

UPDATE

January 25, 2010

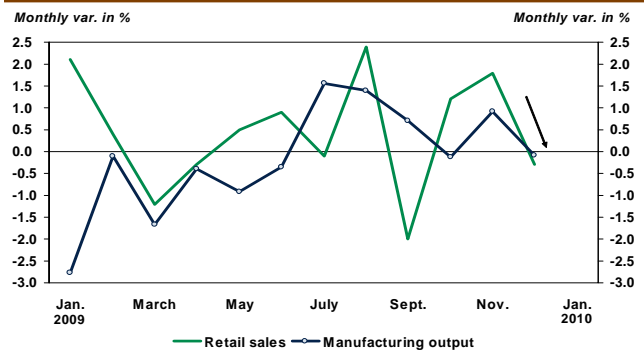
A better ending than expected for 2009 Statistics remain mixed, supporting the scenario of a slow recovery

Except for the United Kingdom, which continues to lag, the major industrialized nations emerged from recession last summer. Some, like Canada, had a little more trouble getting on their feet, but they will catch up fairly quickly in terms of economic growth. Eyes are constantly turned to China, which is starting to overheat to the point of reviving inflation concerns. Chinese authorities have also opted to slow credit to cool consumer and business ardour.

In a number of ways, November's American statistics were surprisingly strong. Retail sales (+1.8%), industrial output (+0.6%) and manufacturing production (+0.9%) all posted solid performances. 4,000 jobs were even created, the first increase since December of 2007. Conversely, December held its share of bad news. Manufacturing output fell 0.1%, while retail sales declined 0.3% (graph 1). As for employment, there were 85,000 layoffs in December. New home sales tumbled 11.3% in November, while housing starts have been seesawing, but remain under 600,000. The recovery has thus arrived, but we are nowhere near a boom. The ambiguity created by the mixture of good and bad news is also having an impact on consumer and business confidence.

In Canada, many of the economic figures are published a little behind the U.S. releases. However, we are noting a similar phenomenon for the statistics released since our last forecast. The statistics are better than expected, but remain very volatile. For instance, November's gain of 79,100 jobs was

Graph 1 – Some American economic data were disappointing in December



Sources: Federal Reserve Board, Census Bureau and Desjardins, Economic Studies

followed by a loss of 2,600 jobs in December. The number of new motor vehicles sold also fell 6% in November, which has had a negative impact on that month's retail sales. However, housing starts jumped in December, going from 164,800 to 174,500, and the market for existing homes has begun to flourish somewhat.

As for Québec, the news has also been better than forecast, especially for employment, which has been rising every month since October. In Ontario, the job market news is not yet convincing. In November, 27,100 jobs were created, but 16,600 jobs were lost in December. November also saw a 9.3% drop in motor vehicle production, wiping out some of the gains made since last summer.

The news at the end of the year suggests, in spite of everything, an upward revision to real GDP growth for the last quarter of 2009. For the United States, it goes from 2.5% to 4.5%, prompted by abrupt changes in inventory movements rather than by any real improvement in the economic variables. For some time now, producers have, in part, been coping with demand by liquidating their inventories. The

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François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Director and Deputy Chief Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Hélène Bégin
Senior Economist

Mathieu D'Anjou
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

Martin Lefebvre
Senior Economist

Hendrix Vachon
Economist

Table 1
Economic scenario: variation in real GDP

Annualized rate in %	2009		2010				Annual average		
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2009f	2010f	2011f
United States	2.2	4.5	2.8	2.0	1.7	2.3	-2.5	2.5	2.4
Canada	0.4	3.6	2.1	3.2	3.1	3.5	-2.5	2.3	3.0
Ontario	1.9	3.0	1.8	3.4	3.1	3.0	-3.6	2.2	2.8
Québec	0.6	2.9	2.3	2.3	2.2	2.6	-1.8	2.0	2.5

f: forecasts

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

time has come when inventories are so low that production will have to increase to meet customers' needs. Business inventory movement could once again beat the outlook for 2010.

In Canada and the provinces, the revisions for the last quarter are not as big. Real GDP growth goes from 3.0% to 3.6% for the country as a whole, from 1.4% to 3.0% for Ontario and, lastly, from 1.9% to 2.9% for Québec. The positive base effect will help economic growth this year. All of the yearly growth forecasts for 2010 have thus been brought up slightly, but the recovery still promises to be slow and shot through with numerous risks.

The results recorded in the final quarter does not necessarily reflect growth to be seen in 2010. Recovery plans are still essential to the global economy's turnaround, but the private sector is not yet strong enough to take over the reins from governments. However, the pressure on a number of countries' public finances seems to be increasing concerns that governments will start to be a drag on growth more quickly than forecast. The critical deficit and debt situations of countries like Greece, Ireland, Portugal and Spain are notching up the level of watchfulness (graph 2). Even though the United States, Canada and Québec have the capacity to

take on a little more debt, the massive injection of cash into the economy will have to be reversed sooner or later.

