



econosphere

STRATEGY FOR YOUR FUTURE

# Strength in Weakness

## The near-term global economic outlook

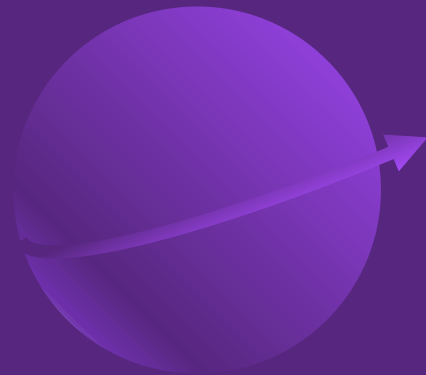
**ELO Forum - Winnipeg**

November 1, 2022

**Peter Hall**

Chief Economist

econosphere inc.



# CHAOS THEORY AND THE ECONOMY

Forecasting: a lost art?



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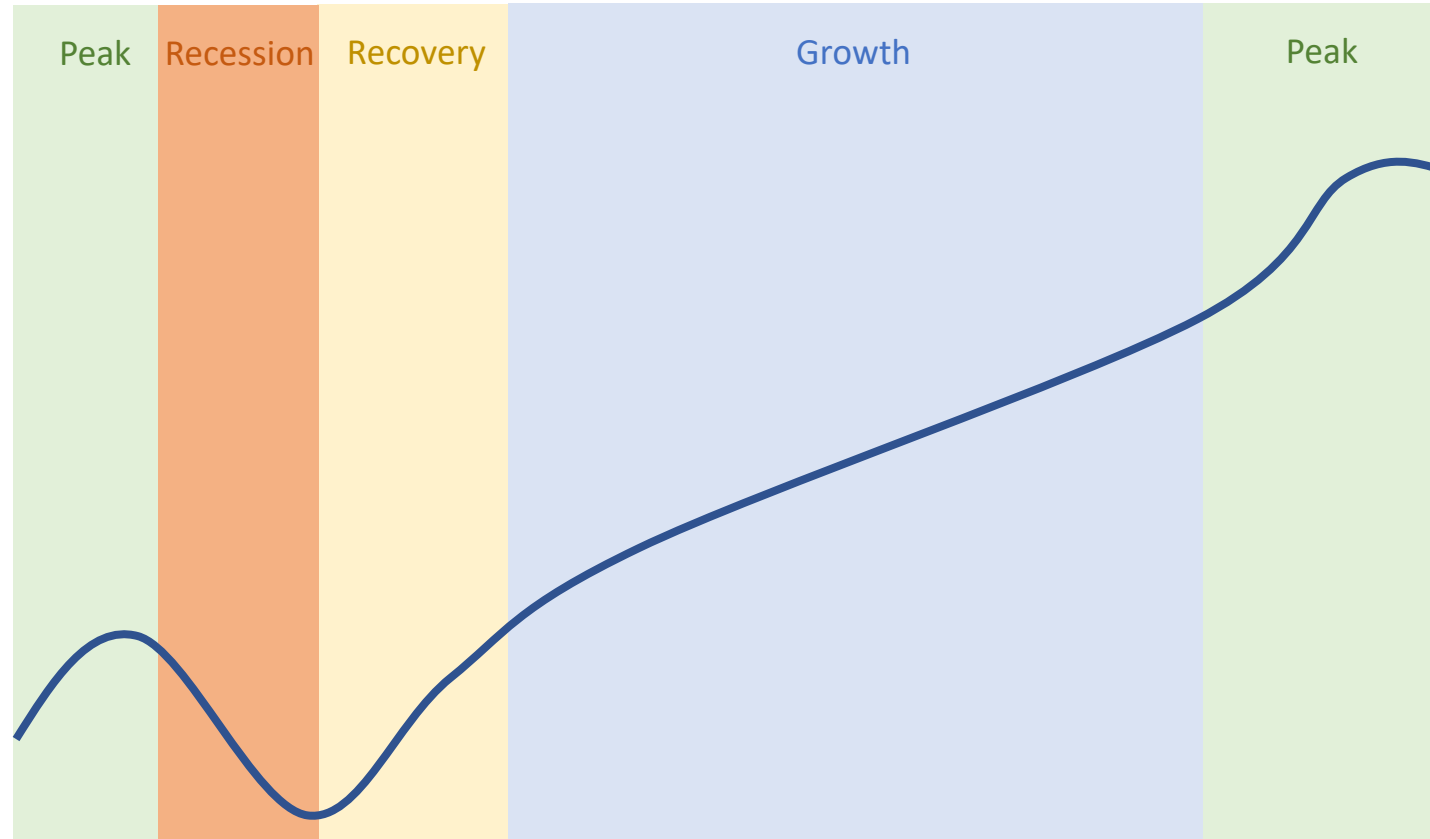
7-2-10 © 2010 Scott Adams, Inc./Dist. by UFS, Inc.



# Predicting the future

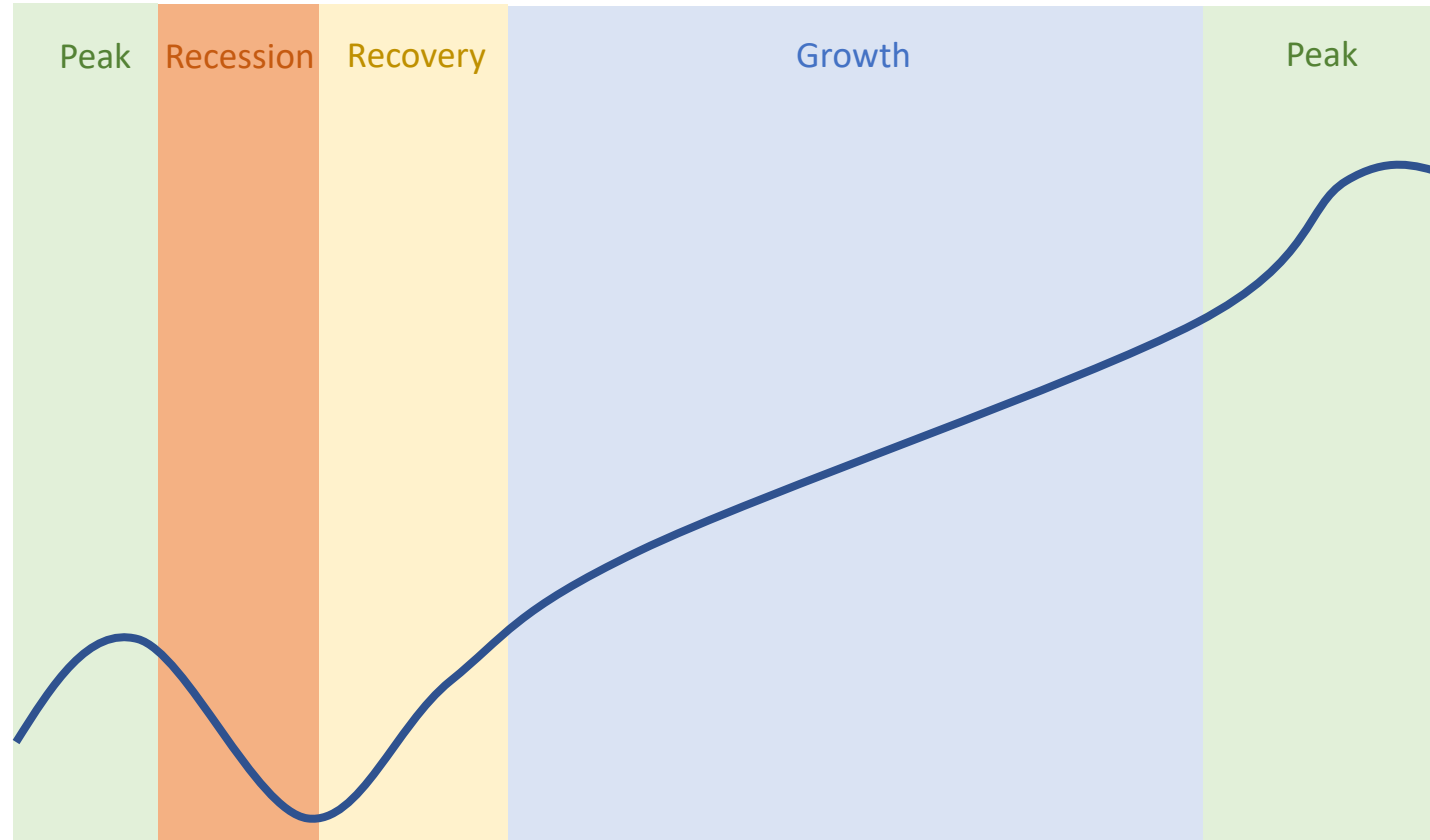
- Where have we come from?
- Where are we now?
- Structure
- Cycle
- Information...

# The economic cycle: 4 phases



10 years

# The new economic cycle?



← 20 years →

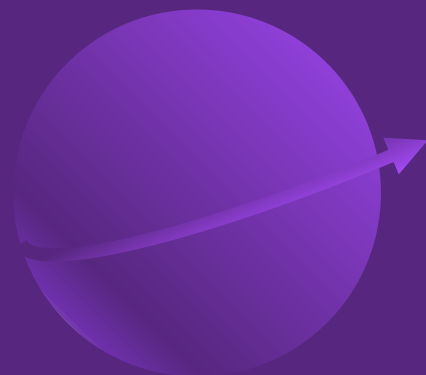


# Why the stretch?

- Technology
- Communication
- Logistics
- Labour constraints
- Readiness of Emerging Markets

# This perspective gives answers

- Protracted joblessness
- Populism
- Protectionism
- Transnational conflict
- Under-investment
- Tight labour markets
- Inflation



# THE INFLATION PROBLEM

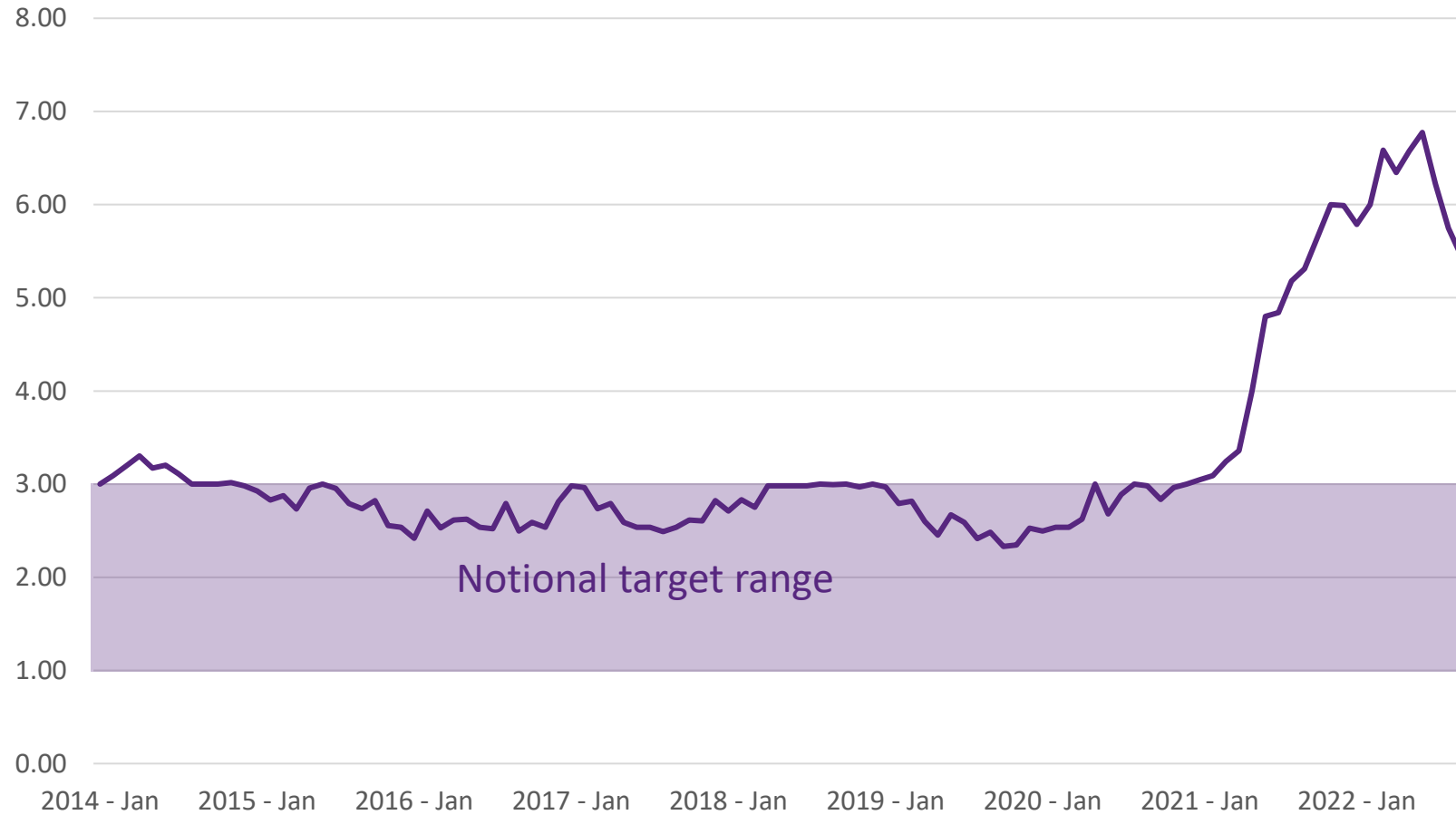
Why no whys?

# Why inflation?

A. Not expected

# US inflation expectations

(Household survey results, one year ahead, %)



Sources: Federal Reserve Bank of New York

“...it is hard to imagine how inflation could pick up anytime soon”

“...[it]will constrain wages for years [and put] strong downward pressure on inflation...”

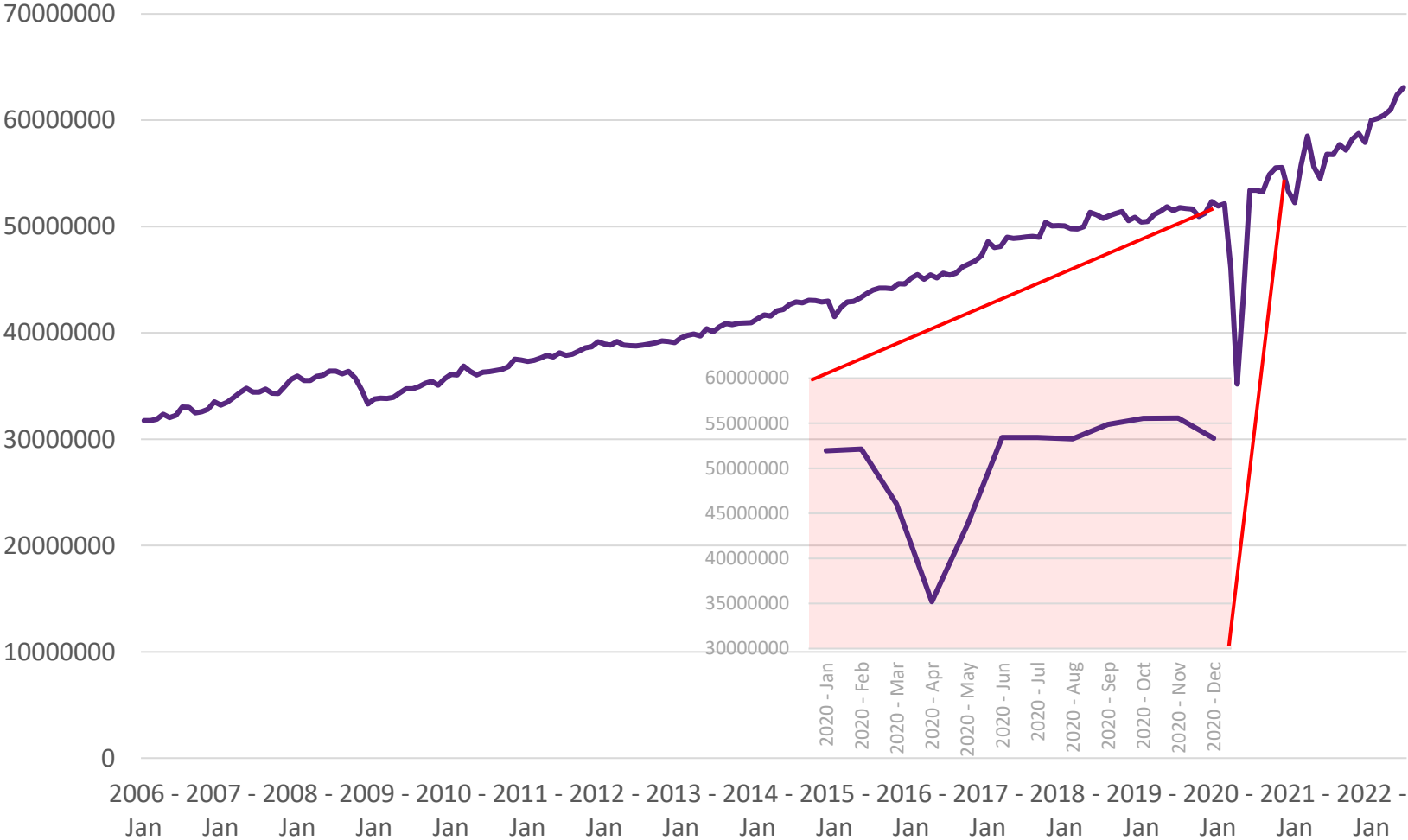
“...the unemployment situation is bound to deteriorate further...it cannot improve significantly...”

