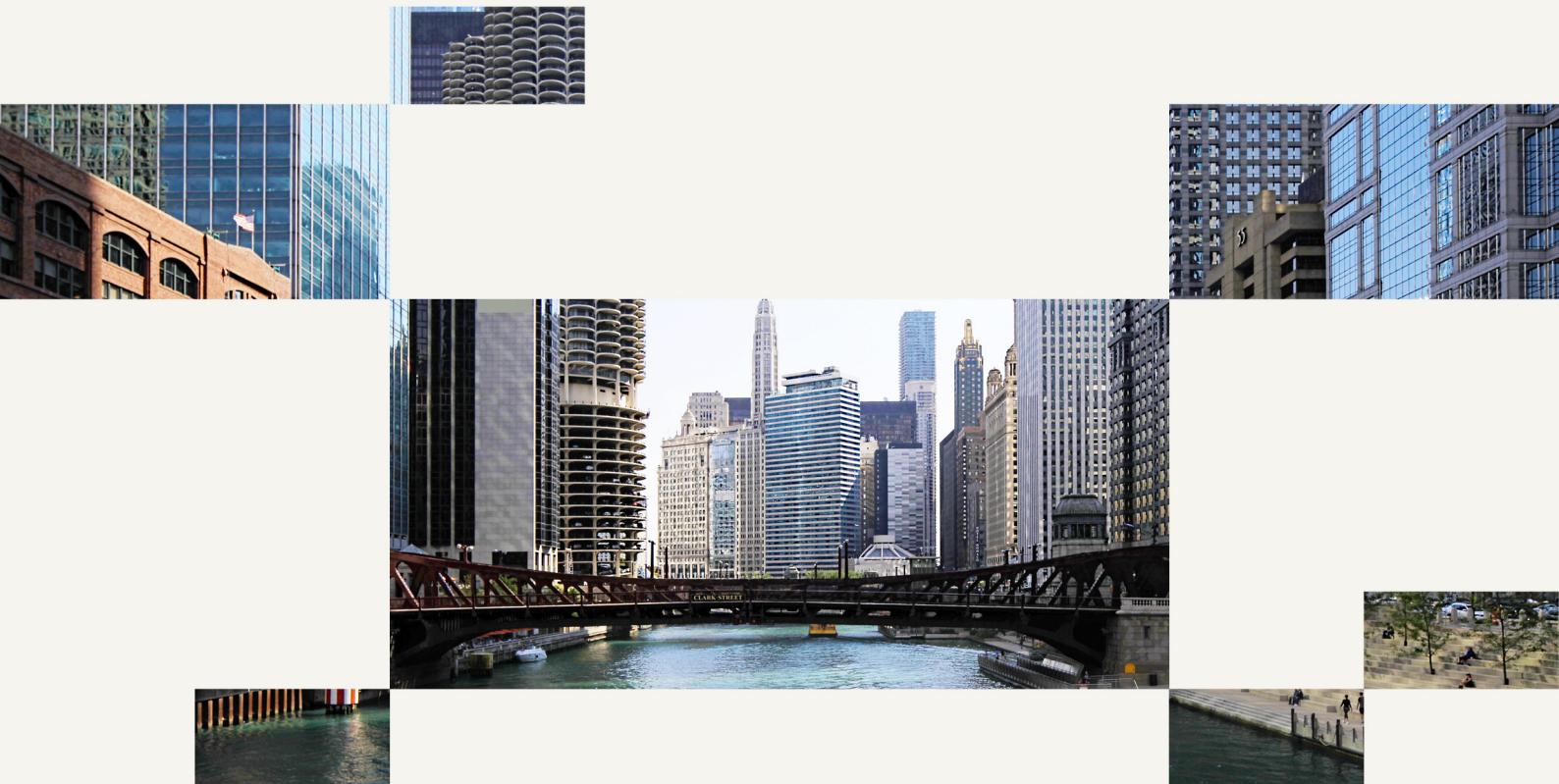


# North America in 2022: key trends and forecasts

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# North America in 2022: key trends and forecasts

**T**he year 2021 was an eventful one for the US and Canada. Recovery from the coronavirus crisis accelerated in both economies, fuelled by the quick rollout of covid-19 vaccines. Both countries also faced important political events, with the change of government in the US in January and a snap parliamentary election in Canada in September.

2022 will be another consequential year. In this special EIU report, we outline our forecasts for the major developments that we believe will shape the economic, political and policy landscapes in the US and Canada over the next 12 months.

