Economic & Financial Outlook
Desjardins Economic Studies
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UPDATE

October 26, 2009

The current enthusiasm should fade
Prudence is at the core of the economic scenario

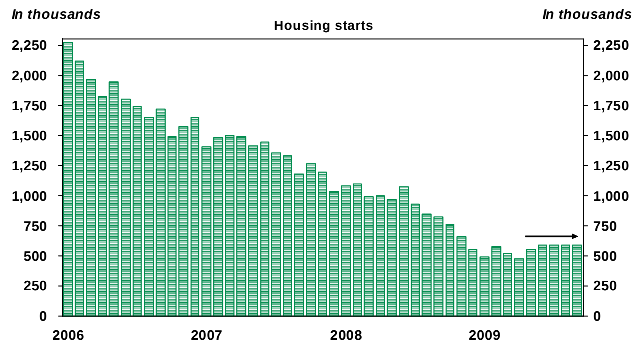
Optimism is clearly back. Since our last economic forecasts, released at the end of September, we have seen a number of economic indicators improve almost worldwide. Following Japan, Germany and France, in the third quarter, the recession does seem to have ended in most euro zone countries, as well as in United States. The picture for Canada is slightly uncertain, as the third quarter should post an outcome of zero, for all practical purposes.

We must concede that analysts sometimes underestimate the magnitude of recoveries. Judging by the stock markets, which have exploded by more than 50% from their 2009 low, and by commodity prices, which have skyrocketed just as quickly, it appears that investors think the recovery will be fast and strong! However, we must not get too excited: the renewed corporate profitability results from cost cutting and thousands of layoffs–it is not necessarily due to a strong comeback by demand. Remember that, in the United States, 263,000 more jobs were lost in September and further job losses are expected in the months to come.

The improvement in current economic conditions is artificial in a number of ways, especially in the United States. Government assistance programs like the $8,000 tax credit for first-time home-buyers in the United States, as well as the Cash for Clunkers program, skew the analysis of the statistics. We must not be blinded by certain numbers that show surprising rebounds. As we have seen, when the auto purchase program ended, auto sales had sunk to levels just as depressed as they had been before the program was launched. Consumers have thus not been able to keep up the pace, confirming that many of them simply moved their purchases up a few months to take advantage of the rebates.

The same concern now applies to the assistance program for first-time home buyers which, unless it is extended, should end on December 1. Despite the stimulus, housing starts are still struggling to rise and only reached 590,000 units in September (graph 1). As several of the U.S. indicators are having trouble gaining strength, the scenario of a slow and sluggish recovery remains more likely, with a real GDP contraction of 2.7% in 2009 and growth of 2.3% in 2010.

Graph 1 – After increasing in May and June, housing starts have been stagnant in the United States



Sources: Census Bureau and Desjardins, Economic Studies

Our optimism as to Canada's economic recovery is also quite moderate. Clearly, domestic demand is doing better than expected, with the housing market having gained back the ground lost during the recession and public expenditures stimulated by government recovery plans. In exchange, the loonie is zooming in on parity with the greenback, which is not doing anything good for foreign trade. August's figures

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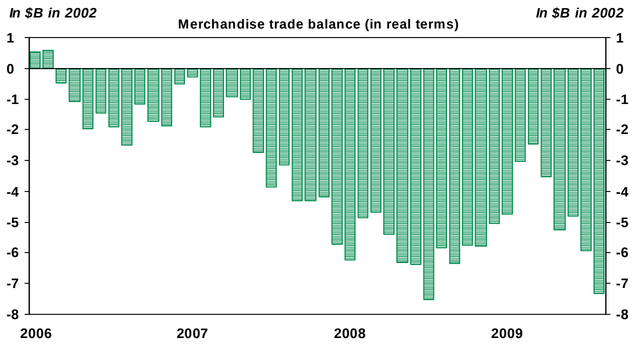
Table 1
Economic scenario: variation in real GDP

	2008		2009				Annual average		
Annualized rate in %	Q3	Q4	Q1	Q2	Q3f	Q4f	2008	2009f	2010f
United States	-2.7	-5.4	-6.4	-0.7	2.5	1.2	0.4	-2.7	2.3
Canada	0.4	-3.7	-6.1	-3.4	-0.1	2.1	0.4	-2.7	2.1
Ontario	-0.6	-5.9	-8.2	-4.0	0.2	1.4	-0.5	-3.9	2.0
Québec	0.1	-0.7	-5.1	-2.8	0.5	1.2	1.0	-1.7	1.8

f: forecasts
Sources: Institut de la statistique du Québec, Ontario's Ministry of Finance, Census Bureau, Statistics Canada and Desjardins, Economic Studies

for the merchandise trade balance were also quite disappointing, at -$7.3B in real terms (graph 2), when the dollar was at just US$0.90 approximately. We can see why the Bank of Canada is broadcasting its concerns about the impact on the economy of overly rapid appreciation by the loonie. The greater weakness in foreign trade will therefore offset the stronger comeback by domestic demand. Our projection for Canada's real GDP growth is therefore -2.7% for 2009, with an increase of 2.1% forecast for 2010.

Graph 2 – The trade balance is being hurt by the loonie's rise and increase in imports



Sources: Statistics Canada and Desjardins, Economic Studies

Ontario and Québec appear to have tiptoed out of the recession this summer. Both economies were stimulated by a livelier housing market and public expenditures inflated by recovery programs; however, the strong loonie is putting their foreign trade sectors at greater risk. For Ontario, we must add auto output that was bolstered by the program to refresh the American vehicle population. In 2009, Québec and Ontario will see contractions of 1.7% and 3.9% respectively. Next year will see positive economic growth of 1.8% in Québec and 2.0% in Ontario.

Skepticism persists regarding the speed at which risk aversion dissipated. Investors seem to have forgotten the fact that it was excessive risk-taking in grasping after better returns that tipped the international financial markets and took the world into a deep recession. It is this renewed appetite for risk that is now putting downside pressure on the American dollar and driving oil prices up, frustrating the dynamics of supply and demand.