“strong consumer demand is unlikely”

Source: *The Great Reset*, Schwab & Malleret



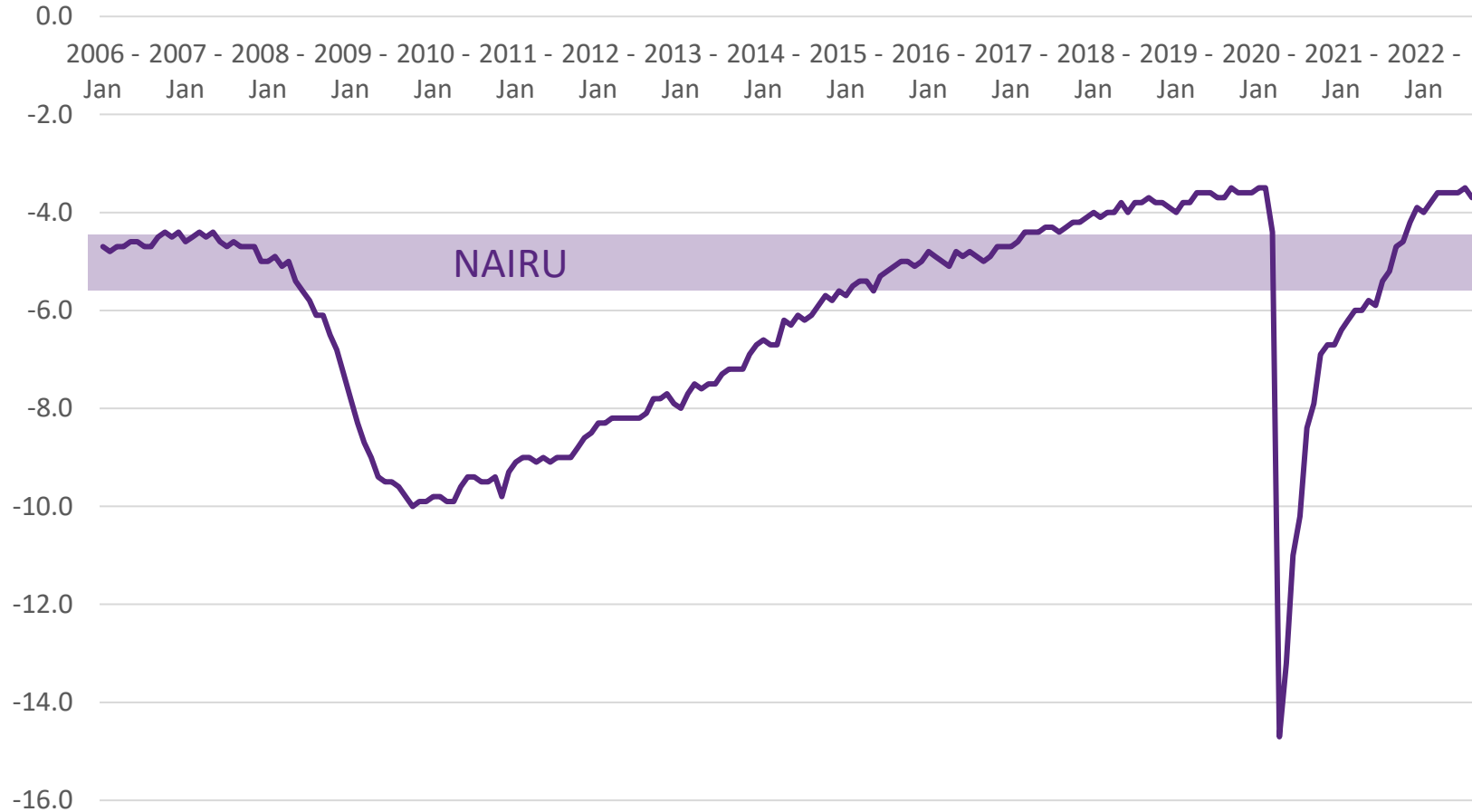
# Canada: Retail sales



Sources: US BLS, econosphere inc.

# US Unemployment Rate

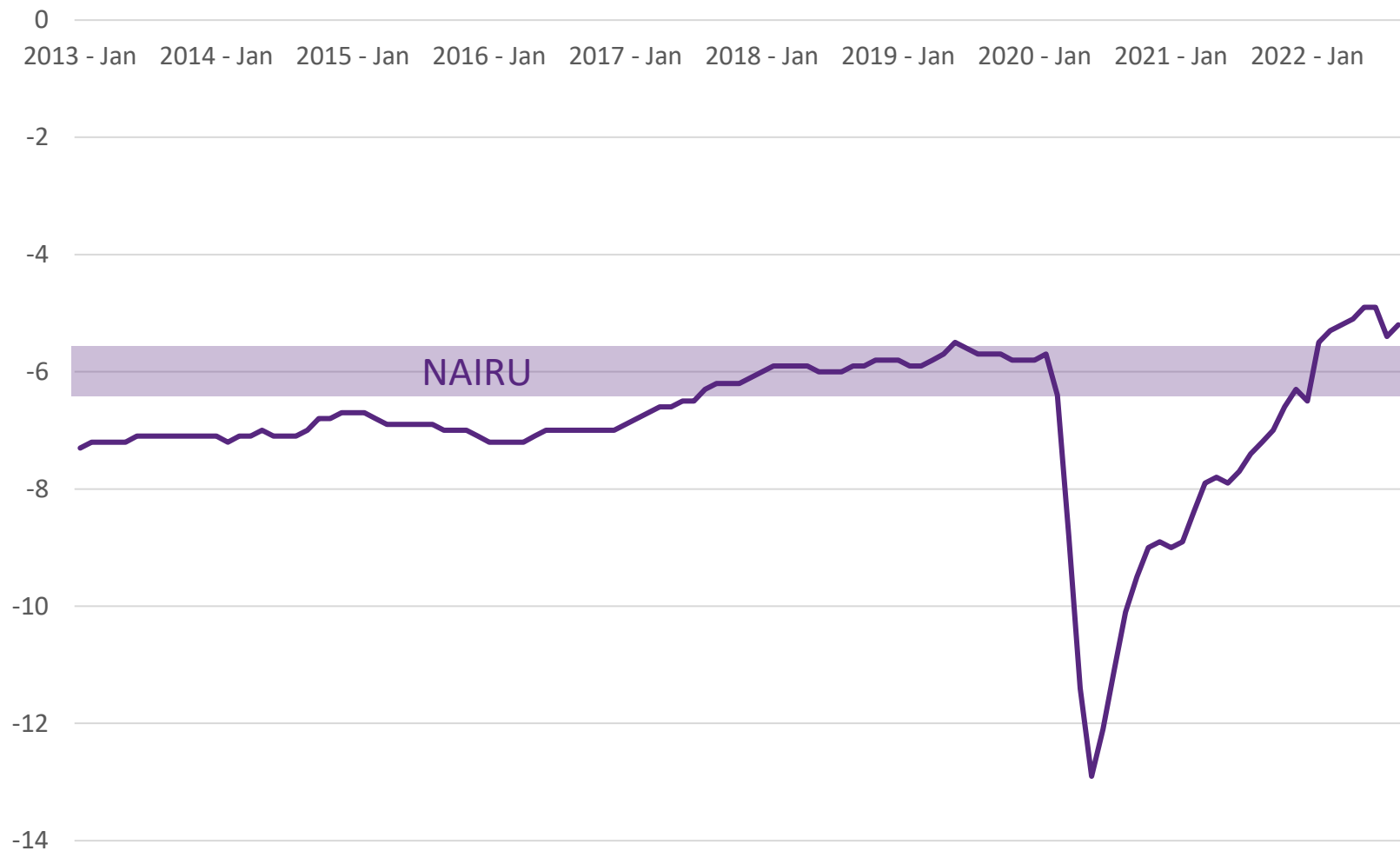
(the negative of the rate, %)



Sources: US BLS, econosphere inc.



# Canada: Unemployment Rate



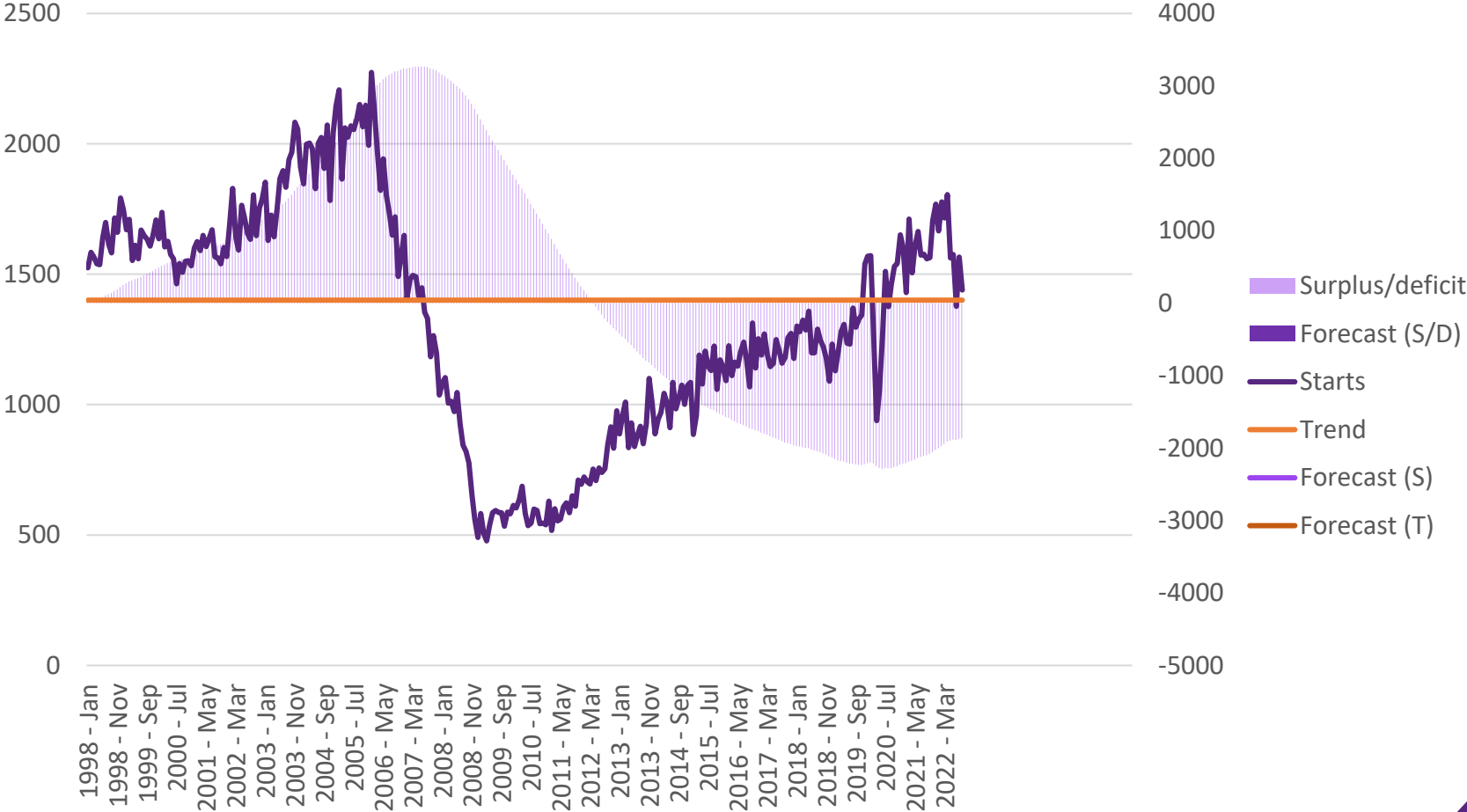
Sources: StatCan, econosphere inc.

# Why inflation?

- A. Not expected
- B. Pre-pandemic pent-up demand

# US Housing starts vs trend

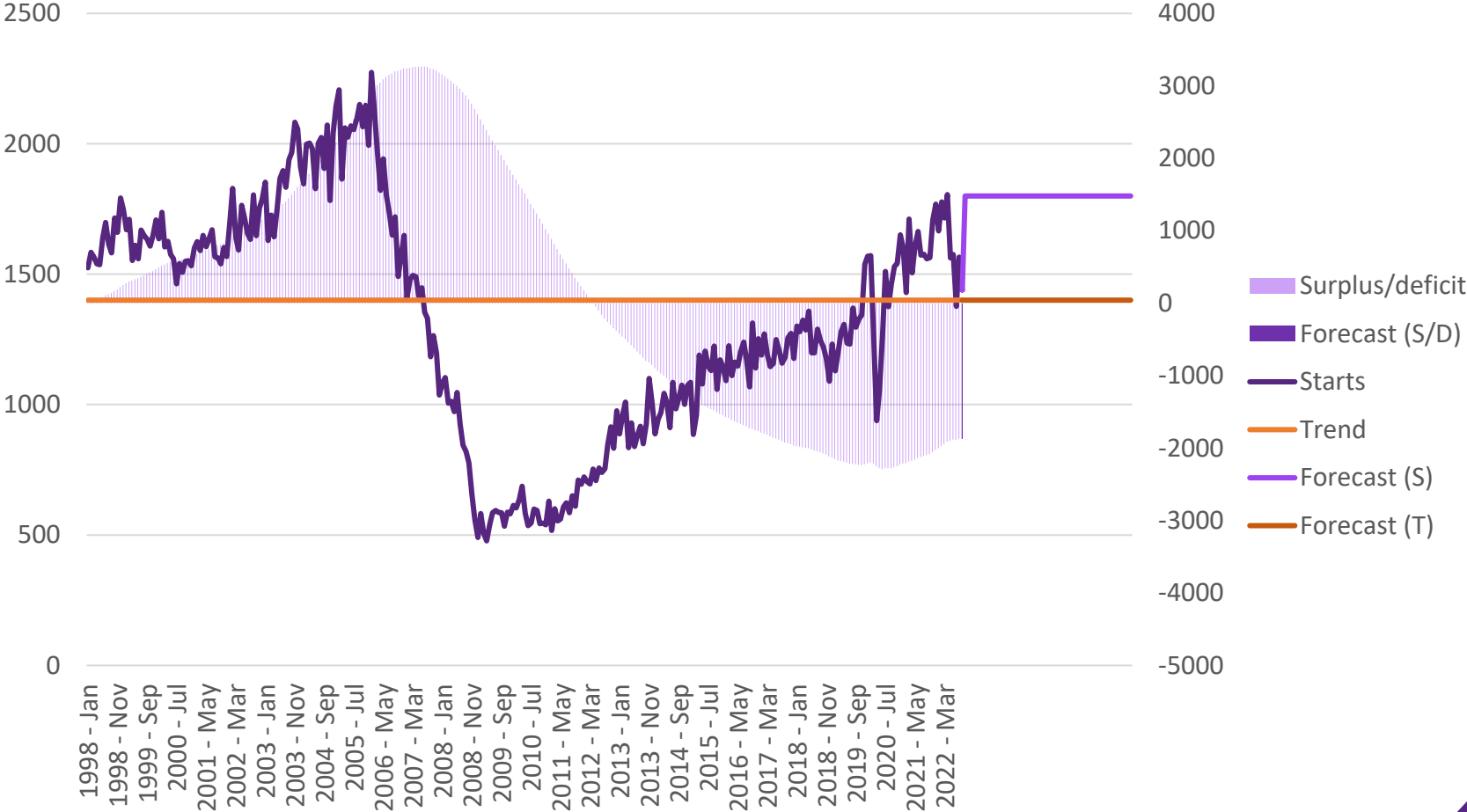
Housing starts, '000 units (L); surplus/deficit, '000 units (R)



Sources: St Louis Fed, econosphere inc.

