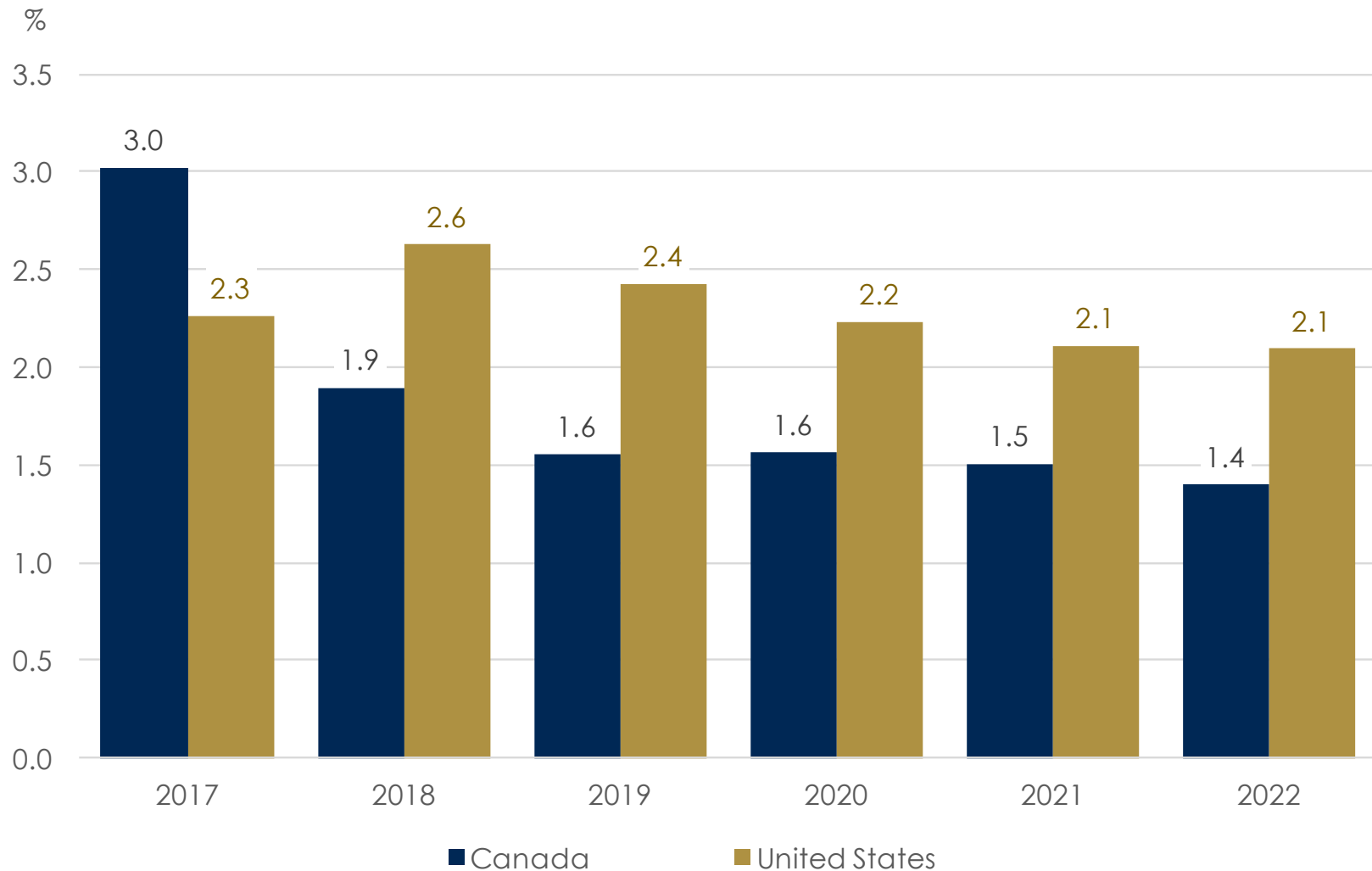
IMF Output Gaps in Advanced Economies



Source: International Monetary Fund, October 2017 World Economic Outlook.

Canada and US growth is solid ...

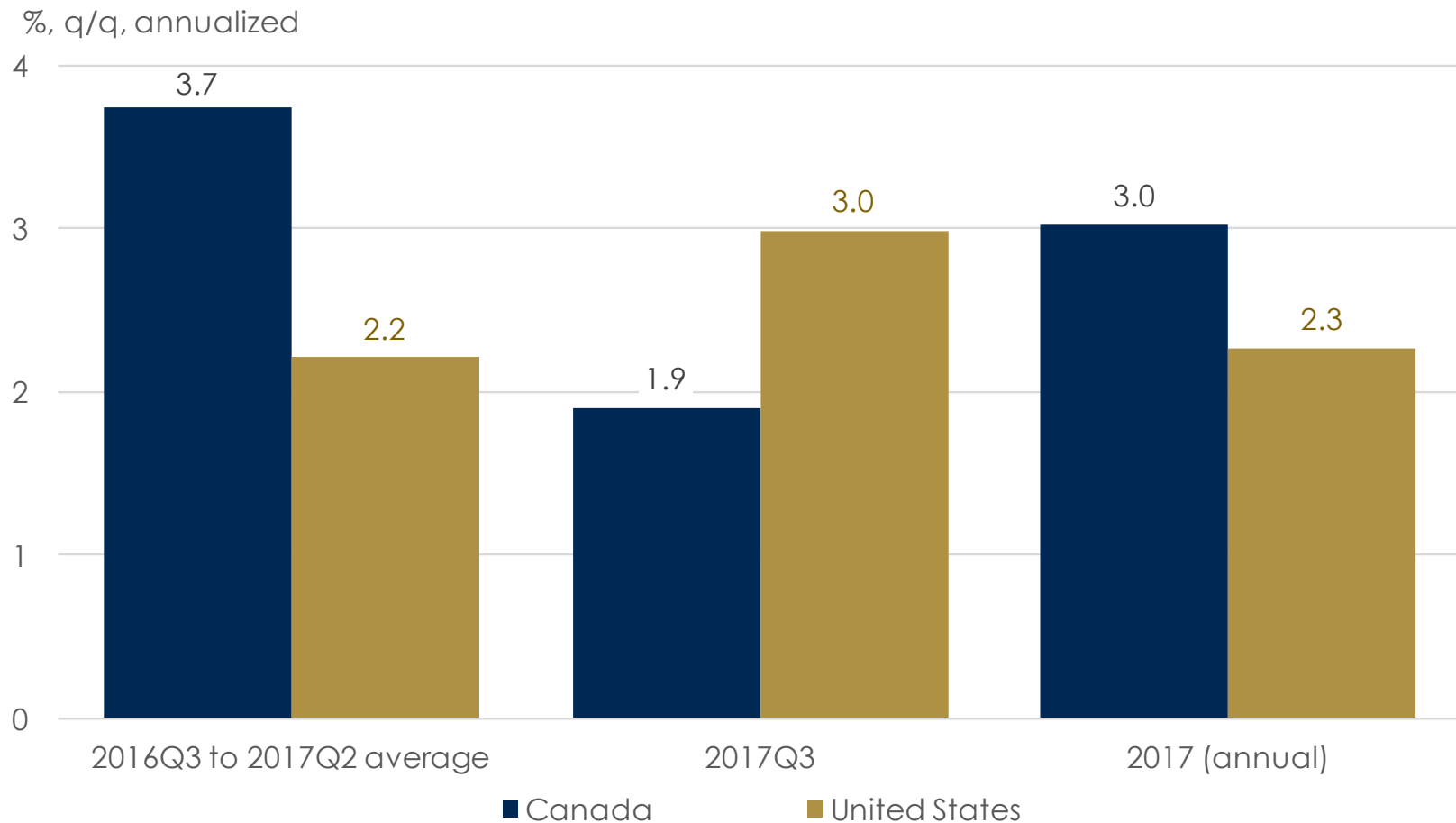
Real GDP Growth Forecasts for Canada and US



Sources: Bureau of Economic Analysis, Statistics Canada, Institute of Fiscal Studies and Democracy.