Despite the concern about the actions governments almost worldwide could take to reduce their deficits, the recovery will continue to be buoyed by historically low interest rates. No sign suggests any action by the European, British and North American central banks before the end of summer. The surplus production capacity worldwide is still too large to fuel inflation, a fundamental criterion for triggering interest rate increases.

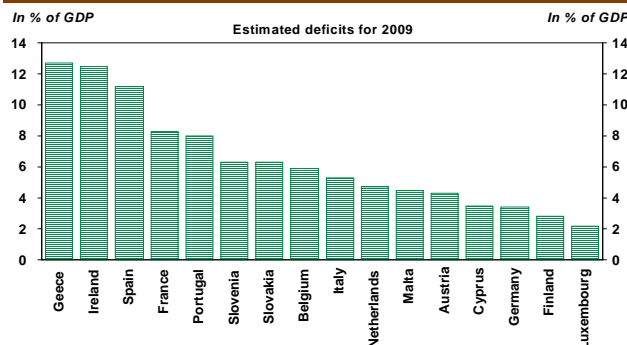
François Dupuis

Vice-President and Chief Economist

Yves St-Maurice

Director and Deputy Chief Economist

Graph 2 – A number of euro zone nations are facing large deficits



Sources: European Commission and Desjardins, Economic Studies

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

Country or zone	Weight** (%)	Real GDP growth (%)			Inflation rate (%)		
		2009f	2010f	2011f	2009f	2010f	2011f
Industrialized economies	49.7	-3.4	1.8	2.0	0.0	1.5	1.5
United States	20.4	-2.5	2.5	2.4	-0.3	2.4	2.0
Canada	1.7	-2.5	2.3	3.0	0.3	1.5	2.2
Québec	0.4	-1.8	2.0	2.5	0.6	1.5	2.1
Ontario	0.8	-3.6	2.2	2.8	0.4	1.6	2.1
Japan	6.2	-5.4	1.3	1.5	-1.3	-1.0	-0.3
United Kingdom	3.1	-4.7	1.5	2.2	2.1	2.4	1.7
Euro zone	15.6	-3.9	1.3	1.6	0.3	1.2	1.5
Germany	4.2	-5.0	1.8	1.6	0.4	1.0	1.3
France	3.0	-2.2	1.4	1.6	0.1	1.2	1.5
Italy	2.6	-4.8	0.9	1.2	0.8	1.6	1.8
Other countries	2.9	-1.3	1.3	1.6	1.0	1.6	2.0
Developing economies	50.3	1.0	5.3	5.5	4.9	5.2	5.1
North Asia (China, Hong Kong, India and South Korea)	19.2	6.8	8.3	8.0	2.5	3.7	3.6
China	11.3	8.7	9.6	9.1	-0.7	2.5	2.9
India	4.9	6.6	7.7	7.9	10.4	7.2	5.9
South Asia (Indonesia, Malaysia, Thailand and Philippines)	3.4	0.7	4.9	5.1	2.1	4.0	3.9
Latin America	8.0	-2.4	3.8	3.7	5.4	6.5	6.4
Eastern Europe	8.0	-6.1	3.0	3.6	6.8	6.0	6.0
Other countries	11.7	-1.8	2.7	3.7	7.3	6.1	5.9
World	100.0	-1.2	3.5	3.8	1.5	2.6	2.6

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)	2009		2010				2011			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00
Canada	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.25	2.75
Euro zone	1.00	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.50	3.00
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.50	2.00	2.50
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-year federal bonds										
United States	3.30	3.84	3.40	3.60	3.80	4.00	4.10	4.20	4.30	4.40
Canada	3.31	3.61	3.40	3.55	3.70	3.85	3.95	4.00	4.05	4.10
Currency market										
Canadian dollar (USD/CAD)	1.07	1.05	1.04	1.02	1.00	1.02	1.00	0.98	0.97	0.96
Euro (EUR/USD)	1.46	1.43	1.50	1.48	1.42	1.38	1.36	1.34	1.32	1.30
Euro (EUR/CAD)	1.56	1.51	1.56	1.51	1.42	1.41	1.36	1.31	1.28	1.25
Raw materials (annual average)										
WTI* oil (US\$/barrel)	62 (79**)			81 (90**)				95 (105**)		
Gold (US\$/ounce)	973 (1,096**)			1,175 (1,150**)				1,050 (1,000**)		
Stock markets** (level and growth)										
United States (S&P 500)	1,115			Target: 1,265 (+13.4%)				Target: 1,365 (+7.9%)		
Canada (S&P/TSX)	11,746			Target: 13,100 (+11.5%)				Target: 14,275 (+9.0%)		