# US Housing starts vs trend

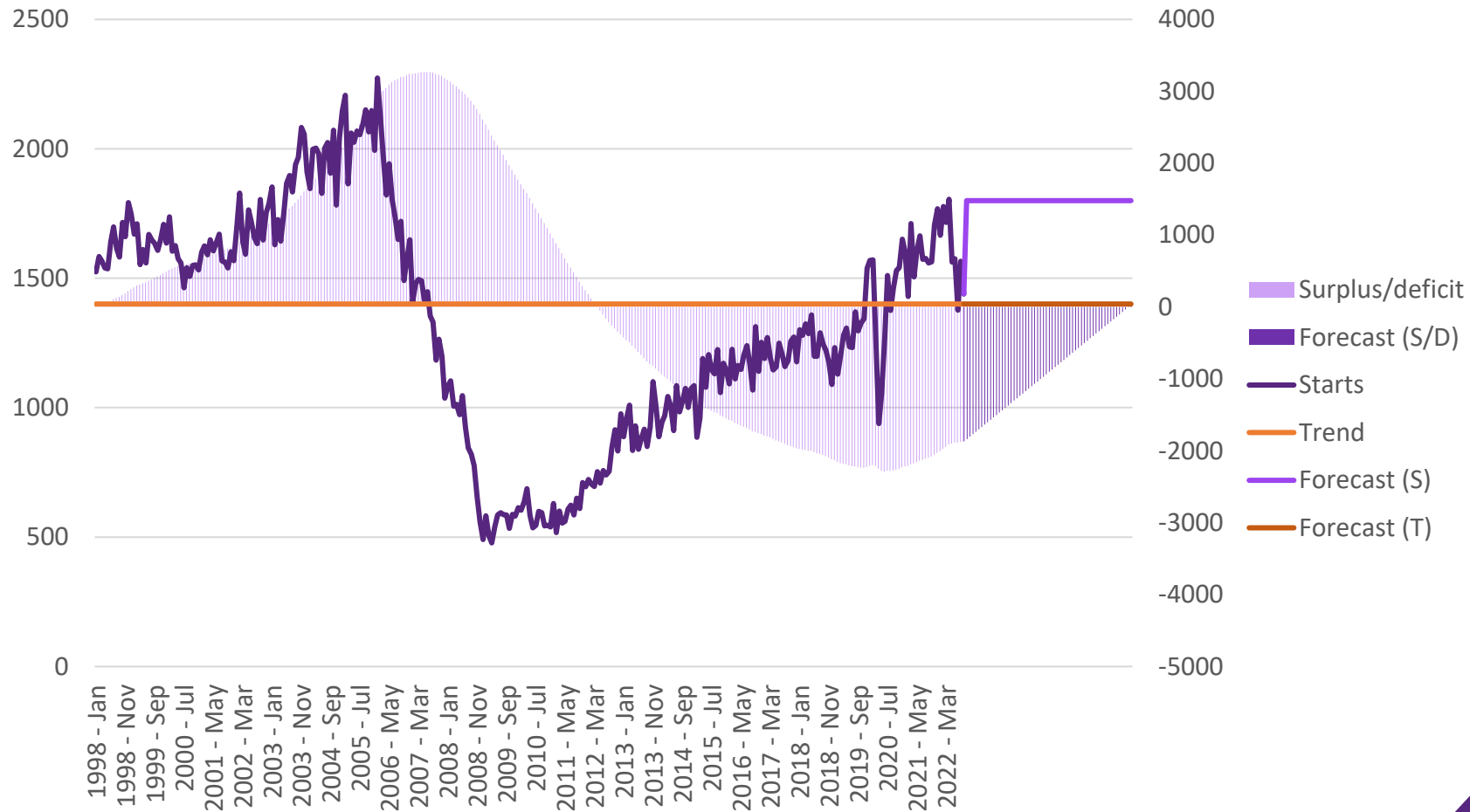
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# US Housing starts vs trend

Housing starts, '000 units (L); surplus/deficit, '000 units (R)

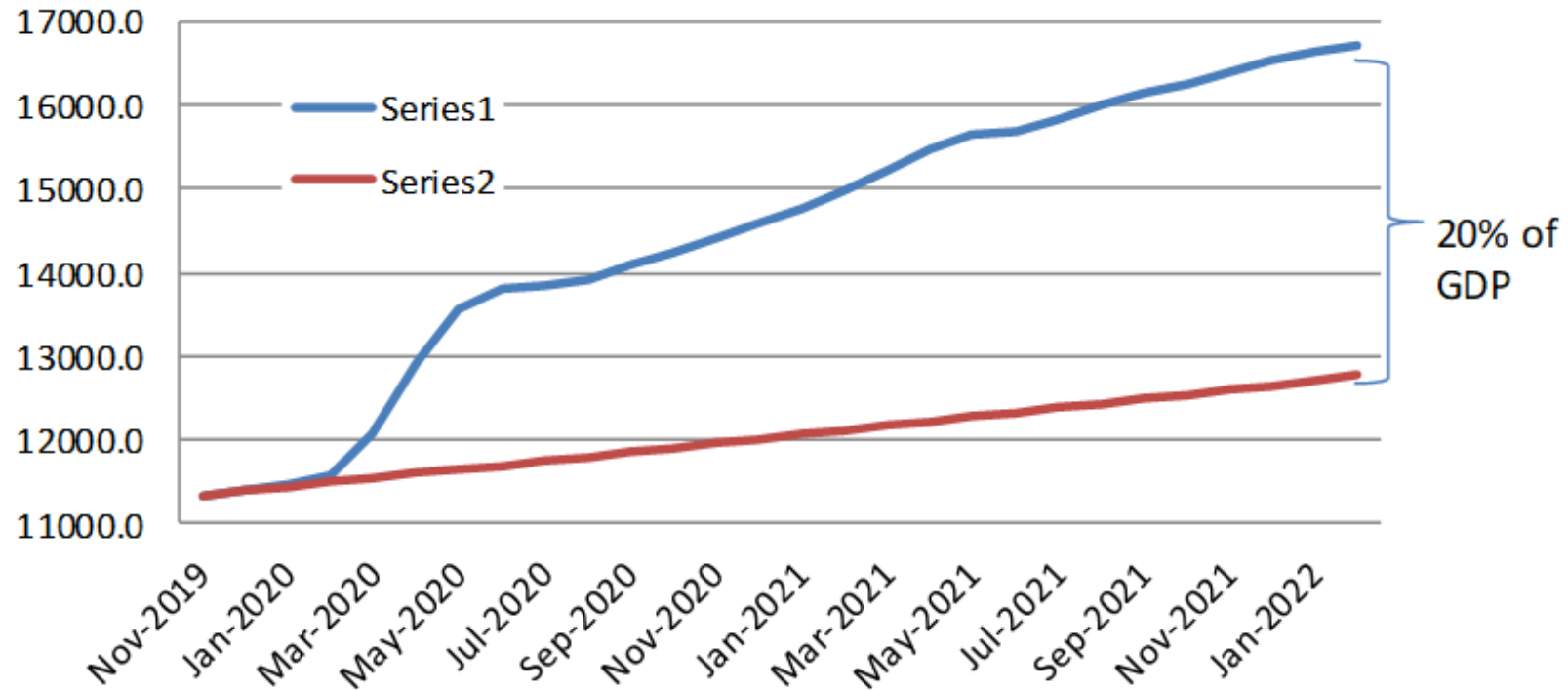


Sources: St Louis Fed, econosphere inc.

# Why inflation?

- A. Not expected
- B. Pre-pandemic pent-up demand
- C. Mid-pandemic pent-up demand

## Demand deposits over trend, USD billions



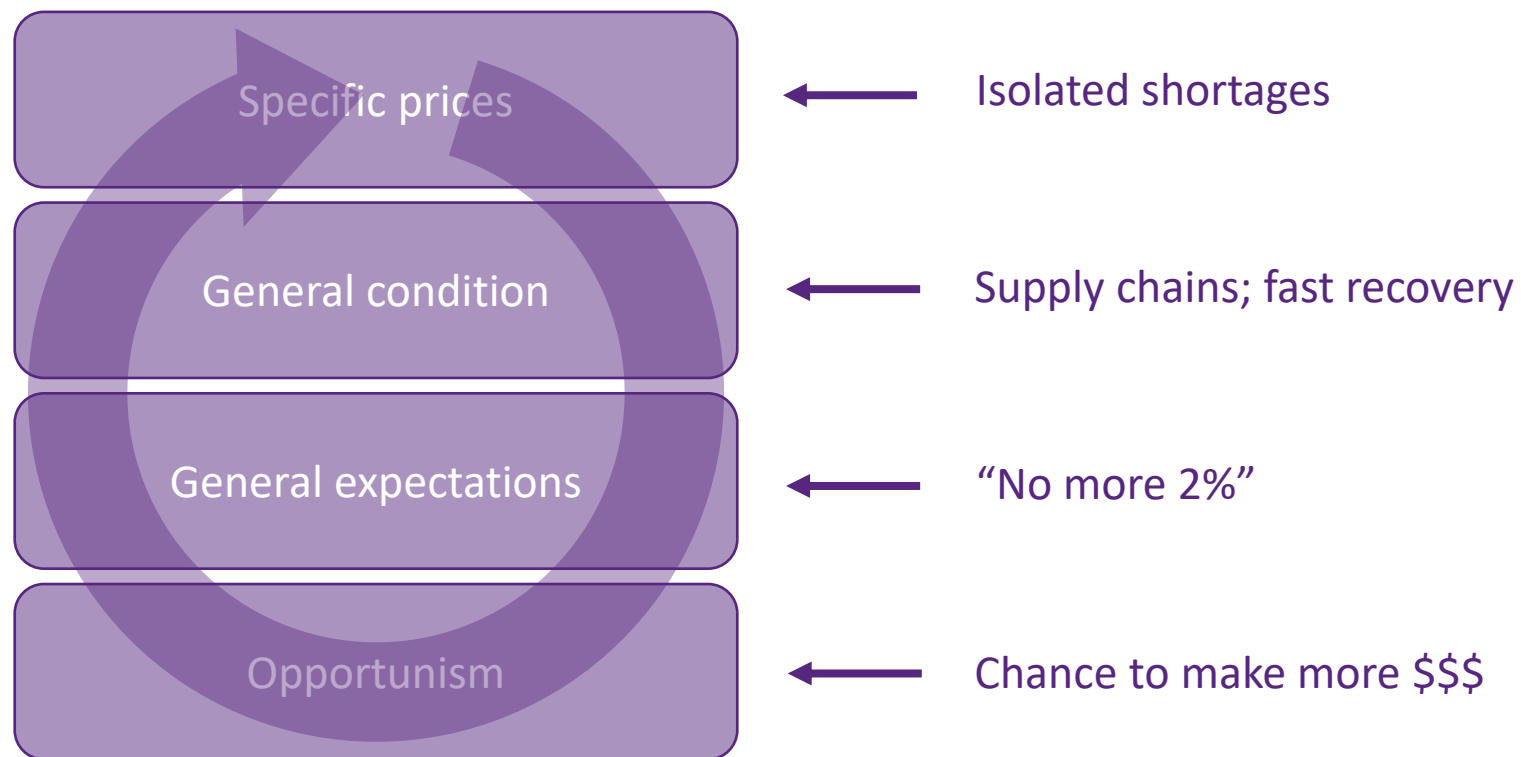
Sources: US BEA, FRB, econosphere inc.

# Why inflation?

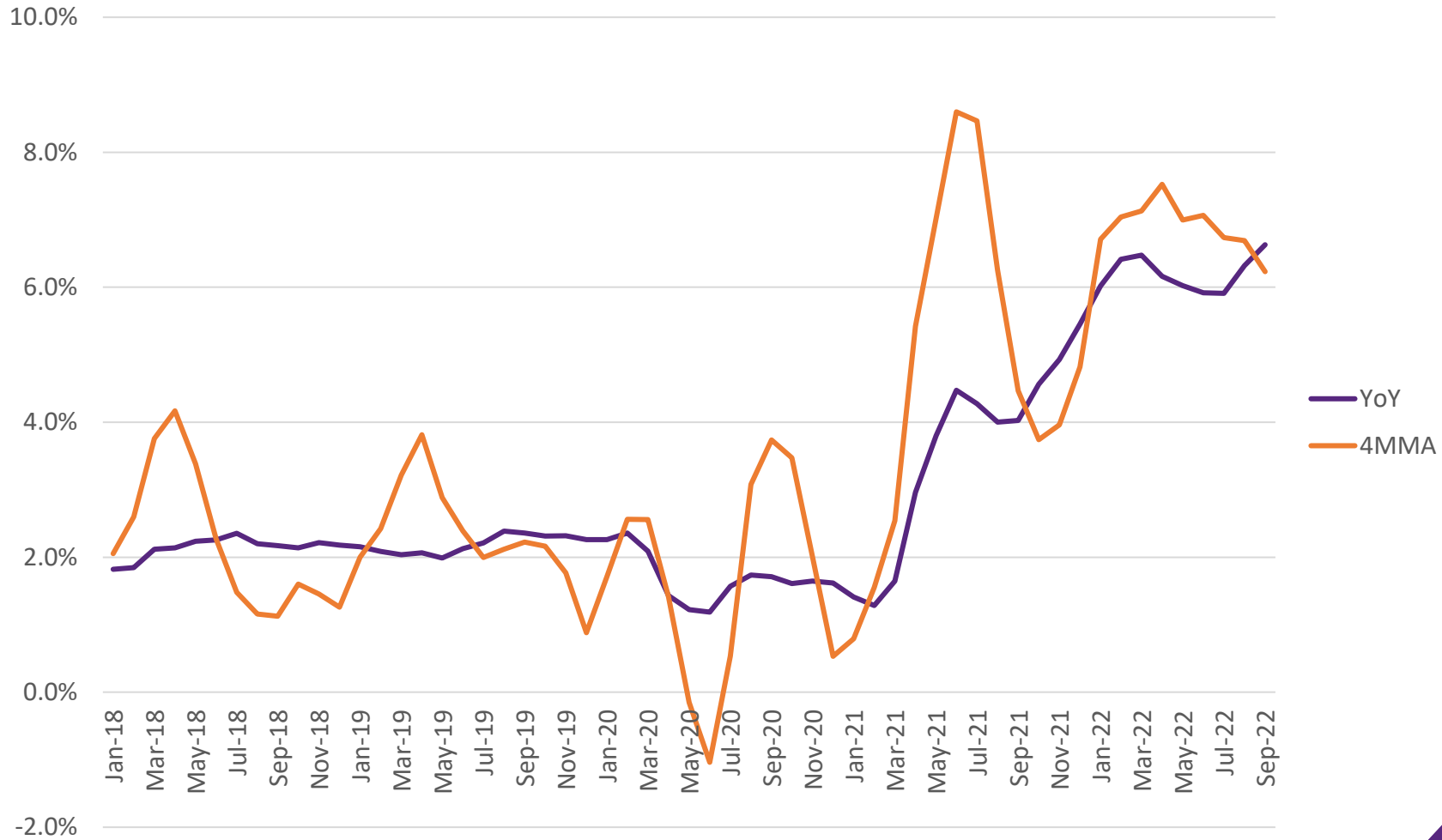
- A. Not expected
- B. Pre-pandemic pent-up demand
- C. Mid-pandemic pent-up demand
- D. Supply chain disruptions
- E. Tight labour markets
- F. Insufficient investment



