



# Success in the Age of Trump

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September 2017



# Context: modest global growth

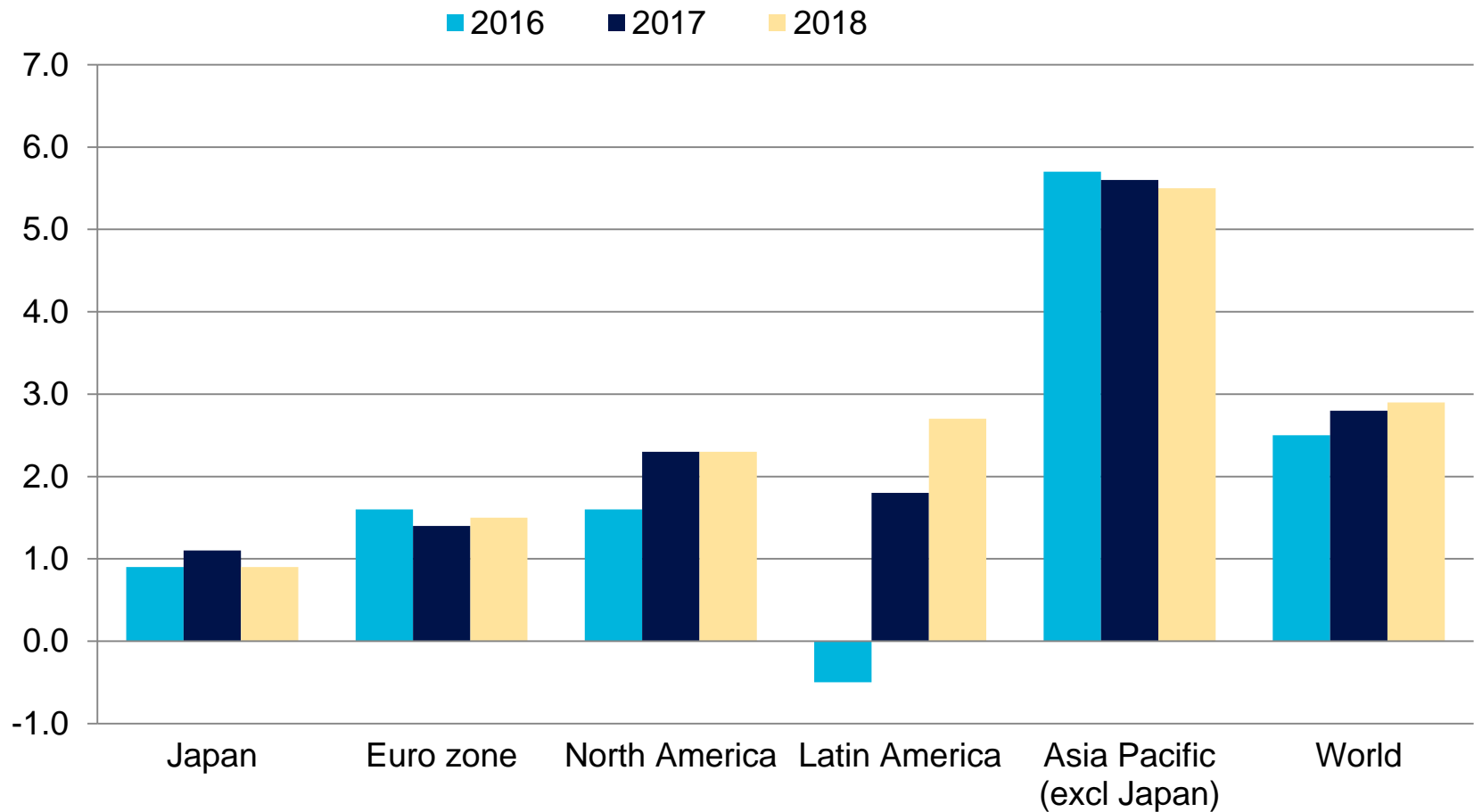
- Global economy has finally recovered from 2008-09 financial crisis and recession
- But global trade growth has faded
- Populist political backlash to globalization, rising authoritarianism in many places
- U.S., U.K. with Brexit, Russia, central Europe, Turkey...
- Japan, Germany, France, Canada, Mexico, Australia and NZ still support trade openness





# Global Prospects

per cent change, real GDP



Source: Consensus Economics.

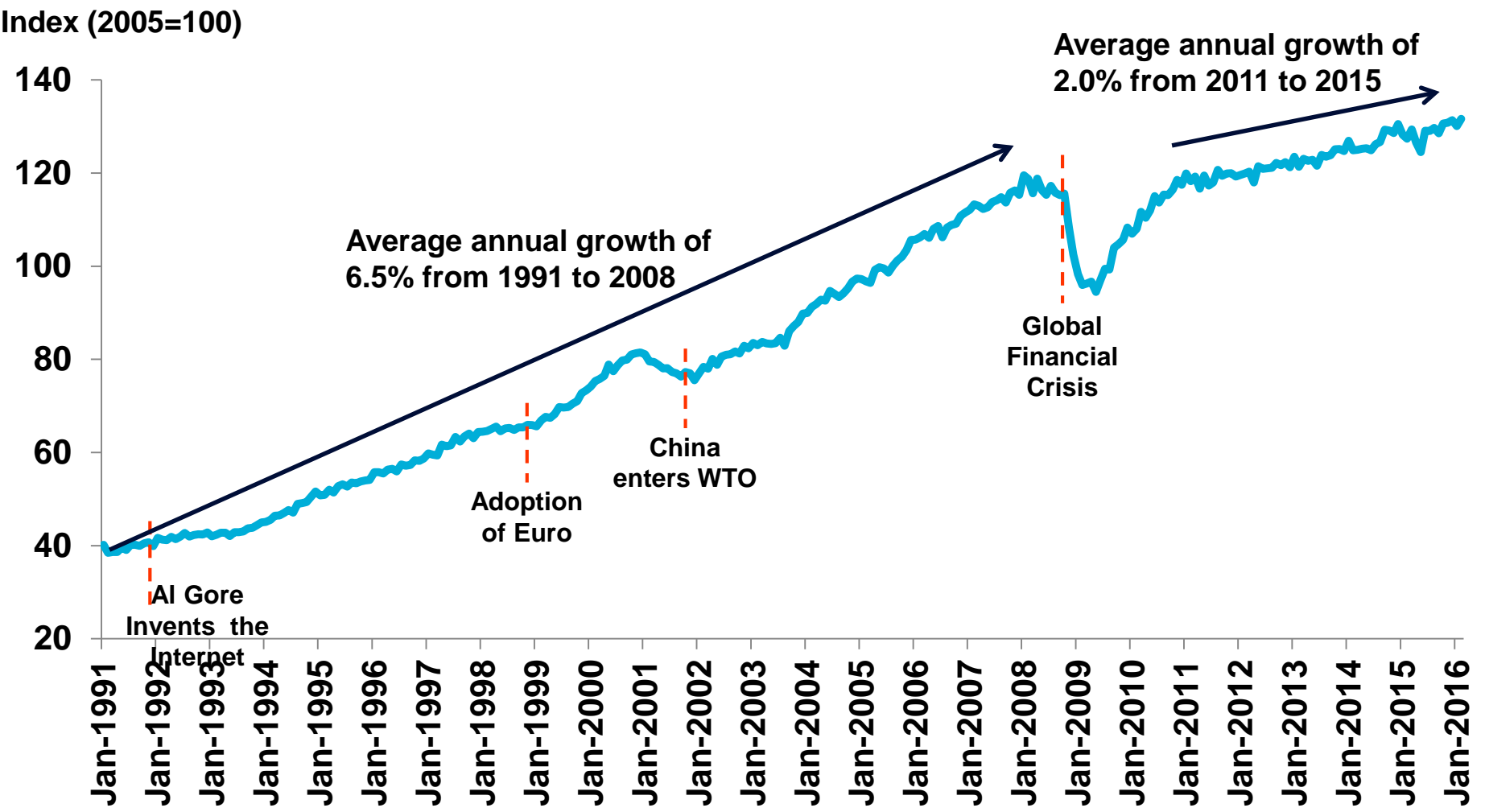


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# World trade volumes: marked slowdown in growth

## Monthly World Merchandise Imports, Volume Index





# Where are oil prices headed?

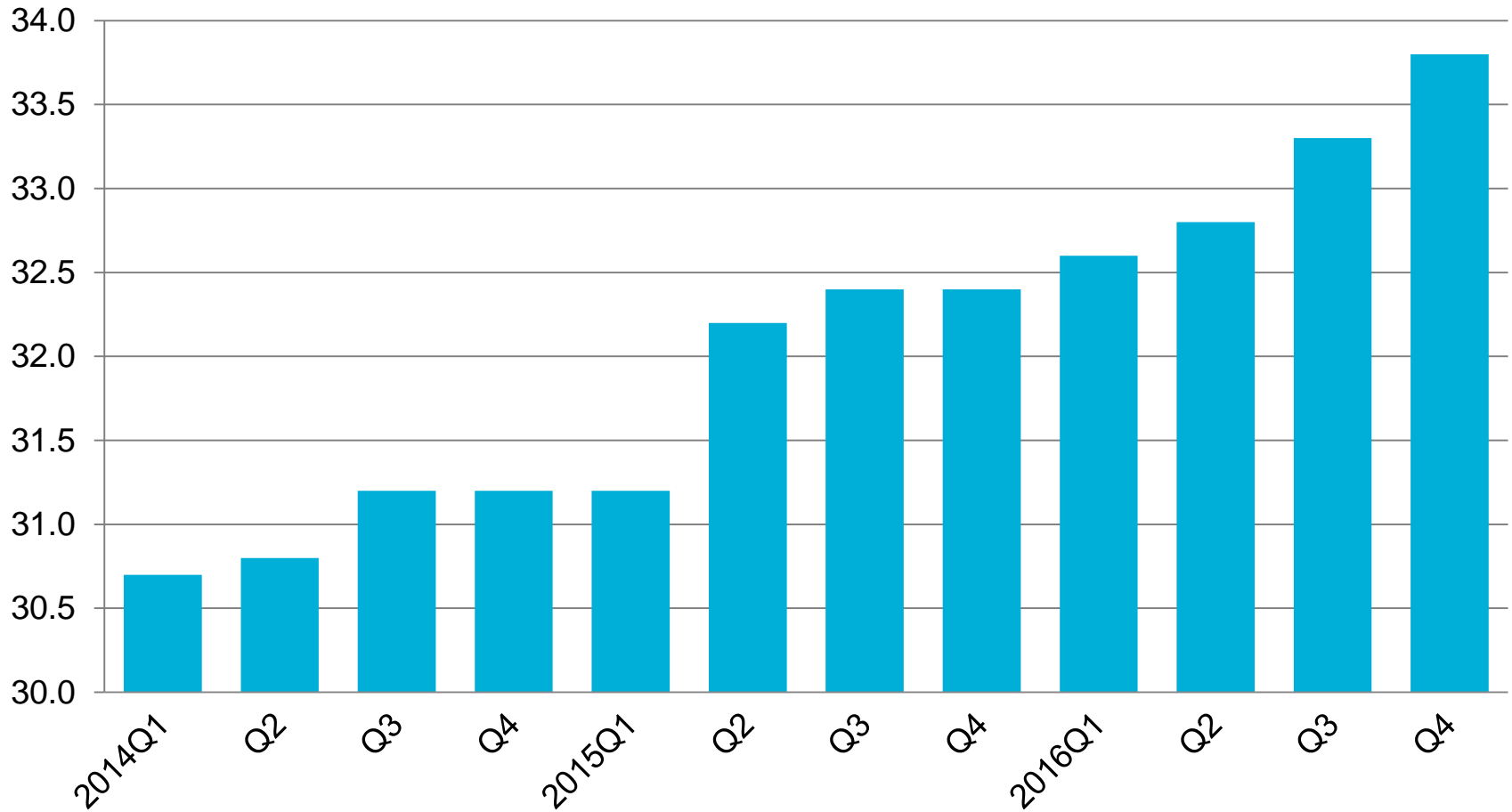
- OPEC and Russia agreed to cut production, by 1.8 million barrels per day
- However, OPEC is divided ... and higher prices will boost conventional and shale production
- North American oil investment responds quickly to higher prices; inventories still high
- Expect oil prices to remain modest going forward -- around \$50 per barrel





# OPEC Oil Production

millions of barrels per day



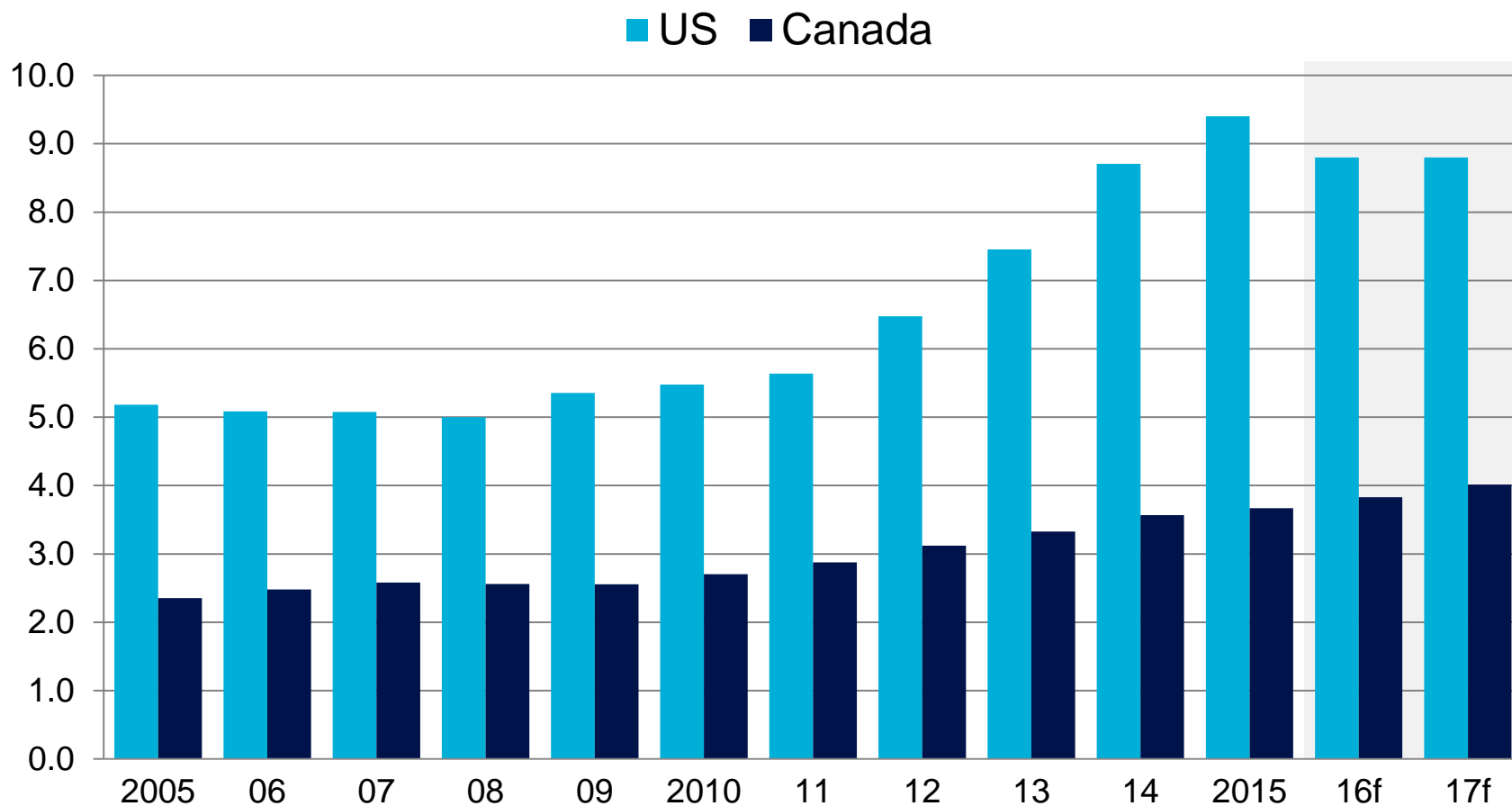
Source: IEA.