... driven by recent strength

Recent Real GDP Growth in Canada and the US



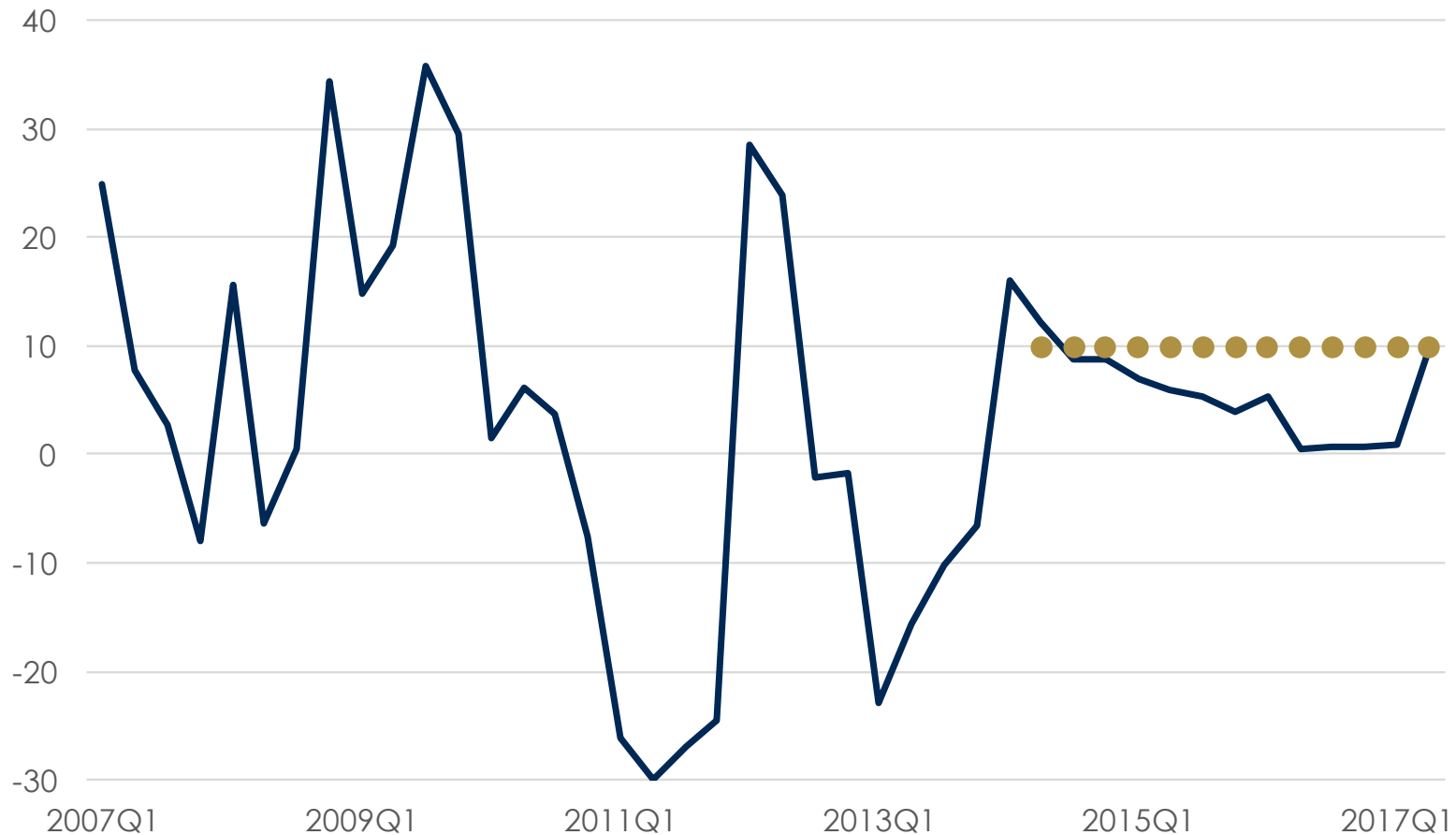
Sources: Bureau of Economic Analysis, Statistics Canada, U.S. Federal Reserve, @NowcastCanada, Institute of Fiscal Studies and Democracy.

Notes: The 2017Q3 real GDP growth value for Canada is from @NowcastCanada as of Nov.1, 2017. The US value for 2017Q4 is the nowcast from the Federal Reserve Bank of New York.

Infrastructure money is here ...

Real Government Investment in Infrastructure

%, q/q, annualized



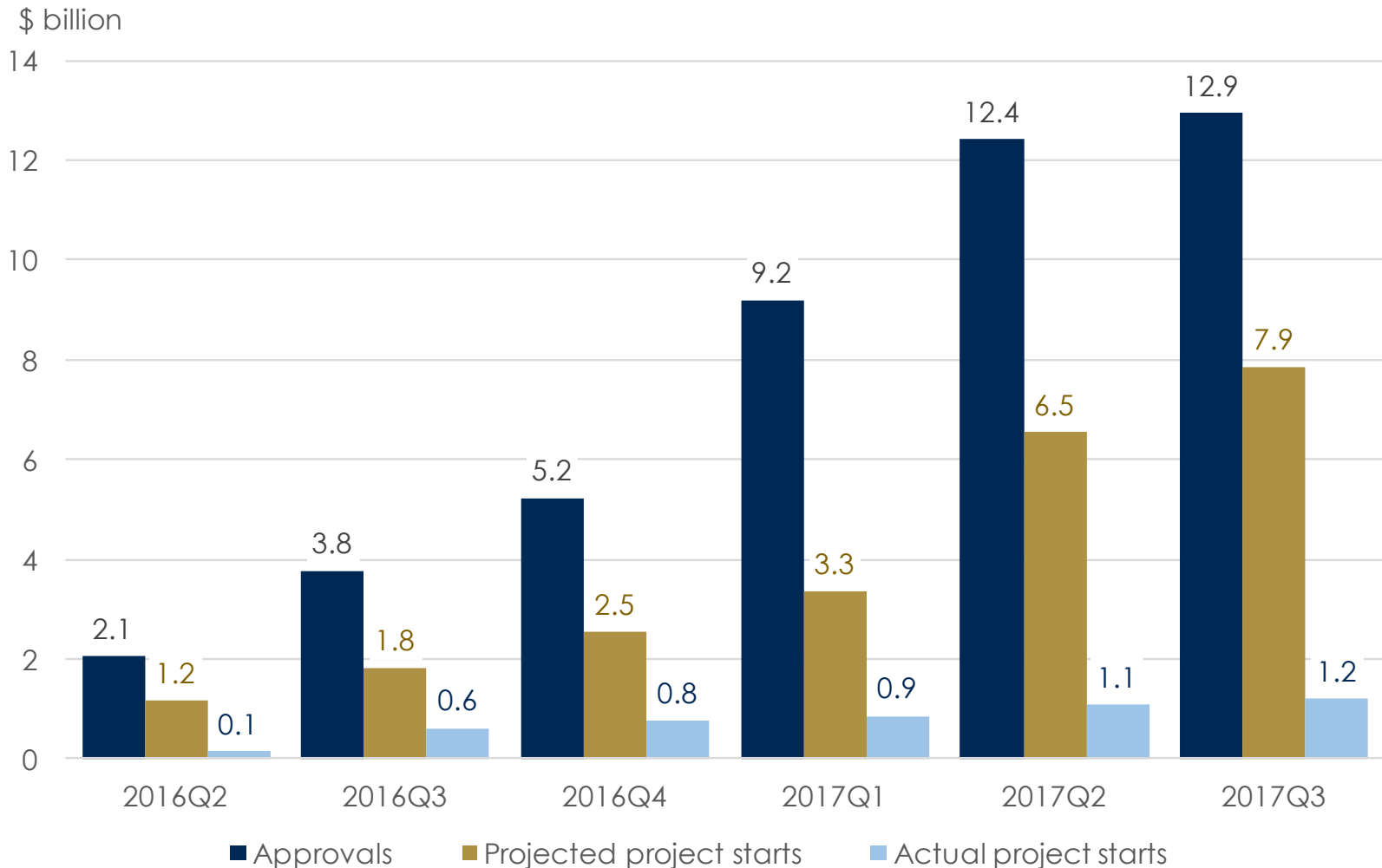
— General government investment in engineering structures

● Q2 2017 growth rate

Sources: Statistics Canada, Institute of Fiscal Studies and Democracy.

... and more is expected

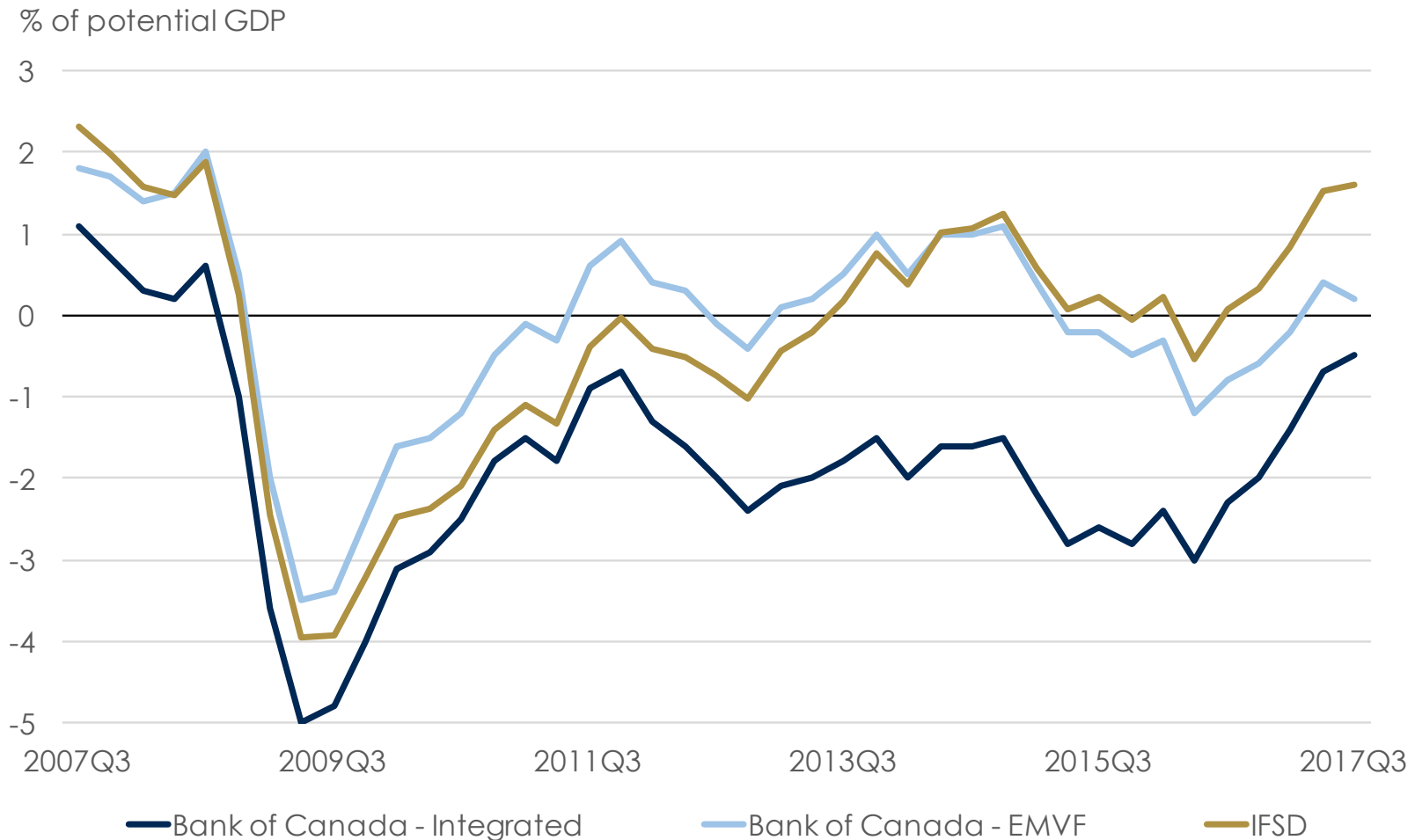
Cumulative Federal Infrastructure Approvals and Outlays