# The psychology of inflation

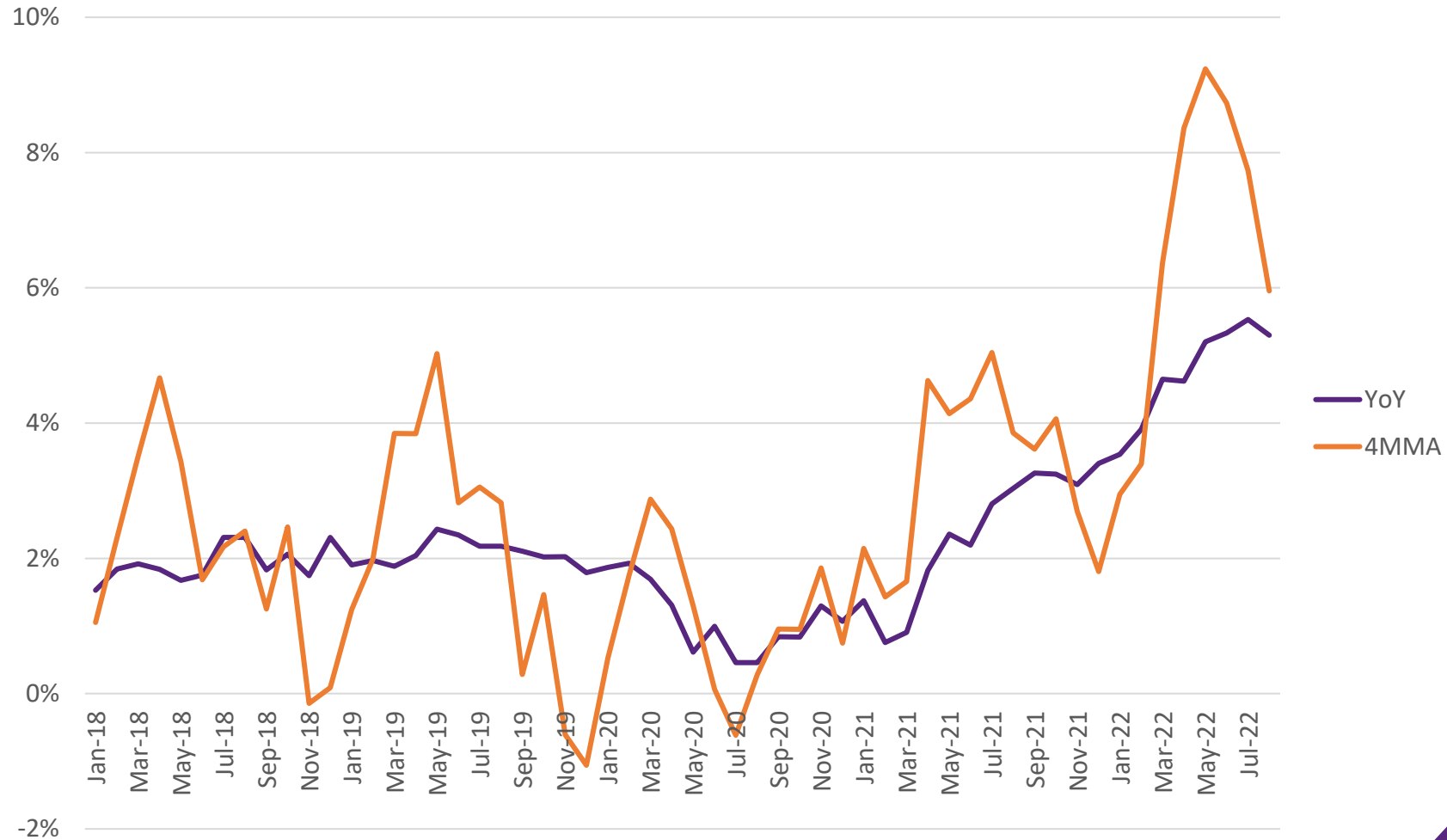


# US, core CPI, %

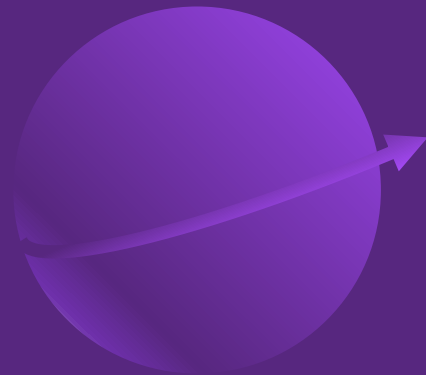


Sources: US BLS, econosphere inc.

# Canada, core CPI, %



Sources: StatCan, econosphere inc.

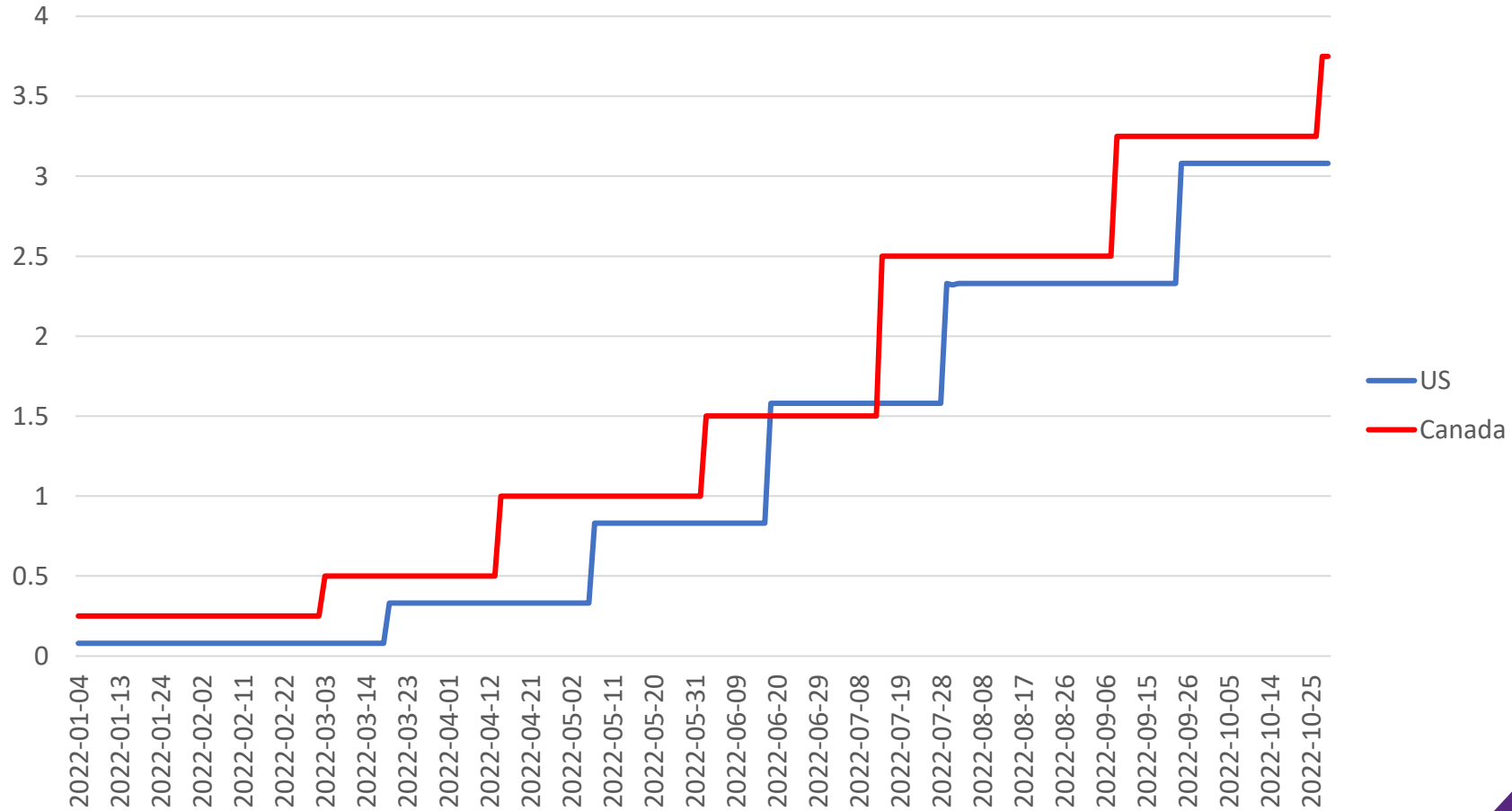


# GOVERNMENT TO THE RESCUE?

Current policy options

# Interest rates: sky's the limit?

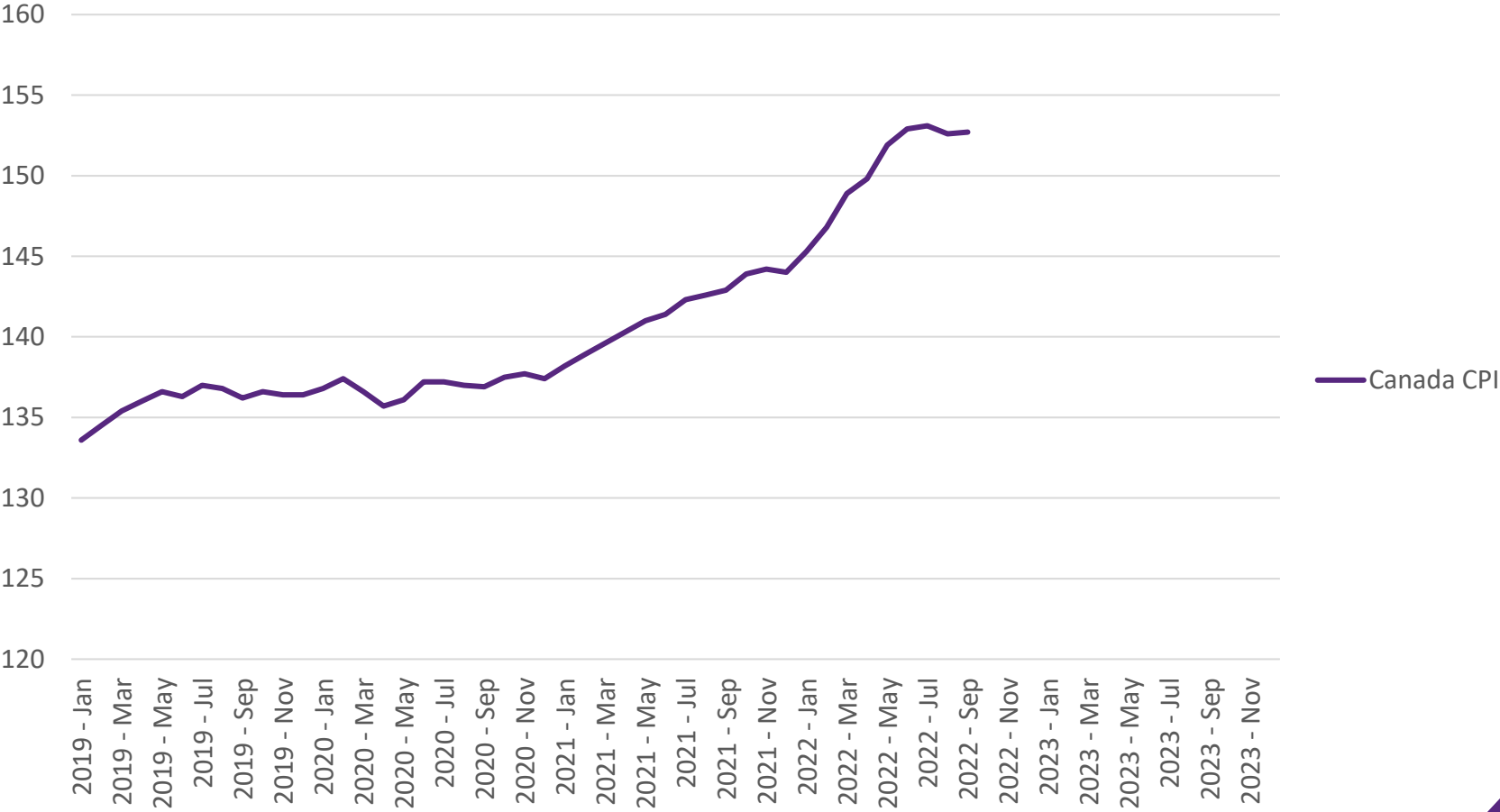
Overnight; Fed funds, %



Sources: StatCan, econosphere inc.

