

DOING BUSINESS IN AN UNCERTAIN, TARIFFIED WORLD

World Class Supply Chain Summit 2019
Milton, ON
May 8, 2019

Stephen Tapp
Deputy Chief Economist, EDC
Canada

MAN OF STEEL ...

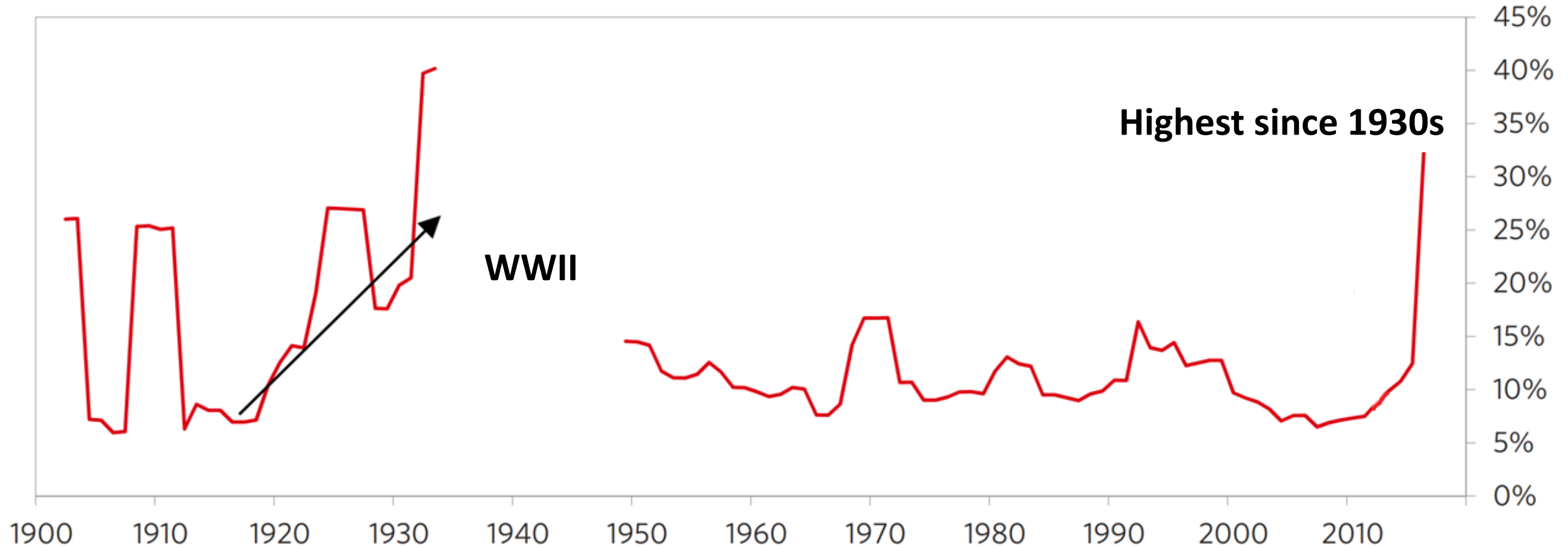


EDC

David Parker 2018

POPULISM IS BACK

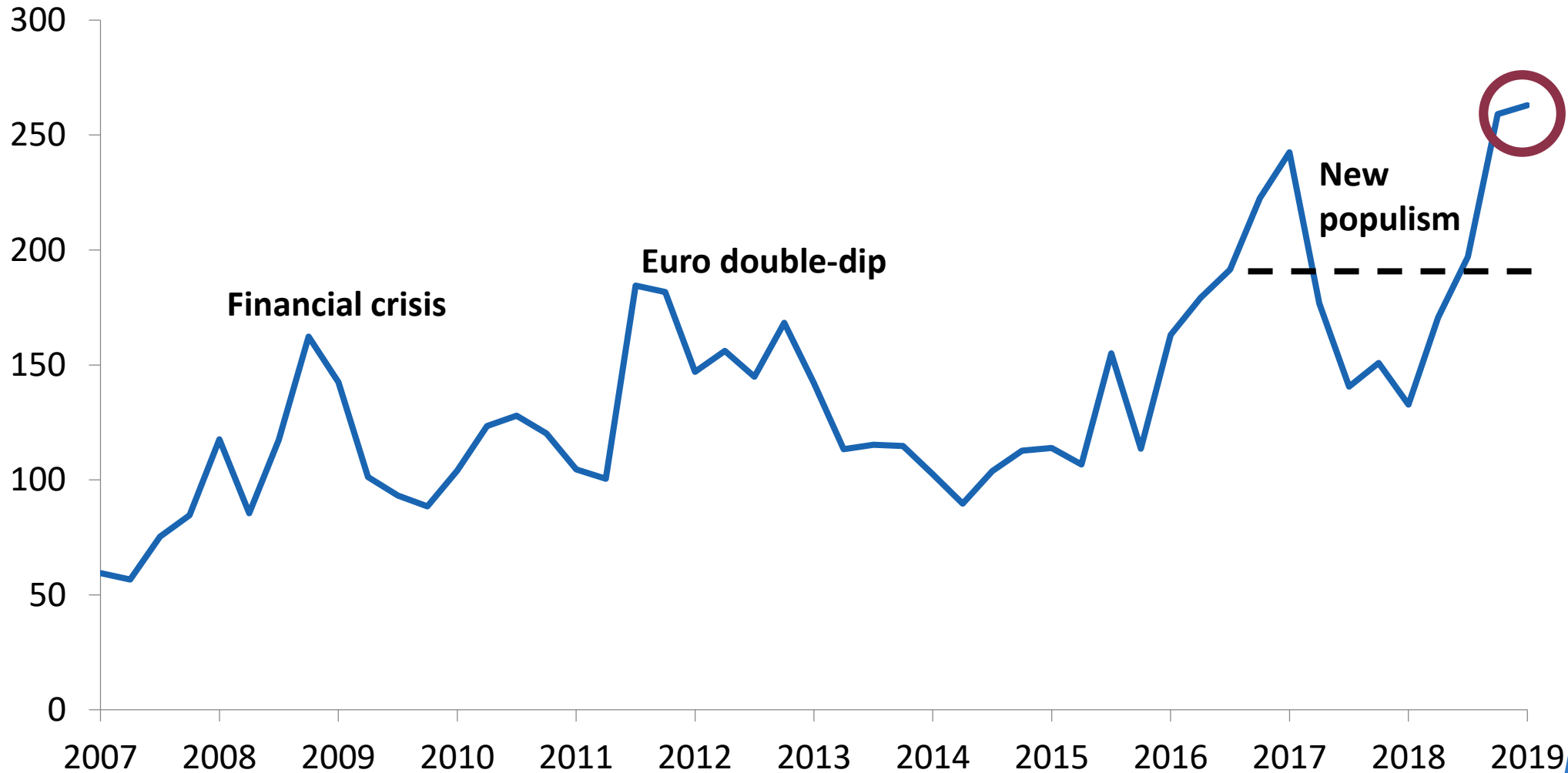
Vote share “populist” parties, developed markets



Source: Bridgewater

POLICY UNCERTAINTY IS HIGH

Global economic policy uncertainty index

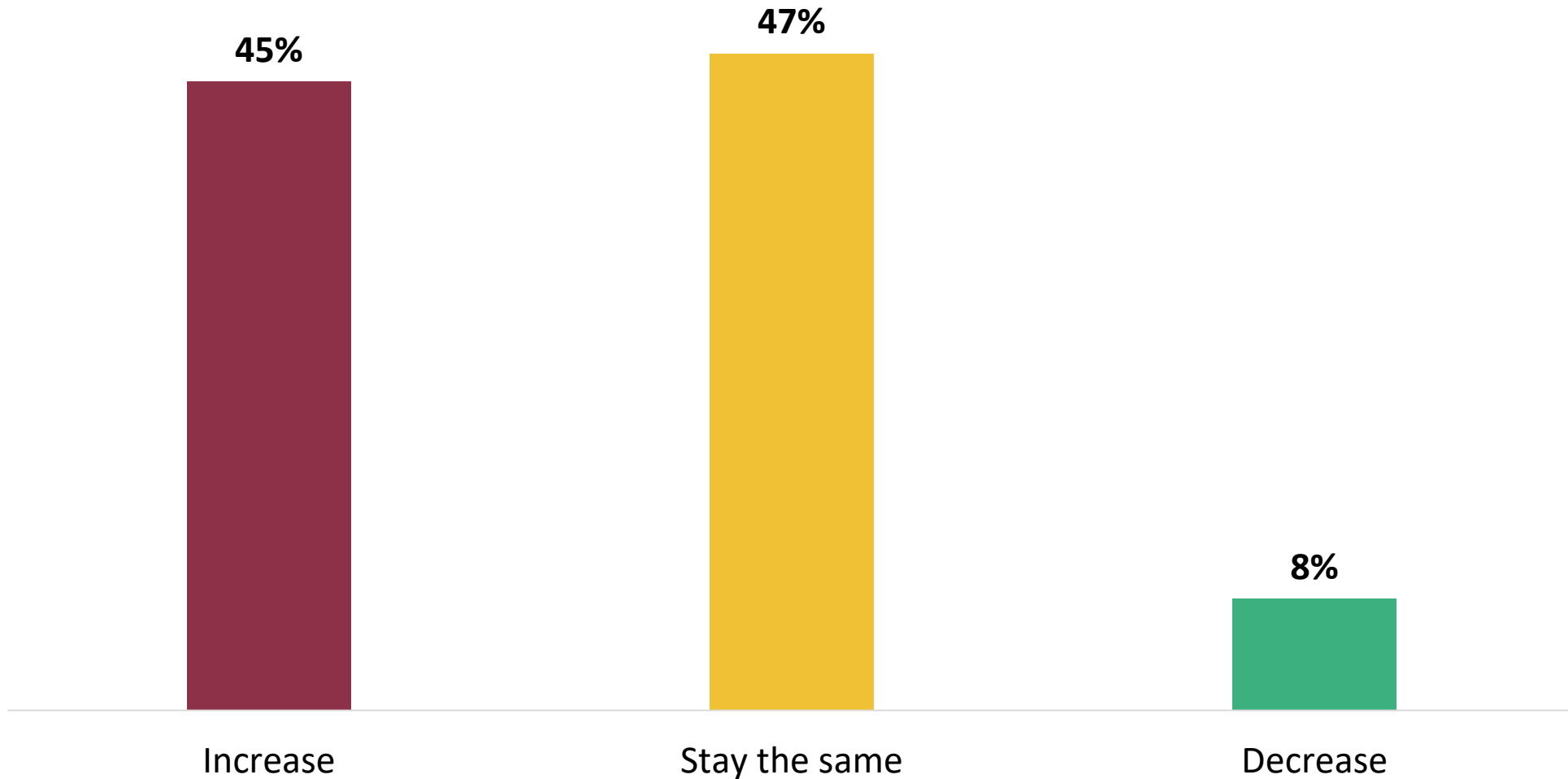


PROTECTIONISM AFFECTING
34% OF CANADIAN EXPORTERS'
GLOBAL STRATEGIES.