# U.S. and Canadian Oil Production

millions of barrels per day



Sources: The Conference Board of Canada; National Energy Board; US Energy Information Administration.



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# Climate Change

- Climate change is real...and its impacts are growing.
- Paris Accord codified goals for steadily reducing GHG emissions.
- Global goal: to cut GHG emissions by 80 pc by 2050.
- The key: change the nature of energy produced and consumed.
- Carbon pricing, low-carbon regulations are just beginning.





# Climate Change and Business

- Business response still in its infancy.
- Property insurance industry, government disaster relief feel the impact of extreme weather events.
- Threat to oil and gas industry, GHG-intensive sectors like petrochemicals and cement.
- Low-carbon transition creates opportunities for nimble businesses.
  - clean tech & services
  - lower-carbon value chains and FDI
  - greening of conventional business



# U.S. Outlook

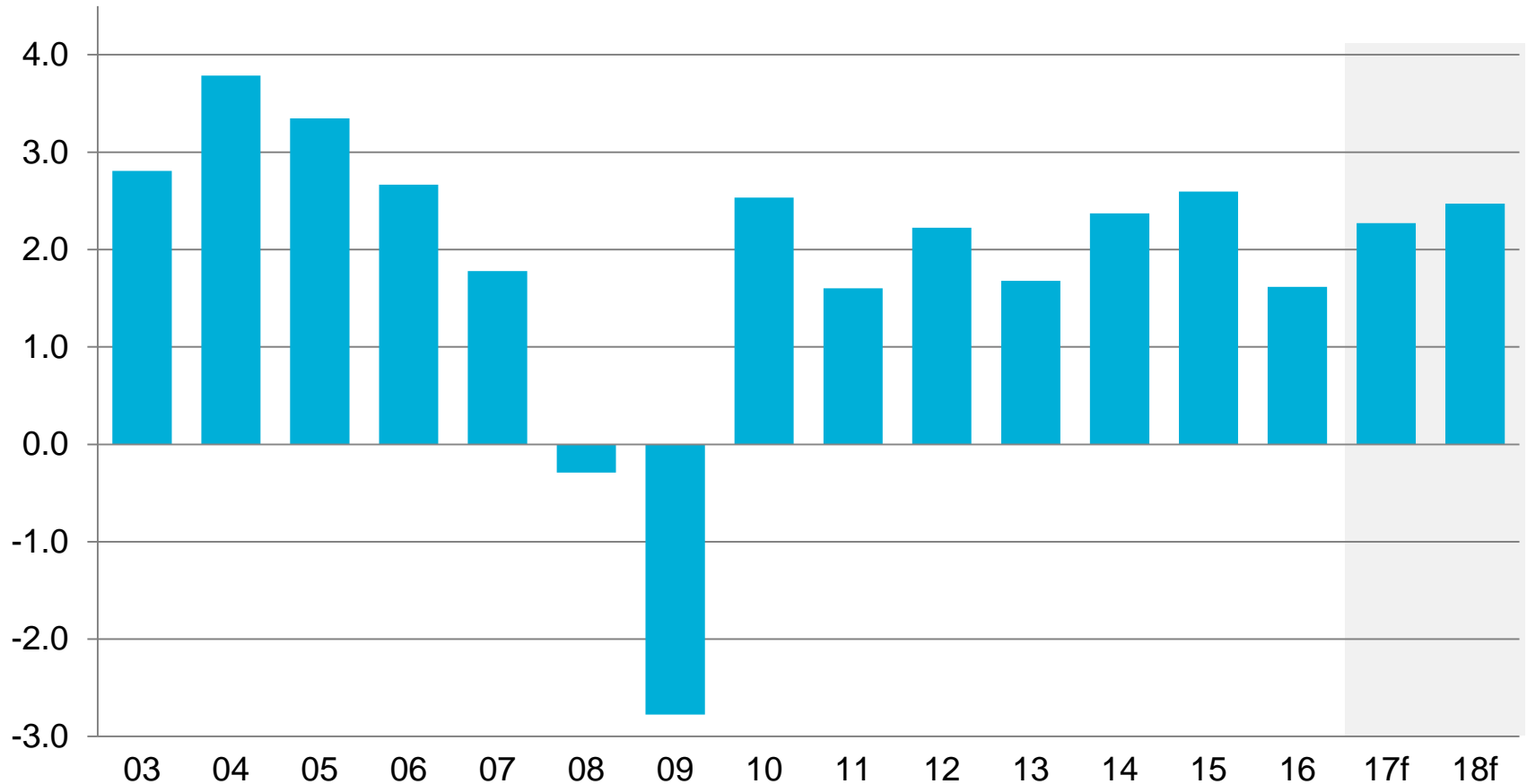
- U.S. economy has recovered from 2008-09 financial crisis and recession
- Consumers confident, sustained job growth, unemployment below 5 pc
- Markets reacted positively in late 2016 into 2017
- But the Trump agenda is stumbling, affecting U.S. confidence





# U.S. Outlook

U.S. real GDP growth per cent change



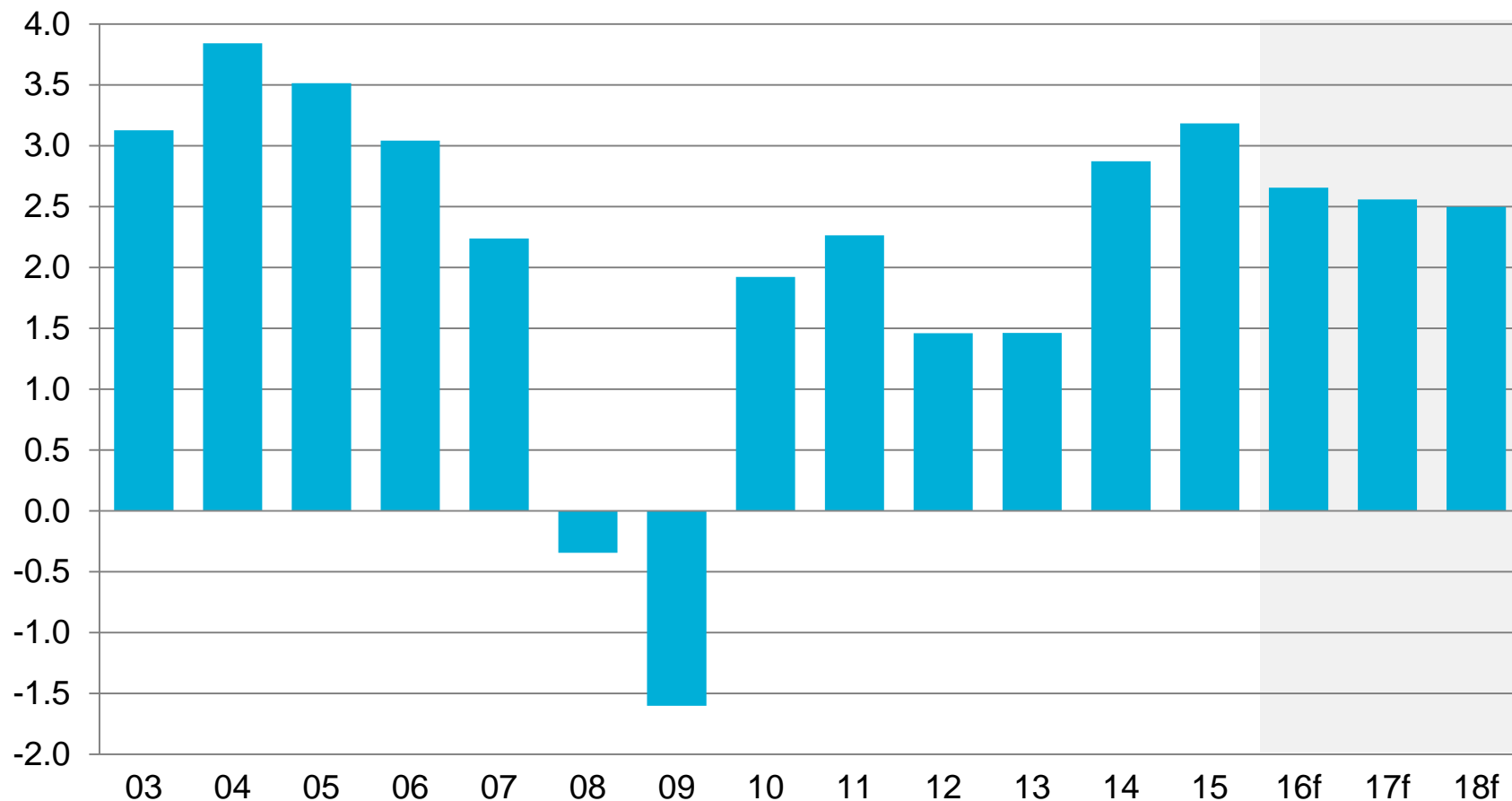
Sources: Bureau of Economic Analysis The Conference Board of Canada.





# U.S. Consumers are Foundation to Growth

U.S. real consumer spending, per cent change



Sources: BEA; The Conference Board of Canada.

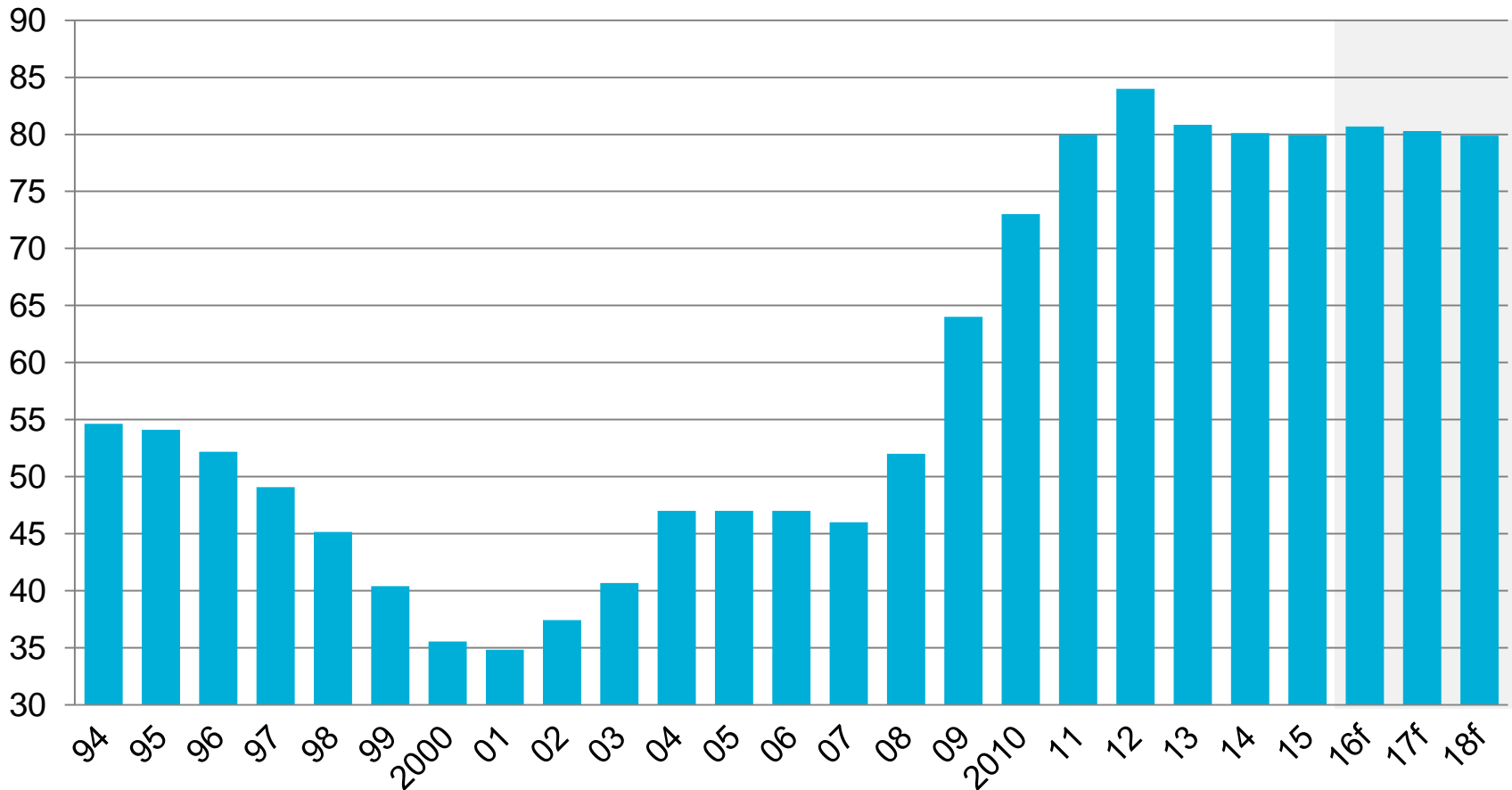


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# U.S. Net Debt as a share of GDP

per cent



Source: IMF



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# Canada: Better Growth in 2017

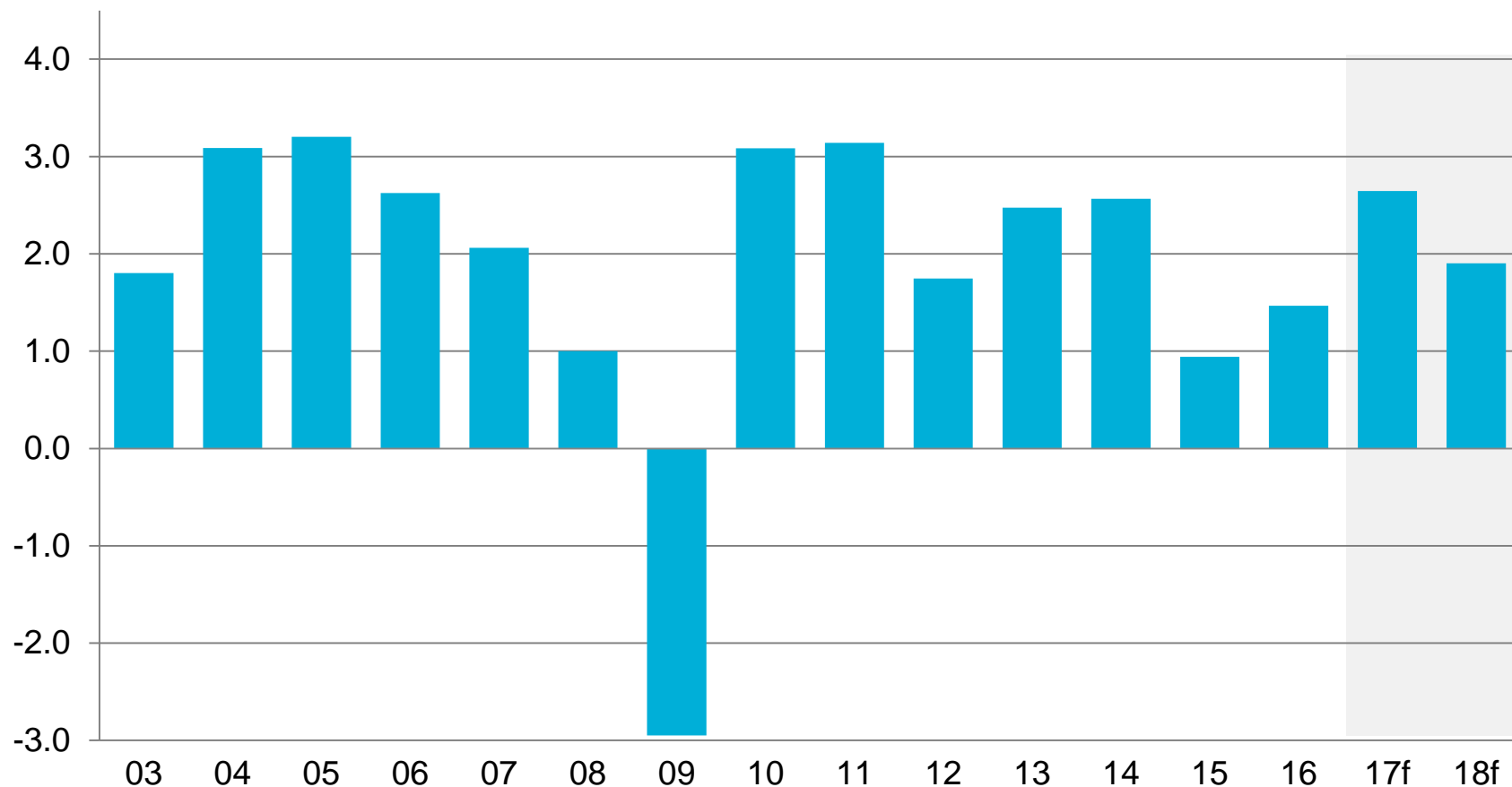
- Growth of 2.6 per cent forecast for 2017 – best in years
- Energy sector to stop bleeding
- Loonie up 10 per cent to 80 cents – good for consumers, not for exporters
- Federal infrastructure plan to kick in, once provinces and municipalities ante up
- Business investment remains lacklustre
- Despite soft job gains, labour market to slowly tighten





# Canadian Economy: Rebound for now

Canada real GDP, per cent change



Sources: Statistics Canada; The Conference Board of Canada.