The current enthusiasm may be a little too quick and premature in a context in which numerous global imbalances persist and our financial systems remain shaky. The caution in the outlooks remains, primarily due to these observations. In this context, the major central banks' key interest rates should not change until the second half of 2010, to allow the recovery to consolidate thoroughly. The financial markets' current expectation that a fast recovery will require central bank intervention seems unfounded.

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Table 2
World GDP growth (adjusted for PPP*) and inflation rate

Country or zone	Weight** (%)	Real GDP growth (%) 2008	2009f	2010f	Inflation rate (%) 2008	2009f	2010f
Industrialized economies	**49.7**	**0.4**	**-3.5**	**1.6**	**3.2**	**-0.1**	**1.2**
United States	20.4	0.4	-2.7	2.3	3.8	-0.4	2.4
Canada	1.7	0.4	-2.7	2.1	2.3	0.3	2.0
Québec	0.4	1.0	-1.7	1.8	2.1	0.5	1.9
Ontario	0.8	-0.5	-3.9	2.0	2.3	0.2	1.7
Japan	6.2	-0.7	-5.7	1.5	1.4	-1.2	-0.8
United Kingdom	3.1	0.6	-4.3	1.3	3.6	2.0	2.0
Euro zone	15.6	0.5	-3.9	1.1	3.3	0.3	1.2
Germany	4.2	1.0	-5.0	1.4	2.6	0.3	0.9
France	3.0	0.3	-2.1	1.2	2.8	0.1	1.2
Italy	2.6	-1.0	-5.0	0.5	3.4	0.7	1.5
Other countries	2.9	1.2	-1.4	1.1	3.7	1.0	1.6
Developing economies	**50.3**	**5.4**	**0.8**	**4.9**	**8.8**	**4.9**	**5.0**
North Asia (China, Hong Kong, India and South Korea)	19.2	7.7	6.4	8.0	6.6	2.0	3.3
China	11.3	9.0	8.3	9.4	5.9	-0.6	2.3
India	4.9	7.4	6.1	7.5	9.1	7.6	6.4
South Asia (Indonesia, Malaysia, Thailand and Philippines)	3.4	4.3	0.1	4.4	7.6	2.1	3.6
Latin America	8.0	4.2	-2.5	3.1	8.2	5.7	6.3
Eastern Europe	8.0	4.6	-5.8	2.3	10.8	7.5	6.5
Other countries	11.7	3.1	-1.9	2.7	11.5	7.3	5.7
World	**100.0**	**2.9**	**-1.3**	**3.3**	**4.9**	**1.4**	**2.4**

f: forecasts; * Purchasing power parities: Exchange rate that equates the costs of a broad basket of goods and services across countries; ** 2008.
Sources: World Bank, Consensus Forecasts and Desjardins, Economic Studies

Table 3
Summary of the financial forecasts

End of period in % (except if indicated)	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4f	2010 Q1f	2010 Q2f	2010 Q3f	2010 Q4f
Key interest rate										
United States	2.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00
Canada	3.00	1.50	0.50	0.25	0.25	0.25	0.25	0.25	0.50	1.00
Euro zone	4.25	2.50	1.50	1.00	1.00	1.00	1.00	1.00	1.00	1.50
United Kingdom	5.00	2.00	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.50
Japan	0.50	0.30	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-year federal bonds										
United States	3.82	2.25	2.69	3.52	3.30	3.40	3.60	3.80	4.00	4.20
Canada	3.76	2.69	2.78	3.36	3.31	3.50	3.70	3.90	4.00	4.10
Currency market										
Canadian dollar (USD/CAD)	1.06	1.22	1.26	1.16	1.07	1.04	1.04	1.02	1.00	1.00
Euro (EUR/USD)	1.40	1.39	1.33	1.40	1.46	1.52	1.55	1.48	1.42	1.38
Euro (EUR/CAD)	1.49	1.69	1.68	1.63	1.56	1.58	1.61	1.51	1.42	1.38
Raw materials (annual average)										
WTI* oil (US$/barrel)	99 (45**)		60 (75**)				82 (95**)			
Gold (US$/ounce)	872 (862**)		950 (1,000**)				1,000 (1,025**)			
Stock markets** (level and growth)										
United States (S&P500)	903		Target: 1,050 (+16.2%)				Target: 1,200 (+14.3%)			
Canada (S&P/TSX)	8,988		Target: 11,000 (+22.4%)				Target: 12,300 (+11.8%)			

f: forecasts; * West Texas Intermediate; ** End of year.
Sources: Datastream and Desjardins, Economic Studies

OVERSEAS

A clearer recovery for the advanced economies

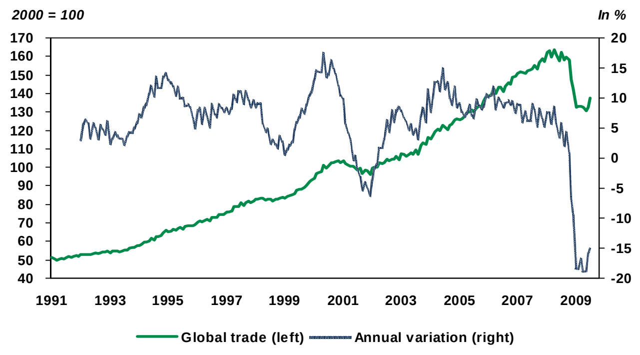
GLOBAL ECONOMY

- Economic indicators have continued to trend upward in most countries. It seems more and more clear that the global recession is over, even though activity is still very soft and the recovery is promising to be sluggish.
- A number of developed countries will return to economic growth in the third quarter, joining France, Germany and Japan, which saw real GDP growth last spring. The United States is one such country. Having the world's leading economy back on its feet will be a relief, but the greenback's weakness will limit the contribution to growth from trade with the Americans. Moreover, although it has been rising for three months, the volume of international trade in goods remains anaemic: it is still down 20% from its 2008 peak (graph 3). Until trade strengthens, the recovery could be dependent on efforts by governments and central banks.
- The forecasts for global economic growth have not changed much. The global real GDP should fall 1.3% in 2009 and rise 3.3% in 2010.