TRADE BARRIERS NOW
THE TOP CHALLENGE.

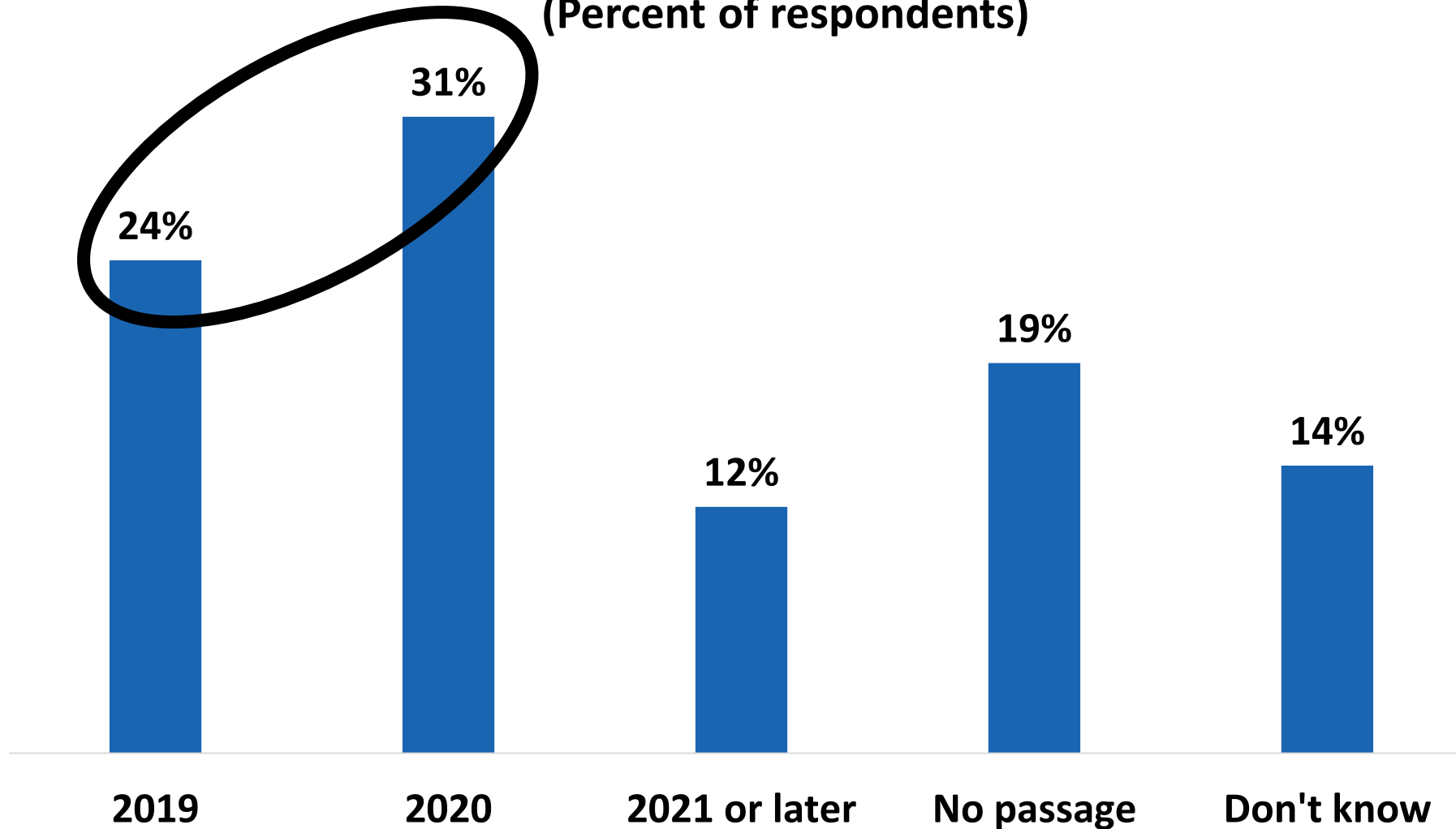
NEW NORMAL? MOST EXPECT PROTECTIONISM TO REMAIN OR RISE

In the next 12 months, global protectionism expected to...
(Percent of respondents)



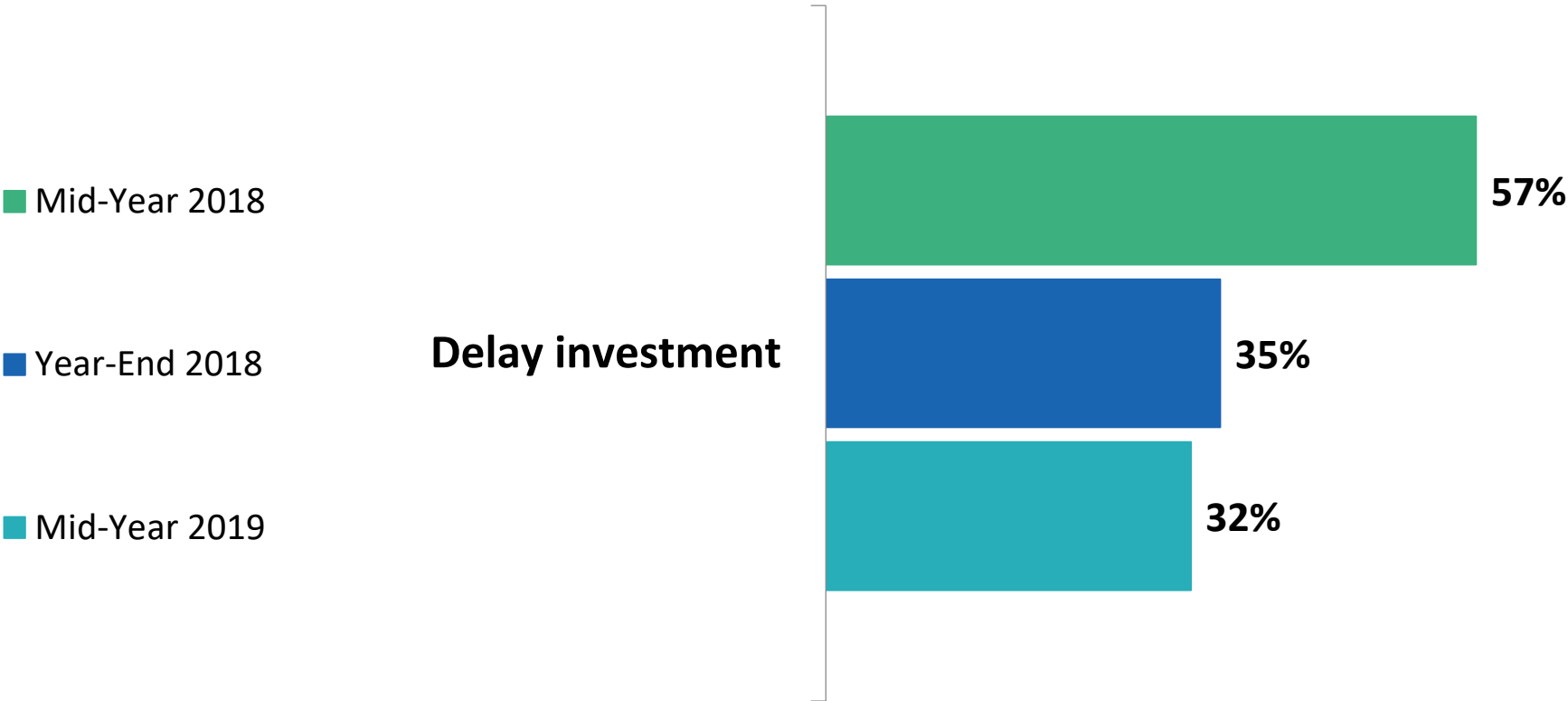
SLIM MAJORITY EXPECT CUSMA PASSAGE IN 2019 OR 2020.

When do you expect CUSMA to pass into law...
(Percent of respondents)



CUSMA INVESTMENT HESITATION

Top response by companies to CUSMA renegotiation
(Percent of respondents indicating an investment impact)

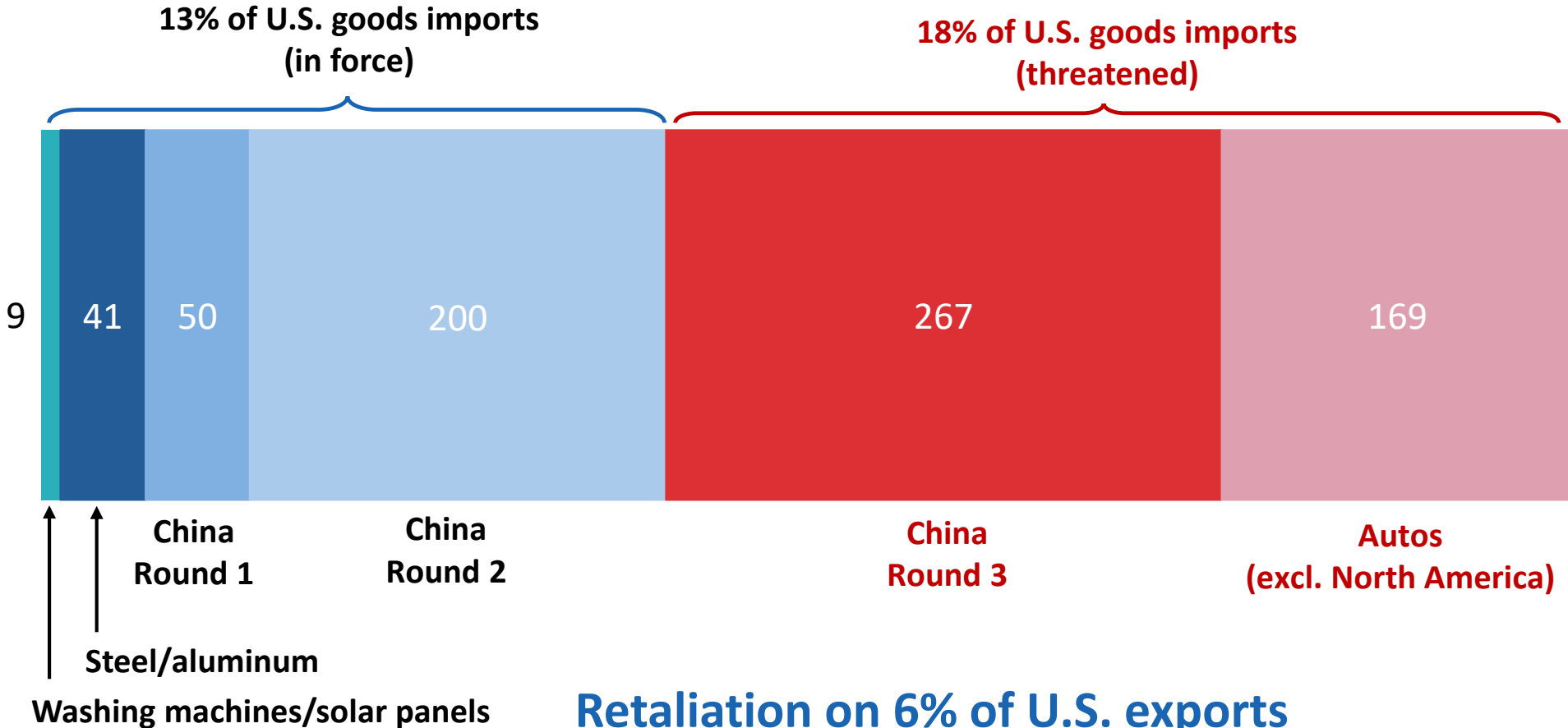


Note: Does not sum to 100% because multiple answers are permitted.