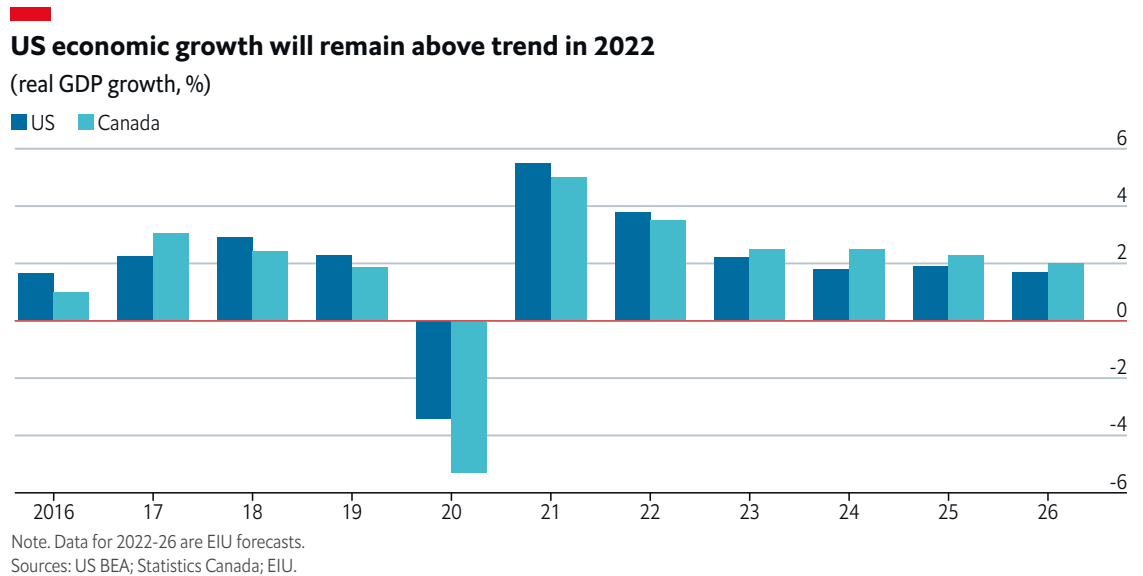
## US: all eyes on the mid-term elections

### Key forecasts

- The US economy will register another year of impressive growth in 2022, following its quick rebound from the coronavirus crisis in 2021. Large-scale government spending will again play a role, unless derailed by legislative gridlock (a growing risk).
- Concerns about high inflation will prompt the Federal Reserve (Fed, the central bank) to start raising interest rates by March. We expect nine rate increases in total by early 2024, with the federal funds target rate rising to 2.4%.
- China will remain the focal point of US foreign policy as tensions between the two countries remain high. Russia and Iran will be (lesser) priorities. Otherwise, a continuing trend of global disengagement is on the cards for the US.
- We expect the Republicans to retake the House of Representatives (the lower house) in the November mid-term elections. The race for the Senate (the upper house) is too close to call. Losing both houses would put the Democrats on extremely weak footing for the next elections in 2024.

### Economic outlook: growth will remain strong, at 3.8%, but risks abound

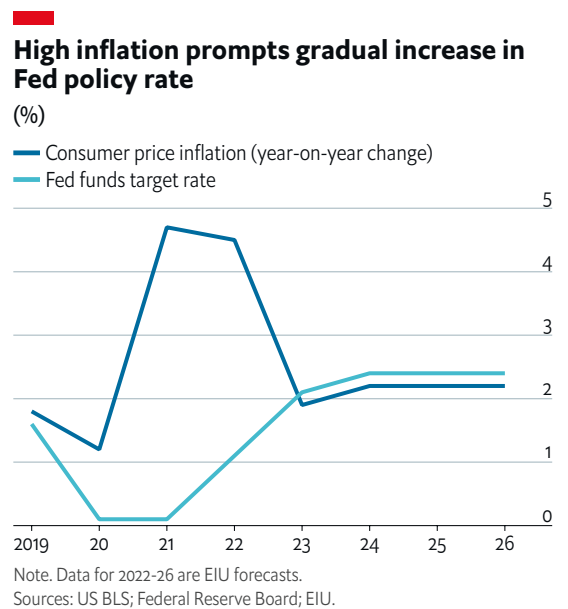
The US was the fastest of the G7 economies to recover from the coronavirus crisis, with real GDP returning to pre-pandemic levels in mid-2021. We expect this momentum to carry over into 2022, and large-scale government spending will again play a role. An aggressive fiscal response powered the 2021 recovery, with the federal government approving nearly US\$5trn (about 25% of annual GDP) in new emergency spending during the 12 months to March 2021. In 2022 fresh spending will be channelled through two landmark pieces of legislation for the administration of the president, Joe Biden. The US\$1.2trn bipartisan infrastructure bill, approved in November 2021, will support job creation and activity in construction, manufacturing and professional services. Meanwhile, we expect a slimmed down version of the failed Build Back Better Act to pass by end-March 2022, at around US\$1.5trn. This



will support climate-change mitigation investments and a widening of the social safety net, providing a further boost to private consumption. If negotiations on this bill take longer than expected, or if a substantially smaller compromise package passes, real GDP growth could fall short of our baseline forecast of 3.8% in 2022.