EUROPE

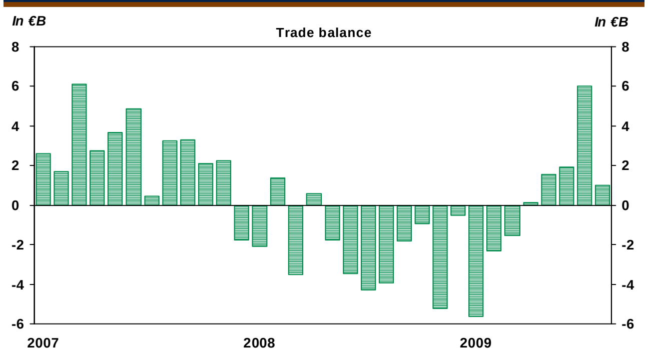
- The signs of recovery are proliferating in the euro zone as well. The region's real GDP should post growth, although moderate, in the third quarter of 2009 following the spring's non-annualized 0.2% contraction. Of course, business and consumer confidence indicators are pointing to a noteworthy improvement in the business climate. Moreover, industrial output rose in July and August. However, the ongoing softness in retail sales and the trouble in the credit market mean that the domestic economy is still undergoing some problems. As in the second quarter, we must once again look to a substantial improvement in foreign trade to prompt economic growth. Luckily, the trade balance is staying in positive territory (graph 4). However, the reliance on a sharp improvement in net exports could be curbed by a strong euro—the euro is gaining steadily against the U.S. dollar. Moreover, August's results for the trade balance were not nearly as good as they had been in previous months. This factor could limit the Euroland economy's growth in 2010.
- The situation is also mixed in the United Kingdom. The domestic economy is showing surprising results, particularly with regard to the real estate market's recovery. After losing 20% during the crisis, home prices have gained almost 10% since then. However, the British economy still has some soft spots: the credit situation is nowhere near resolved, the trade balance is taking its time in improving, and the number of jobless individuals is still rising rapidly. Moreover, despite what many had hoped, the recession continued in the third quarter (graph 5).

Graph 3 – The global economic recovery is still quite tepid



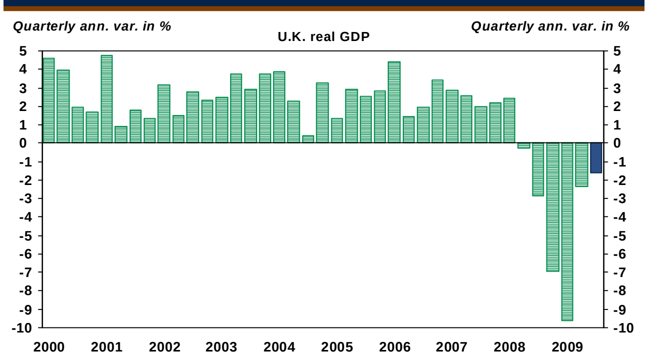
Sources: Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

Graph 4 – Euroland's trade balance fell in August



Sources: Eurostat and Desjardins, Economic Studies

Graph 5 – Britain remained in recession in Q3

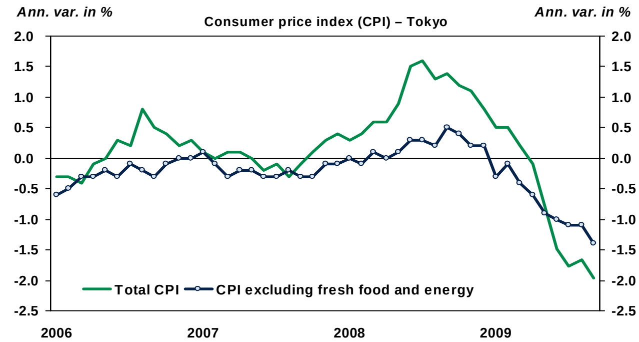


Sources: Datastream and Desjardins, Economic Studies

ASIA

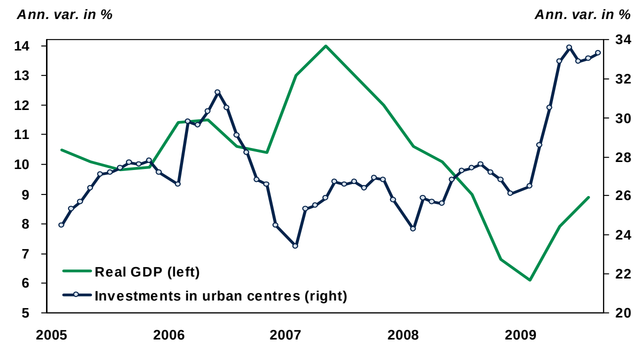
- Although Japan posted the most growth among G7 nations in the second quarter, it is still facing numerous difficulties. Deflation has set in again (graph 6), the trade balance is still deteriorating and the real estate market continues to contract. Nonetheless, the economy should keep growing over the quarters to come. The recent rise in consumer and business confidence indicators, growth in industrial output and motor vehicle assembly, and the successive gains by retail sales all point in this direction. It will, however, be a long time before Japan can make up the shortfall that accumulated during the crisis. In the second quarter, the real GDP was 7.9% below its peak two years ago. Moreover, the strong yen could limit this economy's growth, as it is highly dependent on foreign trade.
- China continues to post strong growth rates. After the spring's annualized 7.9% gain, the real GDP was up 8.9% in the third quarter of 2009. The acceleration is still primarily built on strong domestic demand, as net exports barely improved in the third quarter. Clearly, government investments and the credit acceleration policy (which has now ended) stemming from recovery programs are paying off (graph 7).