...TARIFF-YING ESCALATION?

U.S. imports subject to tariffs

USD, billions

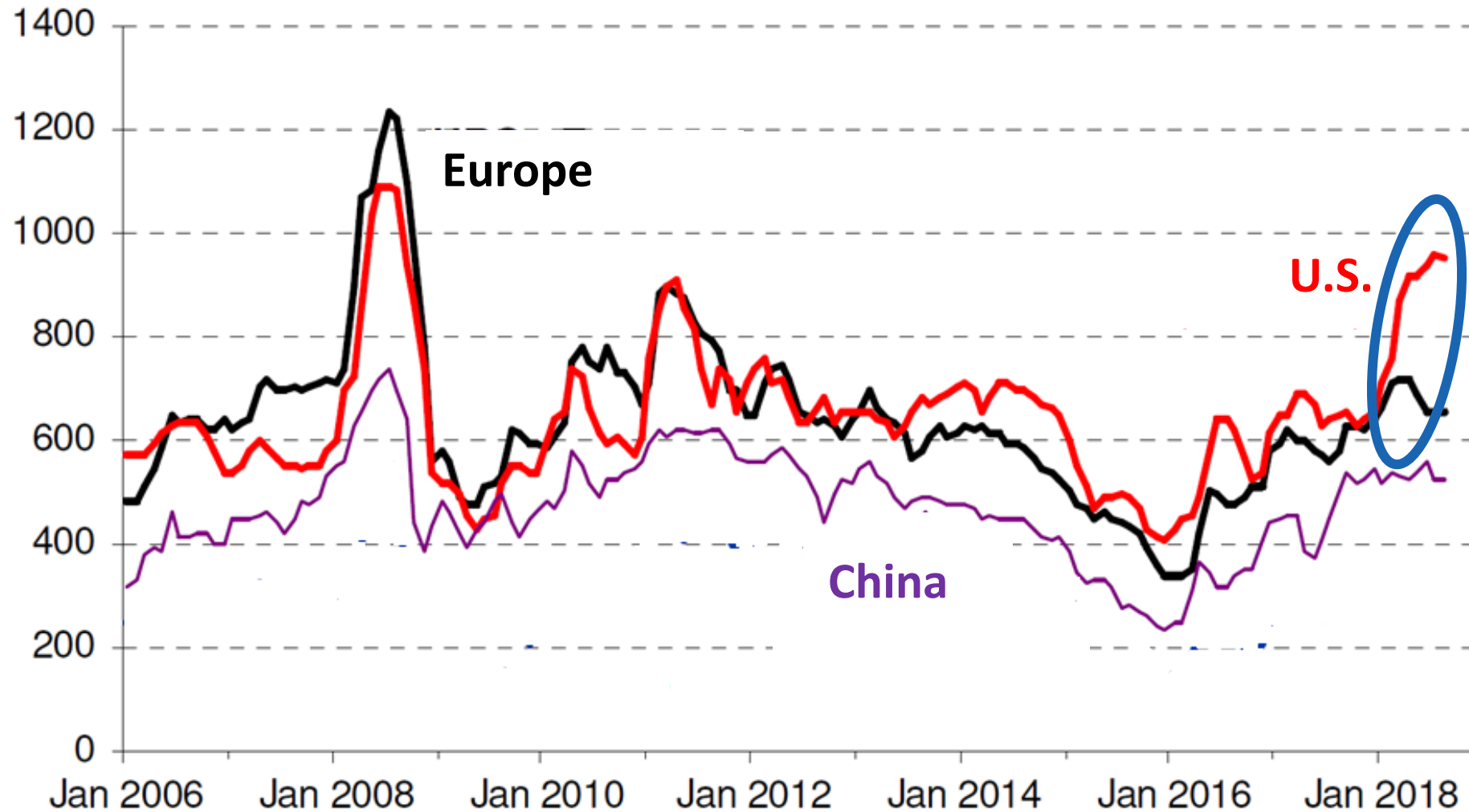


Retaliation on 6% of U.S. exports

U.S. tariffs on 4% of Canadian exports

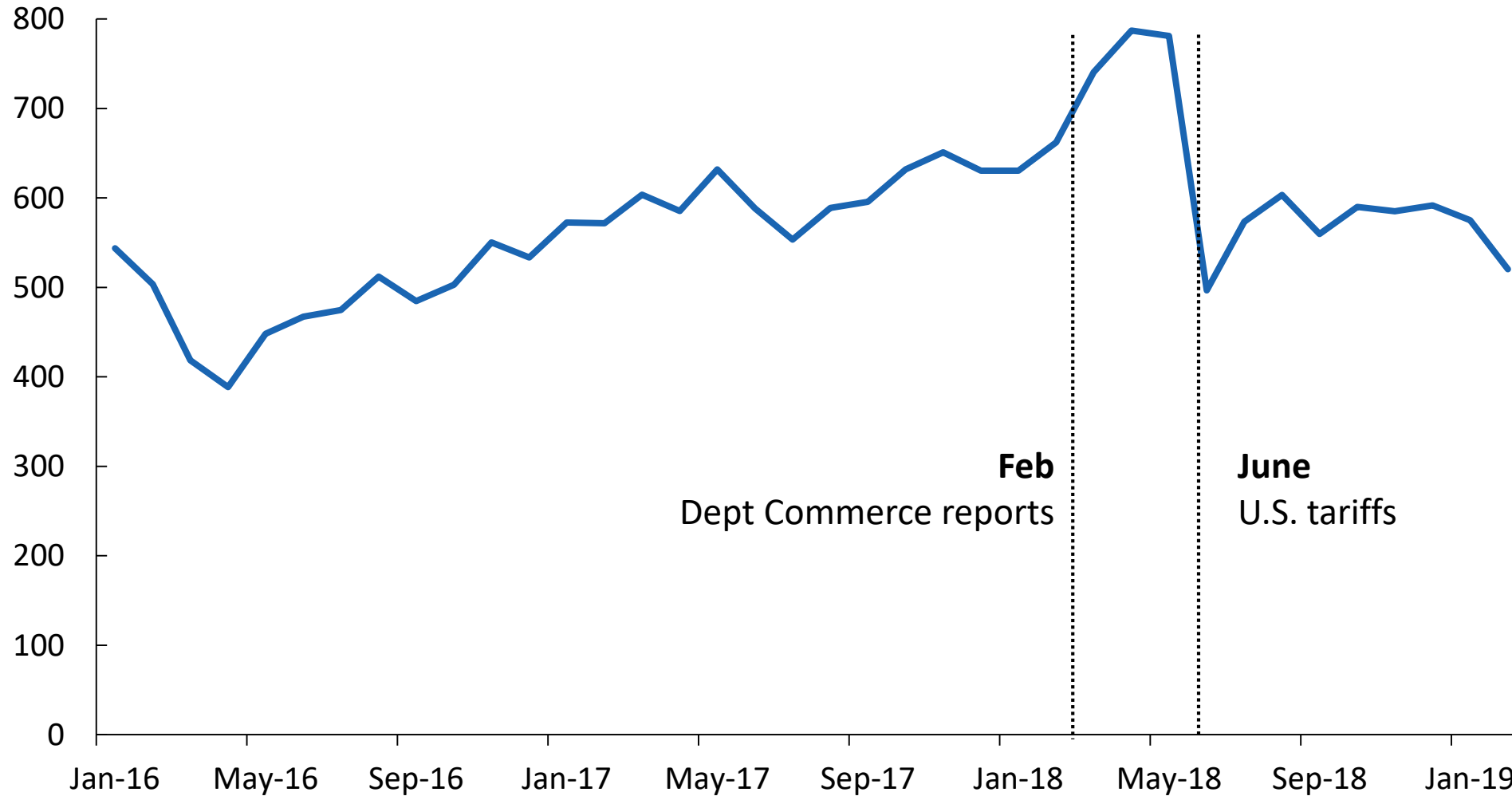
↑ INPUT PRICES

Steel prices, U.S.\$/tonne



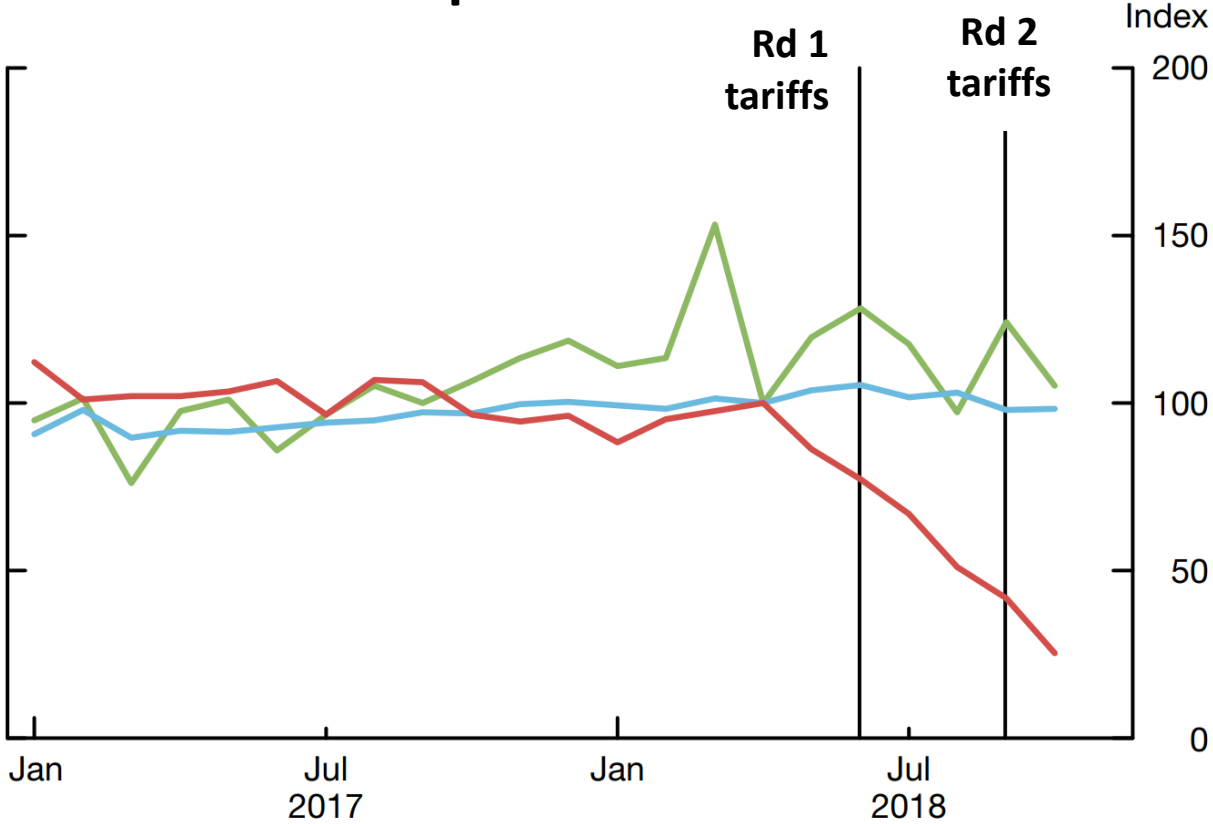
STOCKPILING

U.S. imports of Canadian steel, millions CAD

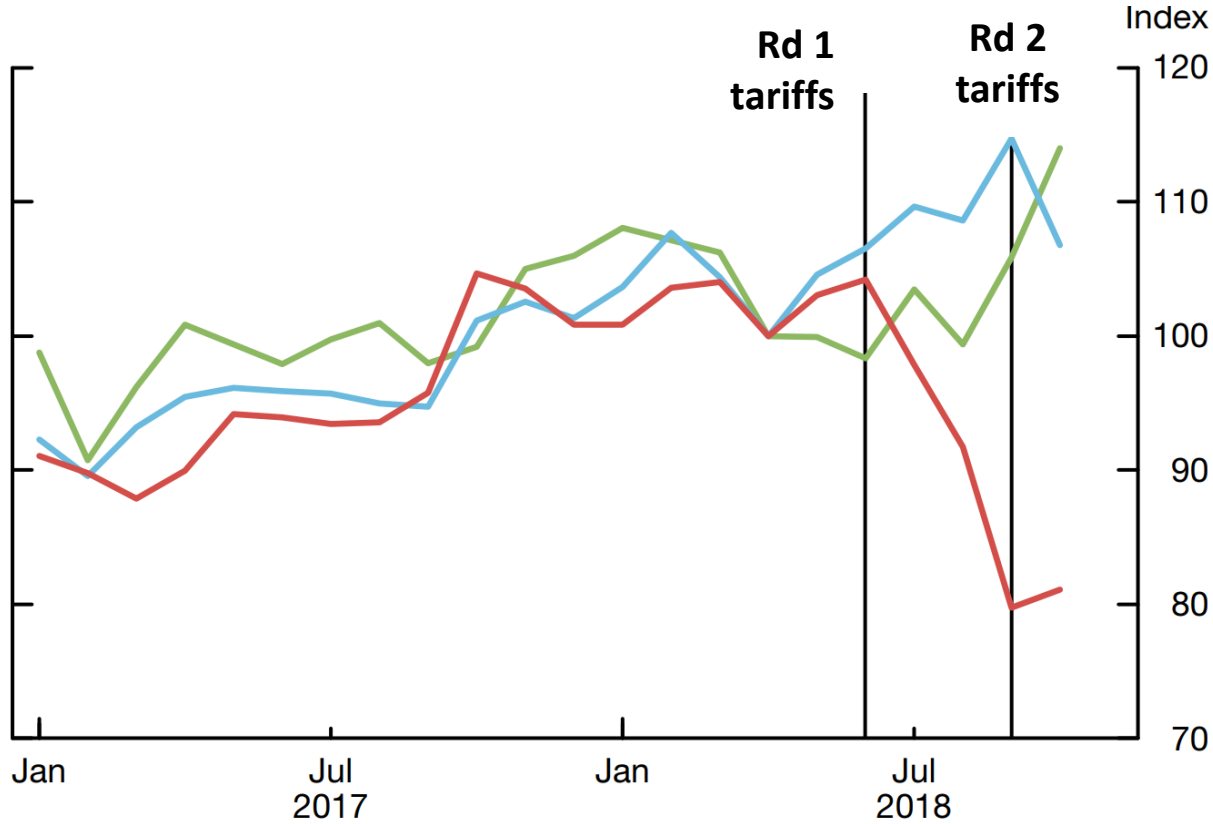


REDUCE/DIVERT TRADE

U.S. exports to China



Chinese exports to U.S.