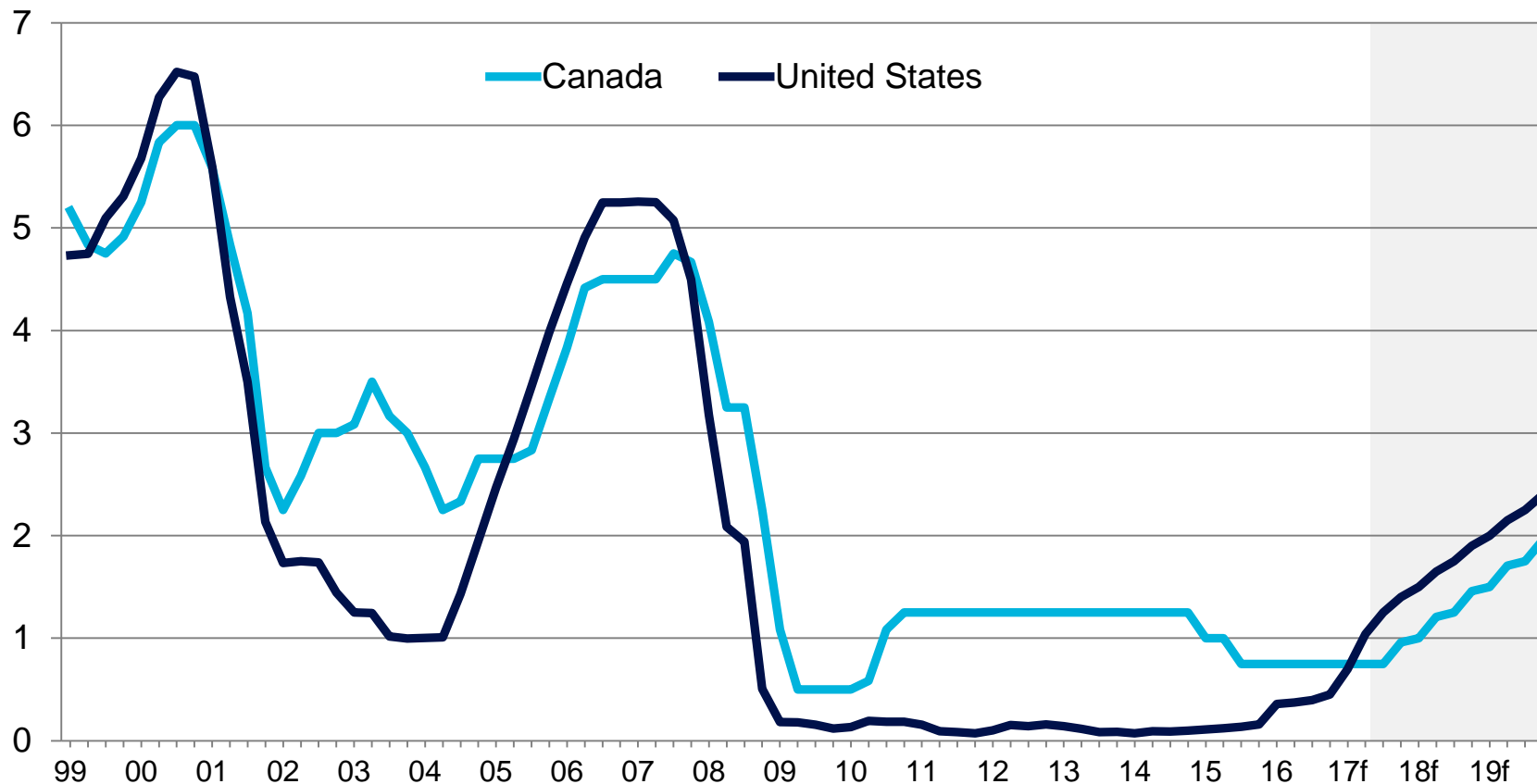
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# Bank of Canada Stimulus is Ending

Canadian Bank Rate and U.S. Federal Funds Rate



Sources: Statistics Canada; The Conference Board of Canada.



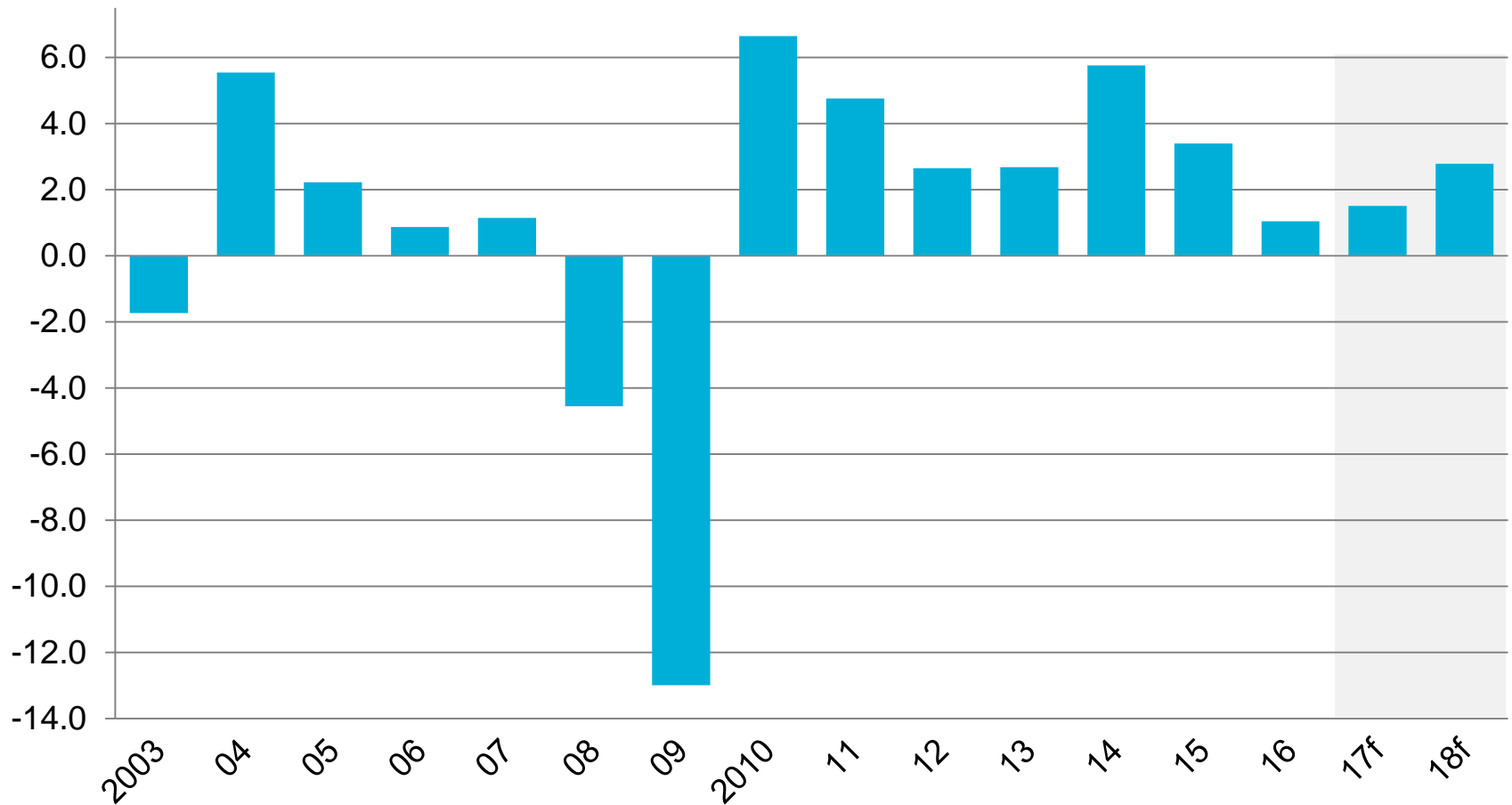
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# Exports to Strengthen Modestly

Real Exports, per cent change



Sources: Statistics Canada; The Conference Board of Canada.



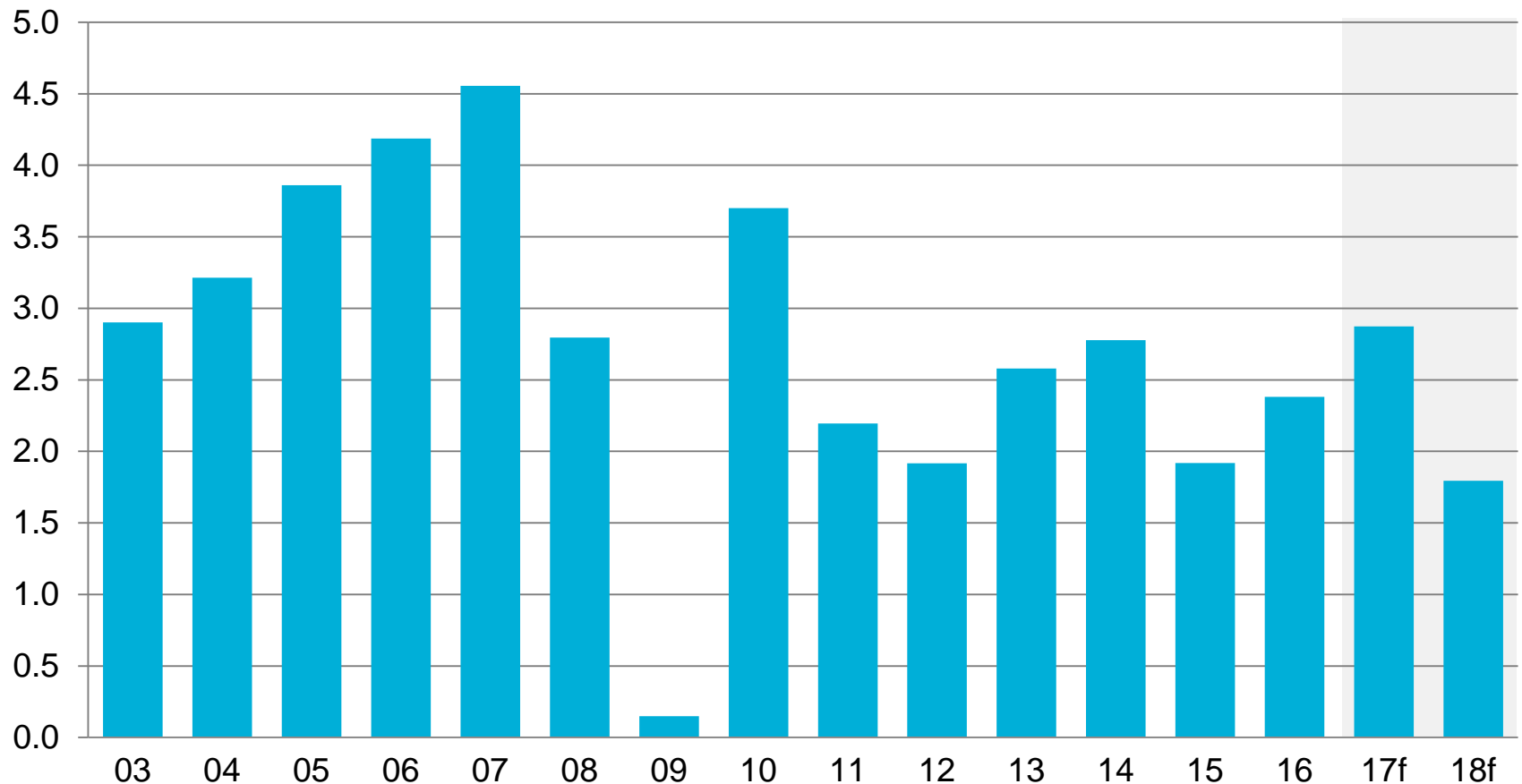
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# Consumer Spending Solid, But Not Booming

Real dollars, per cent change



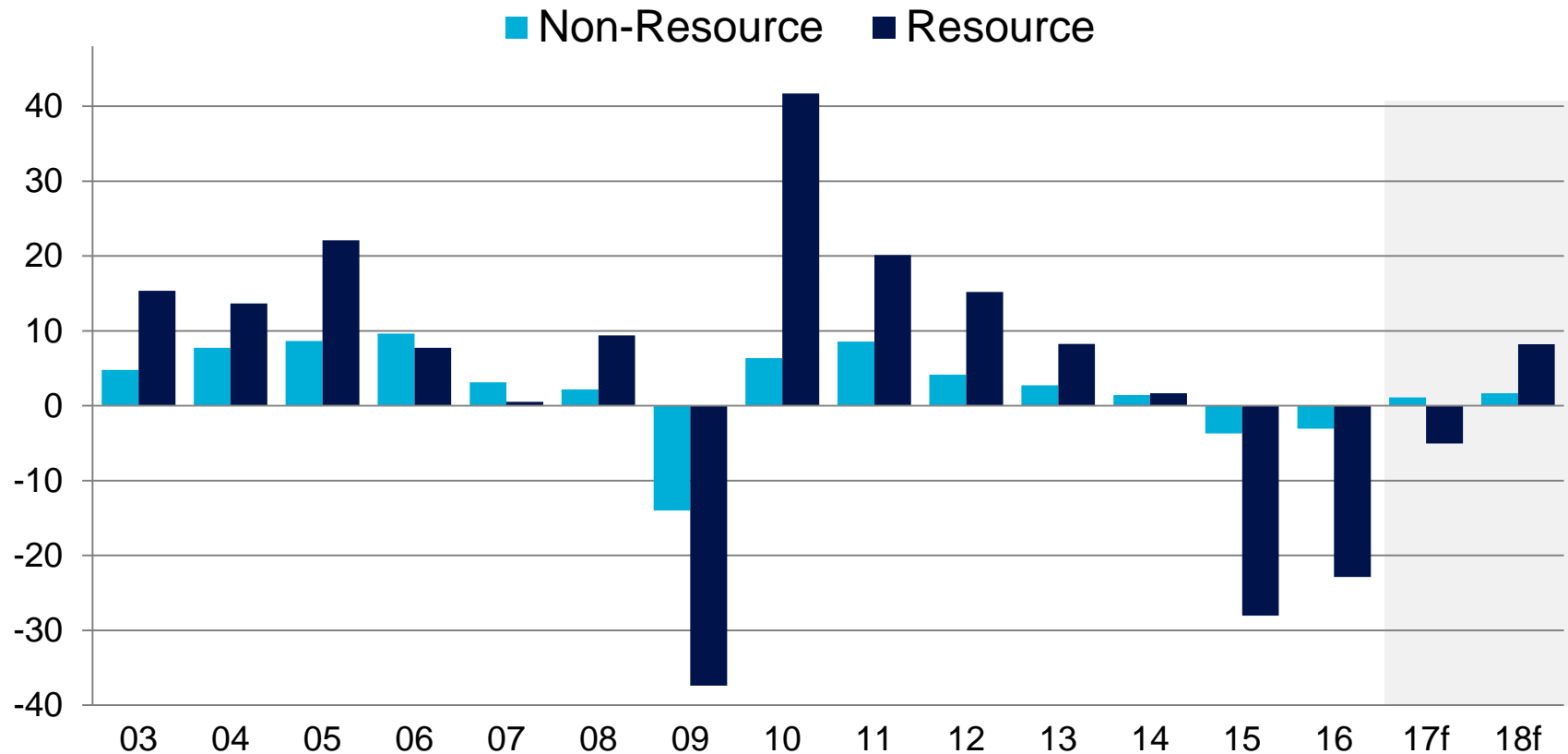
Sources: Statistics Canada; The Conference Board of Canada.