Source: Infrastructure Canada Open Government Portal.

But the timing isn't great

IFSD and Bank of Canada Output Gap Estimates

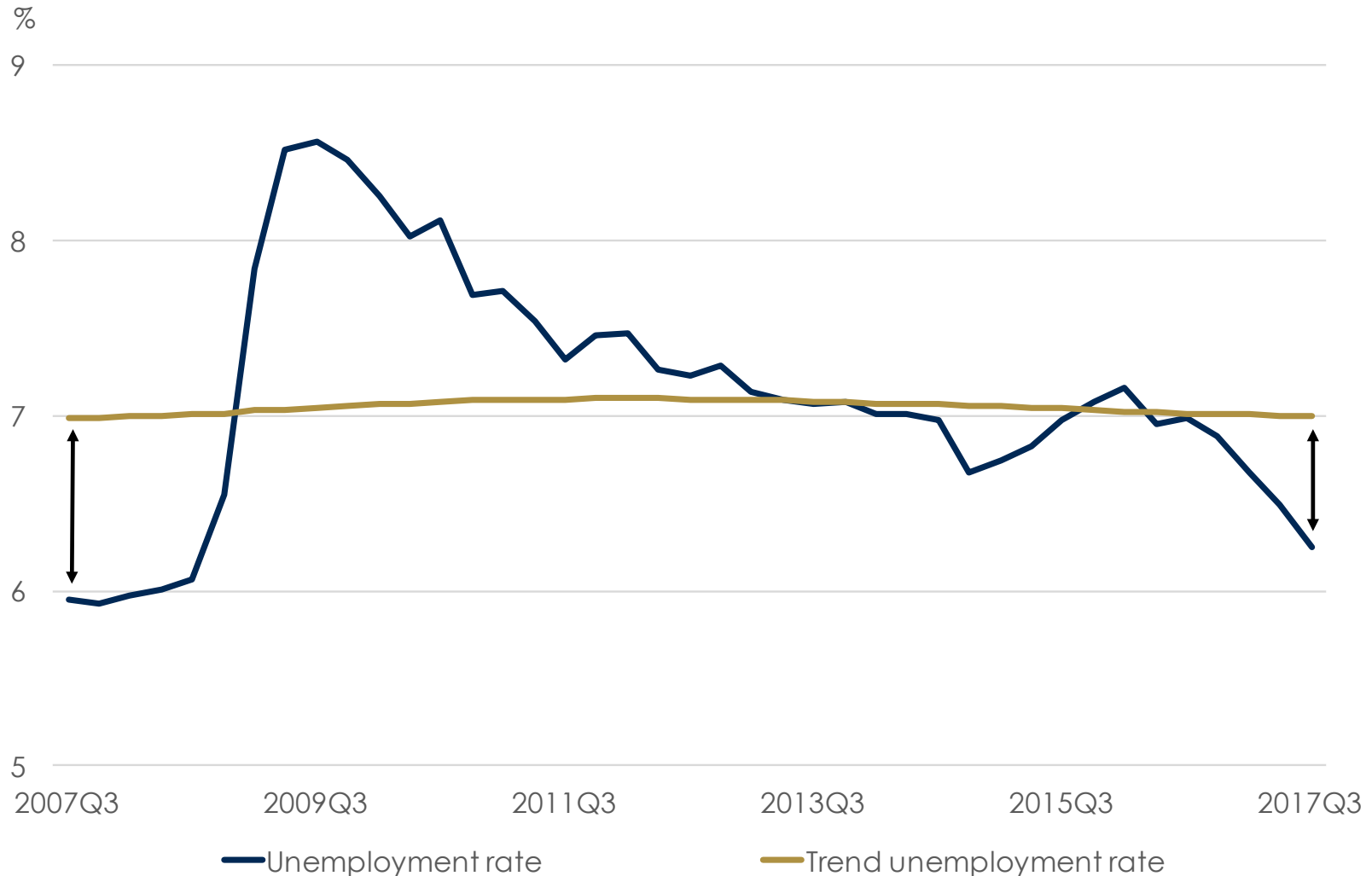


Sources: Bank of Canada, Statistics Canada, Institute of Fiscal Studies and Democracy.

Notes: 'Integrated' refers to the Bank of Canada's Integrated Framework to determining potential GDP, while 'EMVF' refers to the Extended Multivariate Filter. Bank of Canada numbers are from the October 2017 MPR.

Labour market is tightening

Canadian Unemployment Rate versus Its Trend



Youth unemployment at record low

Unemployment Rate of Canadians aged 15 to 24

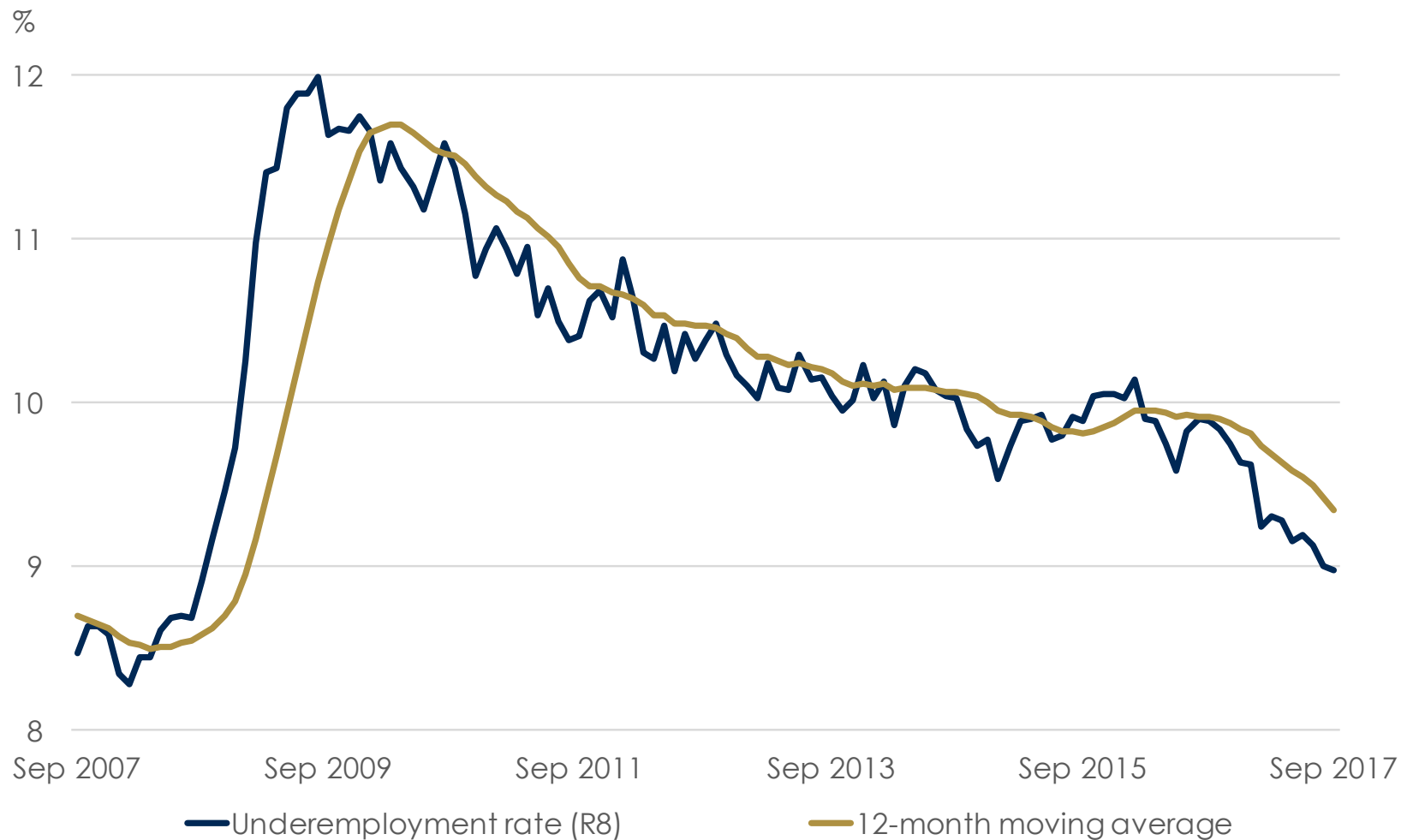


Source: Statistics Canada.