— Goods subject to Round 1 tariffs

— Goods subject to Round 2 tariffs

— Goods not subject to tariff hikes

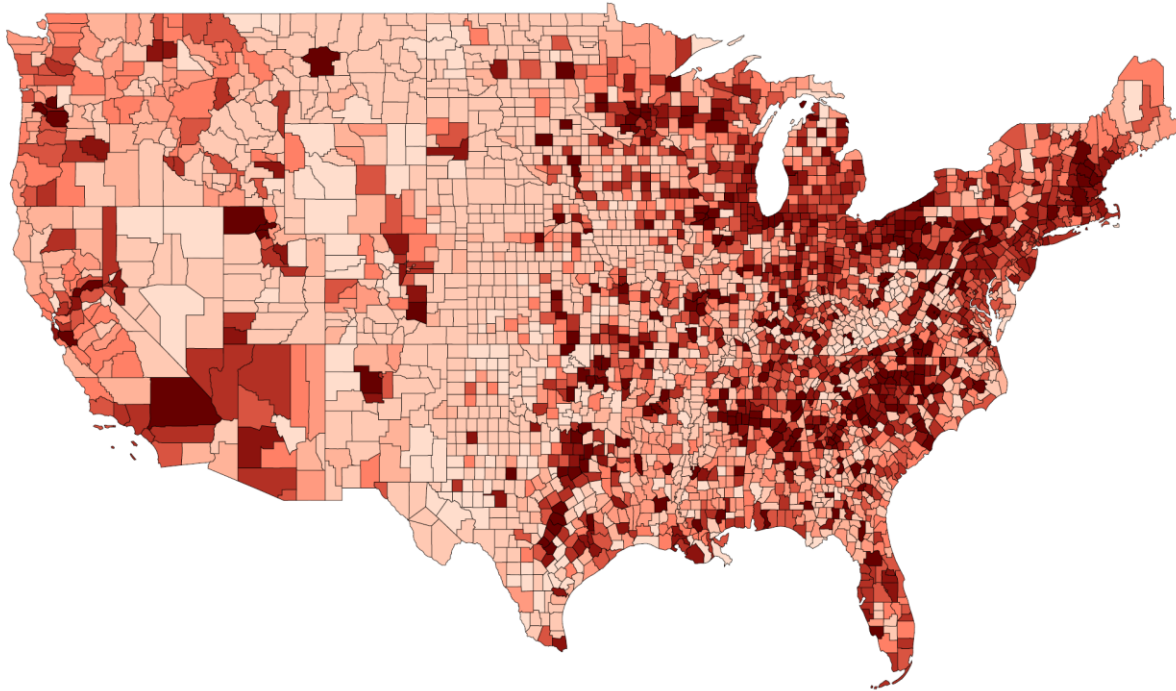
Source: Bank of Canada



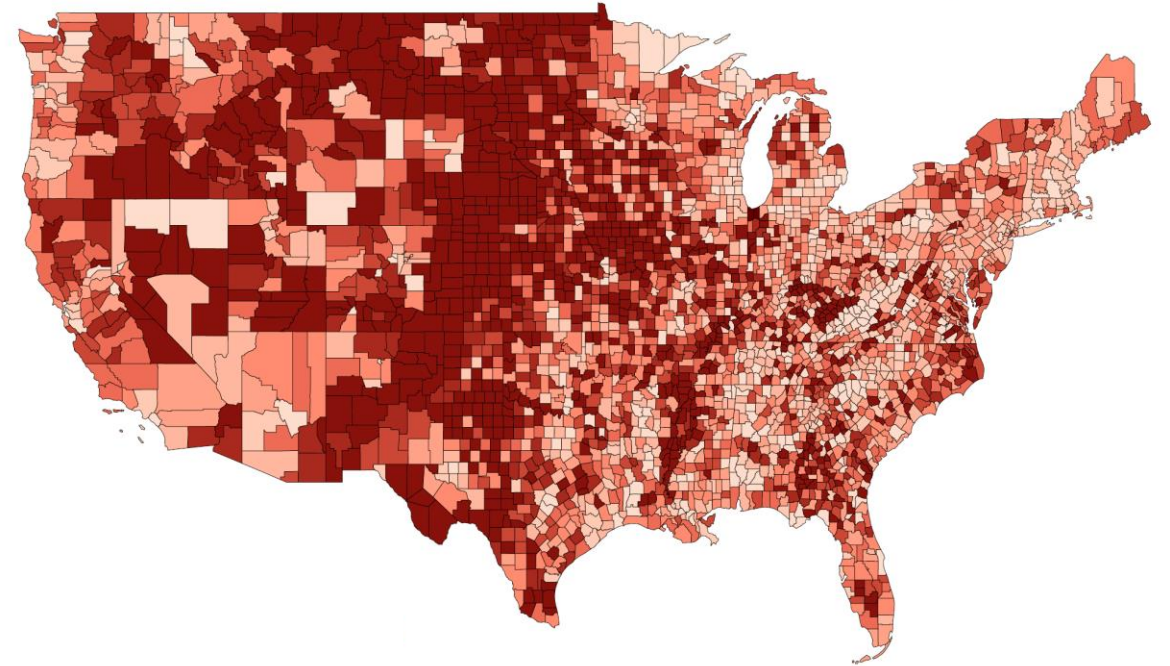
REDISTRIBUTE INCOME

Tariff increases

Protection on U.S. imports



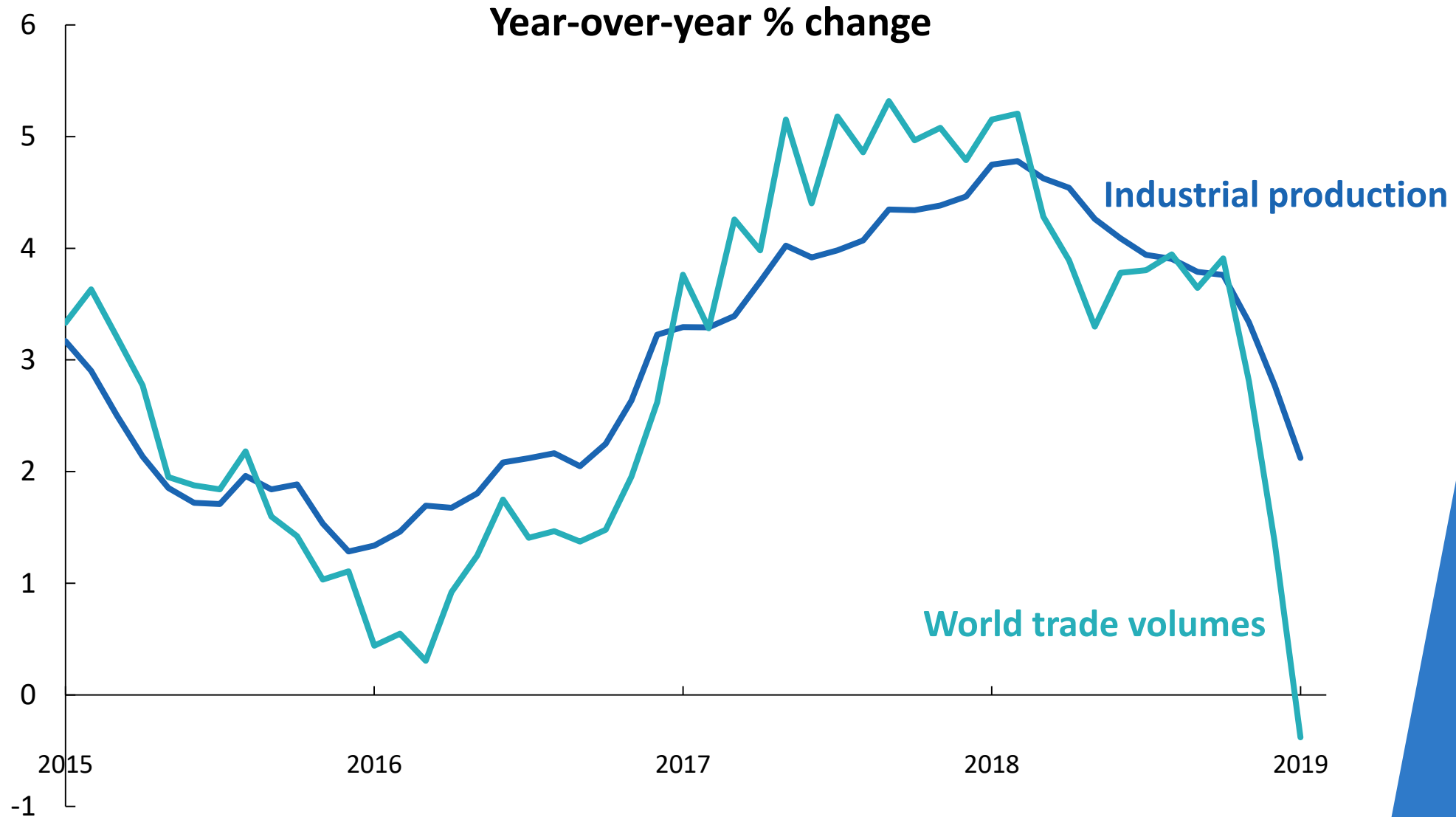
Retaliation on U.S. exports