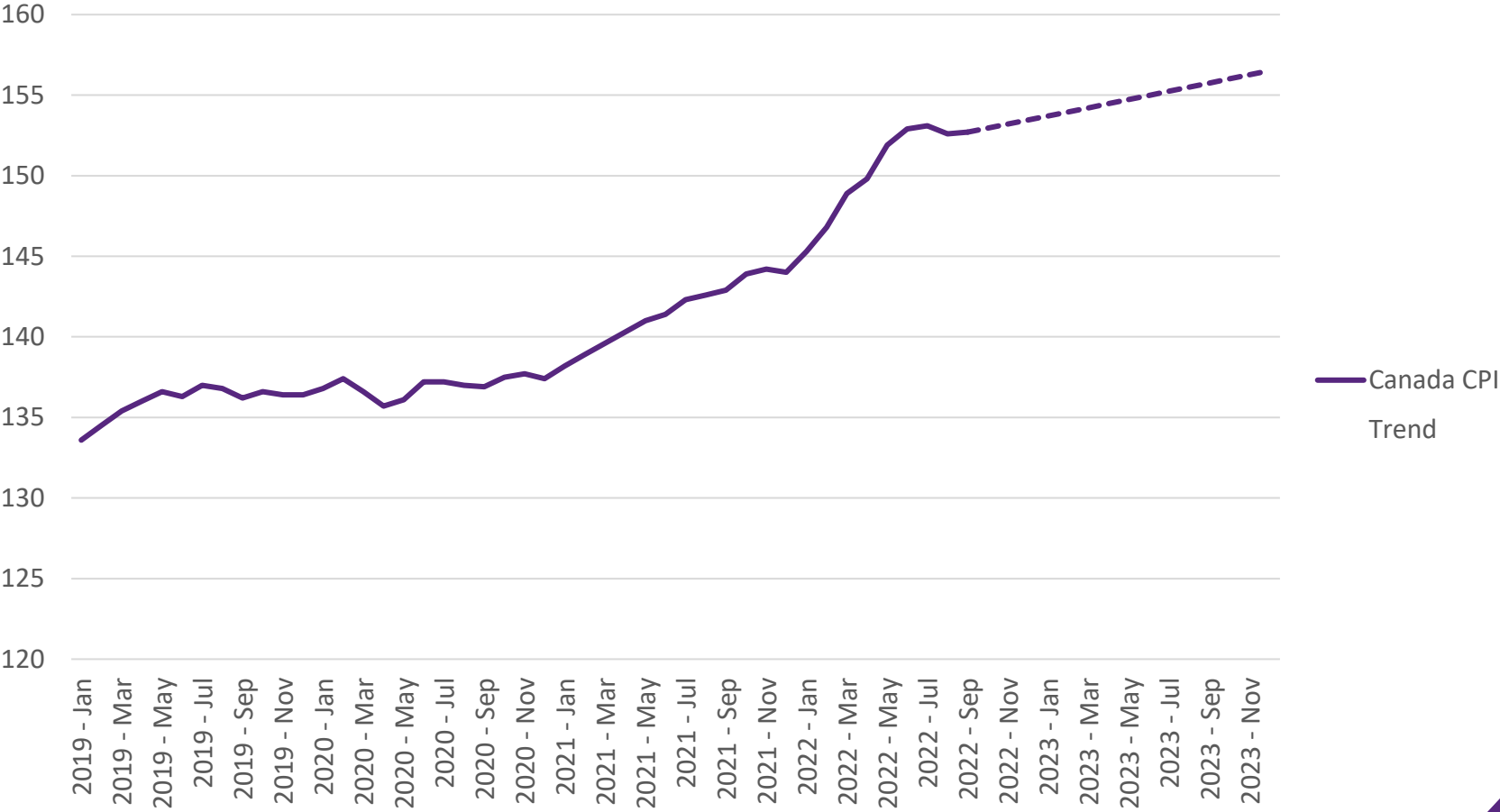
# Canada: Inflation dynamics

## CPI, actual vs trend, index levels



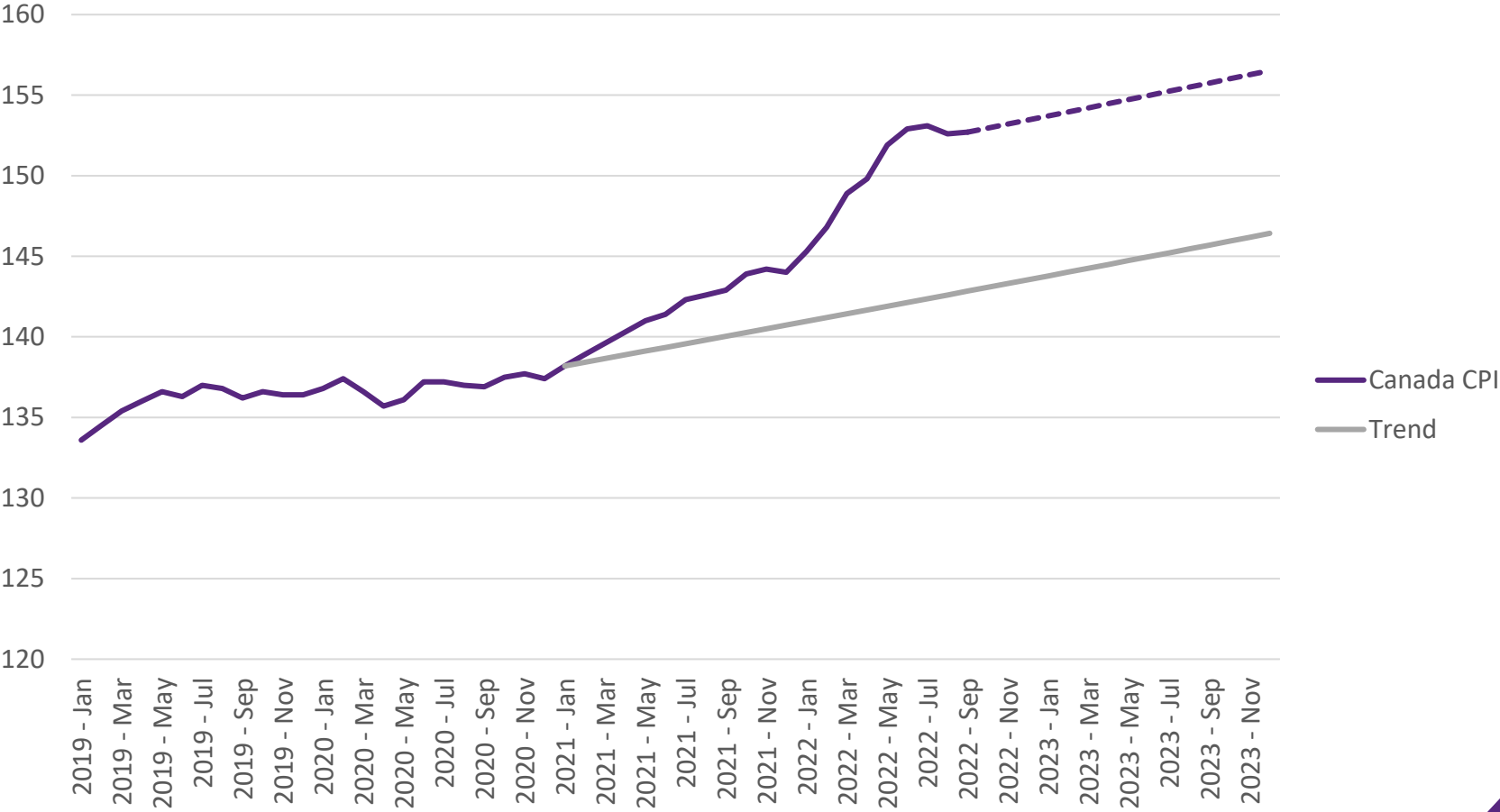
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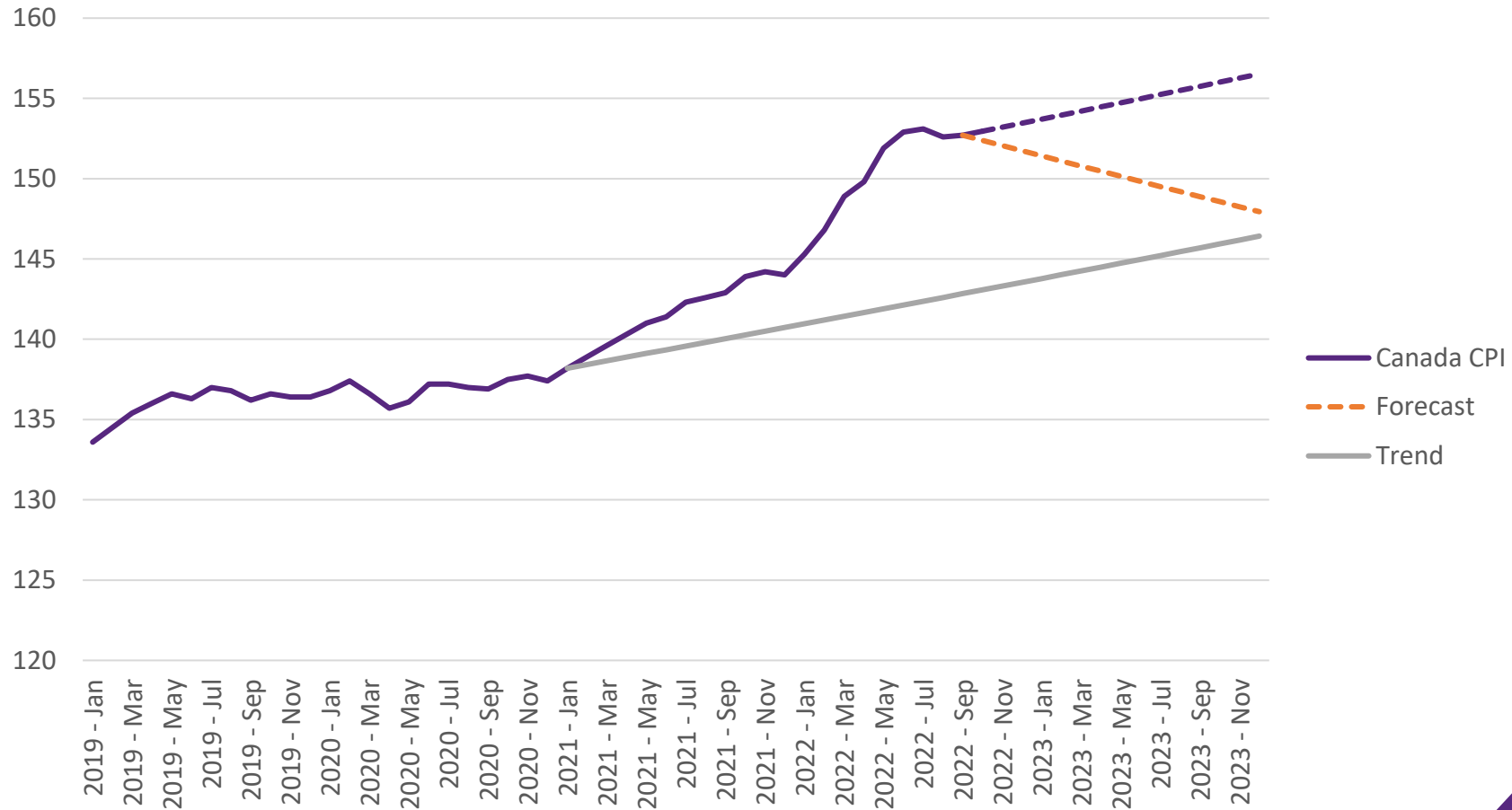
CPI, actual vs trend, index levels

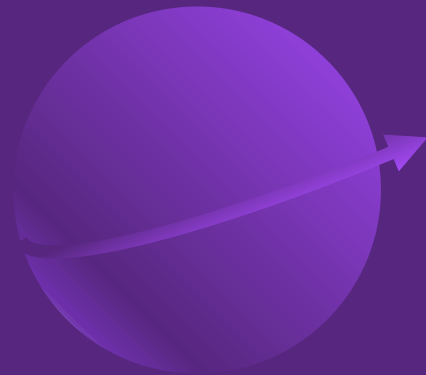




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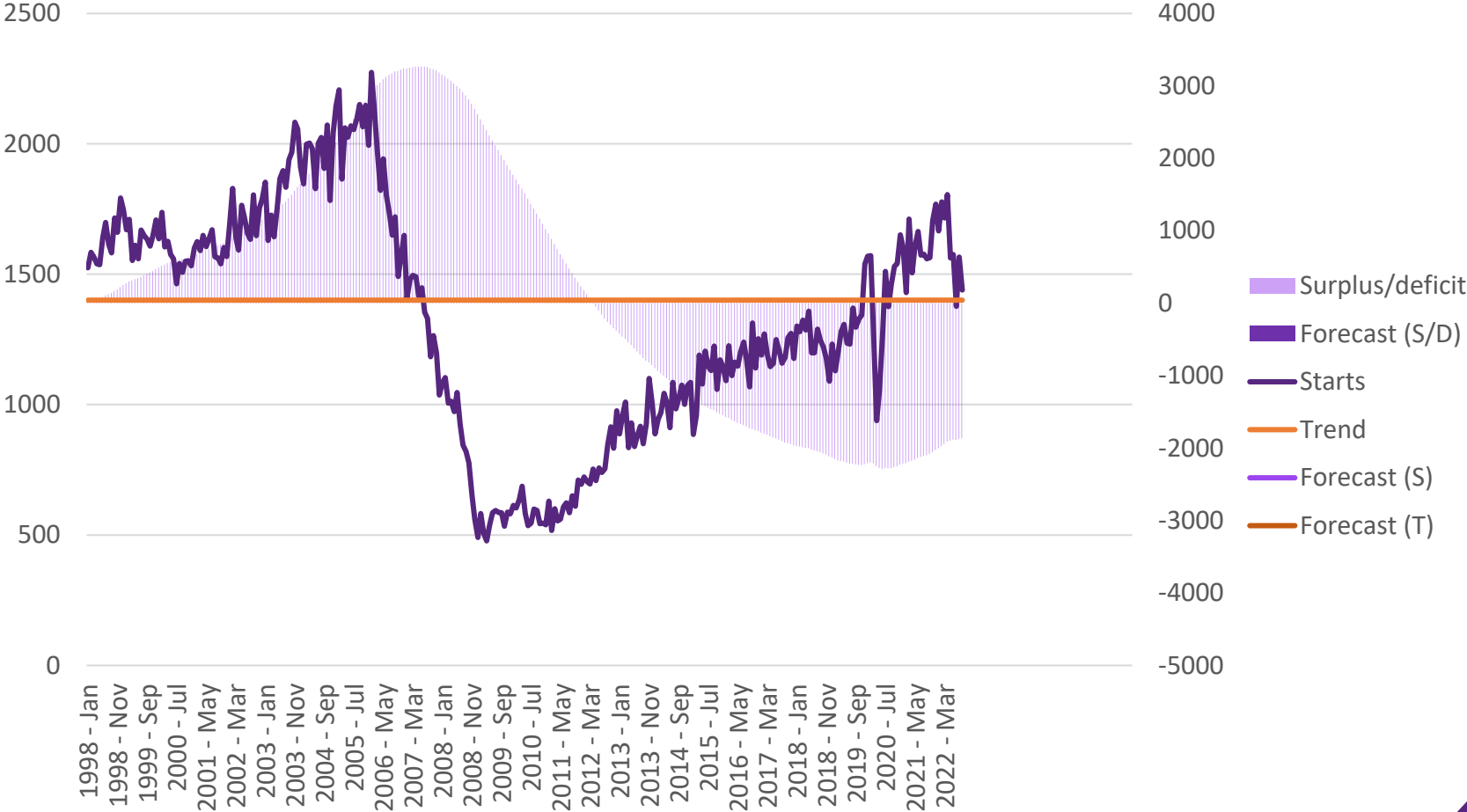


# A TALE OF TWO ECONOMIES

Canada and U.S. – the differences

# US Housing starts vs trend

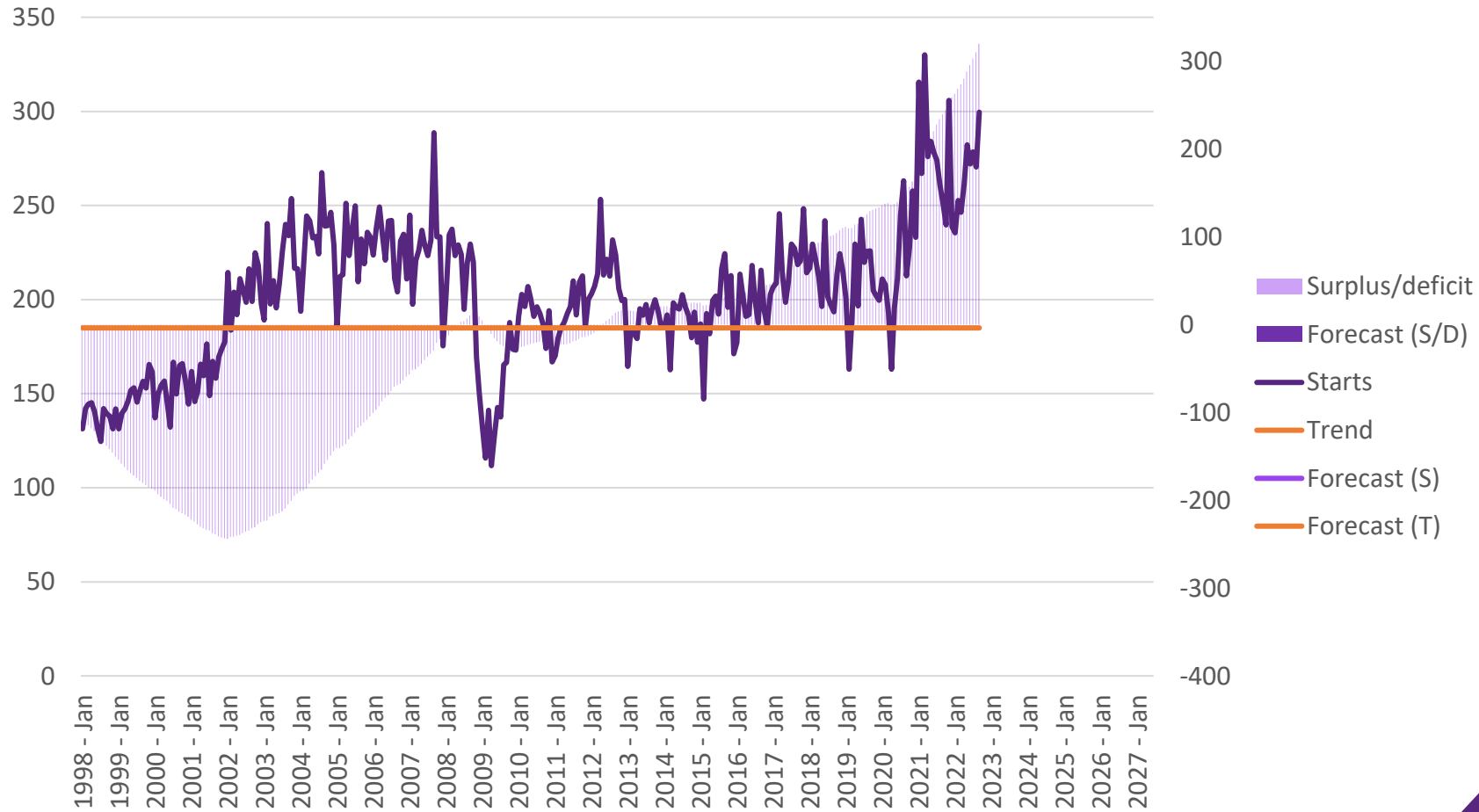
Housing starts, '000 units (L); surplus/deficit, '000 units (R)



Sources: St Louis Fed, econosphere inc.

