Vermont Economic Conference: Mapping Our Economic Future

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Summary

- Global economy gathering speed, leading to another upgrade in outlook.
- Robust growth has diminished slack across many AEs
- Inflation still low but monetary policy is forward-looking
- Central banks take more steps towards the unwind of emergency policy
- Rising rates have led to curve flattening across many AEs
- Term premia still low but may rebalance as QE goes into reverse
- Risks returning into balance:
  - Above-trend growth is reducing downside risks in advanced economies
  - Protectionism and geopolitical tensions remain on the table
  - Elevated asset prices (equities, housing, CRE, bitcoin, etc) are an increasing concern
Recovery has been disappointing and fraught with forecast downgrades... until recently
... outlook has been upgraded for the second consecutive quarter... the first time during this recovery
Faster economic growth came hand-in-hand with a surge in trade which followed years of underwhelming performance.

Source: TD Economics
Why does it matter for Vermont?

- Canada, 40.5
- Mexico, 5.6
- Eurozone, 9.11
- Asia Pacific, 35.4
- UK, 2.38
- Other Europe, 1.25
- Other Asia, 3.71
- Oceania, 0.5
- Africa, 0.39
- S/C America, 1.16
- Asia Pacific, 35.4

Exports (% of total)
Eurozone sovereign debt crisis is now in the rear view... but many underlying issues remain

Source: TD Economics
Canada escaped recession in good shape before growth stalled on commodity price collapse.

Source: StatCan, TD Economics (Forecast as of Dec-2017).
China and India to power ahead as Brazil and Russia dig themselves out of moderate recessions

Source: TD Economics
Rising U.S. oil production has altered the way the economy is affected by oil prices and the dynamics of the trade deficit.

Source: Energy Information Administration, Department of Energy, TD Economics
Robust growth eliminating economic slack

Source: TD Economics
Diminishing slack should help boost inflation
Central banks start to step back from emergency levels

![Chart showing change in policy rate per year; basis points for different central banks: Federal Reserve, Bank of Canada, Bank of England, European Central Bank. The chart includes a forecast for 2019. Source: TD Economics.](image-url)
Flattening yield curve is characteristic of maturing cycles, but does not suggest a recession is imminent.
Term premia should rebalance as QE diminishes
Dollar strength to continue diminishing as other central banks follow in Fed's footsteps

Source: FRB, TD Economics
When it comes to the U.S. trade deficit NAFTA is not the culprit... but China's entry to WTO has been a catalyst.
Importance of manufacturing has been on a relative decline well before NAFTA or China's WTO entry.
Global growth to accelerate before slowing in-line with potential

Source: TD Economics
Thank you

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