GLOBAL GROWTH AND TRADE

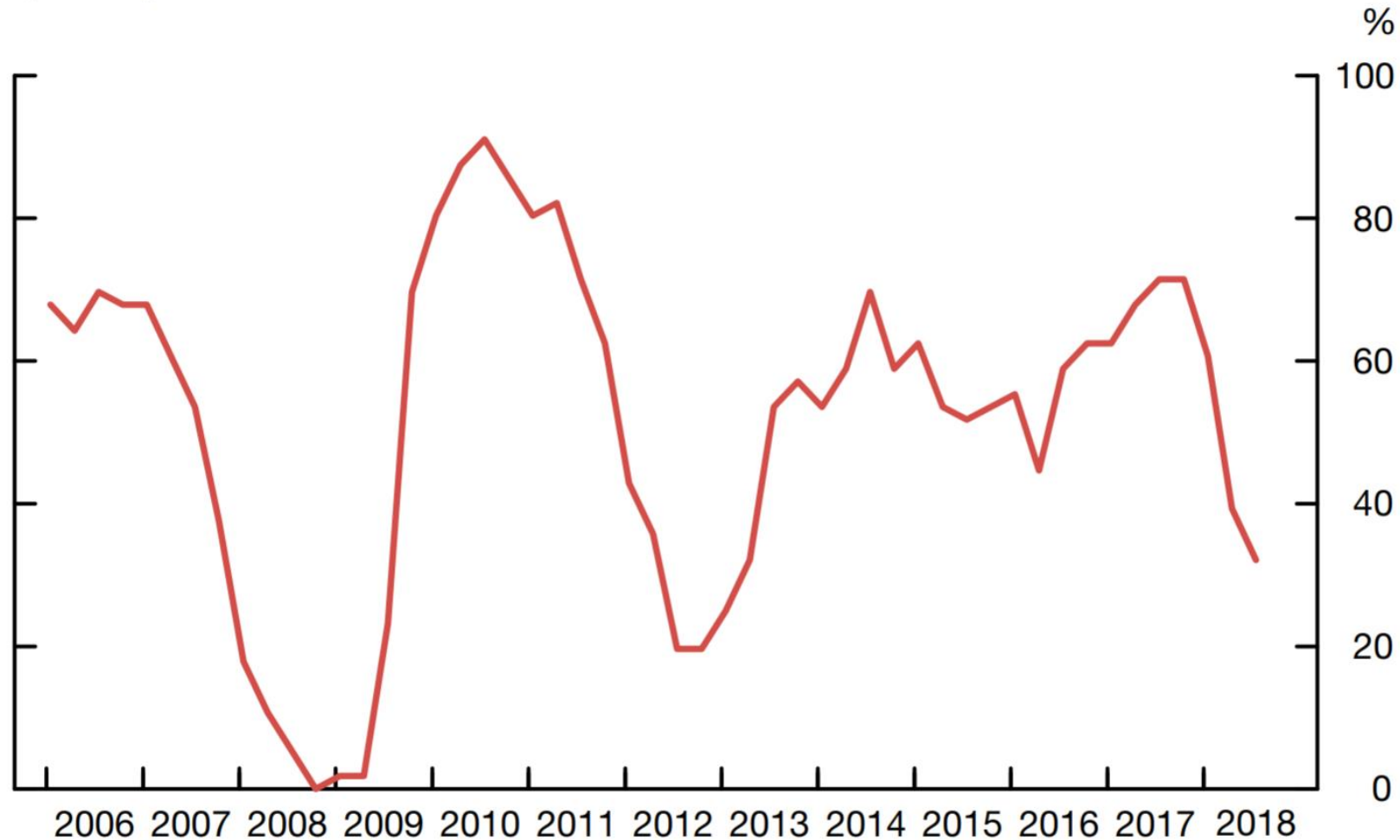
MOMENTUM SLOWING



Source: IMF WEO April

SYNCHRONIZED SLOWDOWN

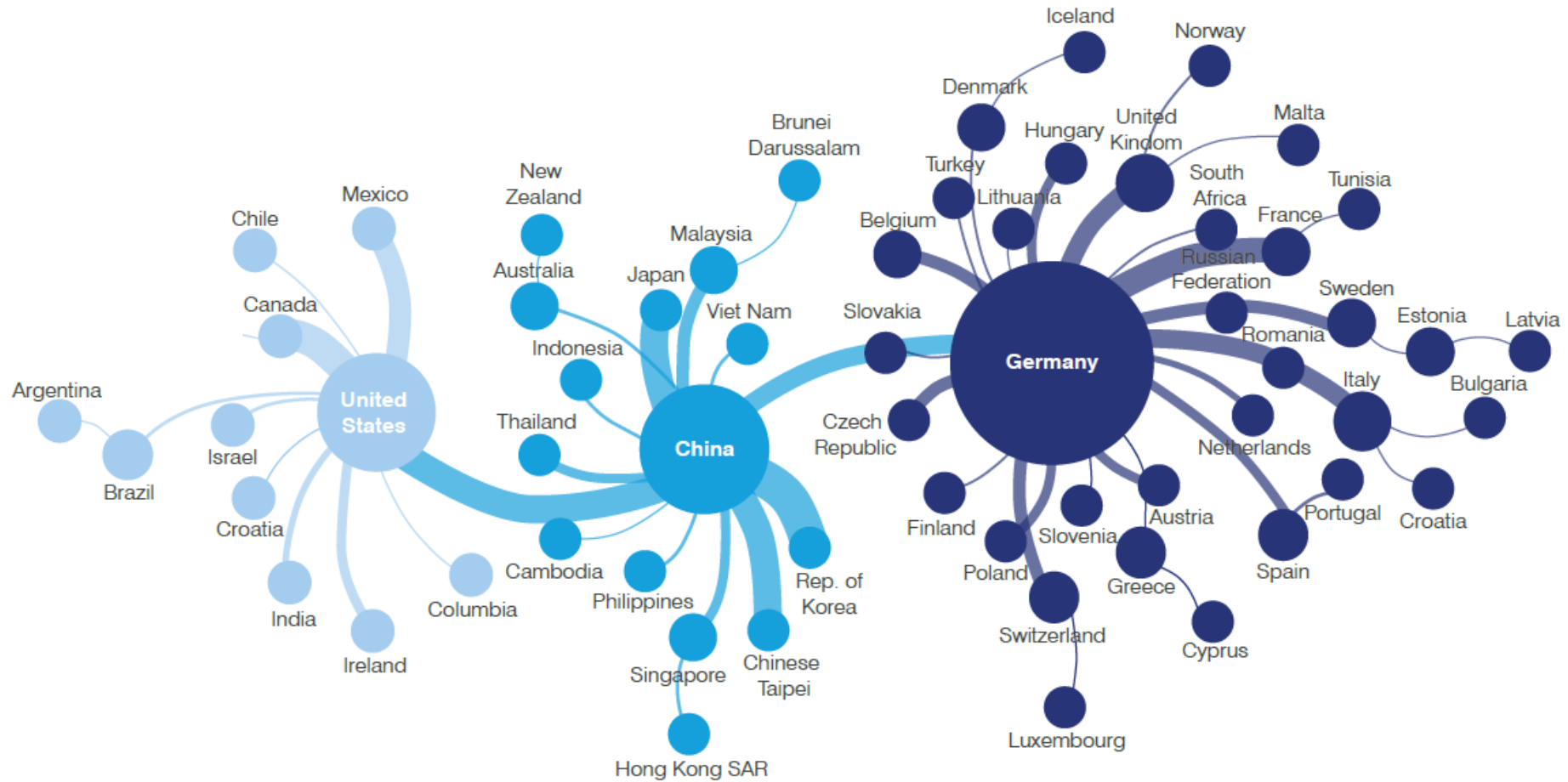
Share of countries with year-over-year growth exceeding the previous 3-year average,*
quarterly data



Source: Bank of Canada calculations for 56 countries representing 87% of global GDP.