## Monetary policy: the Fed will raise rates by March

Inflation poses the biggest threat to the US economy's growth trajectory. Annual inflation has hovered above 5% since June 2021, hitting a near-40-year high in December 2021. Higher prices are starting to form part of consumer and business expectations, risking an inflationary spiral. This has already prompted action from the Fed, which is in the process of winding down its quantitative-easing programme by March 2022 and has signalled that it will raise interest rates from near zero sooner rather than later. Following his confirmation to a second term, we expect the Fed chair, Jerome Powell, to start raising rates gradually by March, with four increases (of 25 basis points each) in both 2022 and 2023, followed by one additional increase in early 2024. This will take the federal funds target rate to about 2.4% in 2024-26 and cause money-market interest rates to turn consistently positive in real terms for the first time since before the global financial crisis (2008-09).

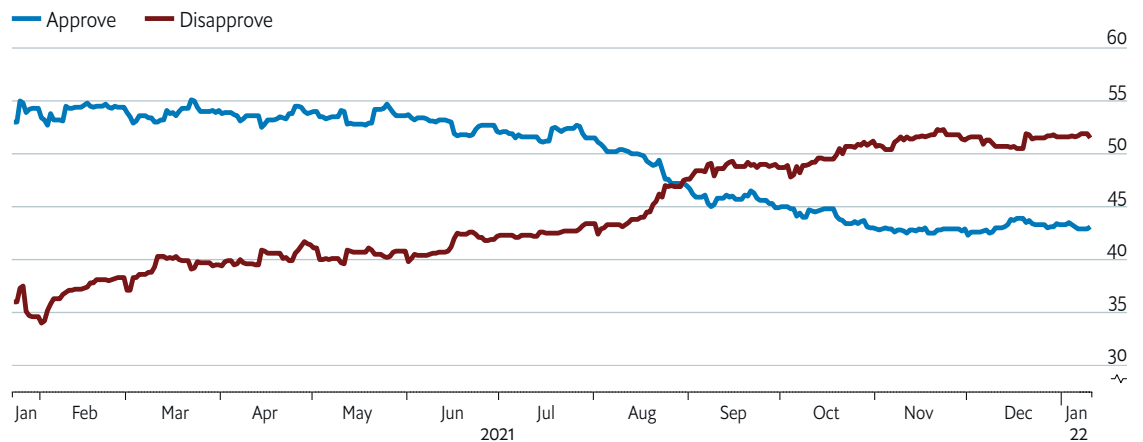


## Mid-term elections: the Democrats face an uphill battle

The November mid-term elections will be the main focus for domestic politics in 2022. The Democratic Party has many reasons to be concerned. One reason is historical: since 1946 the party of the sitting president has lost seats in the House of Representatives in all but two mid-term elections (in 1998 and 2002), with an average loss of 25 seats. This alone suggests a defeat for the Democrats, whose current majority is less than ten seats. Other concerns include Mr Biden's low polling numbers, the announcement by several House Democrats (26 currently, some in competitive districts) that they will not seek re-election and the party's poor performance in high-profile gubernatorial elections in November 2021. This does not mean that a landslide victory by the Republicans is guaranteed. Our current forecast is that the Republicans will retake the House, albeit with only a small majority. The Senate race remains too close to call; the chamber is split 50-50 at the moment, and a handful of the seats up for election will be a toss-up. A number of wildcard factors could throw the elections in either direction—including the scope and scale of the economic recovery, and whether the Democrats succeed in taking credit for it. The stakes for the party are extremely high; if the Democrats lose both houses of Congress, Mr Biden will be a lame duck for the rest of his term and the Democrats will enter the 2024 presidential election on very weak footing.

## Joe Biden's popularity has steadily declined during his first year in office

(US approval rating of Mr Biden's job as president, %)



Sources: FiveThirtyEight; EIU.