Graph 6 – Deflation is once again well entrenched in Japan



Sources: Ministry of Posts and Communications and Desjardins, Economic Studies

Graph 7 – Stimulated by an imposing recovery plan, Chinese growth is picking up speed



Sources: Datastream and Desjardins, Economic Studies

Table 4
Overseas: real GDP growth and inflation rate

	Real GDP growth (%)				Inflation rate (%)			
Country or zone	2007	2008	2009f	2010f	2007	2008	2009f	2010f
Europe								
United Kingdom	2.6	0.6	-4.3	1.3	2.3	3.6	2.0	2.0
Euro zone	2.7	0.5	-3.9	1.1	2.0	3.3	0.3	1.2
Germany	2.6	1.0	-5.0	1.4	2.1	2.6	0.3	0.9
France	2.3	0.3	-2.1	1.2	1.5	2.8	0.1	1.2
Italy	1.5	-1.0	-5.0	0.5	1.8	3.4	0.7	1.5
Spain	3.6	0.9	-3.7	-0.5	2.8	4.1	-0.2	1.4
Russia	8.1	5.6	-7.0	3.0	9.0	13.3	10.7	9.1
Asia and Pacific								
Australia	4.0	2.4	0.8	2.4	2.3	4.4	1.7	2.3
Japan	2.3	-0.7	-5.7	1.5	0.1	1.4	-1.2	-0.8
China	13.0	9.0	8.3	9.4	4.8	5.9	-0.6	2.3
India	9.4	7.4	6.1	7.5	6.4	9.1	7.6	6.4
South Korea	5.1	2.2	-0.9	4.0	2.5	4.7	2.8	2.8
Latin America								
Argentina	8.7	6.8	-2.9	1.8	8.8	7.2	6.3	7.6
Brazil	5.6	5.1	-0.1	4.2	3.6	5.9	4.3	4.3
Mexico	3.3	1.3	-7.1	2.8	4.0	6.5	4.2	4.1

f: forecasts
Sources: Consensus Forecasts and Desjardins, Economic Studies

UNITED STATES

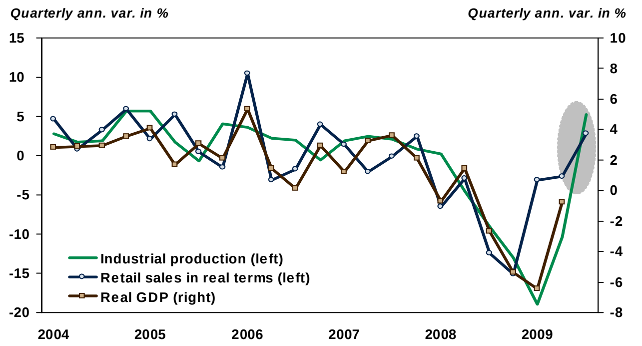
Supported by the government, the real GDP advanced in Q3

ECONOMY

- In general, the economic statistics were fairly good in the United States in the third quarter. The best news includes the increase in industrial output, rise by retail sales (graph 8), stabilization by construction starts and increase in home prices.
- Several of these statistics were stimulated by government measures. Firstly, the rise by retail sales was boosted by the Cash for Clunkers program. Excluding gas, sales advanced by 4.1% in the third quarter, on an annualized basis. If we take out automobiles, the gain is only 0.6%. This program, like the GM and Chrysler bailouts, clearly helped automobile production. Industrial production thus rose 5.2% last summer; the gain is just 2.5% once we remove the auto sector, however. Lastly, the tax rebate program for first-time home buyers also gave the housing market a boost, and it is starting to get back on its feet.
- The improvement should allow the real GDP to grow in the third quarter. It is expected to rise by 2.5%. The main contributors to growth appear to be real consumption of durable goods, government expenditures and less corporate destocking.
- Growth could be softer from now until the end of the year, however. We are already seeing a fairly severe backlash in auto sales (graph 9), with September's sales among the lowest recorded this year. The rebound by production could also be temporary.
- Consumer confidence has also been showing a little weakness lately. After posting solid growth last spring, the consumer confidence indexes have recently crested at relatively low levels. They are no longer pointing to contraction by real consumption, but they are not suggesting a substantial rebound, either.
- Consumer credit is still shrinking (graph 10). The sense is that the Federal Reserve is still supporting the mortgage and asset-backed loan market.
- September's employment statistics were a disappointment, with losses of 263,000 jobs. The recent decline by jobless claims is a sign of improvement, but claims are still too elevated to be able to hope for a looming upswing in hiring.

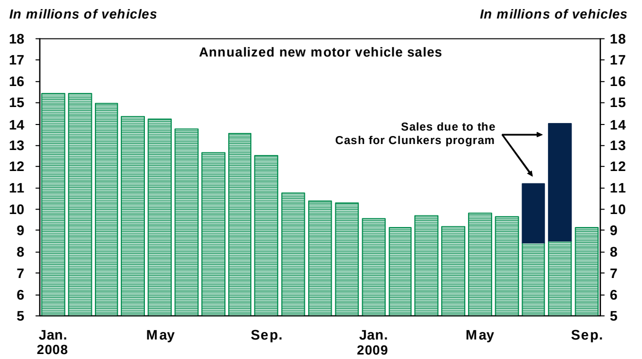
Conclusion: The recession appears to be over in the United States. However, as economic activity remains very soft, it will take employment some time to show any real signs of improvement. Our outlooks for real GDP growth in 2009 and 2010 have not shifted much: we estimate a contraction of 2.7% for this year and a gain of 2.3% for next year.

Graph 8 – Increases in industrial output and retail sales are good signs for the U.S. real GDP



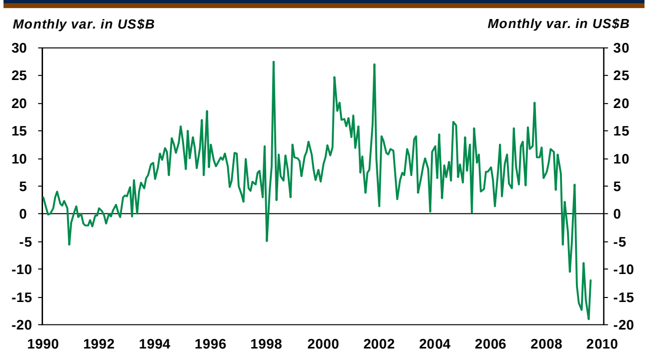
Sources: Federal Reserve Board, Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 9 – The rebound by auto sales prompted by the Cash for Clunkers program was only temporary in the United States



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 10 – American consumer credit is still contracting