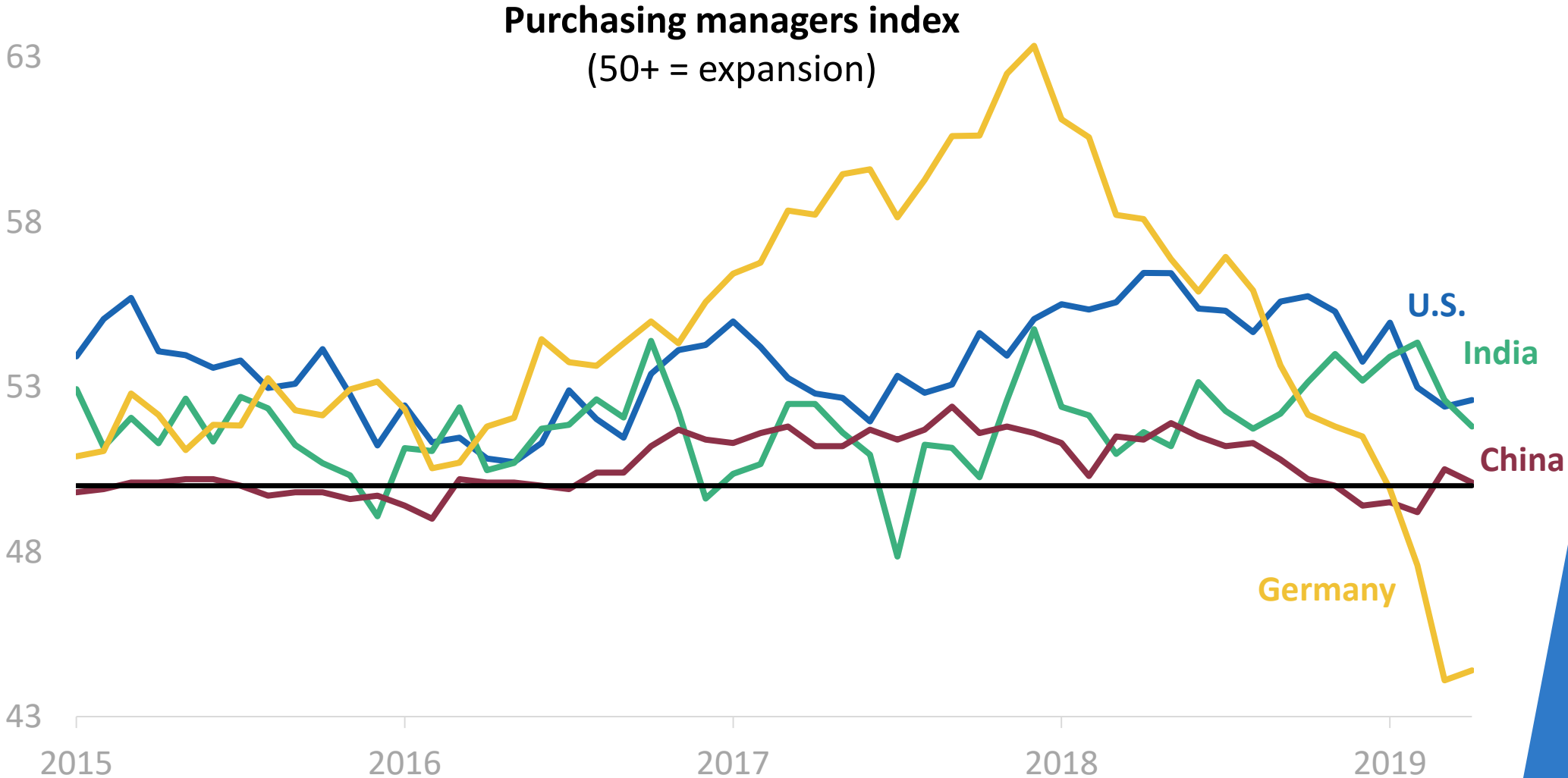
3 SUPPLY CHAIN HUBS

Input trade



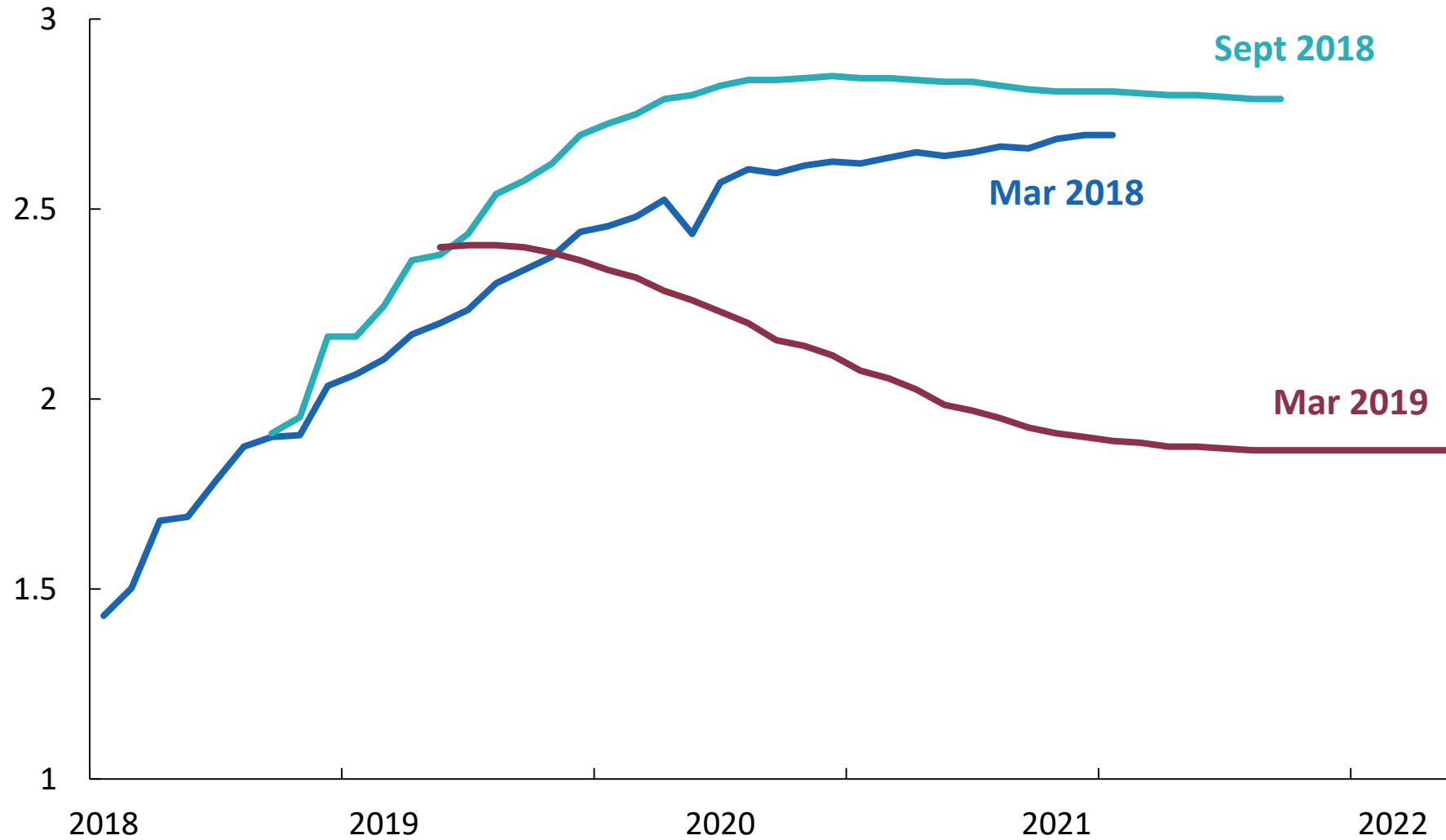
Source: Santoni, Gianluca, Dari Taglioni (2015)