## Foreign policy: global disengagement continues (except on China)

Despite its "America is back" mantra, the Biden administration's foreign policy has represented more continuity than rupture with that of its predecessor. Mr Biden has championed multilateral institutions and has (generally) prioritised good relations with US allies. However, like that of the previous president, Donald Trump, Mr Biden's foreign policy has been marked by protectionism, disengagement and an obsession with China. Overall, most of the Biden initiatives have been aimed exclusively at containing China, be it the Build Back Better world agenda at the G7, the US-EU Trade and Technology Council, the so-called AUKUS pact with Australia and the UK (which came at the expense of France, a long-time ally) or bilateral efforts to secure supply chains. These trends will continue to shape Mr

Biden's foreign policy in 2022. Tension with China will persist, especially as domestic factors (including the US mid-term elections and the Chinese Communist Party's 20th National Congress) will encourage hawkishness on both sides. The China rivalry will remain the pretext for most US international engagements. Russia will be a key exception, particularly given its build-up of troops at the Ukraine border, although we do not view a Russian invasion of Ukraine or an armed conflict with the US as likely. Iran will be another exception, although talks over a revival of the nuclear agreement will break down by end-2022, owing to irreconcilable differences over Iran's demands.

## Canada: transitioning from Trudeau

### Key forecasts

- The prime minister, Justin Trudeau, will be a diminished figure after miscalculating his 2021 federal election call.
- The federal government will not seek to improve relations with China, which will remain cool at best.
- The case for fossil-fuel energy projects on indigenous land will weaken. The Trans Mountain Pipeline extension will be the last big pipeline project in the country.

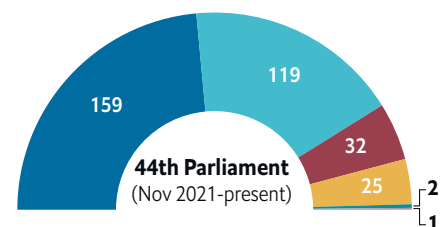
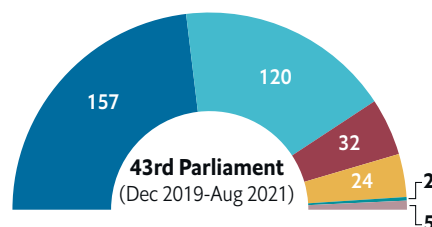
### Federal politics: a costly misjudgement

The new parliamentary term, which began in November 2021, will be the last under Mr Trudeau. The logic for an early election in the Autumn appeared sound in theory—coronavirus cases were falling, the vaccination programme was accelerating and the Liberals' opinion poll ratings were steady. However, as in 2019, the Liberals ran a lacklustre campaign, and Mr Trudeau is now less popular with the public than his party's policy platform. There is a consensus building for action on climate change, a generous welfare state, an open immigration policy and restitution for indigenous communities, but voters are not convinced that Mr Trudeau is the right person to deliver it. In 2022 Mr Trudeau will look to cement policies to form his political legacy, including cheaper childcare and lower drug pricing, before his thoughts turn to handing over to a new Liberal leader and prime minister. The finance minister and deputy prime minister, Chrystia Freeland, will be the leading candidate.

### Liberals make minimal gains in 2021 snap election

(seats in House of Commons)

■ Liberal ■ Conservative ■ Bloc Québécois ■ New Democratic Party ■ Green Party ■ Independent



Sources: House of Commons Canada; EIU.

### **Foreign policy: relations with China will remain cool**

The release in September 2021 of Michael Spavor and Michael Kovrig, who were detained under China's state secrets law in 2018, has created the opportunity for a reset in Sino-Canadian relations. Prior to their detention, the Liberal Party government was keen to enhance economic ties between the two countries to lessen Canada's dependence on the US, but China's willingness to engage in hostage diplomacy has resulted in a major loss of trust. In 2022 the Canadian government will show whether it has any interest in building it back up despite far-ranging differences over human rights abuses in Xinjiang and Hong Kong, as well as diverging views of climate change policy. Attitudes towards China among Canada's international allies have been hardening for years. The announcement in September 2021 of the AUKUS security pact between Australia, the UK and the US has created an Anglo alliance to which Canada could try to attach itself. After the deep freeze of 2019-21, we expect Sino-Canadian relations to remain chilly.

### **Energy: a new pipeline signals the end of an era**

The Trans Mountain pipeline extension, which will ship Canadian crude from Alberta to ports in British Columbia, will come on stream at the end of 2022. It will be the final pipeline project of its type. The extension has been dogged by controversy throughout its conception and construction. It has caused a trade war between the governments of Alberta and British Columbia, resulting in the pipeline's private owner, Kinder Morgan, selling it to the federal government. Indigenous groups have also protested against its impact on their land, while its main insurer withdrew its policy in 2020. Given popular support in Canada for action to limit greenhouse gas emissions and the enormous struggle for stakeholders to get the pipeline built, we cannot foresee another major oil pipeline receiving the necessary approvals for development. Trans Mountain is therefore likely to signal the end of an era.

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