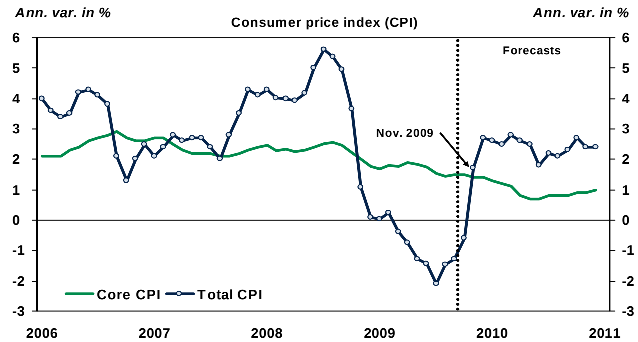


Sources: Federal Reserve Board and Desjardins, Economic Studies

INFLATION

- After bottoming out at -2.1% in July, the annual change in the consumer price index (CPI) is slowly recovering. Inflation was -1.5% in August and -1.3% in September.
- These movements reflect changes in energy prices, particularly oil and gas. While the comparison with energy prices one year earlier was very negative in July, the decline by these prices as of August 2008 makes current inflation less negative.
- The trend should continue over the next few months, influenced by two factors. Firstly, oil prices continued to slide in the fall of 2008, going to a low of about US$30/barrel in December. Secondly, after remaining fairly stable in August and September of 2009, oil prices started a livelier comeback since the beginning of October.
- Aside from energy and food, core inflation is still moderating. To date, disinflation is primarily stemming from services, particularly housing costs, rather than goods. For the first time since 1983, the annual change in goods prices (excluding energy and food) was higher than the change in prices for services (excluding energy). Note that, prior to the crisis, inflation was primarily fuelled by the services sector, as goods prices were falling, dragged down by globalization.
- While October's figure will probably still be negative, total inflation should return to positive territory as of November (graph 11). It should peak at around 3% in 2010. After taking a break in September, core inflation should keep moderating, dropping below 1% next spring.

Graph 11 – Total inflation will soon be back in the black in the United States



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Table 5
United States: major economic indicators

Quarterly annualized variation in % (except if indicated)	2009 Q1	2009 Q2	2009 Q3f	2009 Q4f	2010 Q1f	2010 Q2f	Annual average 2007	Annual average 2008	Annual average 2009f	Annual average 2010f
Real gross domestic product*	-6.4	-0.7	2.5	1.2	3.4	2.9	2.1	0.4	-2.7	2.3
Personal cons. expenditures	0.6	-0.9	2.8	-0.3	0.9	0.9	2.7	-0.2	-0.7	0.9
Residential construction	-38.2	-23.2	10.3	14.7	12.2	10.6	-18.5	-22.9	-20.7	11.5
Business fixed investment	-39.2	-9.6	-4.1	-6.0	-2.1	-0.6	6.2	1.6	-18.1	-2.6
Inventory change ($B)	-113.9	-160.2	-150.0	-125.0	-75.0	-55.0	19.5	16.0	-137.3	-45.0
Public expenditures	-2.6	6.7	3.3	4.8	4.3	5.9	1.7	3.1	2.3	3.9
Exports	-29.9	-4.1	18.5	0.0	1.0	2.0	8.7	5.4	-10.8	2.9
Imports	-36.4	-14.7	16.5	2.5	3.5	2.0	2.0	-3.2	-15.0	3.3
Final domestic demand	-6.4	-0.9	2.5	0.5	1.6	2.1	1.7	-0.4	-2.7	1.5
Other indicators										
Real disposable personal income	0.2	3.8	-3.0	1.0	1.5	2.2	2.2	0.5	0.5	1.1
Employment (establishments)	-5.9	-4.5	-2.8	-1.7	-0.7	0.0	1.1	-0.4	-3.8	-1.0
Unemployment rate (%)	8.1	9.3	9.6	10.1	10.4	10.3	4.6	5.8	9.3	10.0
Housing starts (1)	528	540	590	605	615	650	1,342	901	569	688
Corporate profits*** (2)	-19.0	-12.6	-13.0	15.0	11.0	7.0	-4.1	-11.8	-8.7	8.0
Personal saving rate (%)	3.7	4.9	3.4	3.8	3.9	4.3	1.7	2.7	3.9	4.3
Total inflation rate (2)	-0.2	-0.9	-1.6	1.2	2.6	2.3	2.9	3.8	-0.4	2.4
Core inflation rate** (2)	1.7	1.8	1.5	1.4	1.2	0.7	2.3	2.3	1.6	0.9
Federal gov't balance ($B) (3)	-969.1	-1,295	-1,000	-1,000	-950.0	-900.0	-236.5	-642.6	-1,066	-887.5
Current account balance ($B)	-417.8	-395.2	-404.0	-412.9	-422.8	-424.7	-726.6	-706.1	-407.5	-429.0

f: forecasts; * 2005 US$; ** Excluding food and energy; *** Before taxes; (1) Thousands of units on an annualized basis; (2) Annual change; (3) National accounts.
Sources: Datastream and Desjardins, Economic Studies

CANADA

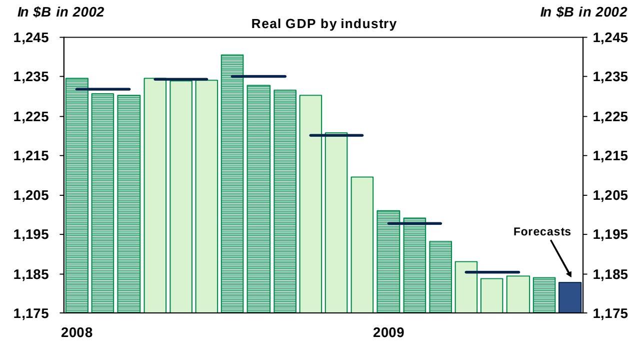
A slow recovery after an anaemic Q3

ECONOMY

- In light of the recent movement by economic indicators, Canada's real GDP appears to have barely budged in Q3 of 2009. We could even see real production pull back slightly for the period, which would be the final phase of this recession.
- Real GDP by industry was steady in July and should almost stay to this level in August (graph 12). Assuming zero growth in August and September, the carry-over for real GDP growth for the third quarter as a whole is about -0.5%.
- Manufacturing sales fell 2.1% in August. After jumping 49.3% in July, the number of new motor vehicles produced fell 11.4% in August. Clearly, the impacts of Cash for Clunkers programs were only temporary and getting the auto industry back on its feet permanently will be a long, slow process.
- In real terms, the average of merchandise exports released for Q3 to date is up 4.4% from the previous quarter. However, the growth is well below import growth (+10.3%) during the same period. The foreign trade balance will therefore deteriorate substantially in the third quarter, reining in real GDP growth (graph 13). This phenomenon could last a while, due to the loonie's substantial surge.
- The real estate market continues to surprise, speedily taking back all of the ground lost in previous quarters. On average, the number of housing starts rose to 149,033 units in the third quarter of 2009, up 16.5% from the previous quarter. Existing home sales rose 11.9% in the third quarter, prompting a 7.3% rise by prices.
- For a second straight month, the job market benefited from job creation in September, making a turnaround after posting a total of 414,000 job losses since last November (graph 14). Combined with the rise by consumer confidence, employment's uptick could bolster acceleration by consumer spending in the coming quarters.