# Business Investment Weak, Firms Remain Defensive

Business structures and machinery, per cent change



Sources: Statistics Canada; The Conference Board of Canada.





# Provincial Highlights 2017-2018

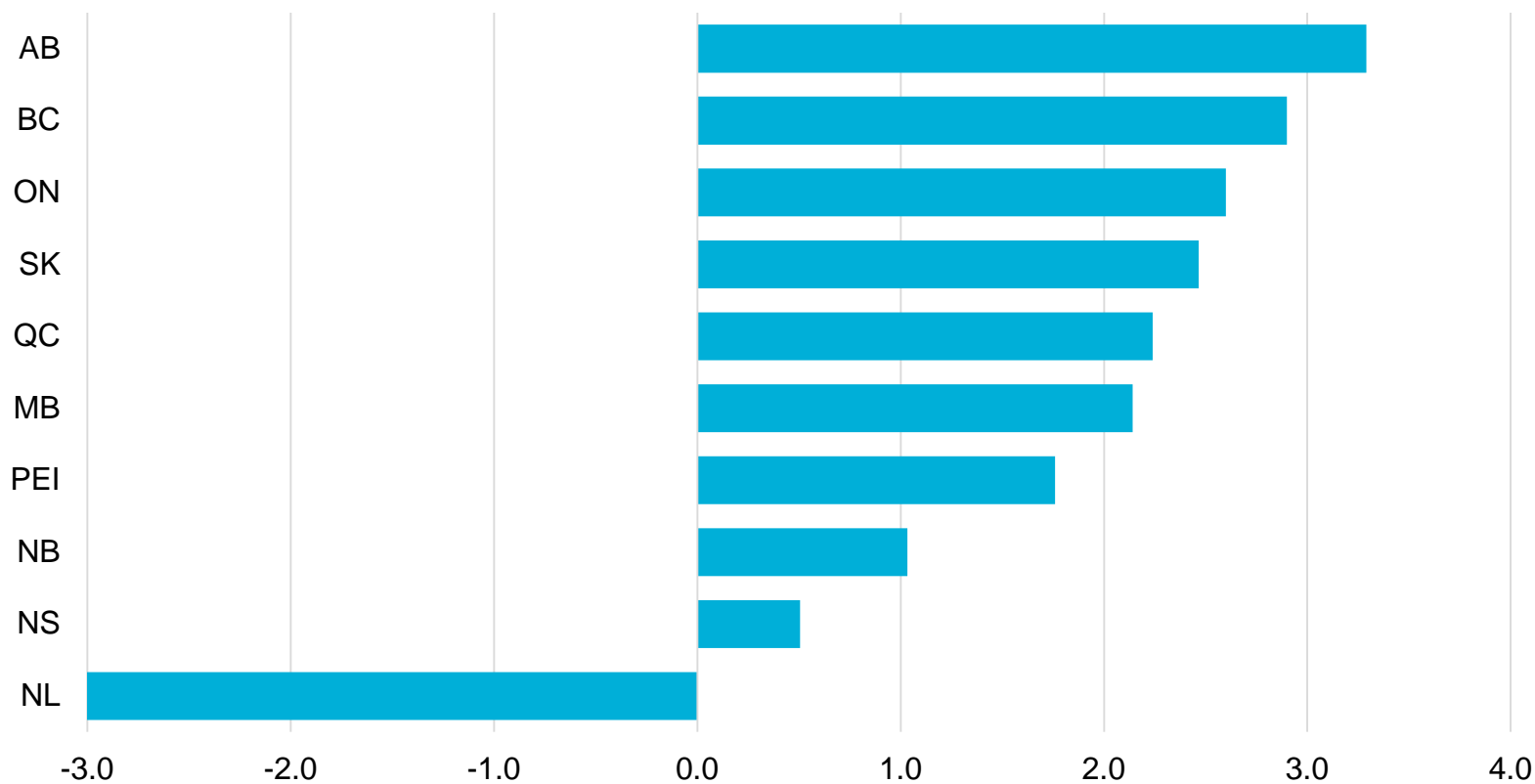
- Robust growth in Alberta, Ontario and Quebec will push the national growth rate of Canada to 2.6 per cent
- Alberta and Saskatchewan recovering from recession, as the price of oil and other commodities edges up
- Atlantic Canada provinces grow by less than 2 per cent; N&L still in recession in 2017
- NAFTA negotiations add uncertainty to key sectors in each province





# 2017 Real GDP by Province

per cent change, basic prices, \$2007



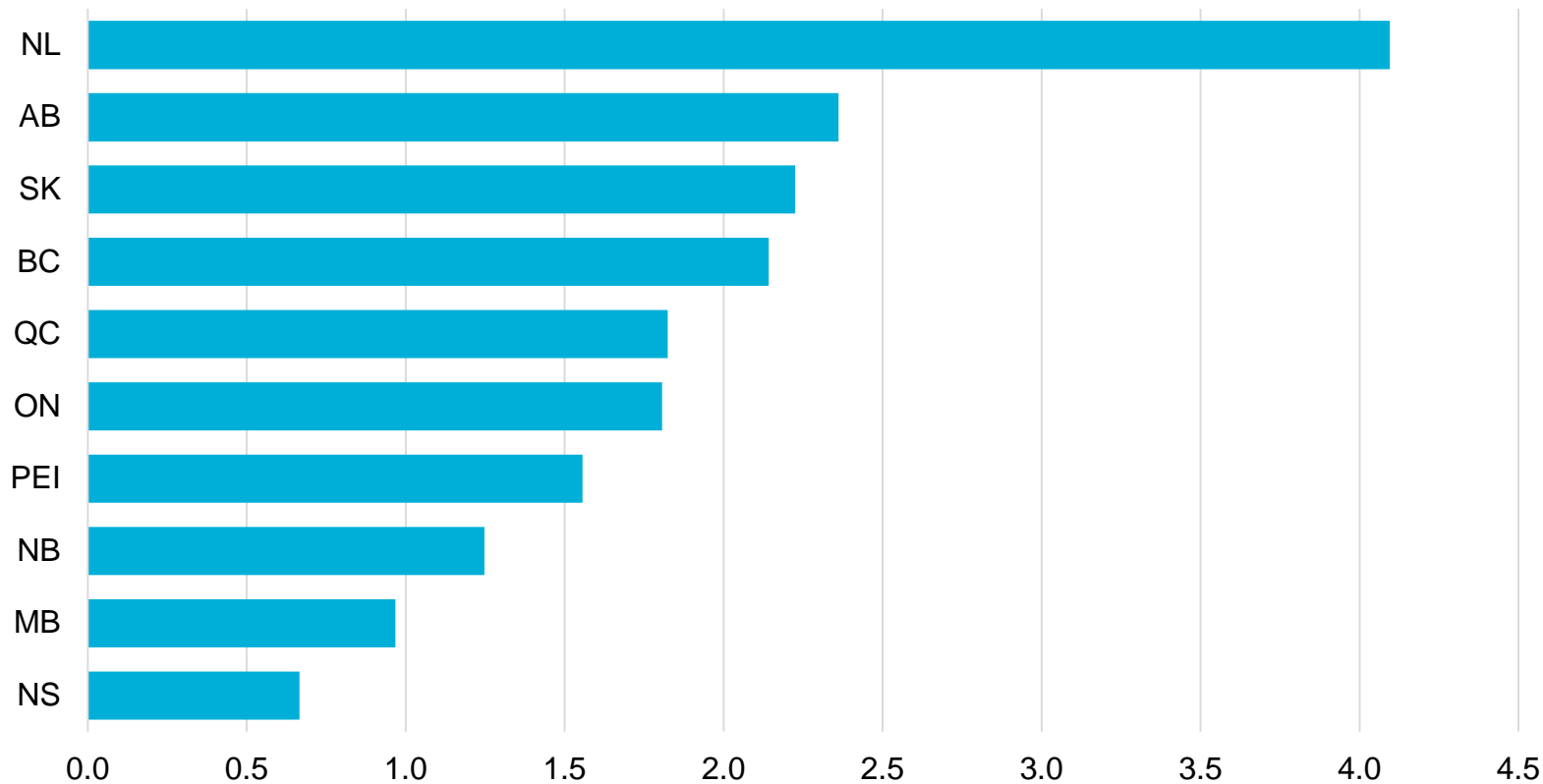
Sources: The Conference Board of Canada; Statistics Canada





# 2018 Real GDP by Province

per cent change, basic prices, \$2007



Sources: The Conference Board of Canada; Statistics Canada





# Alberta Economic Outlook: Highlights



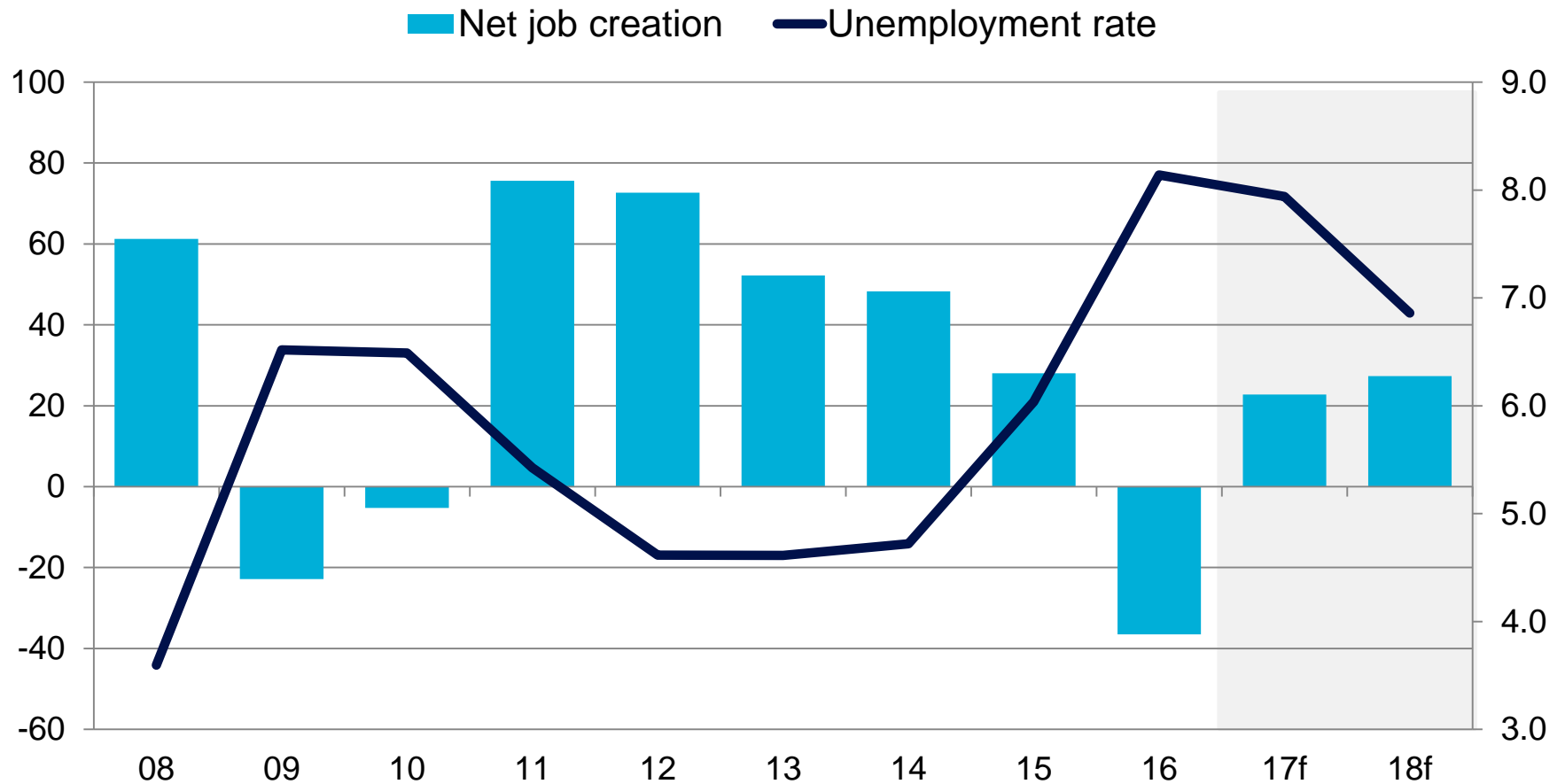
- The forecast for Alberta has brightened
- Improved oil prices during the winter drilling season provided a lift to activity in the energy sector
- Alberta is benefiting from an improvement in labour markets, consumer demand, and the housing sector
- An increase in oil sands production and the rebuilding efforts in Fort McMurray will boost economic growth





# Alberta: Labour Market

net job creation, left scale, 000s; unemployment rate, right scale, per cent



Sources: The Conference Board of Canada, Statistics Canada.