# Canada: Housing starts vs trend

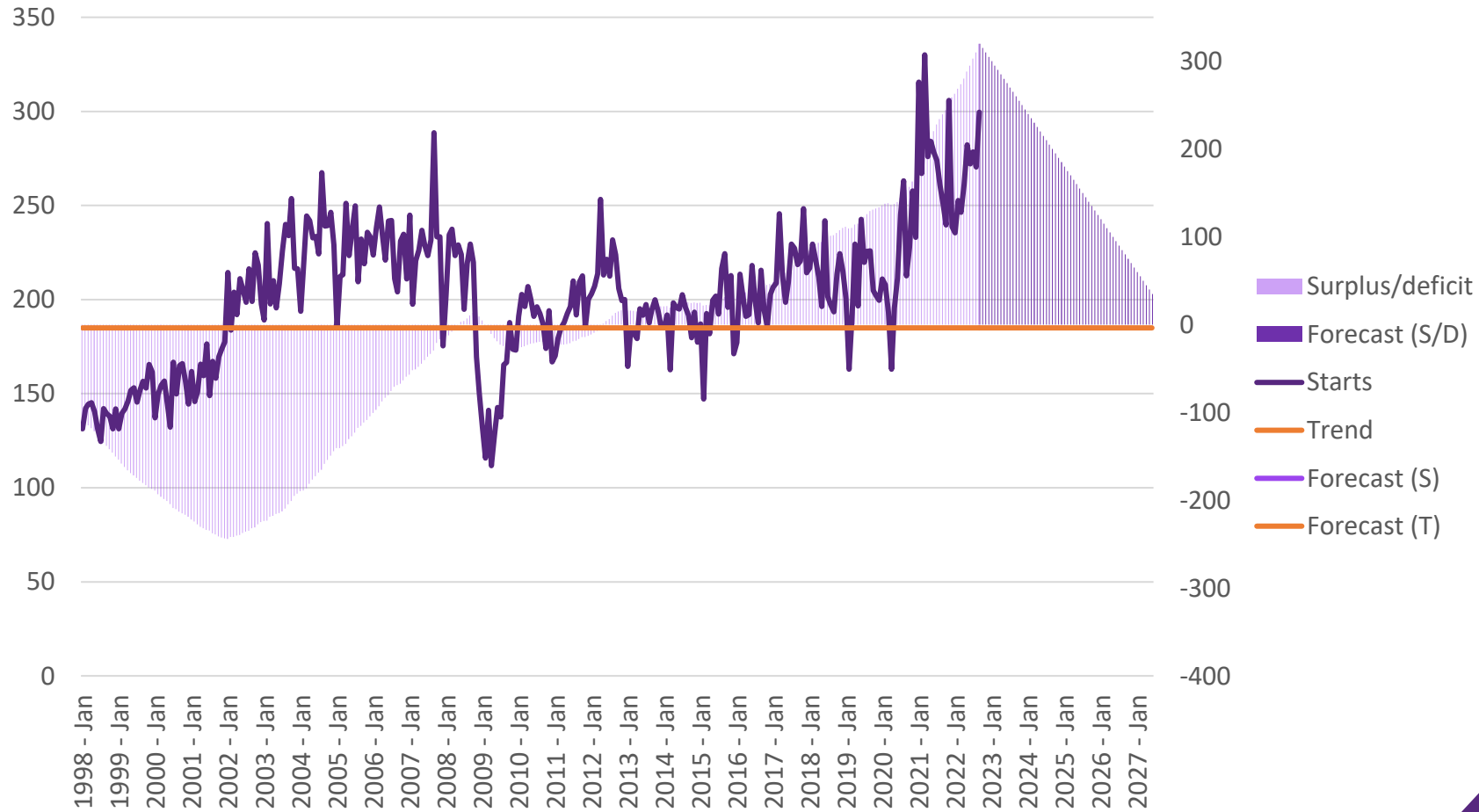
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Sources: StatCan, econosphere inc.

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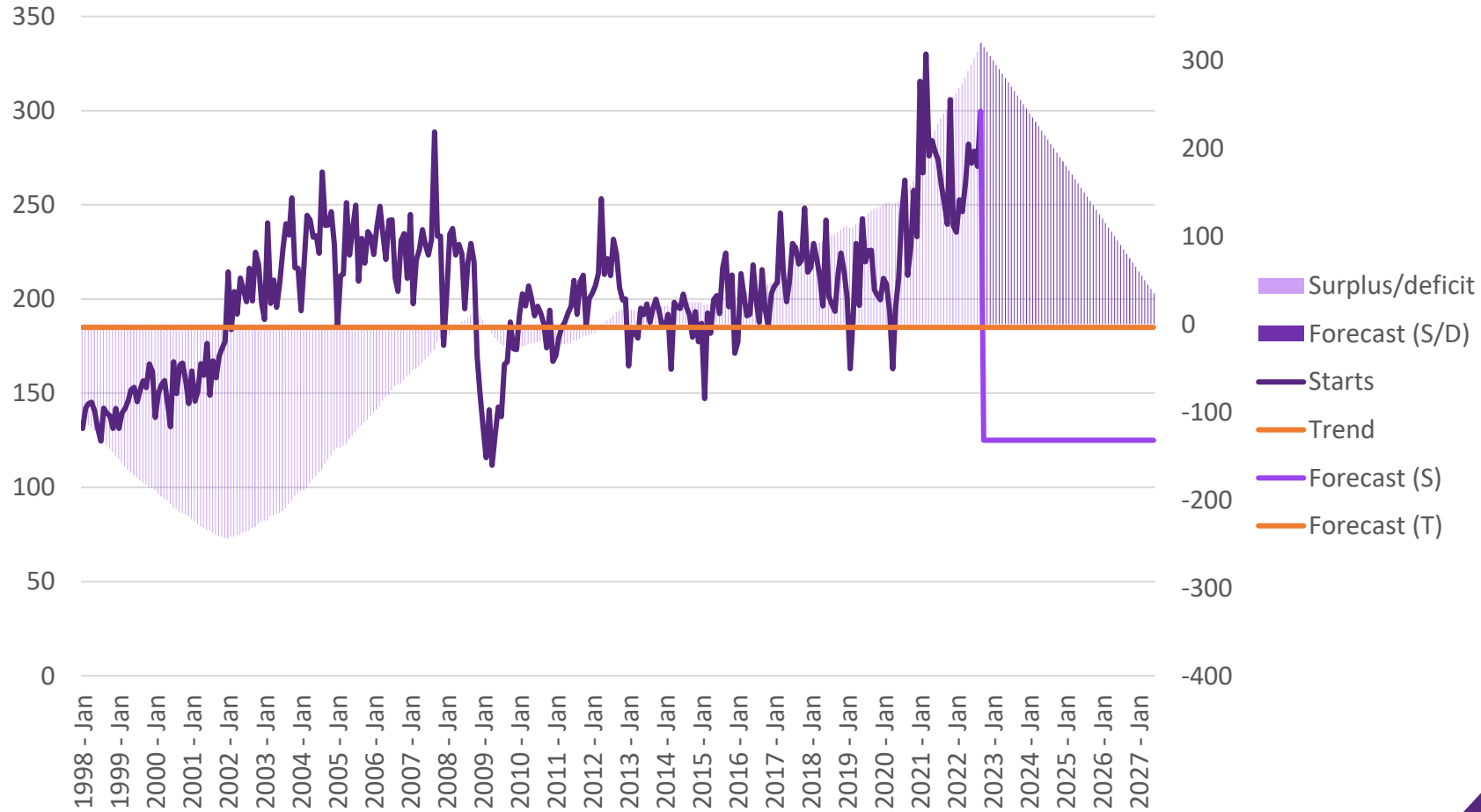
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Sources: StatCan, econosphere inc.

# Canada: Housing starts vs trend

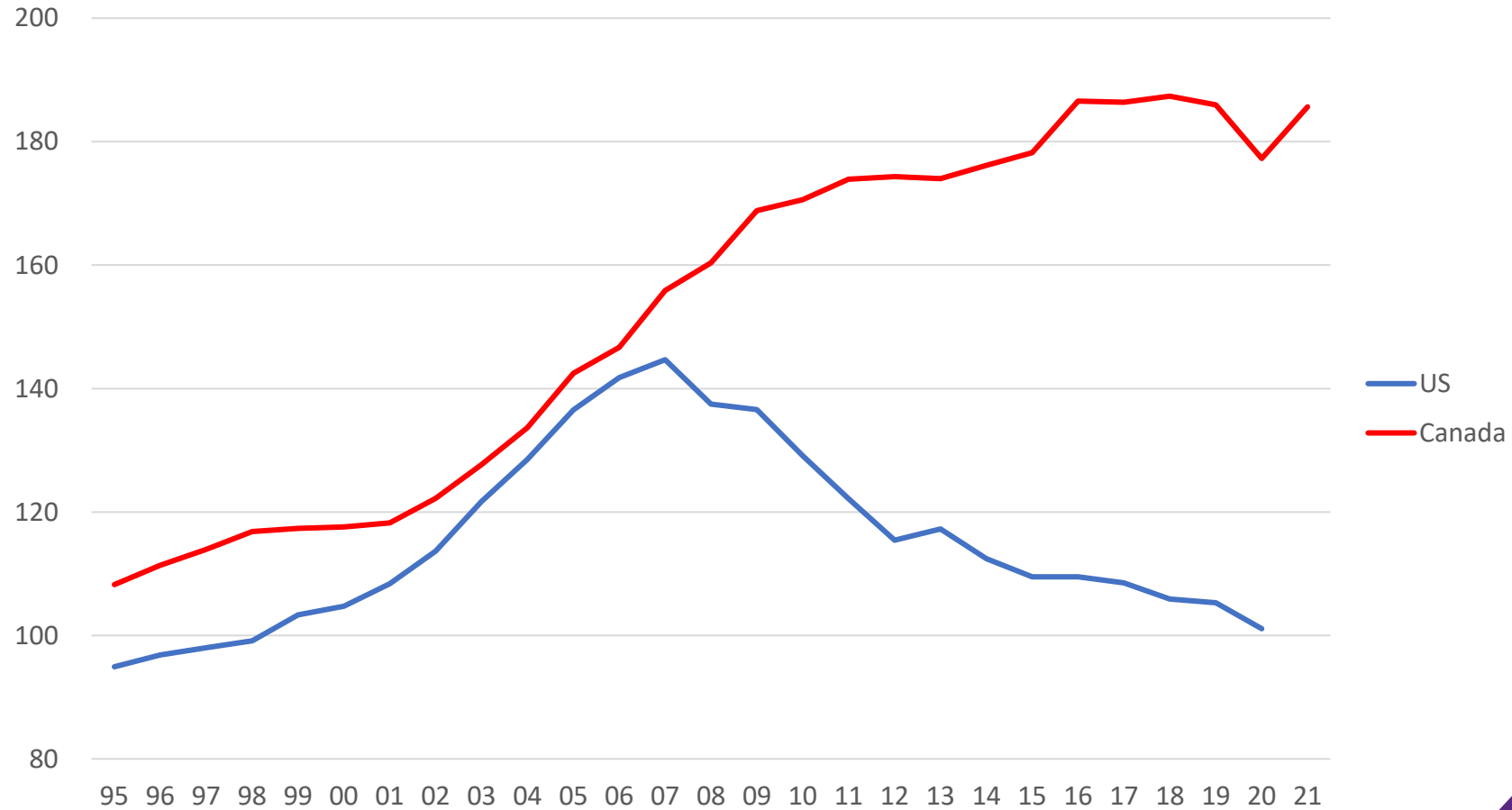
Housing starts, '000 units (L); surplus/deficit, '000 units (R)



Sources: StatCan, econosphere inc.

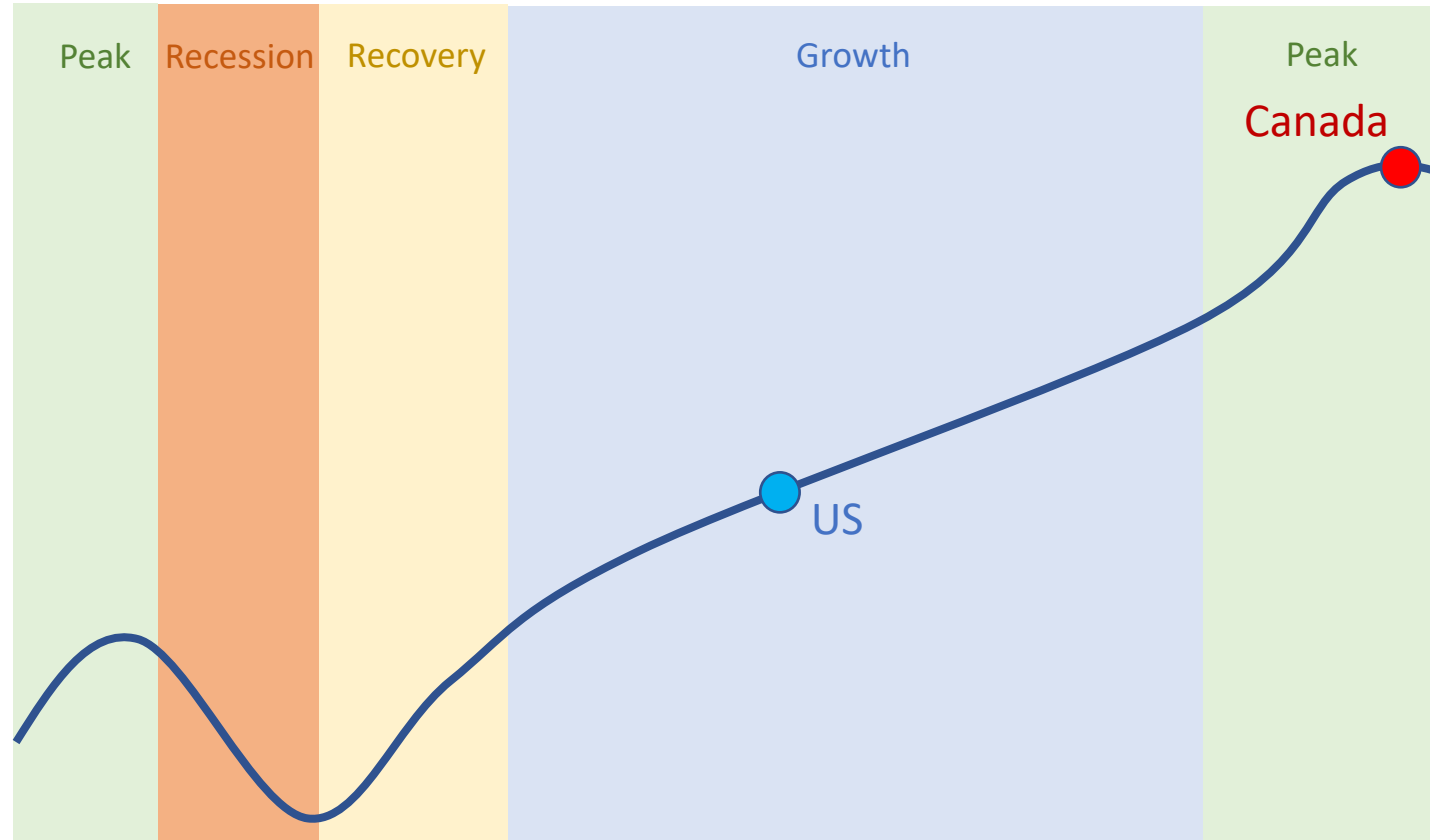
# Canada's consumer debt

## Debt-to-income ratio, %



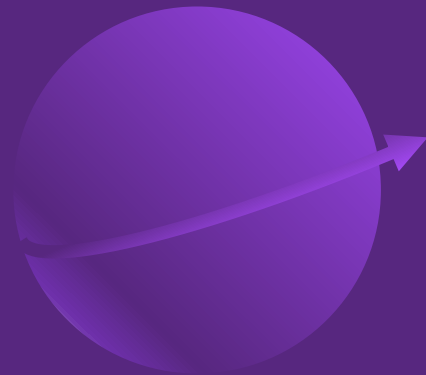
Source: OECD

# Everyone at the same point?



← 20 years →





# WRAPUP

What to do about it

# Strategy options

- Stash of savings (temporary)
- Canada-based business: weak
- Export markets stronger
- Investment
  - Economize on labour
  - Economies of scale

# Questions/discussion



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*STRATEGY FOR YOUR FUTURE*

Thank you!

