

WORLD ECONOMIC CONDITIONS

Medium-term prospects for the global economy remain bright as macroeconomic fundamentals are sound in Canada, the U.S. and Western Europe.

In 2000, the world economy posted the strongest annual growth in over 15 years (4.7%). However, growth slowed considerably late in 2000, triggered by a dramatic downturn in the technology sector that effectively ended a U.S. 10-year economic expansion. Through trade links, this weakening of the U.S. economy spread rapidly to East Asia, Western Europe, Mexico and most of Latin America. Despite posting a 4.4% expansion for 2000, Canada's economy posted real GDP growth of only 1.5% in 2001.

The horrific attacks on the World Trade Center and Pentagon on September 11, 2001 impacted on a global economy that had already lost most of its forward momentum. The disruption of economic activity, including the impacts on air transport and trade flows, contributed materially to the 3rd quarter decline in U.S. real GDP. Growth in Canada's real GDP moderated to 1.2% in 2001 from 4.1% in 2000.

For 2002, the world economic outlook remains clouded by the many unknowns, including expectations for U.S. business and consumer confidence. Other uncertainties include how effectively Japan deals with its structural issues, and how quickly financial market confidence is restored in key emerging markets.

The recovery is not anticipated to begin before the second half of 2002 and will be weaker than previously forecast¹. Private sector forecasts for the U.S. economy were projecting average annual growth of about 1% in 2001. Slightly stronger growth rates are expected in Europe. Continuing decline is expected for Japan. For Canada, real GDP is projected to expand about 1.5% in 2002.

Medium-term prospects for the global economy remain bright as macroeconomic fundamentals are sound in Canada, the U.S. and Western Europe. While Japan continues to face serious economic challenges, China's sustained growth is an increasingly important anchor for East Asian economic performance. With the technology cycle showing signs of having bottomed out, the prospects for recovery in the technology-dependent East Asian economies are also improved. However, developing economies that depend on international capital markets may continue to experience the high costs of international borrowing in the face of weak confidence.

For further information on the economic outlook for Canada's major trade partners, see Annex II.

¹In its October 2001 *World Economic Outlook*, the International Monetary Fund forecast global growth to slow to 2.6% in 2001, just above the threshold of 2.5% that commonly marks a global recession.

Note: This section is based on the most recently available information at the time of publication.