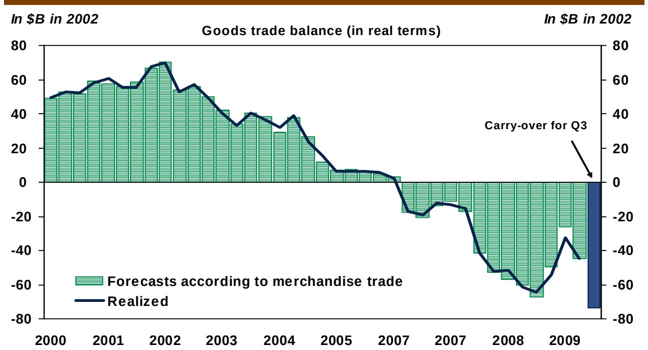
Conclusion: Following an anaemic third quarter, the economic recovery should be clearer in the fall, as the spinoffs of the slow improvement by residential and government investment as well as the rise by consumer spending make themselves increasingly felt.

Graph 12 – Heading for an anaemic third quarter?



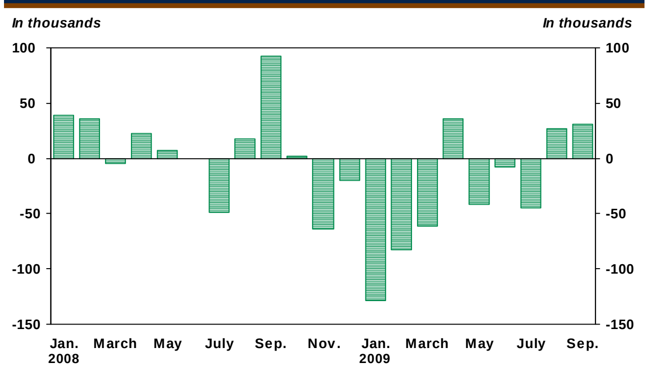
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 13 – Heading for another major trade balance deterioration in Q3?



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 14 – Employment posts a second straight increase in Canada

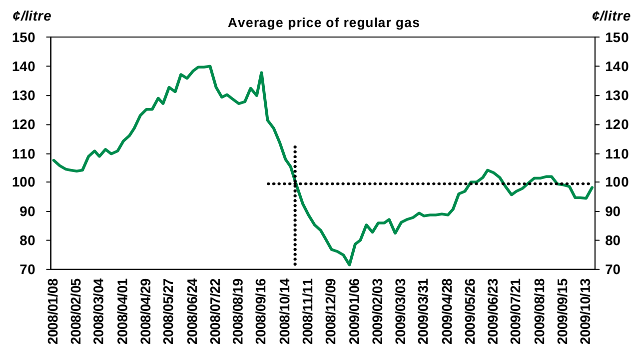


Sources: Statistics Canada and Desjardins, Economic Studies

INFLATION

- The total annual inflation rate fell to -0.9% in September, marking a fourth straight month of deflation. The decline by the annual change in the total consumer price index (CPI) is winding down, however; it is expected to be back in positive territory as of October.
- The impacts on inflation of last year's energy price decreases are dwindling. For example, the average price of regular gas at the pumps was $1.28 a litre in September 2008. In September 2009, the average price of gas was just $0.99 a litre, down 22.7% on a year-over-year basis. However, October 2008 saw the start of a substantial drop in gas prices. This month's average of $1.06 a litre is more in line with the prices recorded recently, which is why there is much less downside pressure on the total annual inflation rate in October of 2009 (graph 15).
- With energy excluded, the annual CPI change was 1.3% in September, illustrating the degree to which the last few months' deflation can be chalked up exclusively to movement by prices for gas and other energy components.
- The annual change in the Bank of Canada's core index (CPIX) has been falling gradually since last May, going from 2.0% to 1.5% in September. Upside pressures on prices are, overall, becoming slighter, as signs of underuse of production capacity proliferate.

Graph 15 – The impacts of gas price increases will have a smaller and smaller effect on the annual inflation rate



