IMF trims Canada's economic outlook

October 4, 2016 – *The Globe and Mail*

The International Monetary Fund has cut its outlook for Canada's economy, which has been hit by wildfires in the oil patch, among other things.

Bringing its forecasts more into line with other such outlooks, the IMF now projects economic growth of 1.2 per cent this year and 1.9 per cent in 2017.

In each case, the outlook has been trimmed by 0.2 of a percentage point from its July projections.

Economic growth in Canada, the IMF said Tuesday in its world economic outlook, will be "held back by the severe impact of wildfires in Alberta on oil output in the second quarter."

There are other factors, of course, such as a weaker-than-expected showing in the United States, which is "compounding the setbacks" from one-time issues such as the wildfires.

"Canada's oil production is strong, but new investment in oil sand fields is limited," the IMF added.

The IMF also noted the projected impact of fiscal stimulus around the world, to the tune of over a percentage point in Canada.

Globally, the IMF maintained its weak forecast for growth and warned that further stagnation will fuel more populist sentiment against trade and immigration that would stifle activity, productivity and innovation.

In the latest update of its World Economic Outlook, the IMF said that a drop in U.S. growth for 2016 due to a weak first-half performance would be offset by strengthening in Japan, Germany, Russia, India and some other emerging markets.

The Fund kept its overall global growth forecasts unchanged at 3.1 per cent for 2016 and 3.4 per cent for 2017 after cutting its outlook for five straight quarters.

"Taken as a whole, the world economy has moved sideways," IMF chief economist Maurice Obstfeld said in a statement.

"Without determined policy action to support economic activity over the short and longer terms, sub-par growth at recent levels risks perpetuating itself."

The new forecasts were released as global policy makers begin gathering in Washington for the IMF and World Bank annual meetings this week.

The IMF said advanced economies as a whole will see a weakening of growth in 2016, down 0.2 percentage point from July to 1.6 per cent, while emerging market and developing economies will see a 0.1 percentage point gain in growth to 4.2 per cent.

The IMF said its 2017 forecast for both groups was unchanged, with advanced economies forecast to grow 1.8 per cent and emerging markets growing 4.6 per cent.

The United States accounts for much of the decline in advanced economies, with a reduction to 1.6 per cent growth from 2.2 per cent forecast in July, due to a disappointing first-half performance caused by weak business investment and a draw-down of goods inventories.

The drag from a stronger dollar and lower energy prices should fade by next year.

The Fund also argued for a gradual approach to Federal Reserve interest rate hikes "tied to clear signs that wages and prices are firming durably."

Its growth forecast for Japan improved slightly due to government spending, a delay in a consumption tax increase and expansionary monetary policy, but only to a weak 0.5 per cent in 2016 and 0.6 per cent in 2017.

For Britain, the IMF lifted its 2016 forecast by 0.1 percentage point as retail spending has held up better than expected after the June vote to leave the European Union.

But it lowered its 2017 forecast by 0.2 percentage points to 1.1 per cent on anticipation that uncertainty over separation from Europe will take a bigger toll on investment in the country.

Growth forecasts for China remained unchanged at 6.6 per cent for 2016 and 6.2 per cent for 2017 as strong policy support and credit growth were fueling domestic consumption.

India's growth will improve slightly to 7.6 per cent in both years, while Russia will benefit from a rebound in energy prices.

Obstfeld said that persistently weak growth that leaves lower-income people behind has fueled a political movement "that blames globalization for all woes" and seeks to raise trade barriers, adding that the vote for "Brexit" was one example of this.

"In short, growth has been too low for too long, and in many countries its benefits have reached too few – with political repercussions that are likely to depress global growth further," Obstfeld said.