2 TRACKS FOR ORDERS



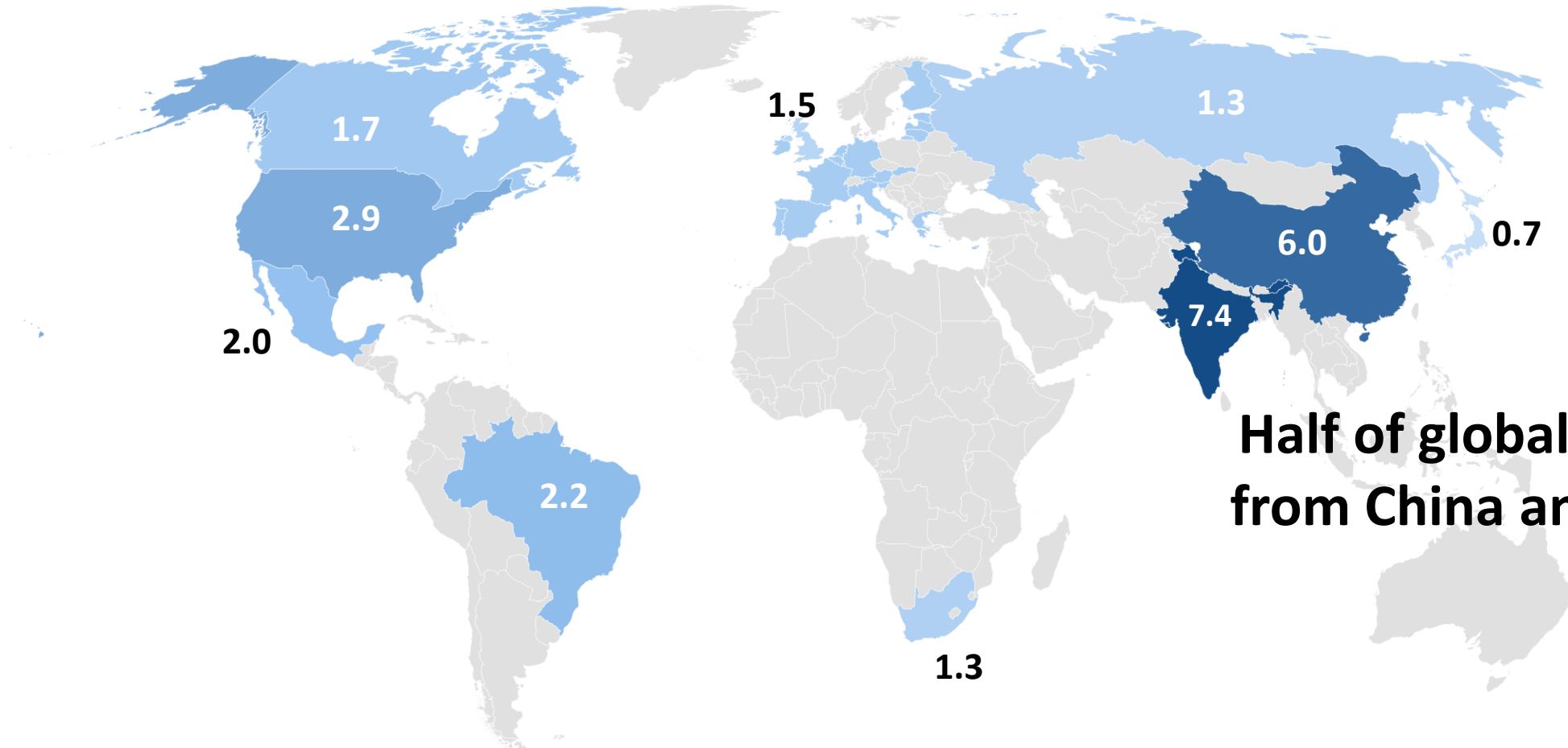
FED ON PAUSE

U.S. policy rate expectations, %



Source: IMF WEO April

2019 GROWTH OUTLOOK



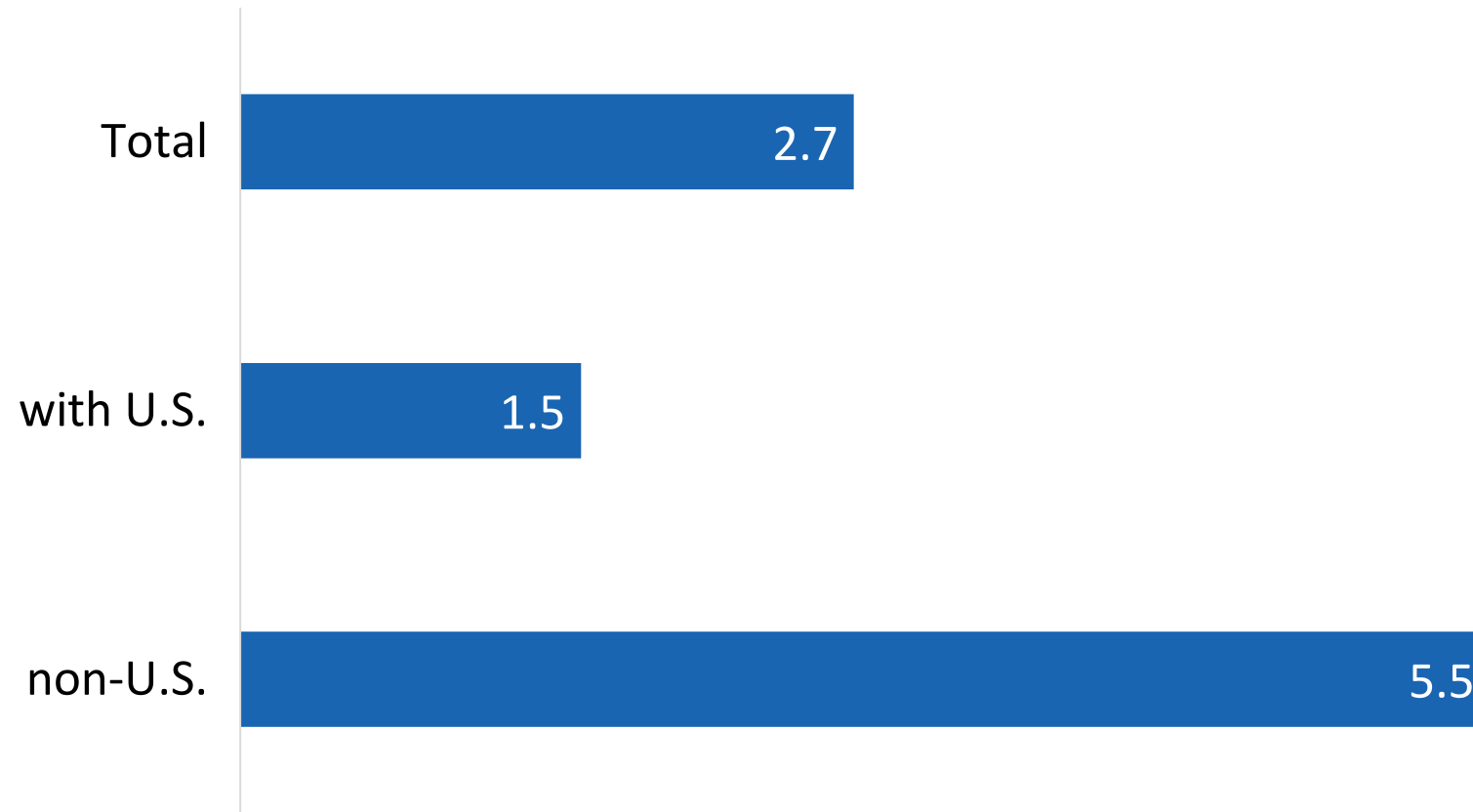
Half of global growth from China and India!



CANADIAN TRADE AND DIVERSIFICATION

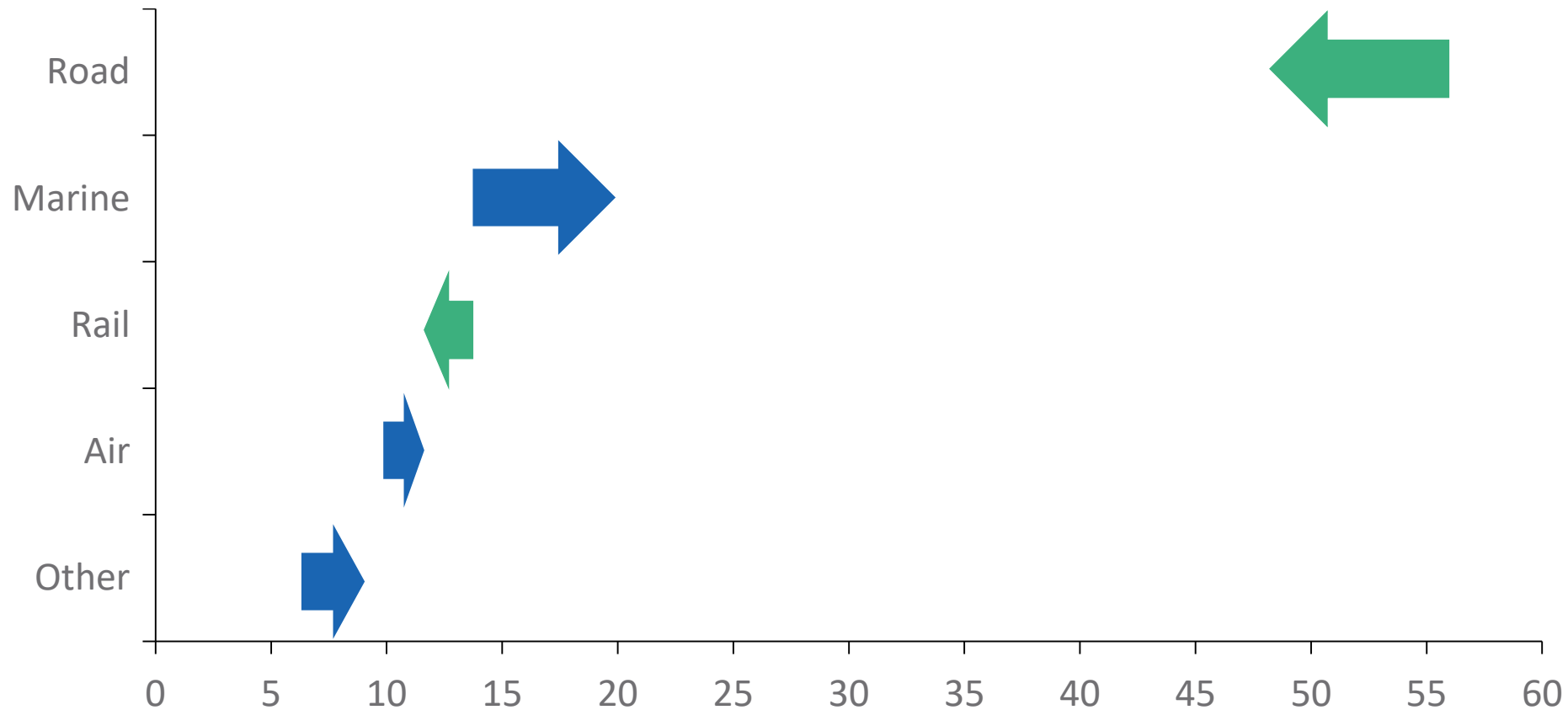
STRONGER TRADE GROWTH OUTSIDE U.S.