Note: Chart covers sample from January 1976 to September 2017.

Underemployment is falling rapidly

Underemployment Rate (R8) in Canada

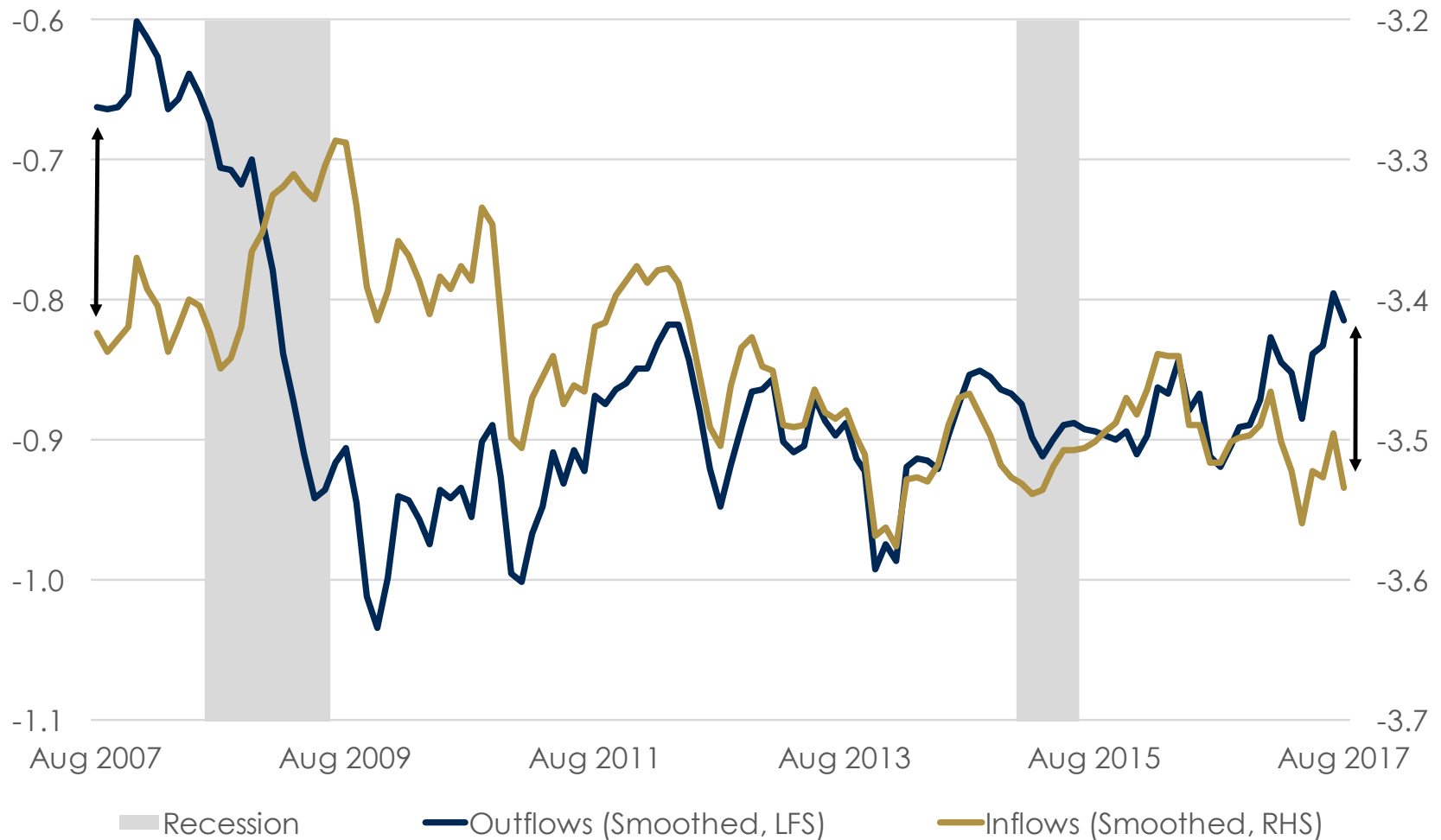


Sources: Statistics Canada, Institute of Fiscal Studies and Democracy.

Notes: The underemployment rate is known as the 'R8', which includes unemployed plus discouraged searchers, the waiting group, and a portion of involuntary part-timers. Seasonally adjusted using Census X12.

JØLTS suggests very strong hiring

Log of Job Finding and Exit Rates

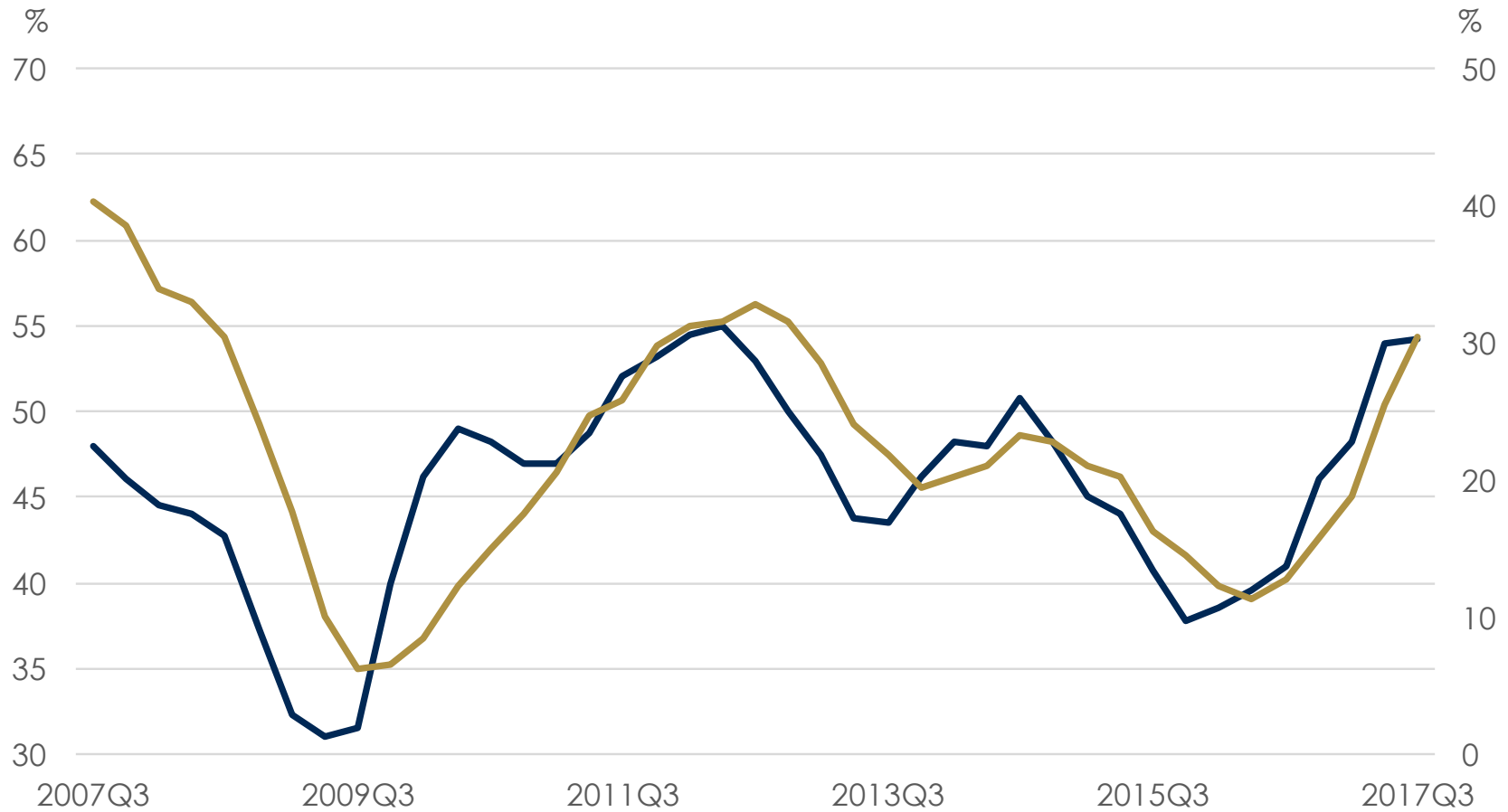


Sources: Statistics Canada, Institute of Fiscal Studies and Democracy.

Notes: Shaded areas corresponds to the Business Cycle Council of Canada designated recessions except January to June 2015.