Sources: Statistics Canada and Desjardins, Economic Studies

Table 6
Canada: major economic indicators

Quarterly annualized variation in % (except if indicated)	2009 Q1	2009 Q2	2009 Q3f	2009 Q4f	2010 Q1f	2010 Q2f	Annual average 2007	Annual average 2008	Annual average 2009f	Annual average 2010f
Real gross domestic product*	-6.1	-3.4	-0.1	2.1	2.5	3.2	2.5	0.4	-2.7	2.1
Personal cons. expenditures	-1.2	1.8	2.2	1.2	1.5	1.5	4.6	3.0	-0.1	1.7
Residential construction	-21.2	6.2	11.3	5.2	3.0	2.8	2.9	-2.7	-8.4	4.4
Business fixed investment	-31.3	-17.0	-7.5	-2.5	-1.0	1.0	3.7	0.2	-15.8	-2.2
Inventory change ($B)	-8.9	-10.5	-11.5	-11.0	-9.0	-5.0	15.0	12.2	-10.5	-3.3
Public expenditures	2.9	5.0	5.6	6.4	7.0	6.2	3.7	4.8	3.9	6.1
Exports	-30.4	-19.3	9.0	2.5	0.5	1.5	1.1	-4.7	-15.1	1.1
Imports	-38.9	-8.5	15.0	3.0	2.0	2.5	5.8	0.8	-15.9	3.3
Final domestic demand	-6.0	0.4	2.3	2.2	2.5	2.6	4.1	2.6	-1.8	2.4
Other indicators										
Real disposable personal income	-3.5	1.5	2.0	0.0	0.2	0.6	3.6	4.2	0.4	0.7
Weekly earnings	0.9	-0.4	2.8	1.0	1.0	1.5	4.3	2.9	1.4	1.4
Employment	-5.5	-1.5	-0.8	0.8	0.0	0.6	2.3	1.5	-1.6	0.5
Unemployment rate (%)	7.6	8.3	8.6	8.6	8.8	8.9	6.0	6.1	8.3	8.6
Housing starts (1)	139.7	127.9	149.0	155.1	161.3	165.1	228.3	211.1	142.9	167.0
Corporate profits*** (2)	-30.8	-42.9	-44.0	-20.0	7.5	21.5	4.1	5.7	-35.3	15.0
Personal saving rate (%)	4.5	4.5	5.0	5.5	5.5	5.0	2.5	3.7	4.9	4.4
Total inflation rate (2)	1.2	0.1	-0.9	0.7	2.0	2.2	2.2	2.3	0.3	2.0
Core inflation rate** (2)	1.9	1.9	1.6	1.4	1.6	1.4	2.1	1.7	1.7	1.5
Federal gov't balance ($B) (3)	-18.8	-35.7	-50.0	-55.0	-55.0	-35.0	15.2	2.7	-39.9	-36.3
Current account balance ($B)	-30.9	-44.8	-55.0	-45.0	-35.0	-25.0	15.6	8.1	-43.9	-15.0

f: forecasts; * 2002 $; ** Excluding the eight most volatile; *** Before taxes; (1) Thousands of units on an annualized basis; (2) Annual change; (3) National accounts.
Sources: Datastream and Desjardins, Economic Studies

PROVINCES

The wind shifts in Québec and Ontario

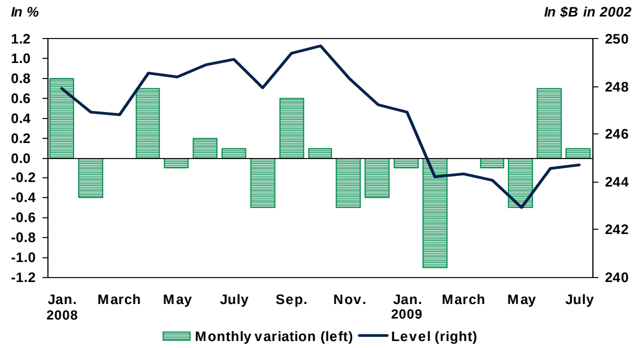
QUÉBEC

- Québec's economy is now turning around, which should bring the recession to an end. After starting to decline in November 2008 (graph 16), the real GDP posted its first increase in June (+0.7%). The monthly gain will give the third quarter some momentum, which should be slightly positive. July's 0.1% increase in the real GDP confirms this projection.
- Even if the economy stumbles in August, as a number of negative statistics released to date are suggesting, Québec will subsequently keep convalescing. The turnaround point is thus ahead of our September scenario by one quarter. Our forecast for 2009 has thus been raised slightly from -1.8% to -1.7%, while the outlook for 2010 goes from 1.6% to 1.8%.
- We will continue to get mixed signals in the next few months. Although consumer confidence has turned around sharply, the job market continue to limp (graph 17), sapping consumer spending. August's 21.3% tumble (in real terms) by international exports reminds us that the problems in the aerospace sector are far from over. The Canadian dollar's recent surge will keep businesses from fully capitalizing on the nascent economic recovery in the United States.

ONTARIO

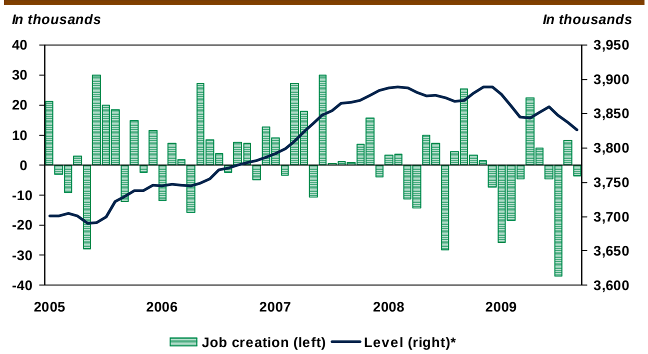
- As forecast, the figures recently released by Ontario's Ministry of Finance show a 4.0% contraction by the province's real GDP in the second quarter of 2009, almost half as big a decline as posted in the previous quarter.
- Domestic demand is doing better, up by 0.8%, primarily due to an advance by consumption and government expenditures. Residential construction and non-residential investment were still down last spring.
- Economic conditions kept improving last summer. Auto industry output jumped substantially in July, in response to the benefits of Cash for Clunkers programs (graph 18). This could allow Ontario's economy to emerge from the recession in the third quarter. Moreover, the average number of housing starts rose 6.4% in the third quarter and Ontario's job market has now posted four straight months of job creation, for a total of 39,700 jobs.
- After a forecast contraction of 3.9% this year, Ontario's real GDP should grow 2.0% in 2010. In both cases, the forecasts are in line with previous projections.

Graph 16 – Québec's real GDP rose for a second straight month in July



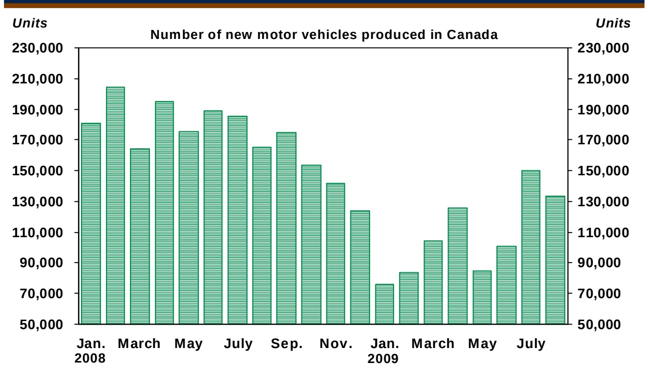
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Graph 17 – Job losses are still mounting in Québec



* Three-month moving average.
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 18 – The auto industry rebounded this summer in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

WESTERN PROVINCES

- Crude oil prices have risen about 134% from their cyclical low on February 12, 2009 so the Western provinces will soon start to see a positive wealth effect. However, it will be lessened by the decline in natural gas prices noted since last spring.
- The value of manufacturing sales in Saskatchewan and Manitoba has continued to pull back. Among other things, Saskatchewan has been especially hurt by a drop of about 50% in potash prices since last February.