It's tough to make predictions,  
especially about the future  
- Yogi Berra

The future ain't what it used to be.  
- Yogi Berra

The best way to predict the future  
is to create it.

- Peter Drucker

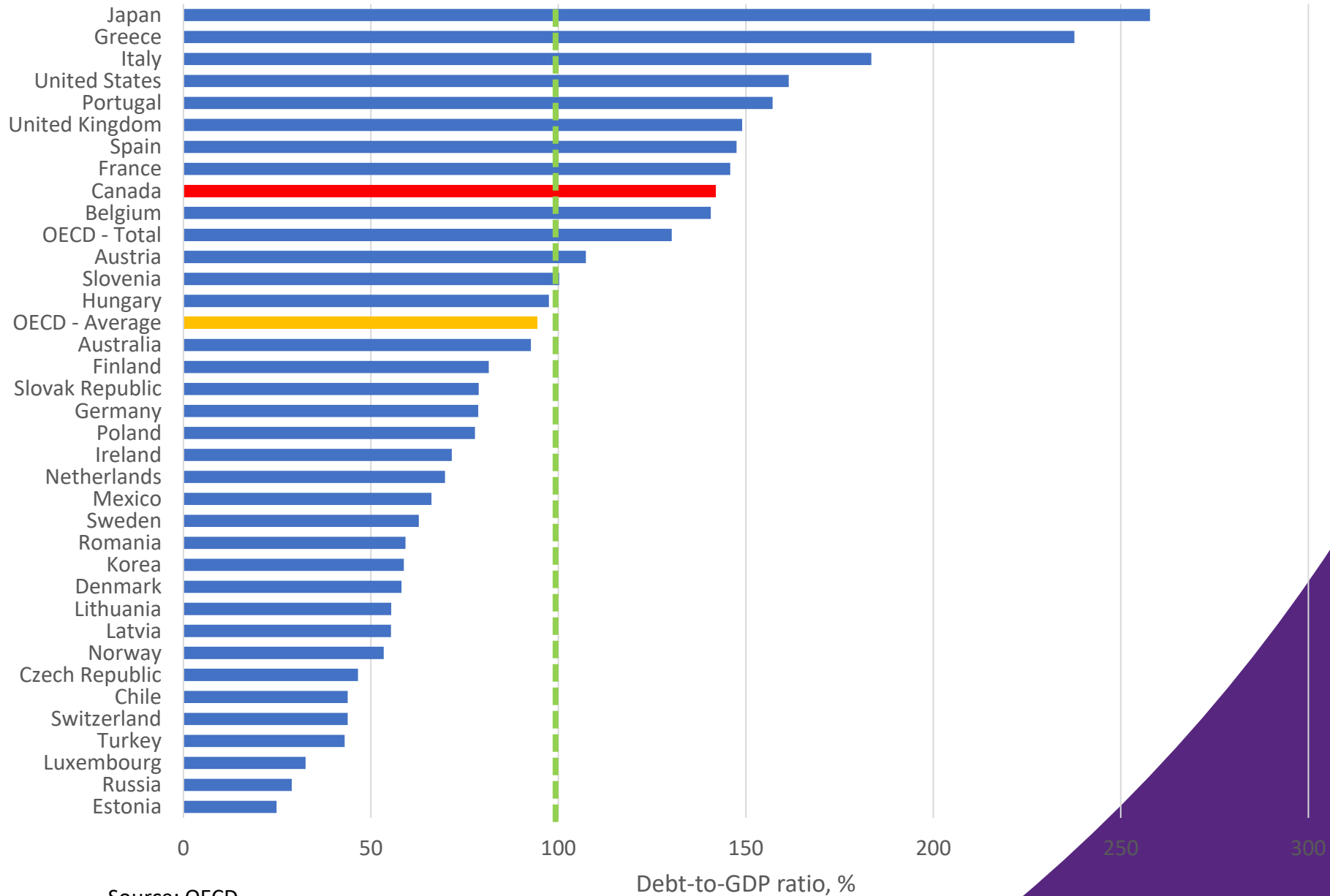
# Summary

- Stretched out cycle
- U.S. and Canada at different points
- Sources of growth changing
- Investment: badly needed
- Growth is an elixir

“If policy kills growth, populism will kill policy”