Survey says ... employers are hiring

Hiring Expectations and Labour Shortages



— Share of firms expecting future employment level to be higher (LHS)

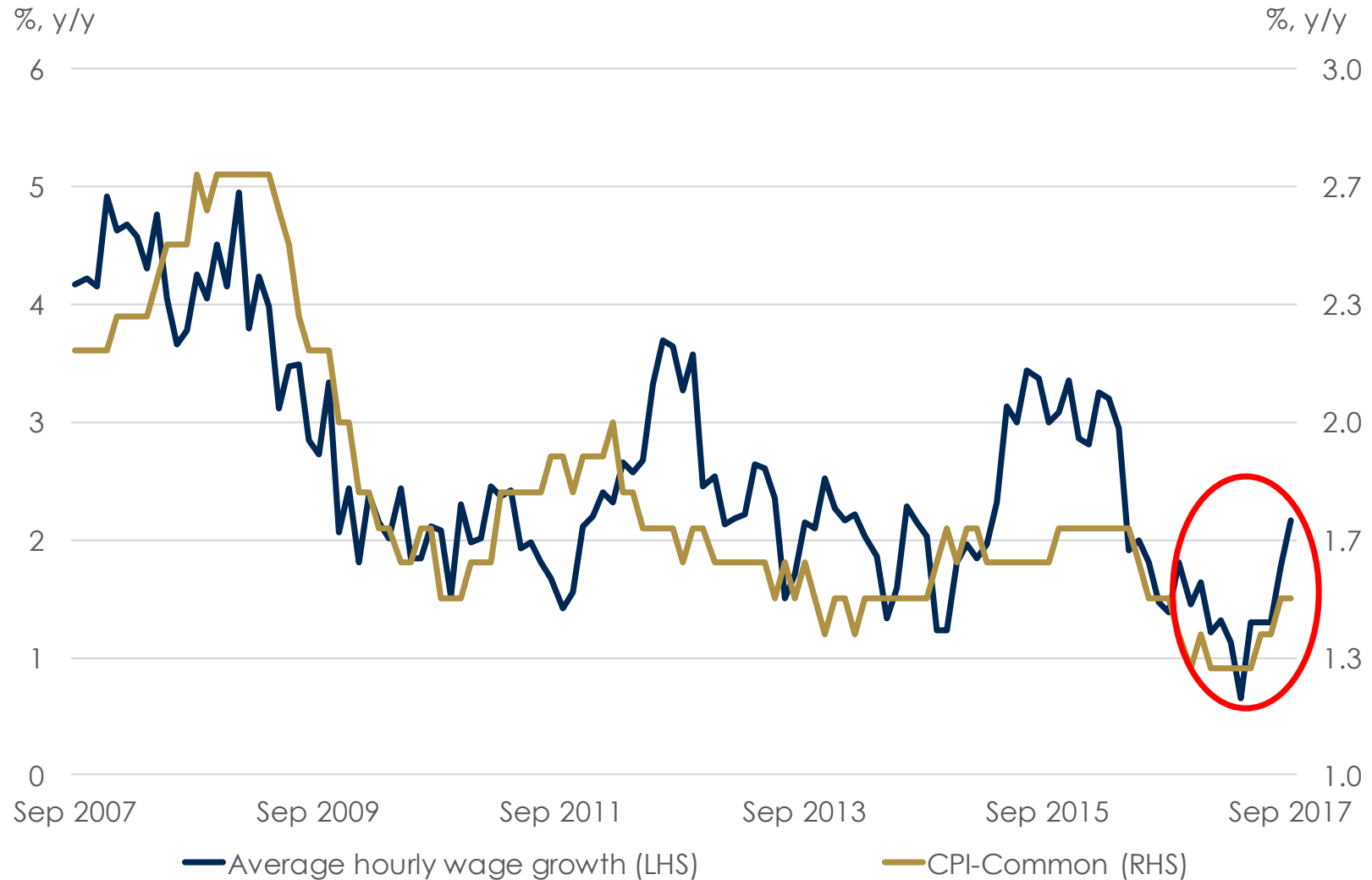
— Share of firms experiencing more intense labour shortages (RHS)

Sources: Bank of Canada Business Outlook Survey, Institute of Fiscal Studies and Democracy.

Note: Numbers presented here are the 4-quarter moving average.

Wage growth is accelerating ...

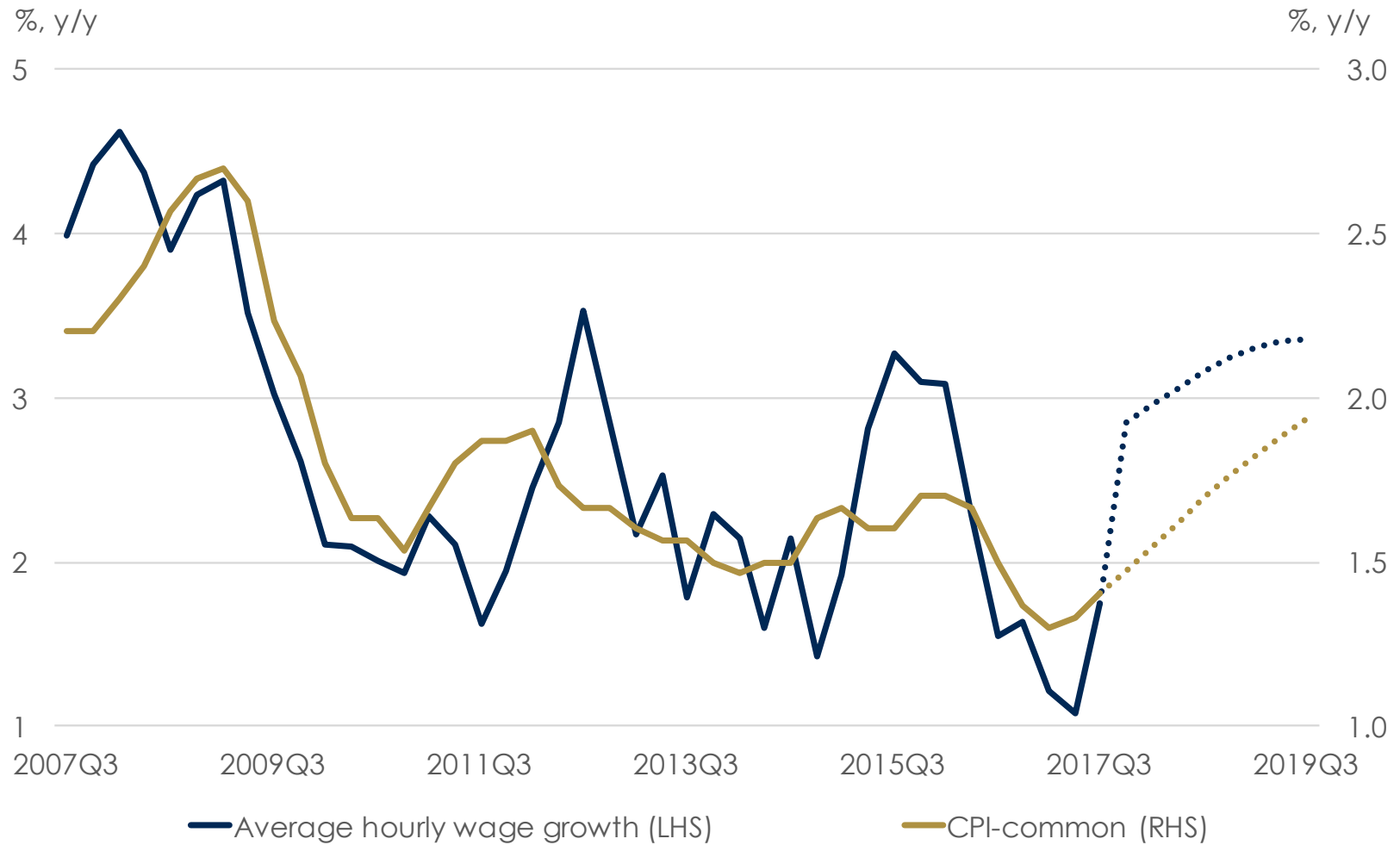
Wage Growth and Core CPI Inflation



Source: Statistics Canada.