ATLANTIC PROVINCES

- Oil extraction has slowed substantially in recent months in Newfoundland and Labrador, especially in the White Rose oil field, which is being affected by maintenance work. The recession is pummelling this province; the jobless rate there went from 12.3% in December 2007 to 15.3% in September 2009, one of the biggest increases in the country (graph 19).

Graph 19 – Unemployment jumps in Alberta, British Columbia, Newfoundland and Labrador and Ontario

Sources: Statistics Canada and Desjardins, Economic Studies

Table 7
Québec and Ontario: national accounts

Annual average in % (except if indicated)	2006	2007	2008	2009f	2010f
Québec					
Real gross domestic product	1.4	2.5	1.0	-1.7	1.8
Personal consumption expenditures	3.1	4.6	3.2	0.2	1.8
Residential construction	-0.4	5.2	-1.9	-2.0	3.4
Business fixed investment	6.1	8.7	0.8	-15.9	0.4
Inventory change (2002 $M)	1,981	2,157	1,814	-1,727	-275
Public expenditures	2.2	4.1	5.1	2.7	2.2
Exports	1.6	0.6	-2.6	-12.4	-0.3
Imports	2.9	5.1	1.6	-11.2	1.1
Final domestic demand	2.9	4.9	3.1	-0.9	1.9
Ontario					
Real gross domestic product	2.4	2.1	-0.5	-3.9	2.0
Personal consumption expenditures	3.4	3.9	2.7	-0.1	1.3
Residential construction	0.8	1.9	-2.2	-9.7	3.0
Business fixed investment	9.3	7.9	-1.9	-19.5	-2.5
Inventory change (2002 $M)	3,629	4,740	4,357	-5,885	-2,250
Public expenditures	3.1	2.3	3.2	1.2	6.6
Exports	0.7	0.5	-5.5	-15.4	2.2
Imports	2.7	3.3	-2.2	-16.2	3.4
Final domestic demand	3.7	3.9	1.9	-2.6	2.1

f: forecasts
Sources: Institut de la statistique du Québec, Ontario's Ministry of Finance, Statistics Canada and Desjardins, Economic Studies

Table 8
United States: fixed income market

End of period in %	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4f	2010 Q1f	2010 Q2f	2010 Q3f	2010 Q4f
Key rate												
Federal funds	2.25	2.00	2.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00
Treasury bills												
3-month	1.38	1.90	0.92	0.11	0.21	0.19	0.14	0.25	0.25	0.40	0.80	1.30
Federal bonds												
2-year	1.62	2.61	1.99	0.76	0.81	1.12	0.95	1.00	1.25	1.90	2.50	3.00
5-year	2.47	3.33	2.98	1.55	1.68	2.56	2.31	2.45	2.65	3.10	3.40	3.60
10-year	3.43	3.98	3.82	2.25	2.69	3.52	3.30	3.40	3.60	3.80	4.00	4.20
30-year	4.30	4.53	4.30	2.69	3.57	4.31	4.05	4.30	4.50	4.60	4.70	4.75
Yield curve												
5-year - 3-month	1.09	1.43	2.06	1.44	1.47	2.37	2.17	2.20	2.40	2.70	2.60	2.30
10-year - 2-year	1.81	1.36	1.84	1.49	1.88	2.40	2.35	2.40	2.35	1.90	1.50	1.20
30-year - 3-month	2.92	2.63	3.38	2.58	3.36	4.12	3.91	4.05	4.25	4.20	3.90	3.45

f: forecasts
Sources: Datastream and Desjardins, Economic Studies

Table 9
Canada: fixed income market

End of period in %	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4f	2010 Q1f	2010 Q2f	2010 Q3f	2010 Q4f
Key rate												
Overnight funds	3.50	3.00	3.00	1.50	0.50	0.25	0.25	0.25	0.25	0.25	0.50	1.00
Treasury bills												
3-month	1.88	2.50	1.90	0.89	0.40	0.25	0.23	0.30	0.35	0.45	0.80	1.30
Federal bonds												
2-year	2.63	3.25	2.79	1.09	1.07	1.21	1.26	1.50	1.70	2.10	2.60	3.05
5-year	2.91	3.46	3.17	1.70	1.75	2.46	2.58	2.75	3.00	3.40	3.65	3.75
10-year	3.43	3.74	3.76	2.69	2.78	3.36	3.31	3.50	3.70	3.90	4.00	4.10
30-year	3.94	4.08	4.23	3.46	3.56	3.86	3.84	4.10	4.35	4.50	4.55	4.55
Yield curve												
5-year - 3-month	1.03	0.96	1.27	0.81	1.35	2.21	2.35	2.45	2.65	2.95	2.85	2.45
10-year - 2-year	0.80	0.49	0.97	1.60	1.71	2.15	2.05	2.00	2.00	1.80	1.40	1.05
30-year - 3-month	2.06	1.58	2.33	2.57	3.16	3.61	3.61	3.80	4.00	4.05	3.75	3.25
Spreads (Canada - U.S.)												
3-month	0.50	0.60	0.98	0.78	0.19	0.06	0.09	0.05	0.10	0.05	0.00	0.00
2-year	1.01	0.63	0.80	0.32	0.27	0.09	0.31	0.50	0.45	0.20	0.10	0.05
5-year	0.44	0.13	0.19	0.15	0.07	-0.10	0.26	0.30	0.35	0.30	0.25	0.15
10-year	0.00	-0.24	-0.07	0.44	0.09	-0.16	0.00	0.10	0.10	0.10	0.00	-0.10
30-year	-0.36	-0.45	-0.07	0.76	0.00	-0.45	-0.21	-0.20	-0.15	-0.10	-0.15	-0.20

f: forecasts
Sources: Datastream and Desjardins, Economic Studies