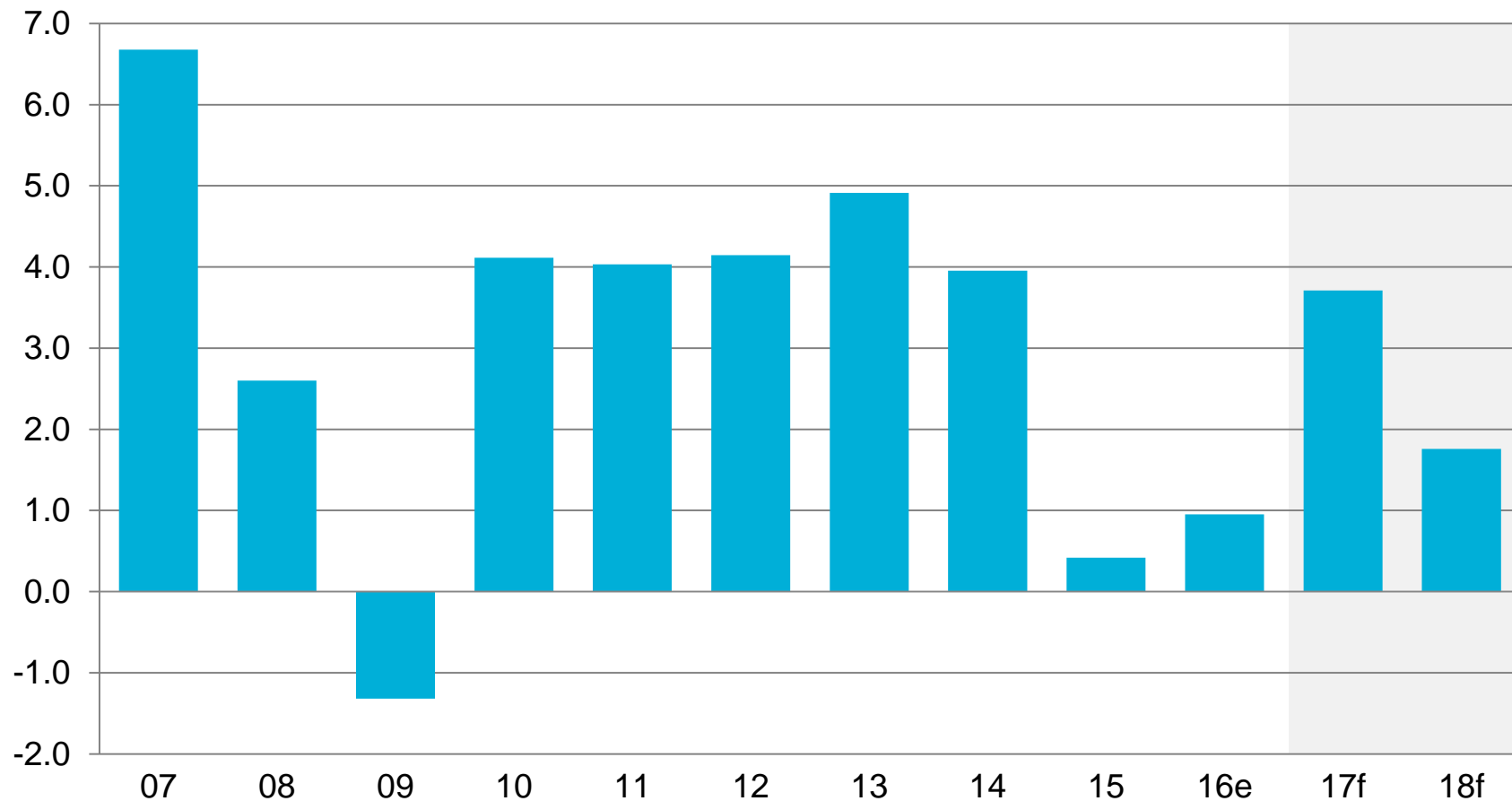






# Alberta: Real Consumer Spending

per cent change, \$2007



Source: The Conference Board of Canada; Statistics Canada



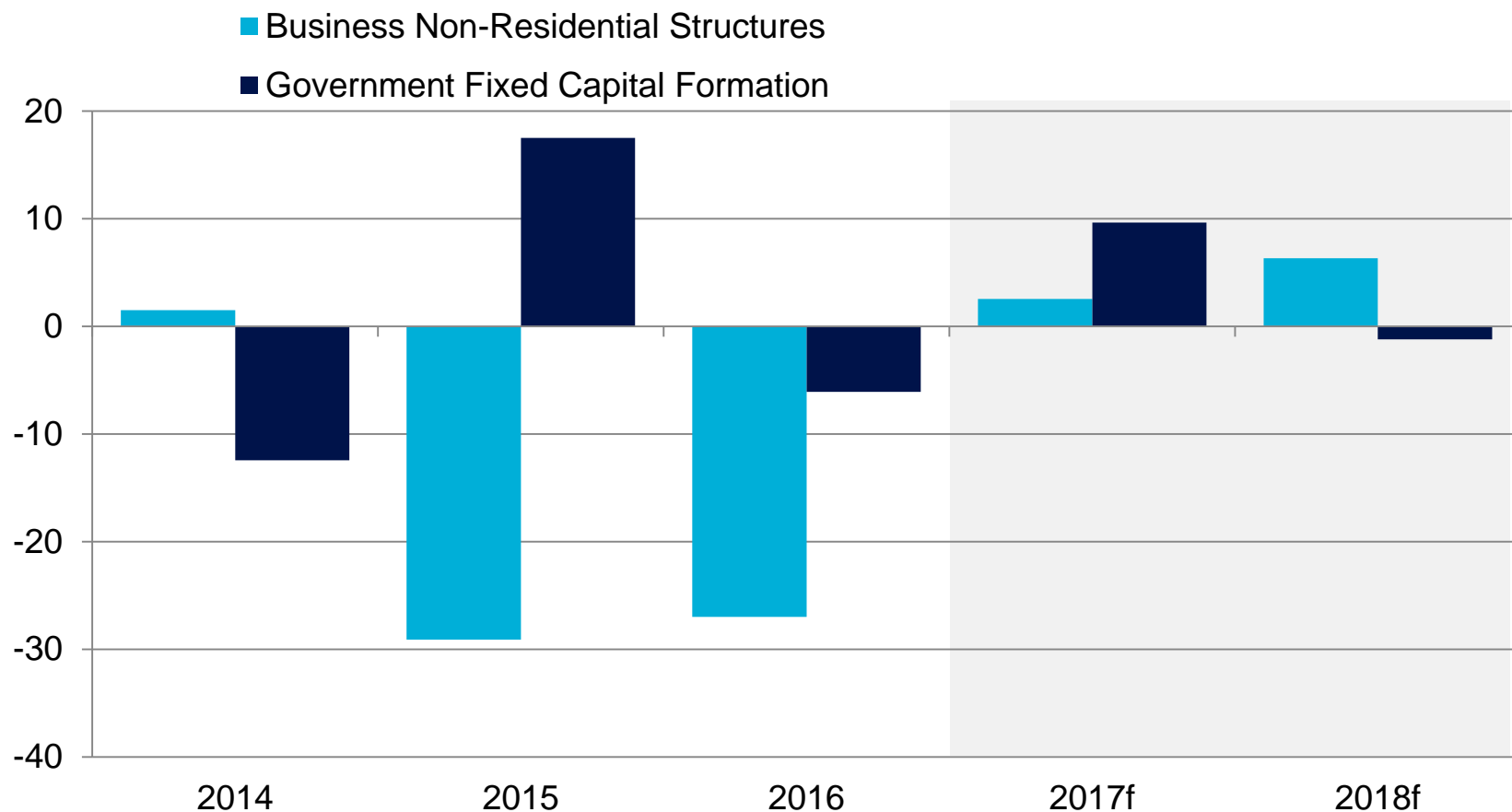
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# Alberta: Investment Outlook

per cent change, 2007\$.



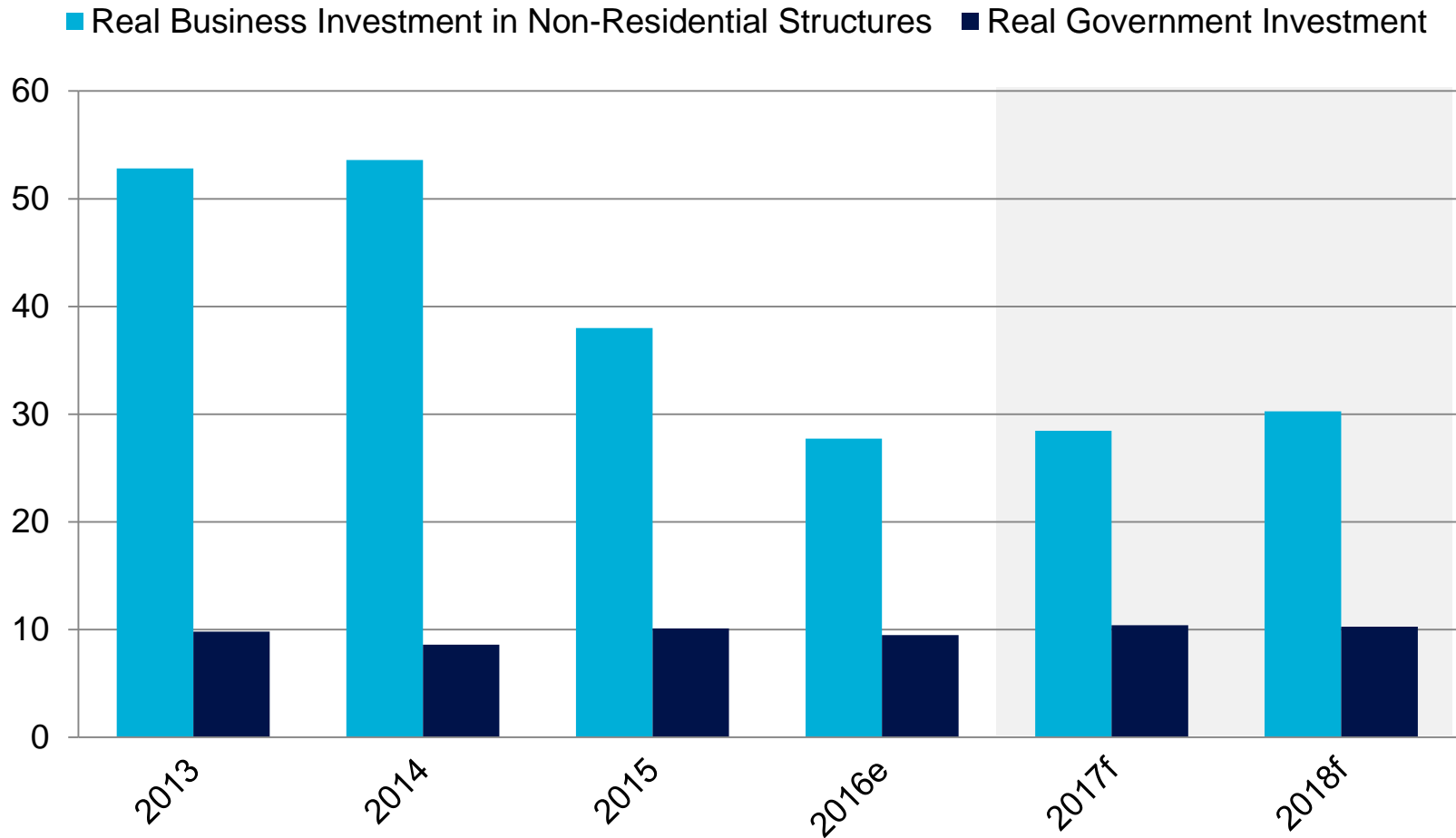
Sources: Statistics Canada; The Conference Board of Canada.





# Alberta: Investment Levels

Billions 2007\$



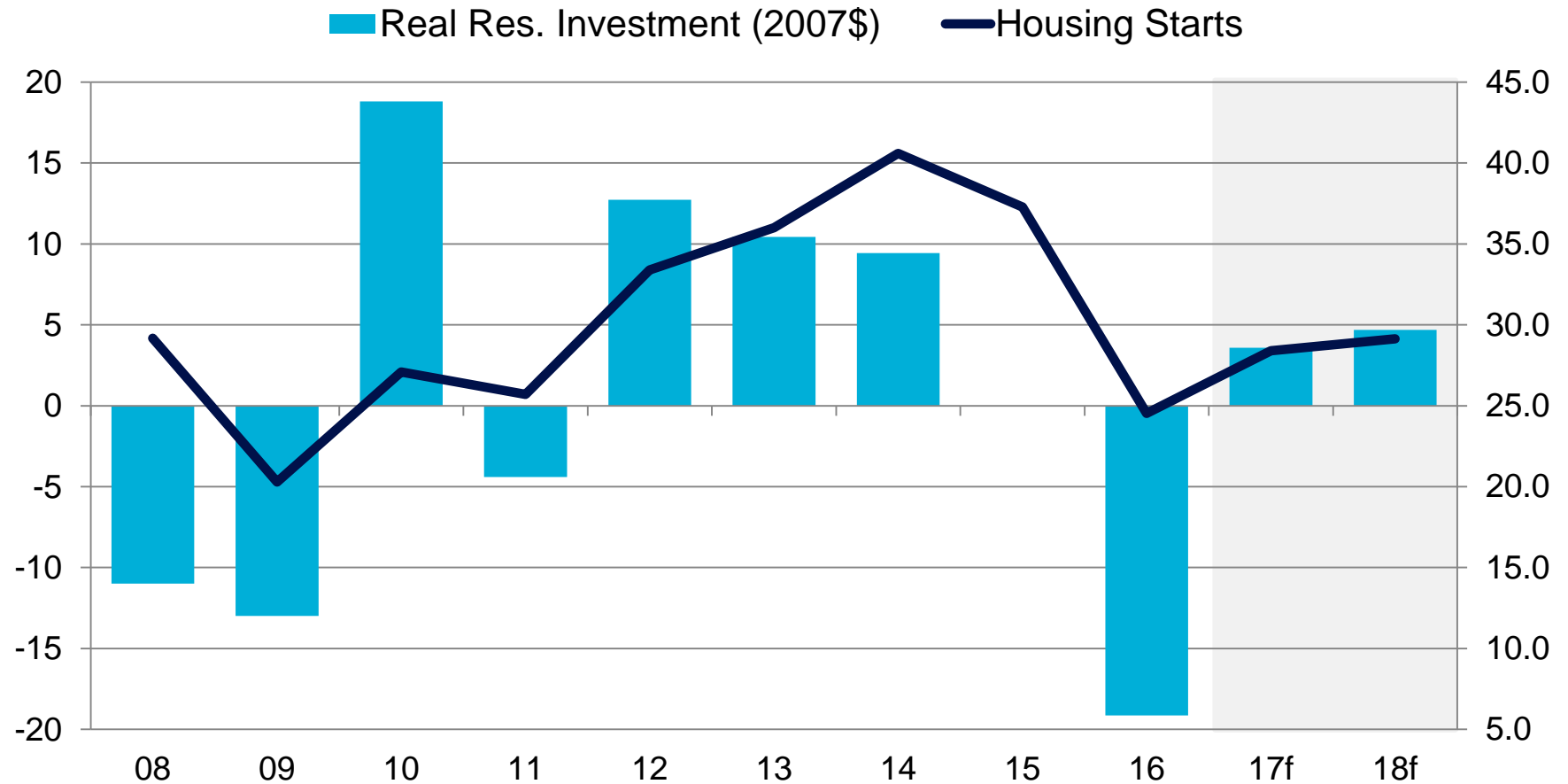
Sources: Statistics Canada, The Conference Board of Canada





# Alberta: Housing Starts and Investment

res. investment, per cent change —left scale; housing starts, 000s —right scale



Sources: The Conference Board of Canada, Statistics Canada.