... and this trend is likely to continue

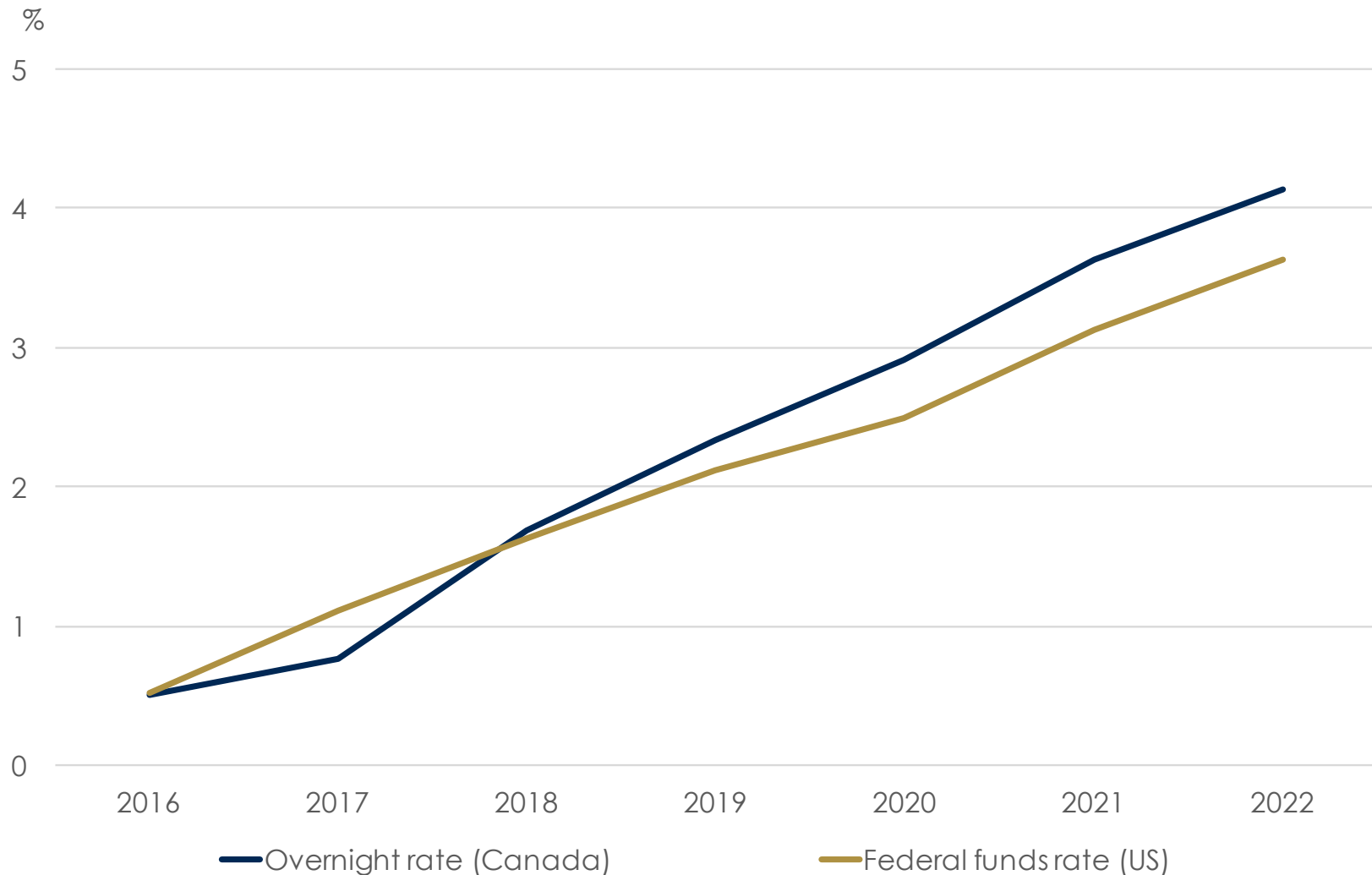
Outlook for Wage Growth and Core CPI Inflation



Sources: Statistics Canada, Institute of Fiscal Studies and Democracy.
Notes: Assumes steady interest rate hikes beginning in January 2018.

Canadian rates may pass the US

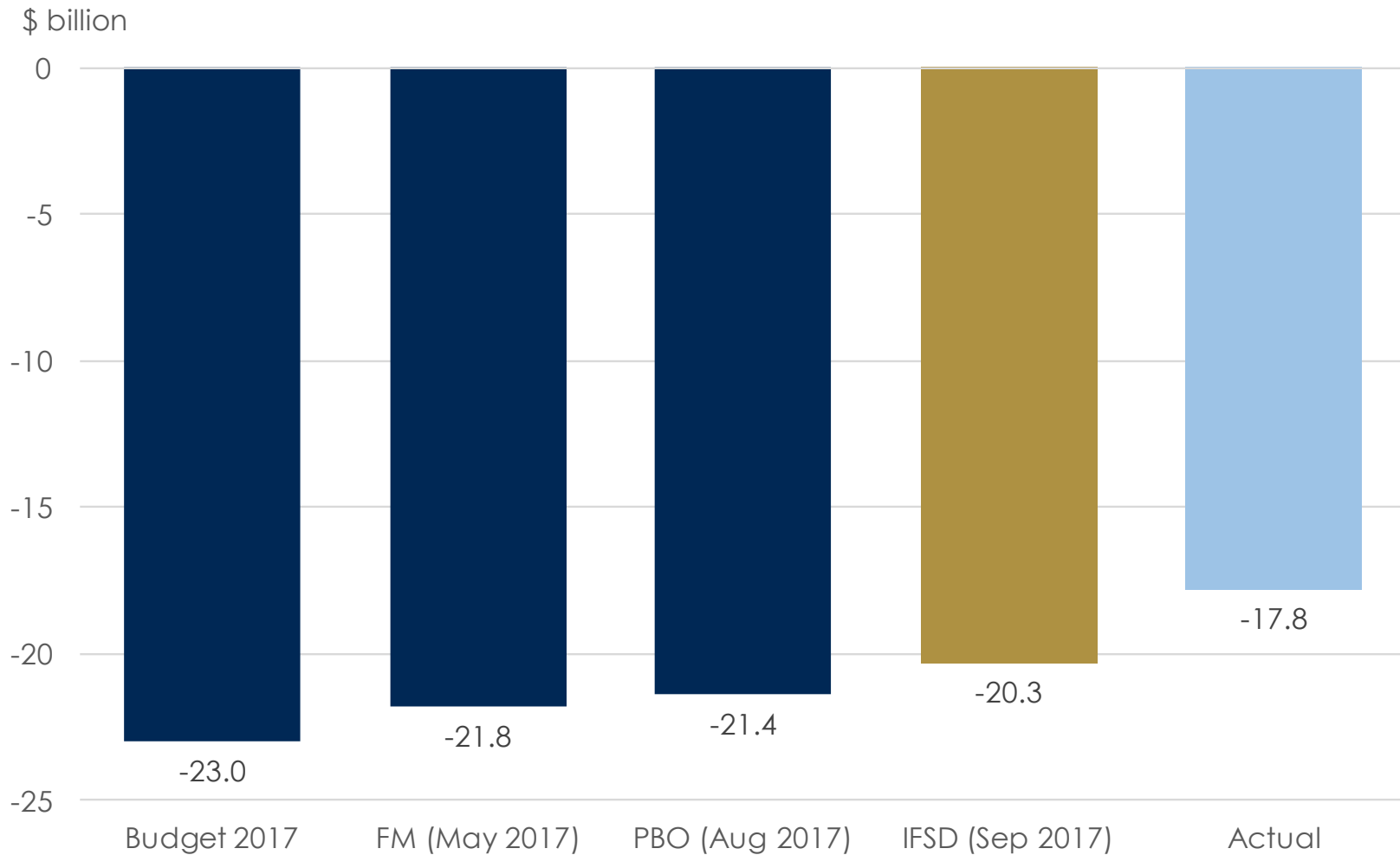
Canada and US Monetary Policy Rates



Sources: Bank of Canada, US Federal Reserve, Institute of Fiscal Studies and Democracy.

FY 2016-17 better than expected

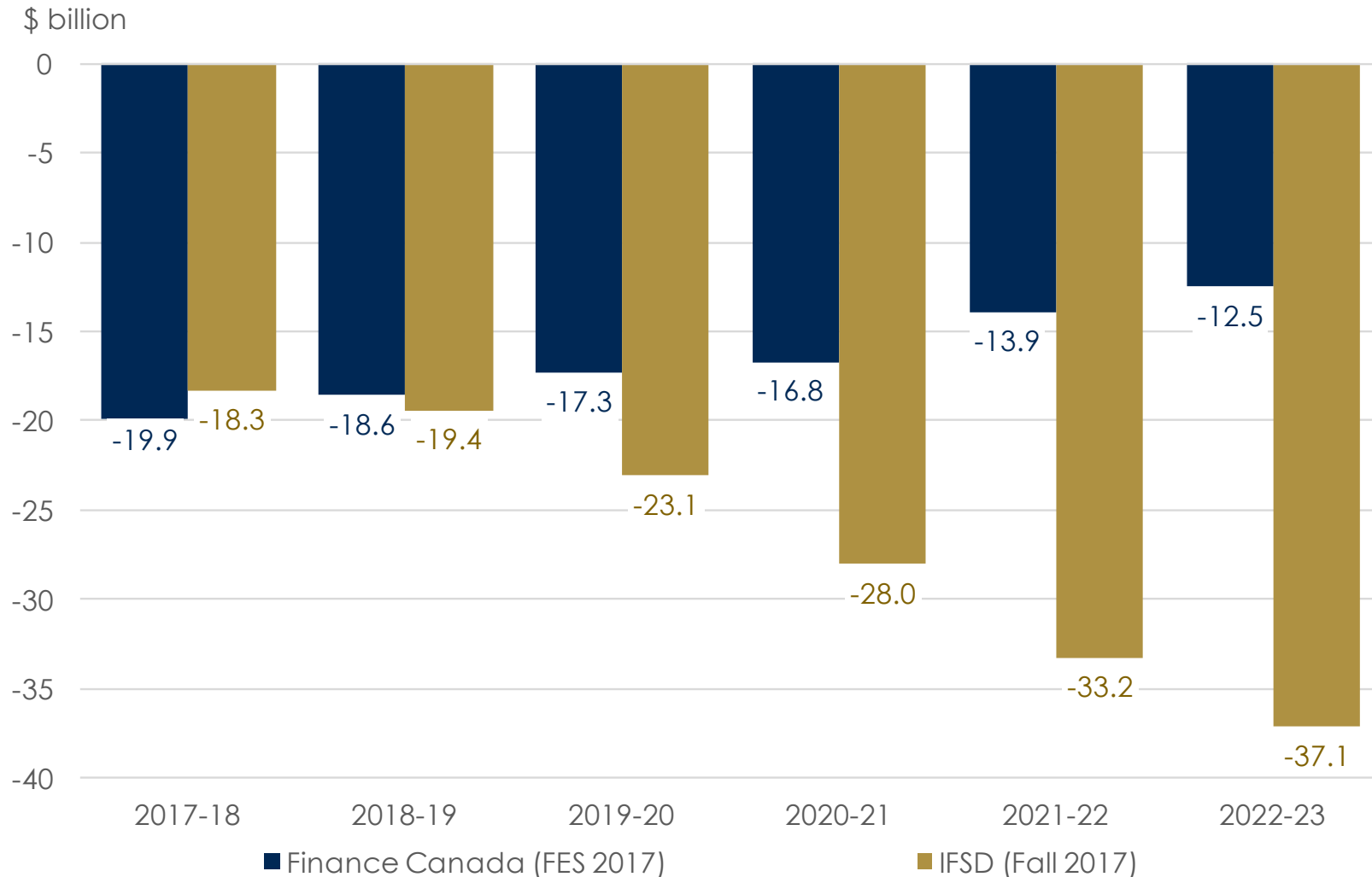
2016-17 Fiscal Year Federal Budgetary Balance



Sources: Finance Canada, Office of the Parliamentary Budget Officer, Institute of Fiscal Studies and Democracy.
 Note: FM reference to Finance Canada's monthly Fiscal Monitor.