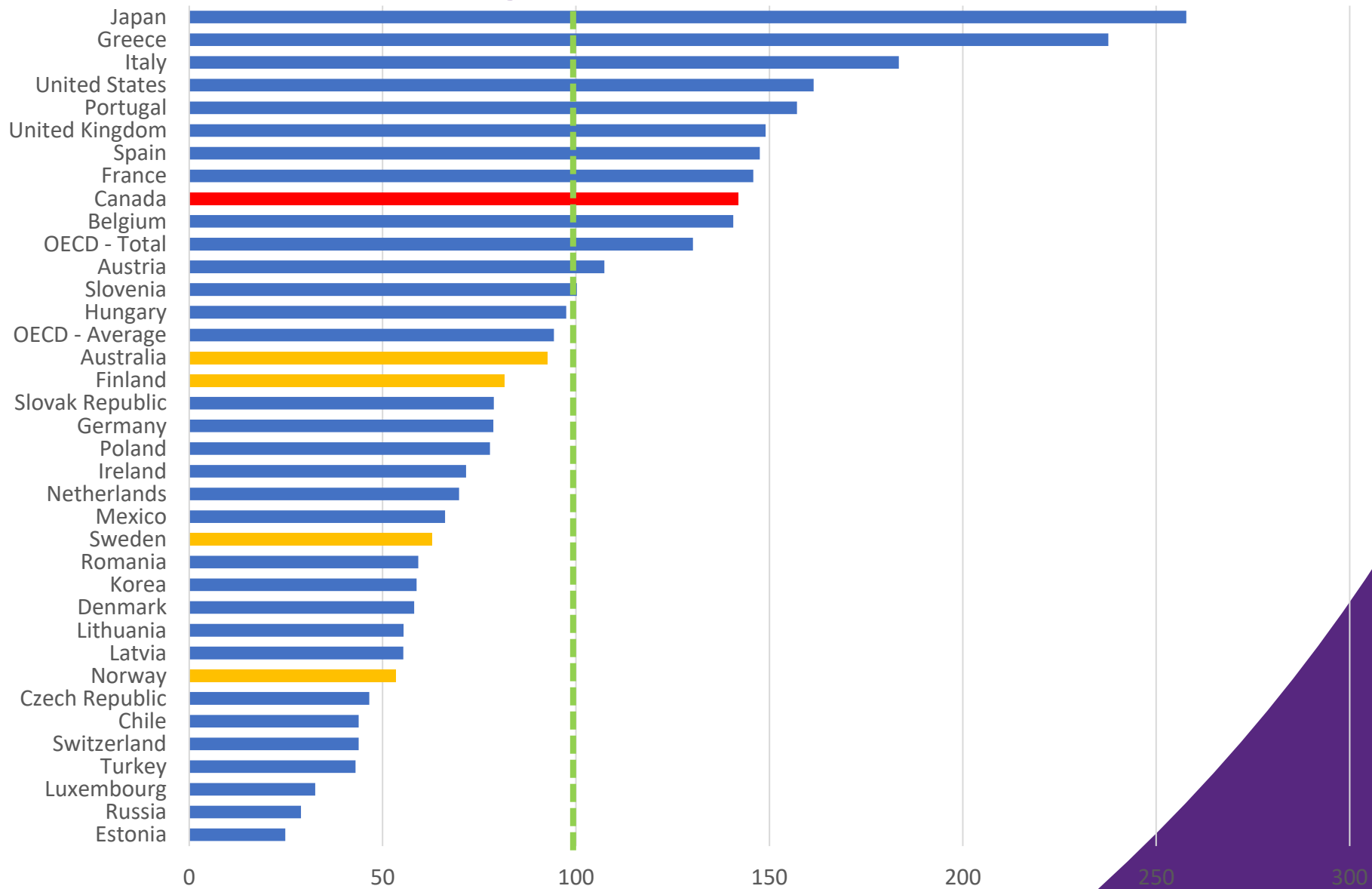


# General government debt-to-GDP, %



Source: OECD

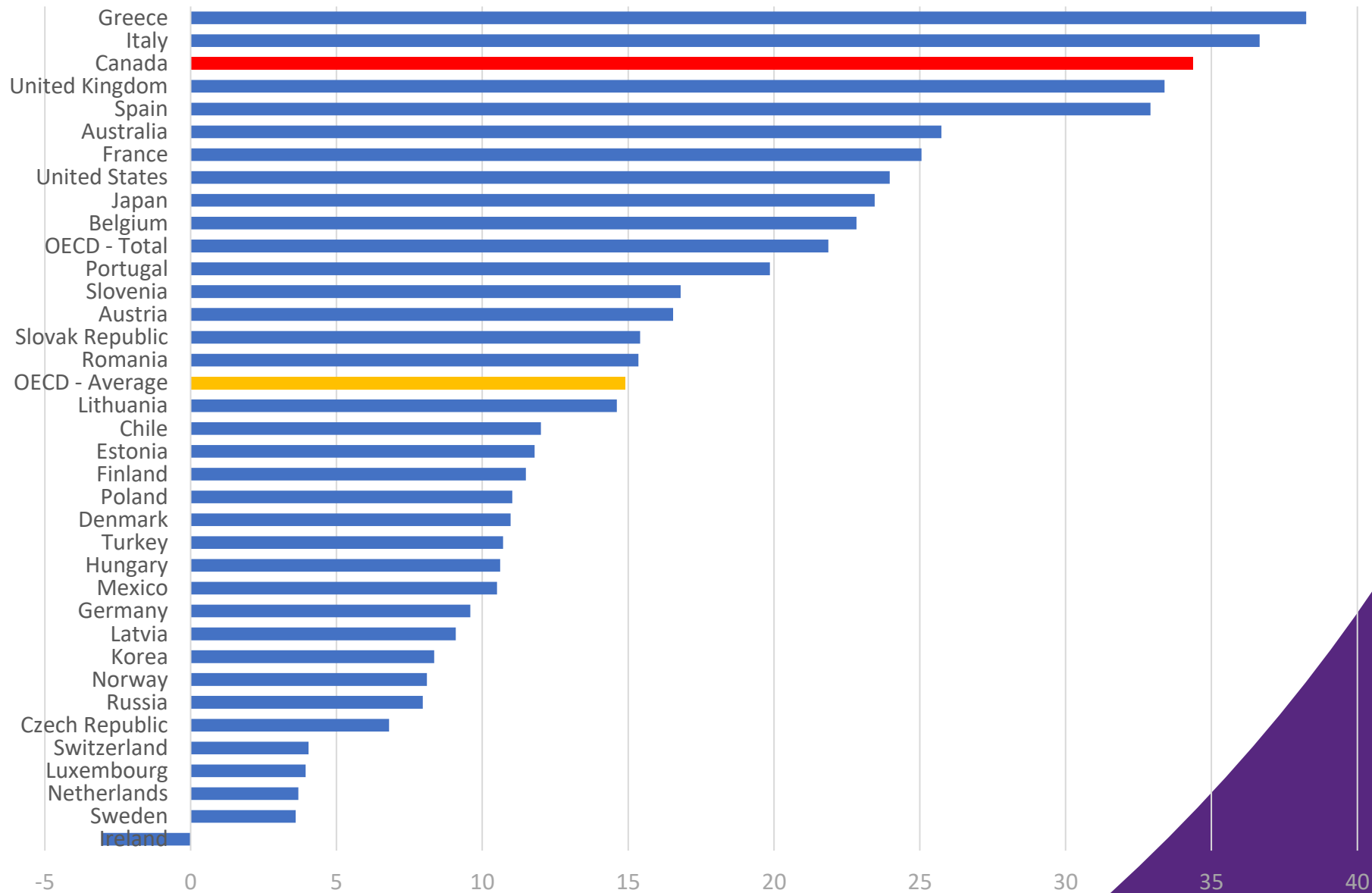
# General government debt-to-GDP, %



Source: OECD

Debt-to-GDP ratio, %

# Fiscal deterioration, 2019-2020, % of GDP

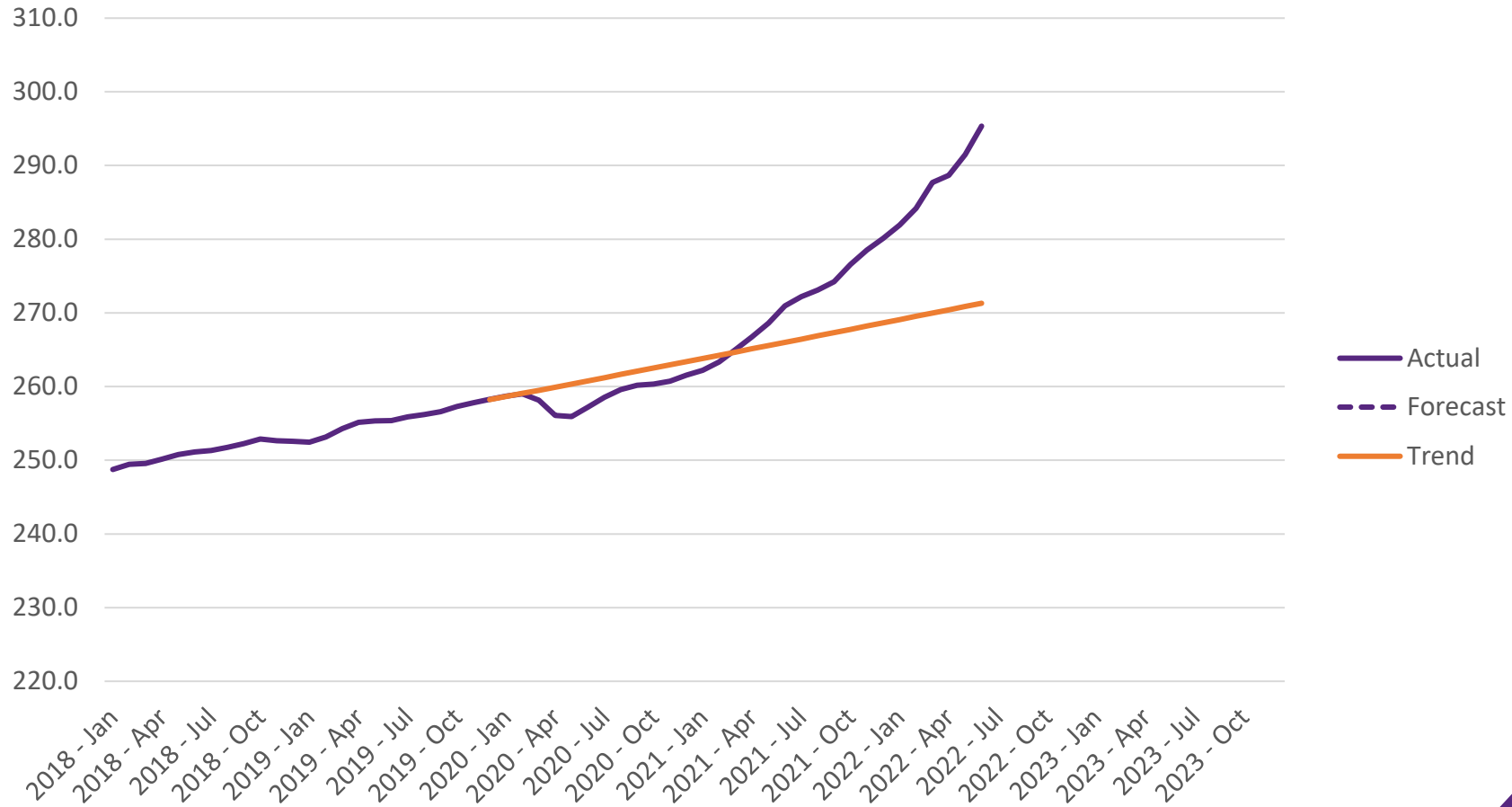


Source: OECD

Debt-to-GDP ratio, %

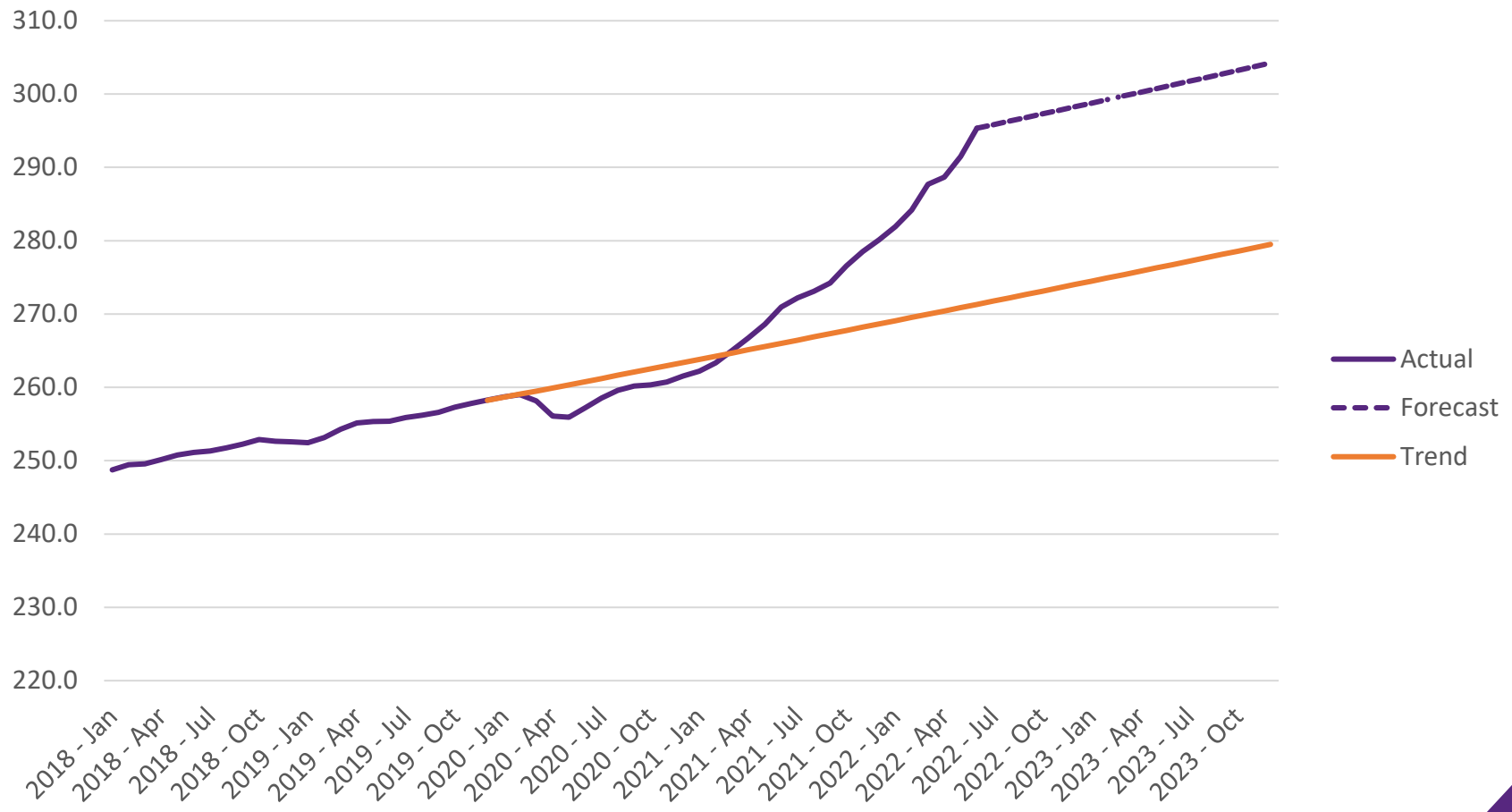
# U.S.: Inflation dynamics

## US CPI, actual vs trend, index levels



# U.S.: Inflation dynamics

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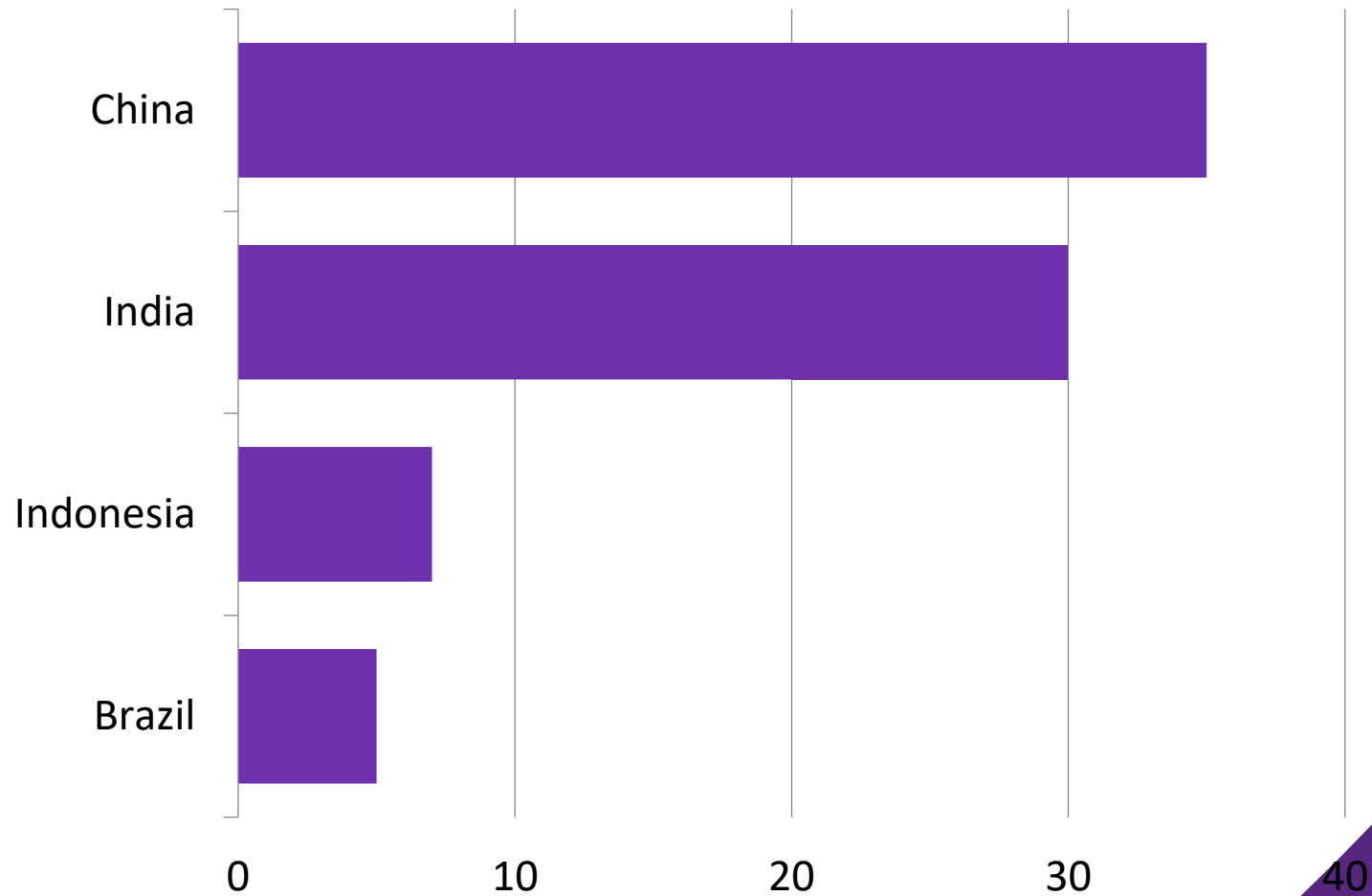


# The inflation remedies

- A. Quantitative de-easing
- B. Interest rate hikes
- C. Fiscal tightening?
- D. Personal realignment
- E. Supply-chain restoration

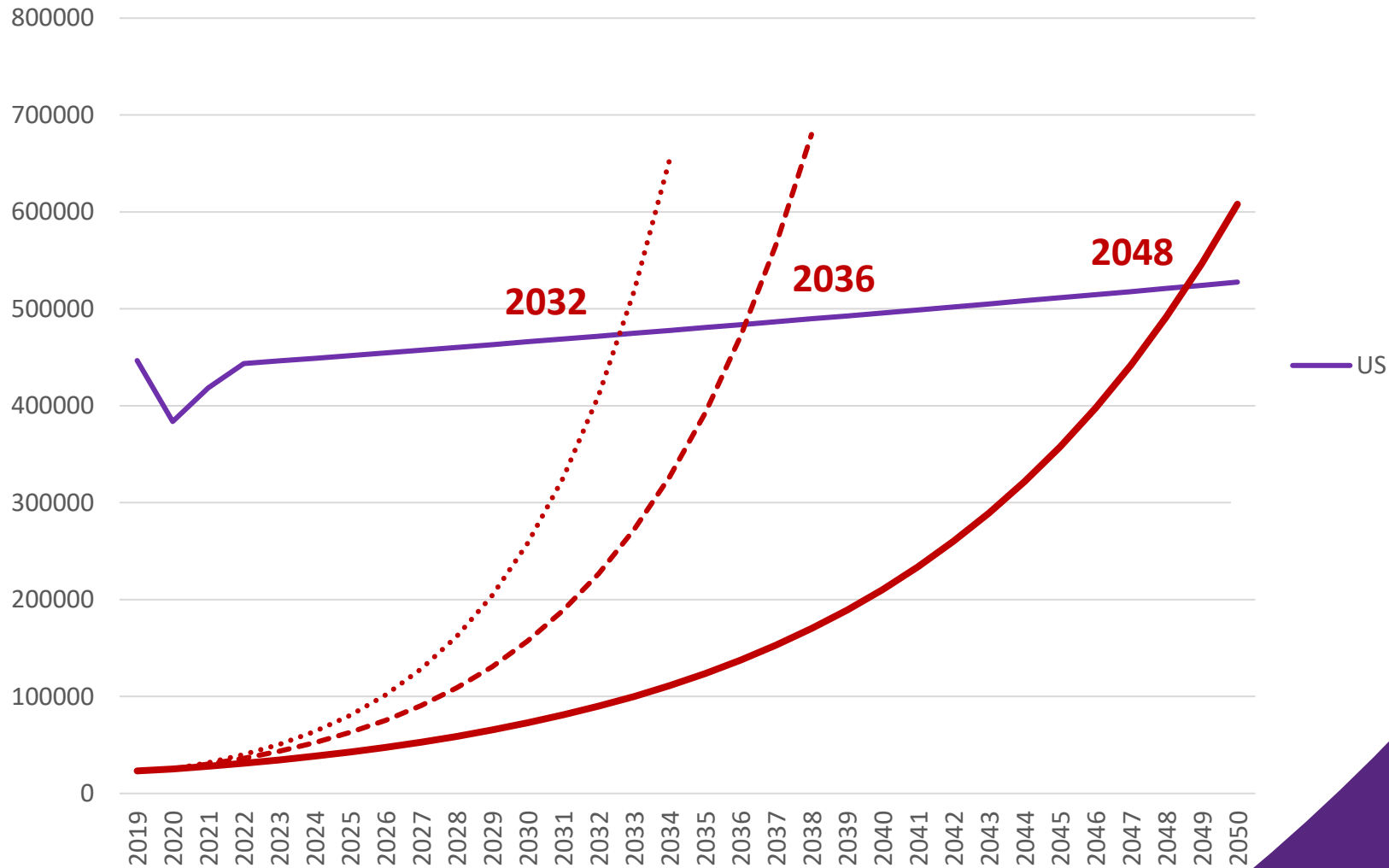
# Global growth impetus

Annual increase of the middle class, key EMs



# Global growth impetus

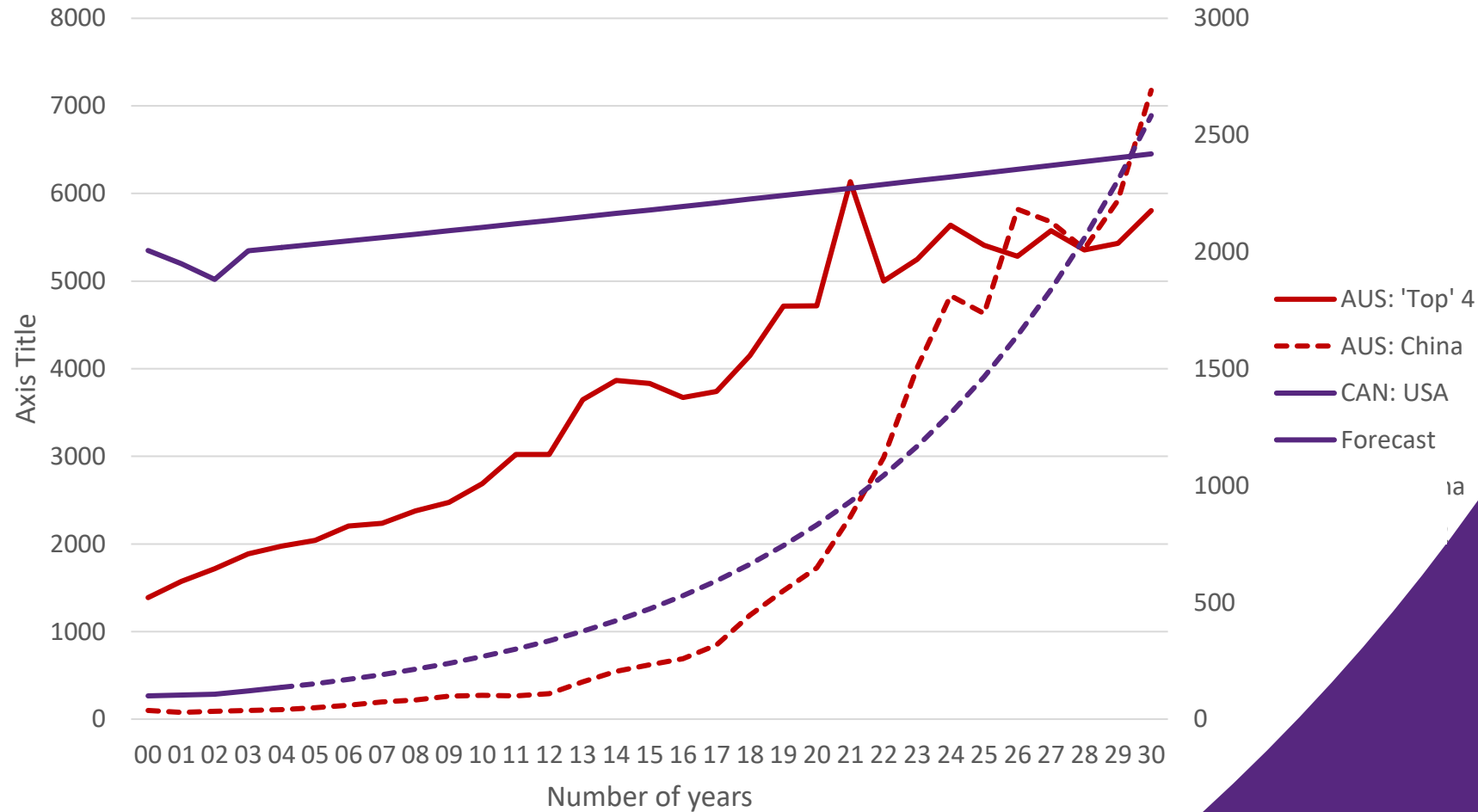
What *could* Canada's export experience be?





# Global growth impetus

Experience (Australia '87-17 actual) and possibility (Canada, 2019-50)



# KEYNOTE PRESENTATION

# Welcome to the econosphere!

Innovators Alliance Growth Strategy Lunch

October 18, 2022

**Peter Hall**

Chief Economist

econosphere inc.