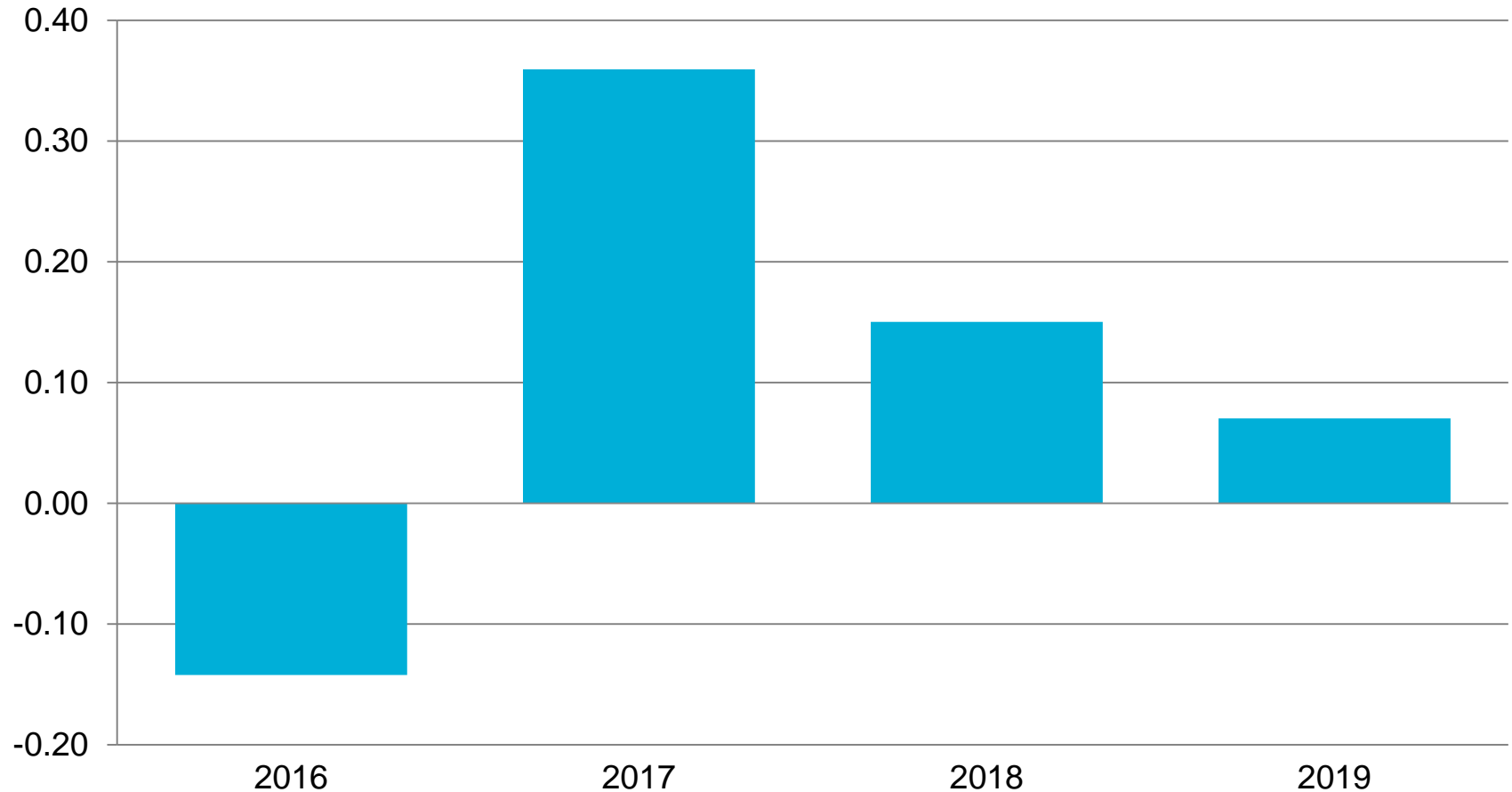
# Economic Impact of Fort McMurray Wildfires

- Loss to household wealth—\$3.7 billion in losses covered by insurance companies
- \$1.5 billion in firefighting, relief and rebuilding effort
- Health, environmental and other social costs
- Temporary shutdowns reduced crude and bitumen oil sands production by over 1 million barrels per day
- Estimate total oil production losses at 47 million barrels—\$1.4 billion in lost revenues



# Fires: Impact on Alberta GDP

Shock-minus-control, per cent change from control

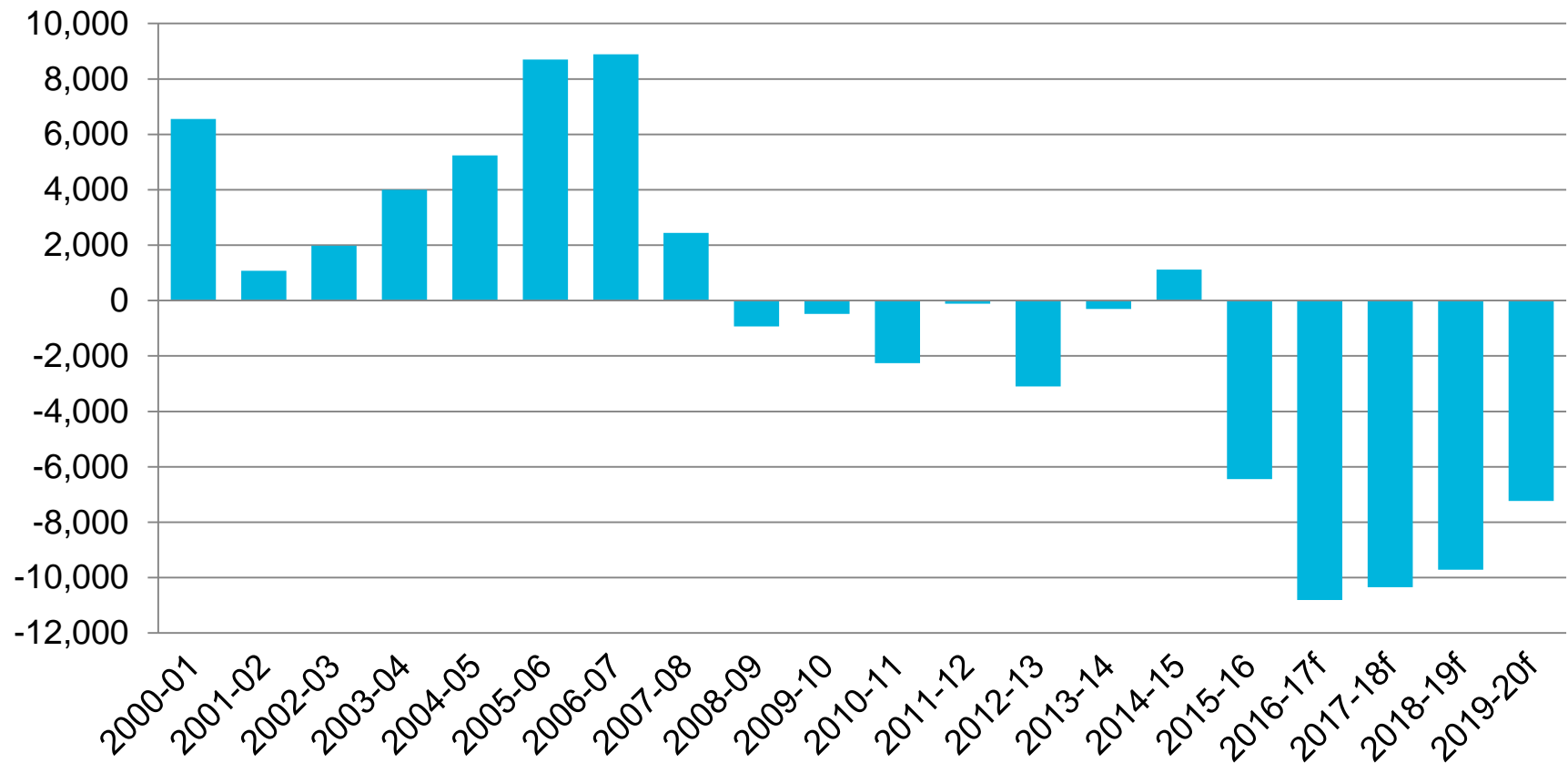


Source: The Conference Board of Canada.



# Alberta Government Surplus (Deficit)

millions \$

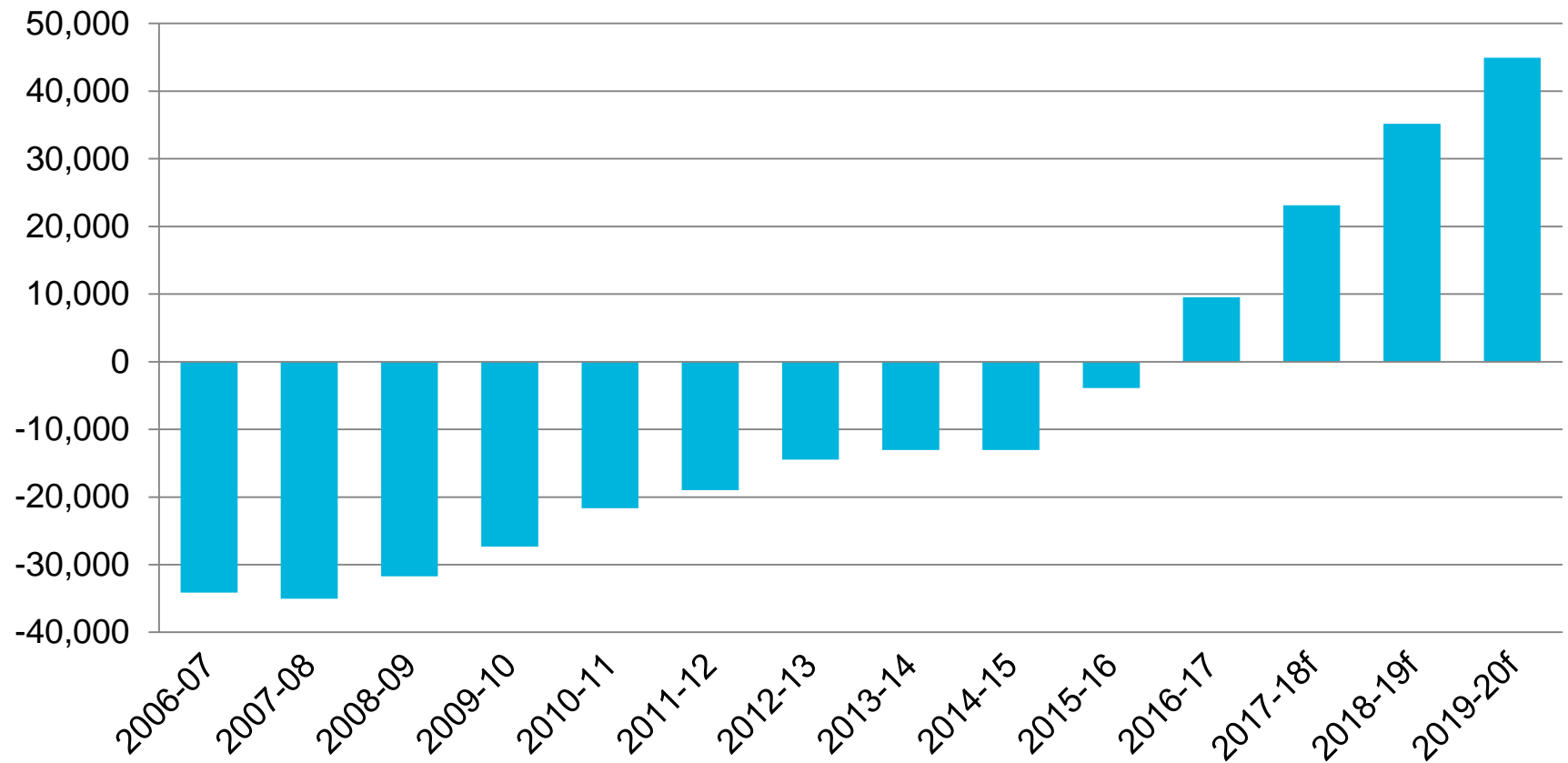


Sources: Alberta Finance; The Conference Board of Canada.



# Alberta Government Net Debt

millions \$



Sources: Alberta Finance; The Conference Board of Canada.