Fiscal to get better, then worse

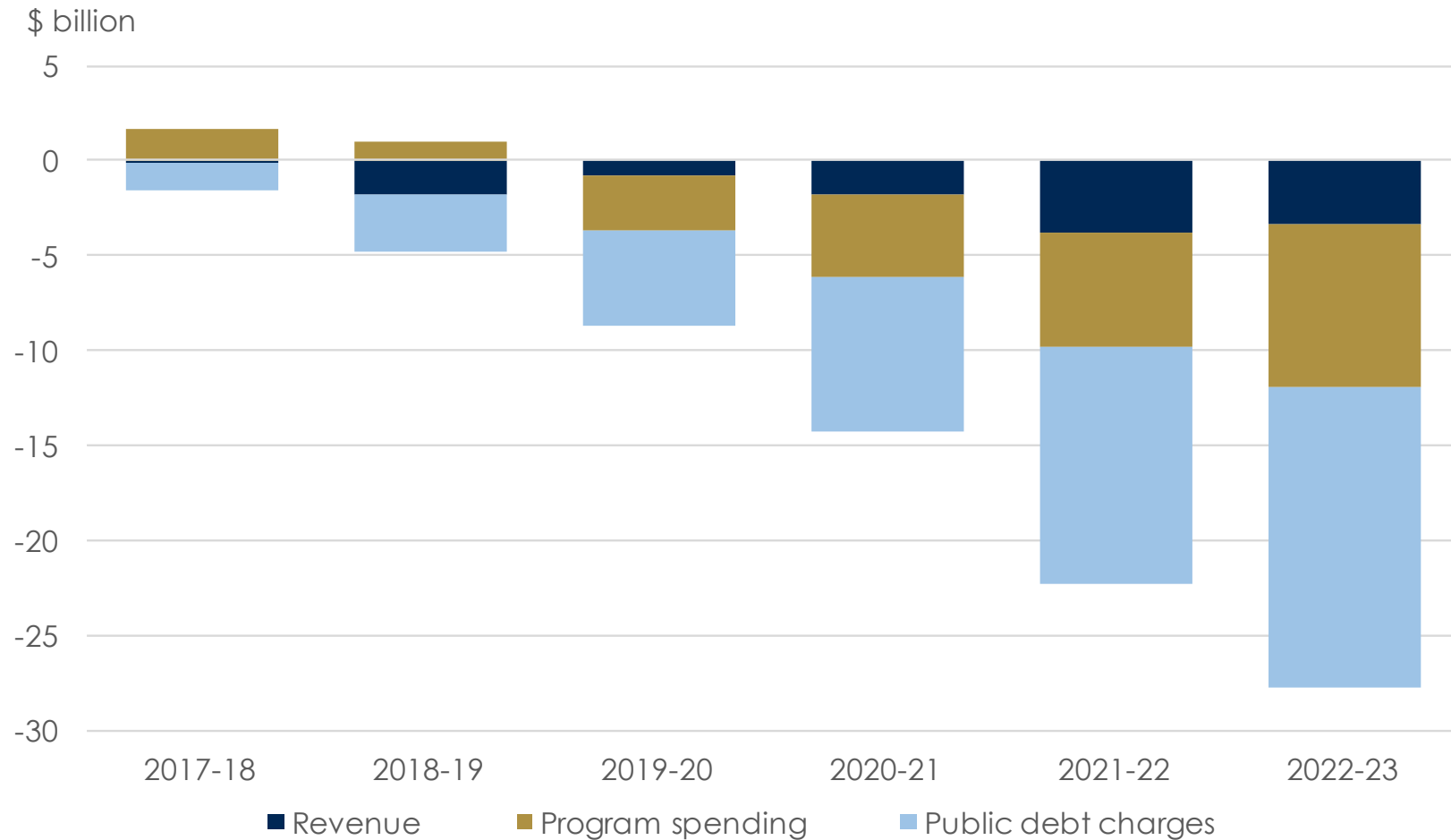
Federal Budget Balance Forecast Comparison



Sources: Finance Canada, Institute of Fiscal Studies and Democracy.

Interest cost is main difference

Causes of IFSD and GOC Forecast Differences

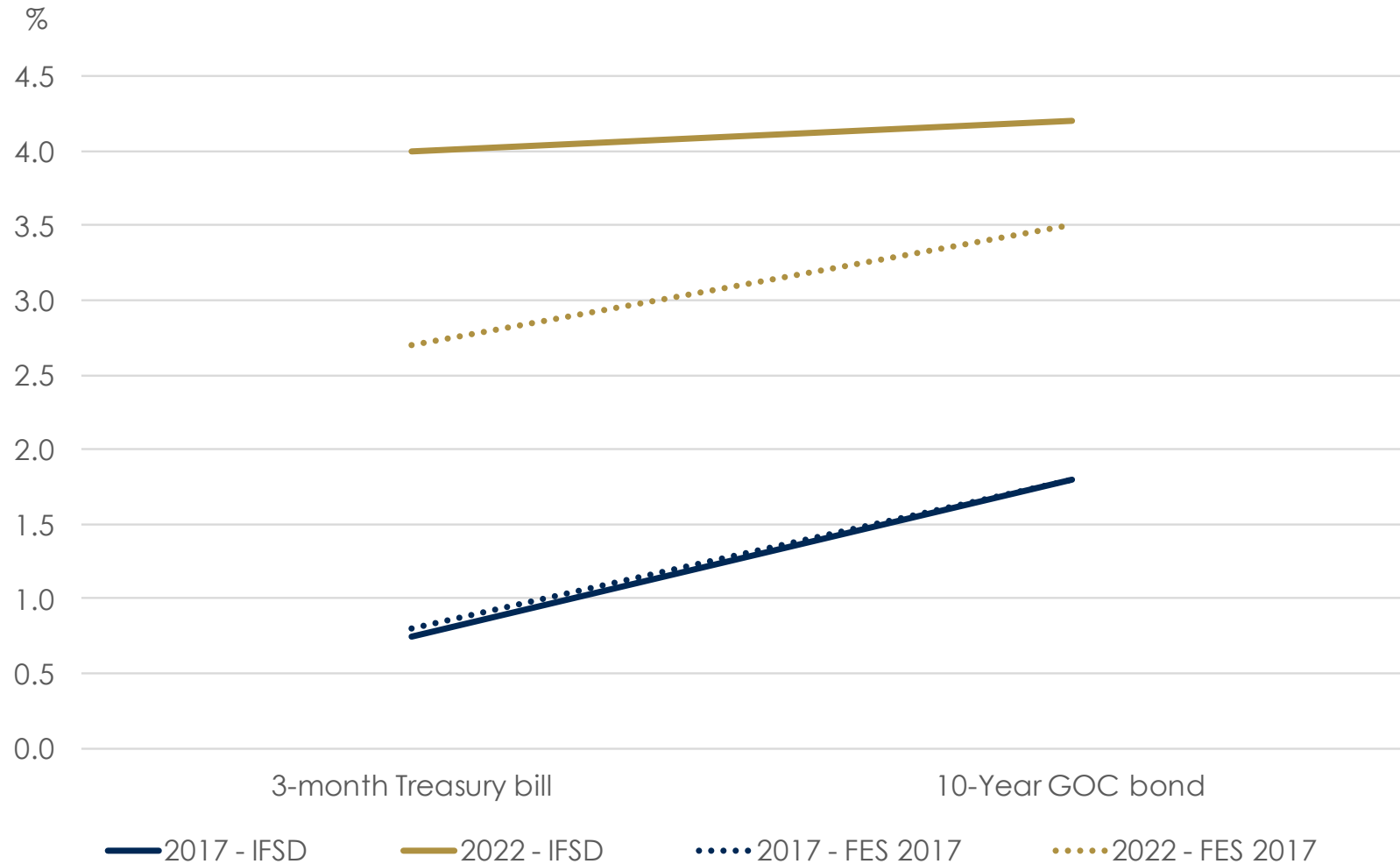


Sources: Finance Canada, Institute of Fiscal Studies and Democracy.

Notes: The bars represent the contributions to the difference in the budget balance forecasts of the IFSD in Nov. 2017 and the Government of Canada (GOC) in Oct. 2017, reflecting economic and other forecast differences.