Canada's merchandise trade, 2002-17, average annual growth, %



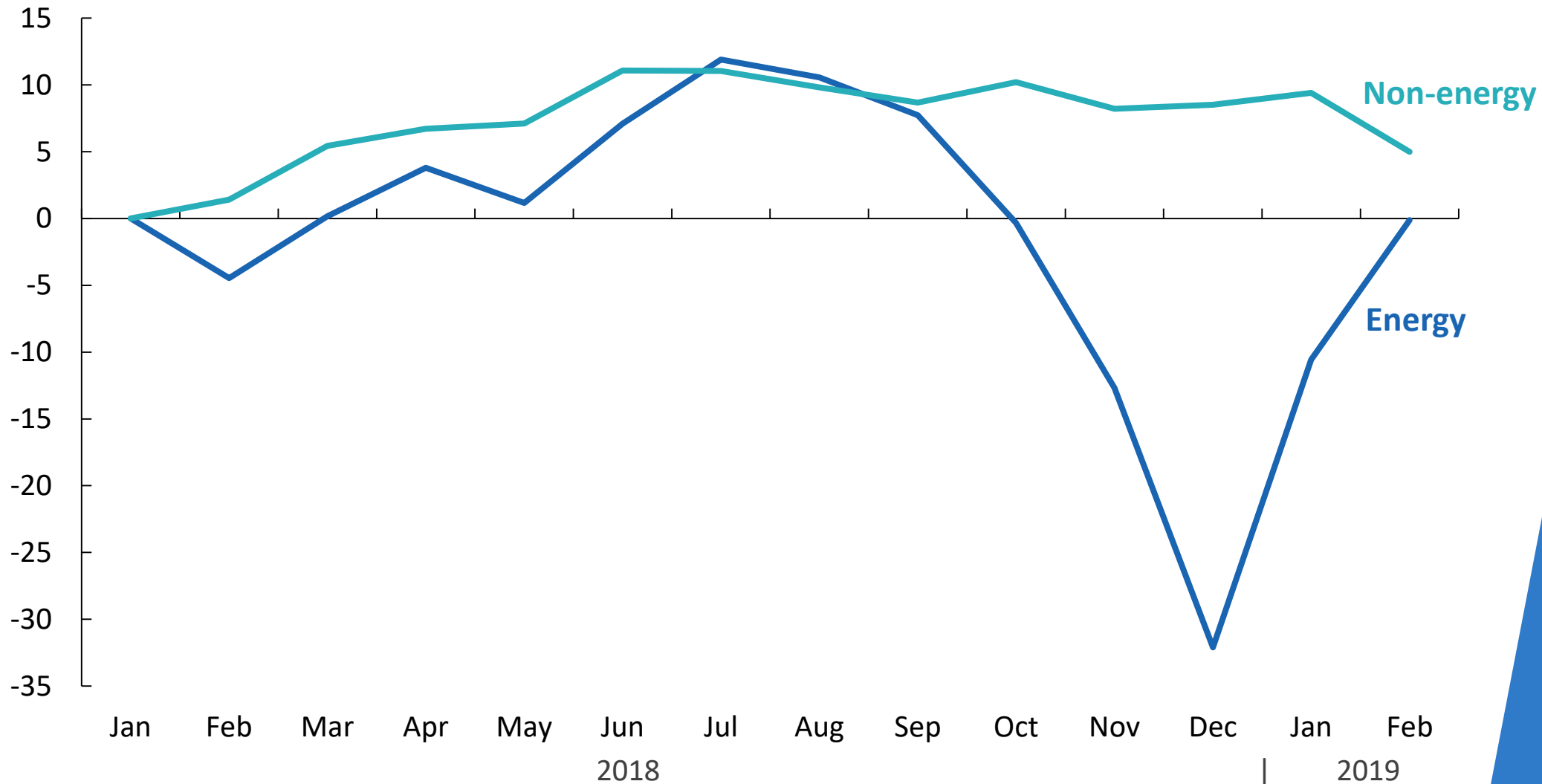
SHIFT FROM ROAD/RAIL TO MARINE/AIR

Canada's merchandise trade, by transportation mode 2002-17, share of total, %



CANADA'S NON-ENERGY EXPORTS FLAT

Merchandise exports, % change from Jan 2018



EDC'S CANADIAN EXPORT FORECAST

	Growth		
	2018	2019 (f)	2020 (f)
Goods	7%	3%	3%
Services	6%	4%	4%

Stronger performers

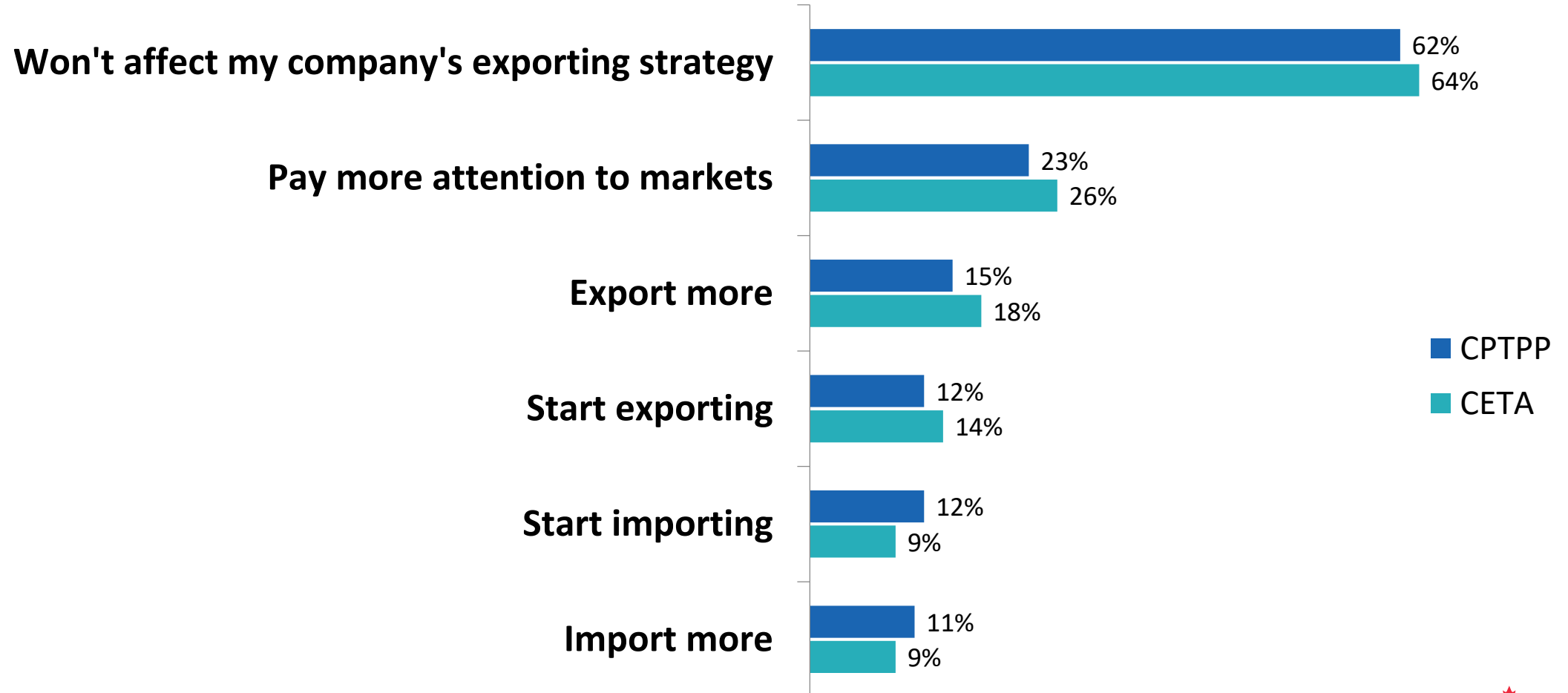
- Aerospace
- Energy
- Industrial M&E
- Consumer goods

Weaker/risks

- Autos
- Exports to China

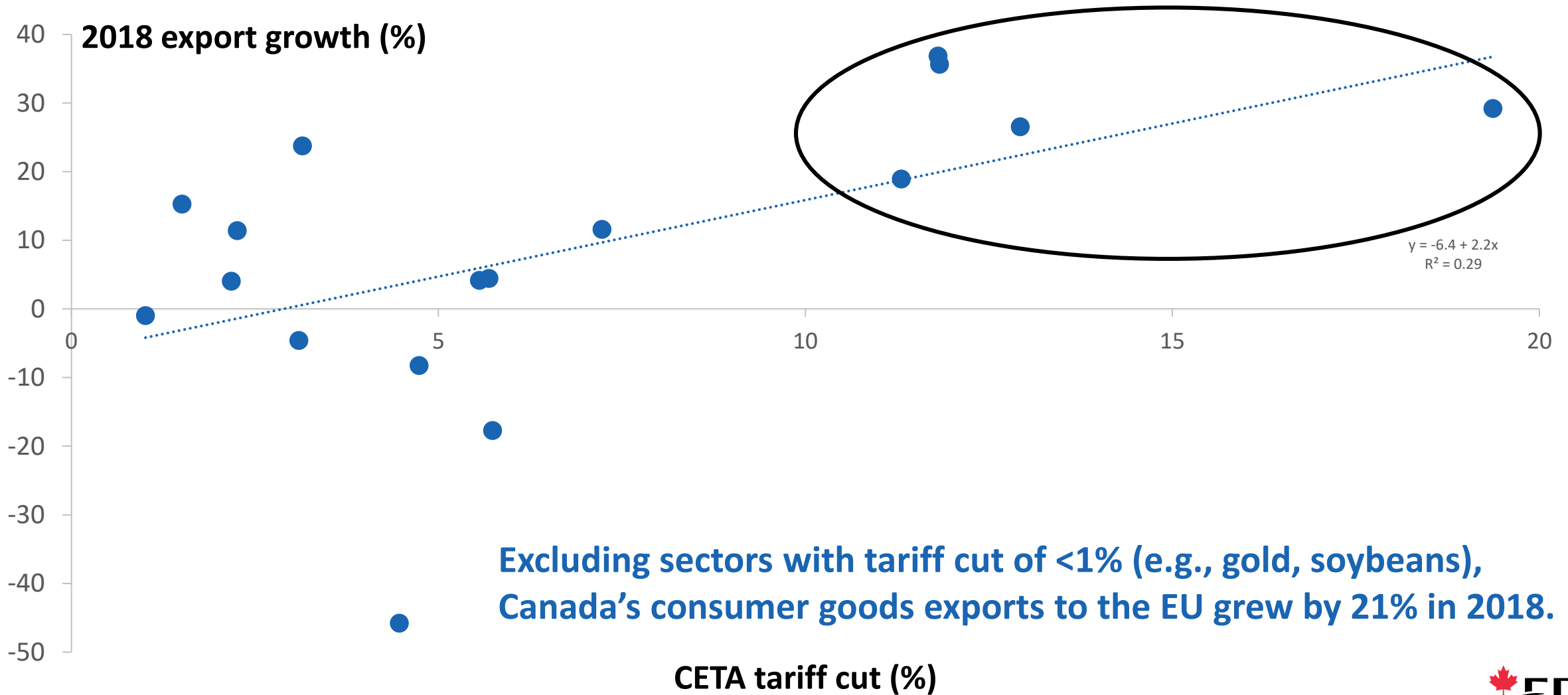
EXPORTER RESPONSES TO NEW TRADE DEALS

(Percent of respondents)



Note: Totals do not sum to 100% because multiple responses are permitted.

BIGGER CETA TARIFF CUTS, FASTER EXPORT GROWTH



CONCLUSIONS

- **Challenging trade environment**

Protectionism + slowing growth

→ Expect modest Canadian export growth.

- **Tariffs, uncertainty having impacts.**
- **Canadian firms diversifying, new trade deals can help.**



Stephen Tapp

Deputy Chief Economist,
Export Development Canada

Email: STapp@edc.ca



[Stephen Tapp](#)



[@Stephen Tapp](#)

EDC ECONOMICS FREE RESOURCES

- **Weekly Commentary**
- **Global Economic Outlook**
- **Global Export Forecast**
- **Country Risk Quarterly**
- **Trade Confidence Index**
- **Commodity and Global Market Trackers**
- **Research reports**
- **Economic Insights newsletter**



@ExportDevCanada



edc.trade/economic-insights



TAKE ON

THE WORLD