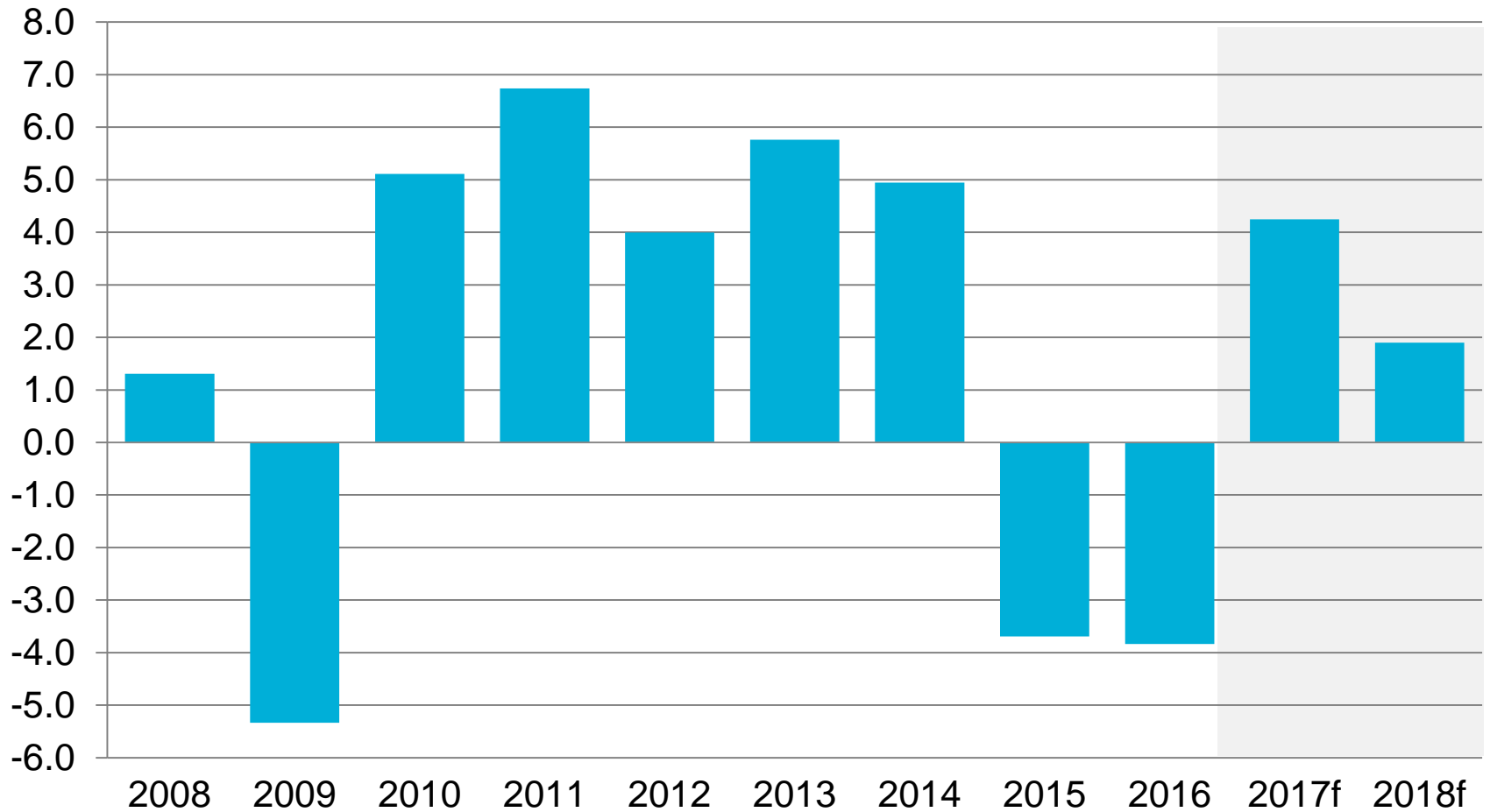






# Alberta: Real GDP

per cent change, \$2007

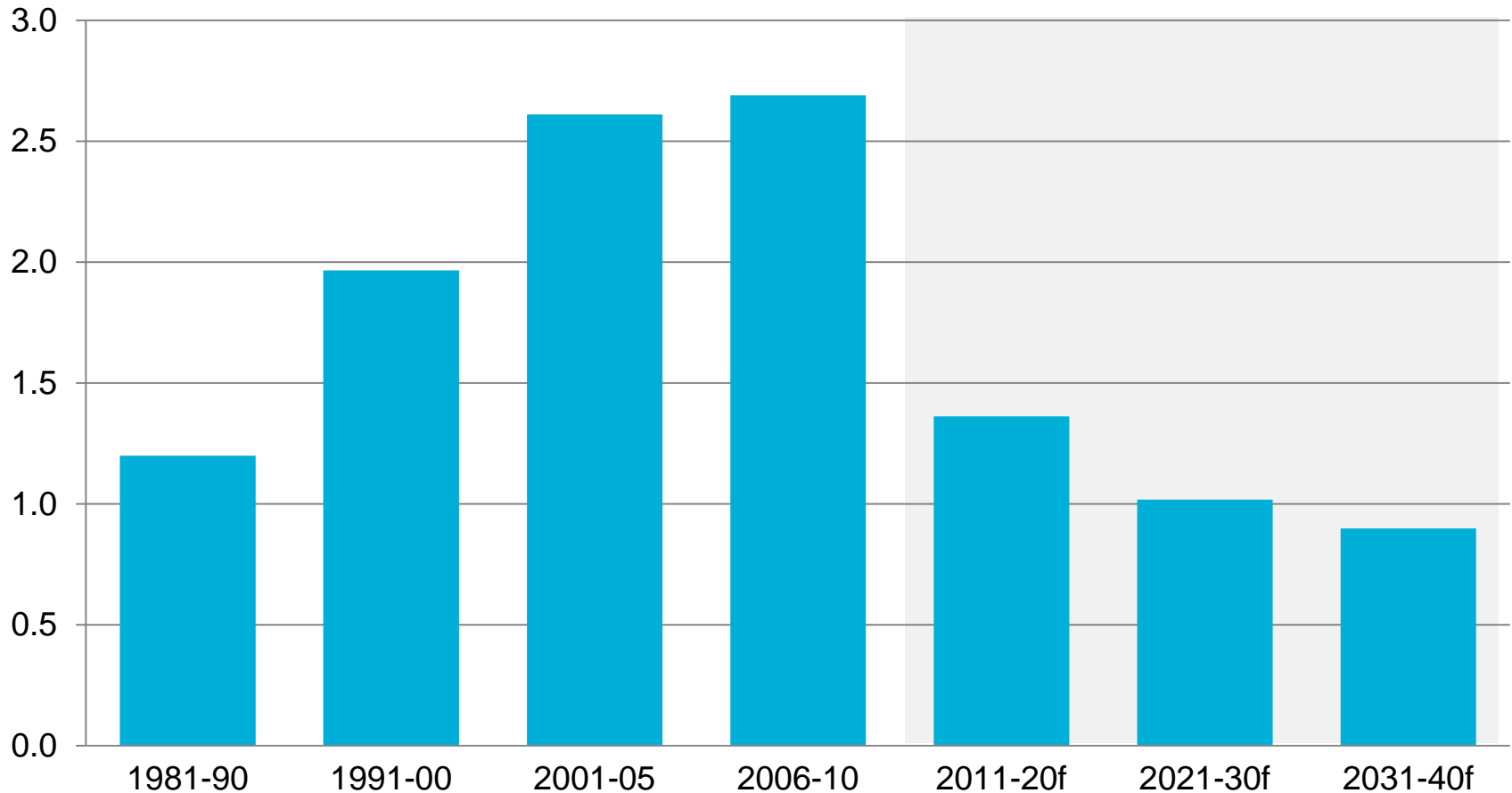


Sources: The Conference Board of Canada ; Statistics Canada.



# Alberta's Labour Force Growth.

average annual compound growth, per cent.

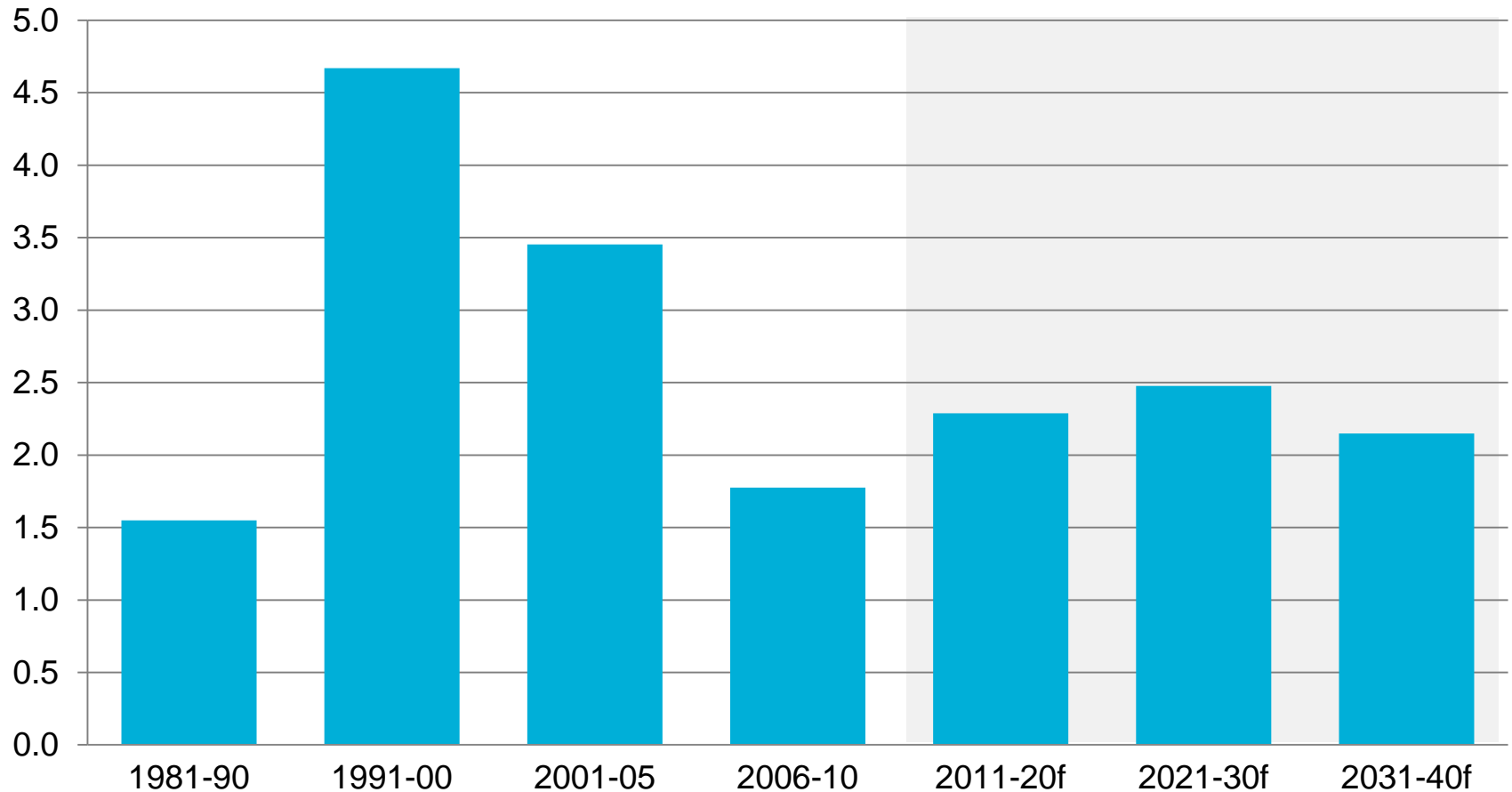


Sources: Statistics Canada; The Conference Board of Canada.



# Alberta's Real GDP.

average annual compound growth, per cent.



Sources: Statistics Canada; The Conference Board of Canada.





# Alberta and Pipelines

- Alberta's energy resources have access only to the U.S. market, by pipeline and rail
- Prices are affected – Western Select oil price discount of \$10 per bbl or more
- Rising U.S. supply of oil and gas could squeeze out future Alberta production
- Access to blue water critical for reaching global markets, better prices
- Pipelines the best option – rail the alternative



# Trans Mountain Economic Analysis: Summary

- Between 2012 and 2037:
  - Minimum of 108,300 person years of employment (about 4,300 per year)
  - \$18.5 billion in fiscal benefits (about \$740 million per year)
  - B.C., Alberta, Ontario are the largest beneficiaries



# Development Phase

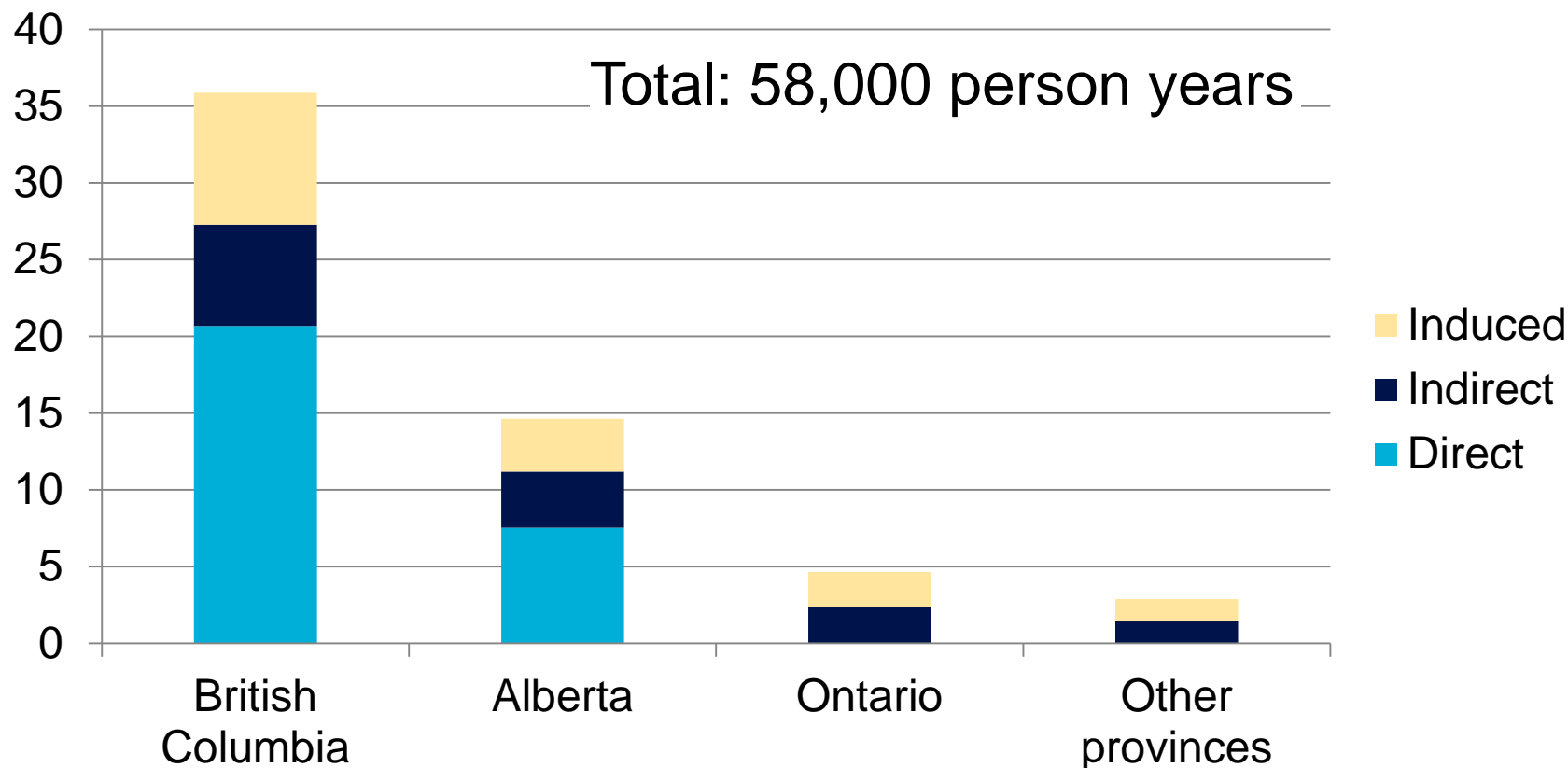
- Supports 58,000 person years of employment
- \$1.2 billion in fiscal impacts
- B.C. and Alberta are the largest beneficiaries
- Other provinces (in particular Ontario) also benefit
  - federal fiscal redistributions
  - Supply chain and induced impacts





# Total Employment Effects From TMEP Construction

person years of employment, thousands, 2012-2018



# Operations Phase

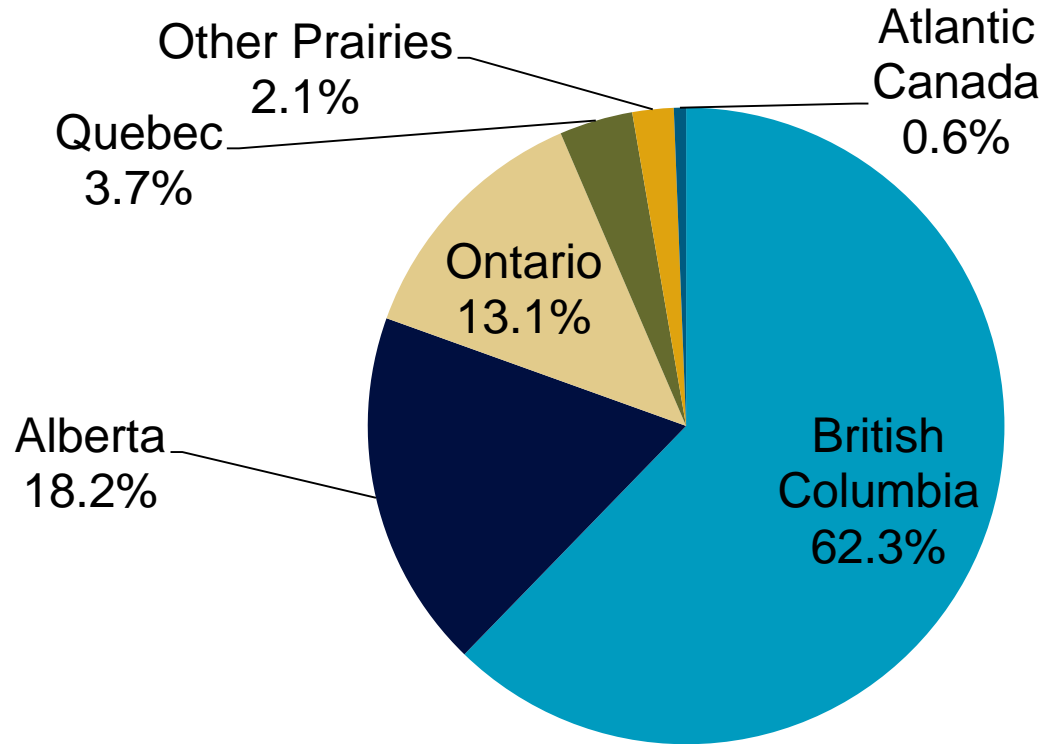
- First 20 years of operations will support at least 50,300 person years of employment
- Rises to 65,200 person years if TMEP fully utilized
- Fiscal impacts between \$2.5 and \$3.3 billion
- B.C. and Alberta are the largest beneficiaries
- Other provinces benefits through fiscal redistribution and secondary economic impacts