Yield curve expected to flatten

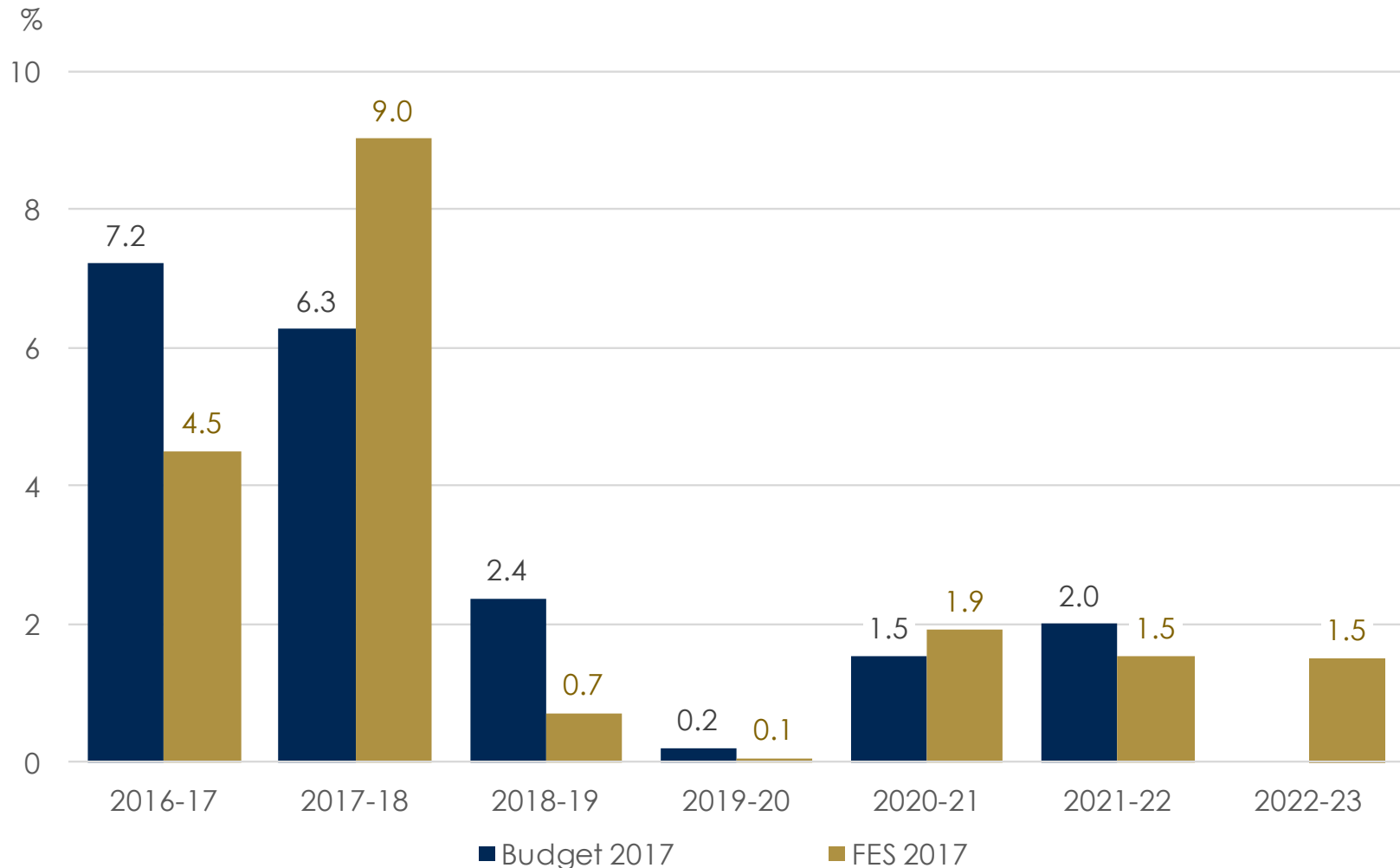
Selected Yield Forecasts for 2017 and 2022



Sources: Finance Canada, Institute of Fiscal Studies and Democracy.
Note: FES 2017 refers to the Fall Economic Statement 2017.

DPE forecast questionable at best

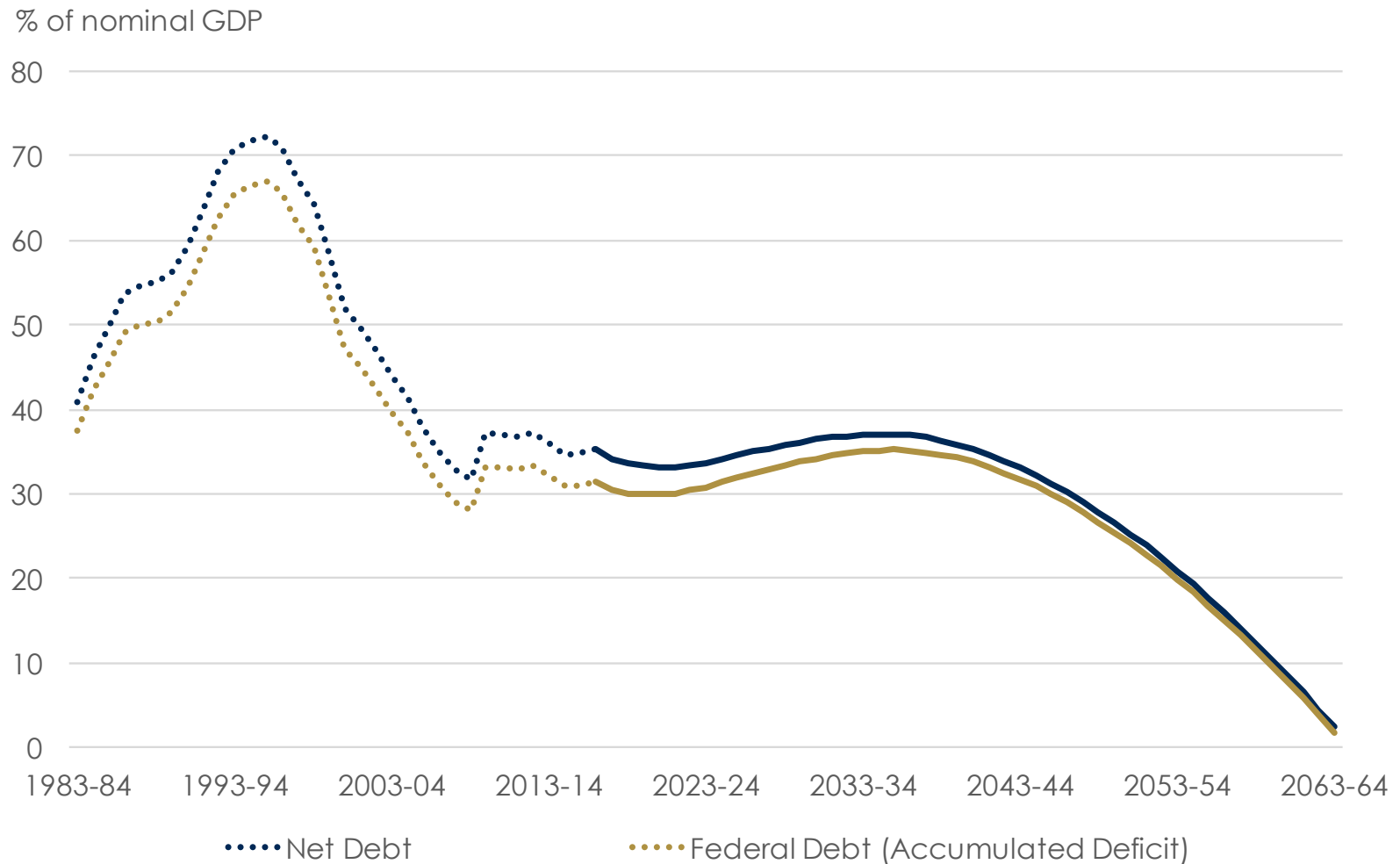
Growth in Federal Direct Program Expenses Forecasts



Sources: Finance Canada, Institute of Fiscal Studies and Democracy.
 Note: FES 2017 refers to Fall Economic Statement 2017.

Debt to rise modestly, then fall

Federal Net Debt and Accumulated Deficit



Feds remain fiscally sustainable

Fiscal Gap Comparisons

% of GDP

<u>Government of Canada</u>		<u>2041-42</u>	<u>2063-64</u>	<u>2091-92</u>
	IFSD	-0.3	-0.8	
Net Debt-to-GDP Target	PBO ⁴			-1.2

³ PBO fiscal gap calculations start in 2016. IFSD fiscal gap calculation starts in 2016 for Canada and 2017 for

⁴ PBO uses Government Financial Statistics (GFS) as the basis for fiscal projections while IFSD uses Public Accounts basis for both Canada and Ontario. As such, the net debt-to-GDP target (last known value) might differ slightly due to different accounting system.

Sources: Statistics Canada, Finance Canada, Ontario Ministry of Finance, Office of the Parliamentary Budget Officer (PBO), Financial Accountability Office of Ontario (FAO), Institute of Fiscal Studies and Democracy (IFSD).

Notes: The most comparable scenarios across organisations are presented here, although differences in methodology, assumptions and key variable inputs may limit the comparability of fiscal gap estimates. All scenarios use Statistics Canada population projections.



Thank You

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