# Operations: Regional impacts



Total: 30-39,000 person years



# Higher Netback Impacts

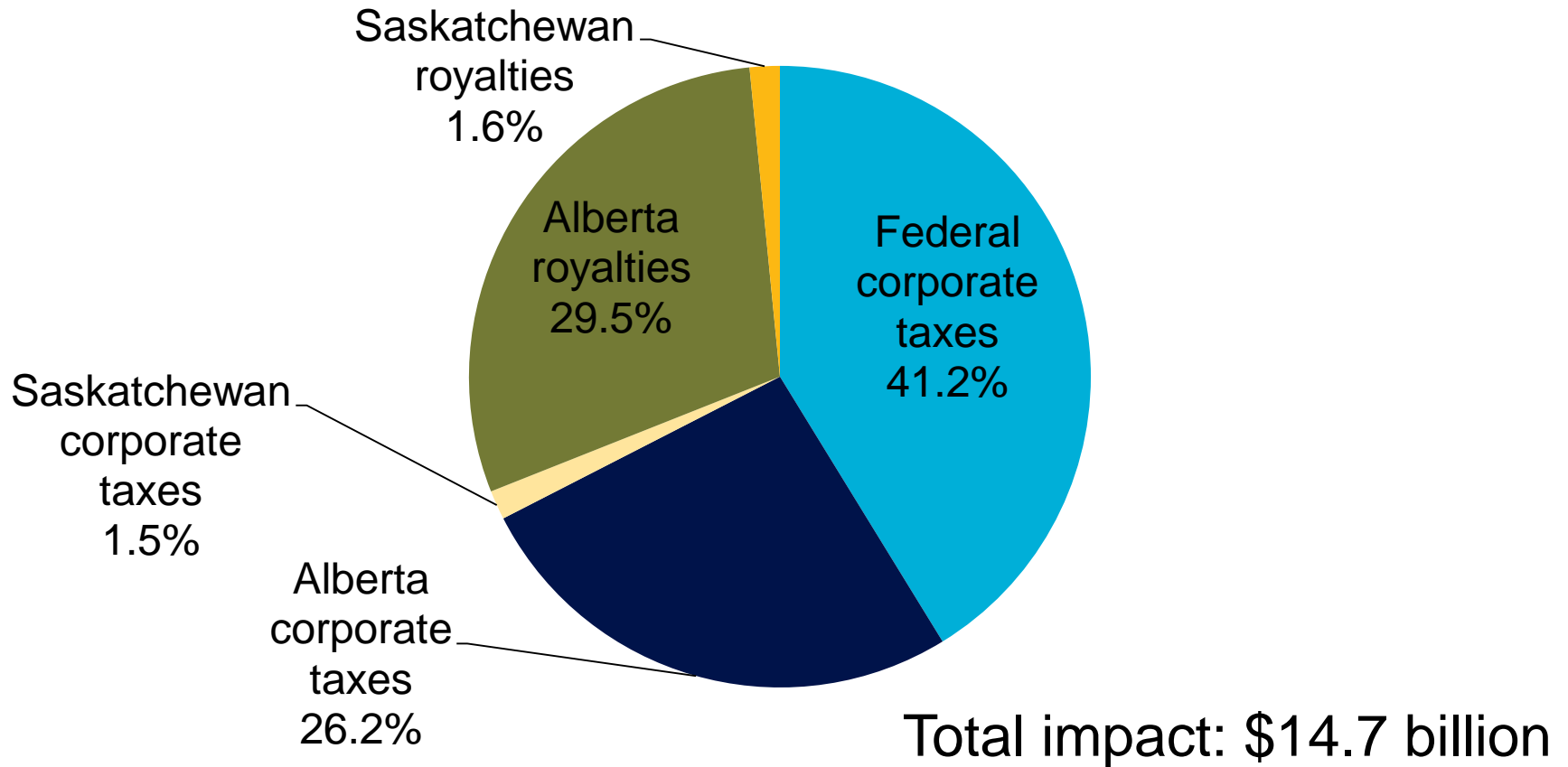
- Increase in heavy oil prices due to greater pipeline capacity
- Governments capture 2/3 of financial benefit
- \$14.7 billion in fiscal benefits over 20 years in the base case (combined royalties, provincial and federal corporate taxes)
- Federal income taxes largest share at \$6.1 billion
- Alberta largest beneficiary, followed by Ontario and Quebec
- All provinces benefit through federal transfers





# Fiscal Impact

share of fiscal impacts due to higher netbacks, 2018-2037



# The Trump agenda

- A populist and nationalist pro-business wish-list, but without a consistent economic framework
- Fair trade, not free trade – based on deal-making, win-lose philosophy
- Elements of supply-side policies
  - Tax cuts to improve business incentives
  - Reduced regulation to spark entrepreneurship



# Trump and labour markets

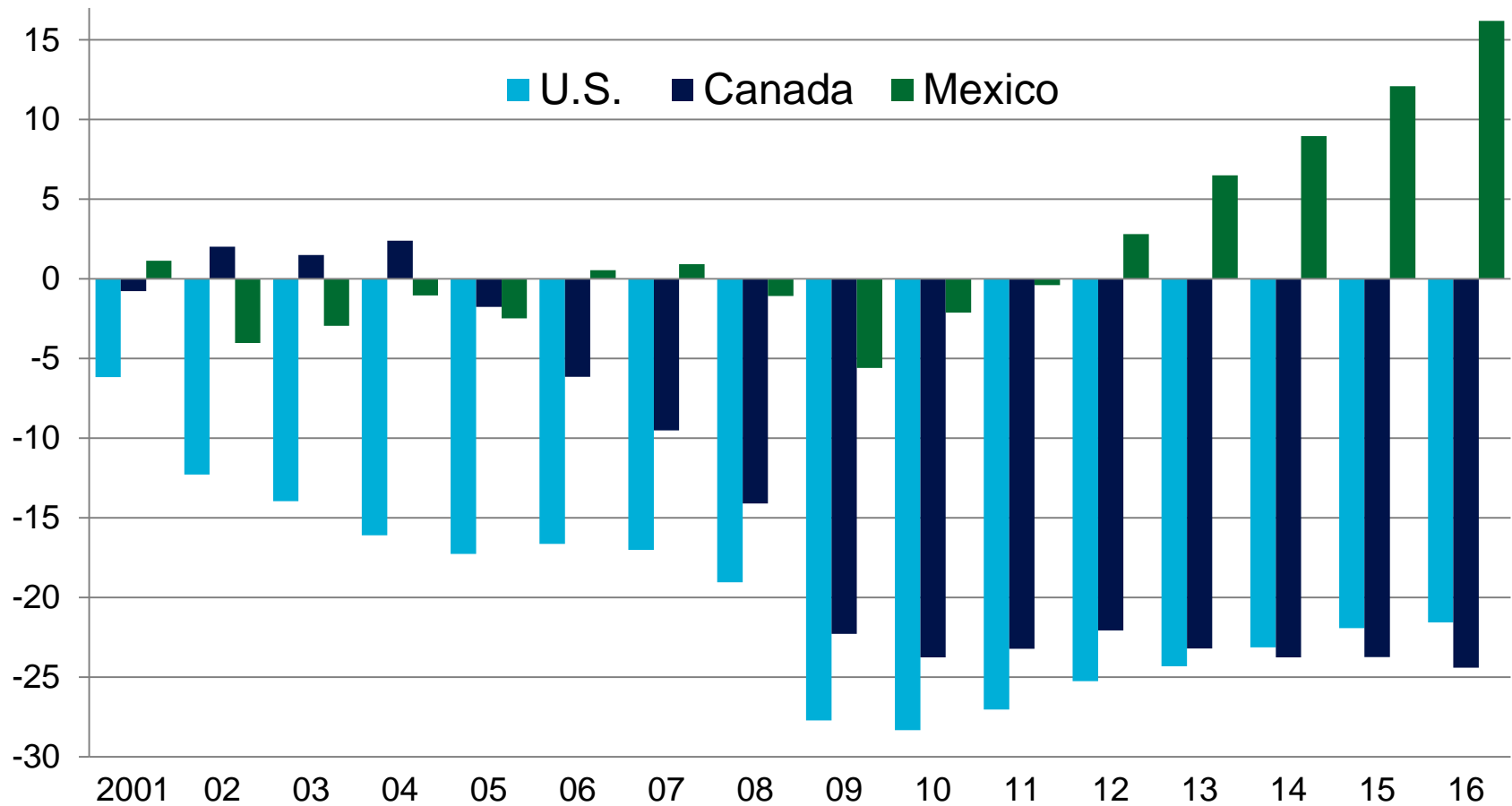
- Trump convinced his base that he cares about workers hurt by free trade, immigration
- Priorities:
  - protecting America's borders against illegal or risky immigration
  - protecting workers from unfair trade deals
- But: U.S. labour markets approaching full employment, unemployment rate below 5 pc
- Discouraging immigration will impair growth potential





# NAFTA manufacturing employment

Cumulative change since 2000, per cent



Source: OECD; Statistics Canada.



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# Status report on Trump agenda

- Trump having a hard time implementing populist agenda; much political drama, often self-inflicted
- Complex U.S. political system of checks and balances
- Health care reform unclear
- Trump fiscal plans have gained little traction
- Tax reform will face many obstacles
- NAFTA negs about to begin – outcome uncertain





# Trump trade agenda

- Trump trade philosophy is protectionist and win-lose
- U.S. withdrew from TPP...
- ...but approved Keystone XL
- Border tax is dead -- pushback from business lobby, importers, traditional conservatives, border states
- NAFTA language had gone from “tearing up”, to “renegotiating”, to “tweaking”

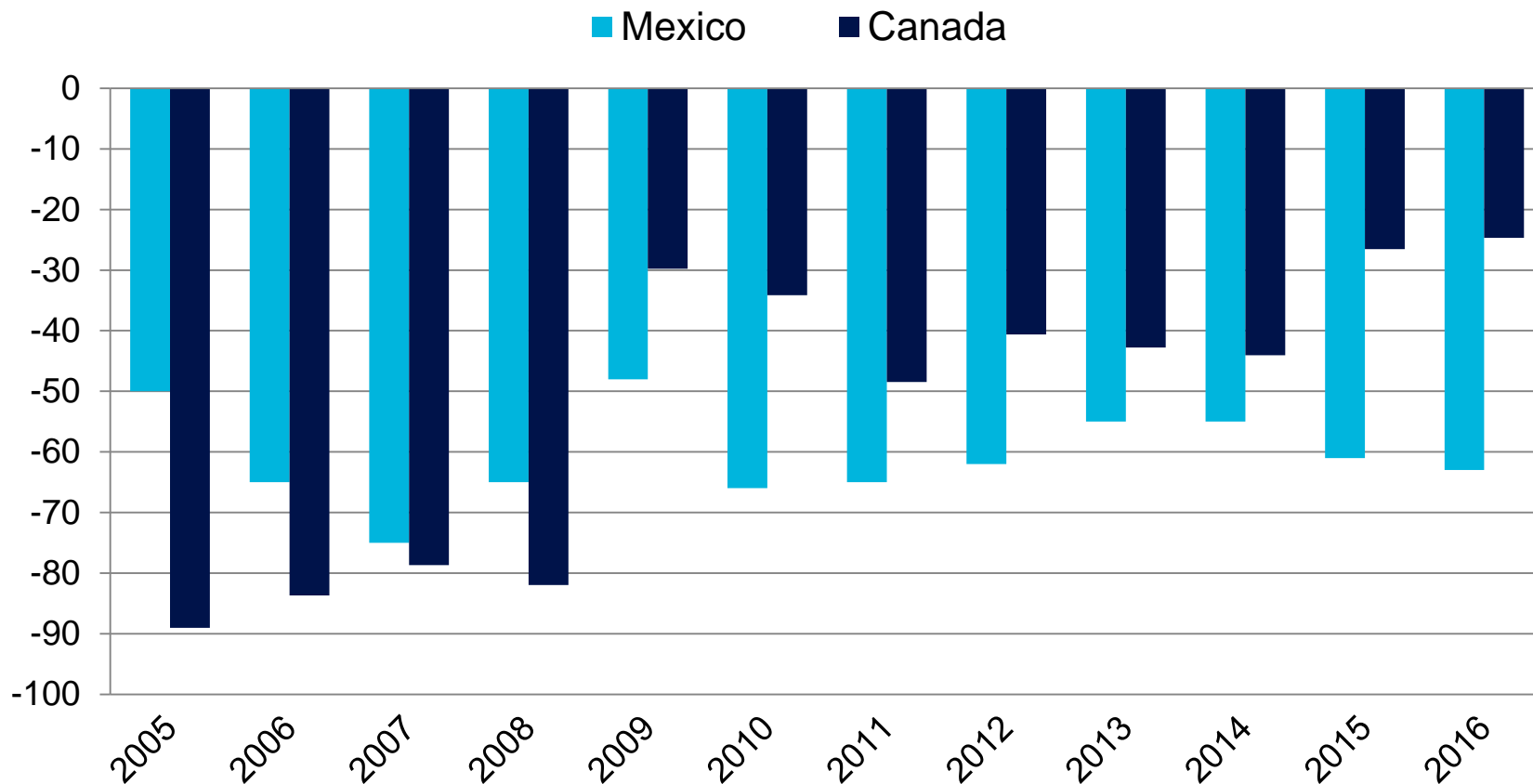






# U.S. bilateral trade balance, goods

\$billions, USD



Sources: Industry Canada; U.S. Census Bureau.





# Trump Admin: Key NAFTA goals

- Reduce bilateral trade deficits
- Rules of origin: Increase NAFTA and U.S. content of goods under NAFTA
  - auto sector the focus
- Dispute settlement: Do away with independent panels
- Roll back Can & Mex subsidies in key sectors, e.g. aerospace
- Improve U.S. access to specific markets, e.g. dairy



# Canadian approach to a modernized NAFTA

- Offense and defense; full court press at local level
- Protect existing tariff-free market access, and expand list of items where possible
- Clarity on rules of origin
- Reduce non-tariff barriers (i.e. regulations) and promote free trade in services, e.g. transportation
- Maintain independent dispute settlement mechanism – a deal breaker?



# NAFTA and energy

- Energy (oil, natural gas, electricity, refined petroleum products, coal) accounts for one-fifth of Canada's total exports in 2016, nearly all to the U.S.
- NAFTA contains a “proportionality clause” assuring U.S. energy supply from Canada
- Energy exports to U.S. are to maintain export/supply ratio.
- Mexico does not have a similar requirement in NAFTA.
- Can this clause survive?



# Age of Trump: implications

- Global economy in better shape, but trade is fading
- Trump disruption affecting U.S. outlook
- 2017 a bright year for Canada – as good as it gets
- Alberta economy in recovery -- but buffeted by structural and geo-political forces
- Adaptation and innovation are keys going forward



# Advice for Alberta

1. Keep pressing to expand energy market alternatives
2. Foster economic diversification as a priority -- goods, services, investment, global markets
3. Reconsider broadening the provincial fiscal base
4. Prepare for low-carbon energy transition



# What it means for you

1. Understand the forces that affect your community, businesses, clients, suppliers and financiers
2. Diversify your economic base where possible – lines of business, clients, key inputs, capital
3. Build resiliency and adaptation into your thinking