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

OVERSEAS

Growth is back in the United Kingdom, potential downswing in Japan

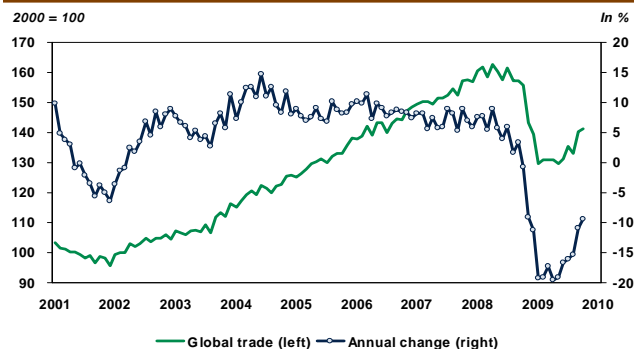
GLOBAL ECONOMY

- Global trade is still getting back on its feet after the problems that occurred a year ago now. Trade remains well below pre-crisis peaks, but the recent gains are not negligible (graph 3). The level is up by more than 9% from the trough.
- Much of the global recovery is still dependent on government stimulus programs and accommodative monetary policy. The International Monetary Fund is also asking governments not to withdraw their stimulus too quickly.
- The global economy's growth outlooks remain essentially the same. The global real GDP probably declined by 1.2% in 2009. Gains of 3.5% and 3.8% are forecast for 2010 and 2011 respectively.

EUROPE

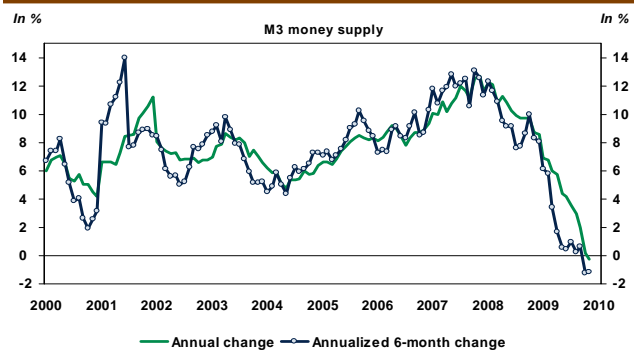
- Already growing in Q3, the **euro zone's** real GDP probably kept advancing in the final quarter of 2009. Overall, the consumer and business confidence indexes kept rising in the fall, and industrial output posted very strong growth in November, offsetting October's slight dip. However, some of the statistics were more disappointing: retail sales fell in November and some of the purchasing manager (PMI) indexes appear to be cresting. Moreover, the jobless rate rose more than expected in November, going to 10.0%.
- In general, the banking and credit problems are still looming over Europe's economy. The central bank recently revised upward the total amount of loan losses that European financial institutions will have to account for. Moreover, credit supply and demand remain very low and lending to the private sector is retreating. The money supply is also down (graph 4). Under these circumstances, consumer spending and business investment could remain soft for much of 2010. The euro zone is expected to post real GDP growth of just 1.3% this year.
- It is taking some time for the **United Kingdom** to show its first real GDP growth. However, the end of the year is expected to show a slight increase. Good performance by the PMI indexes (graph 5) and the increase in industrial output lean in that direction. Retail sales also had a good year-end given that the sales tax was slated to go up as of January. However, 2010 will not be without hiccups for Britain's economy, as the government's difficult fiscal situation is forcing it to withdraw some of its stimulus measures.

Graph 3 – International trade quietly gets back on its feet



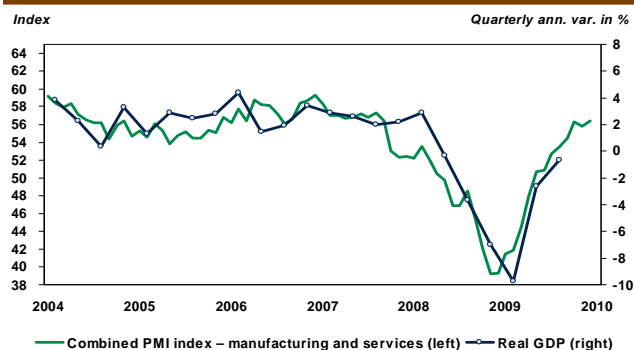
Sources: Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

Graph 4 – The euro zone's money supply contracts



Sources: European Central Bank and Desjardins, Economic Studies

Graph 5 – The PMI indexes signal increased economic activity in the United Kingdom

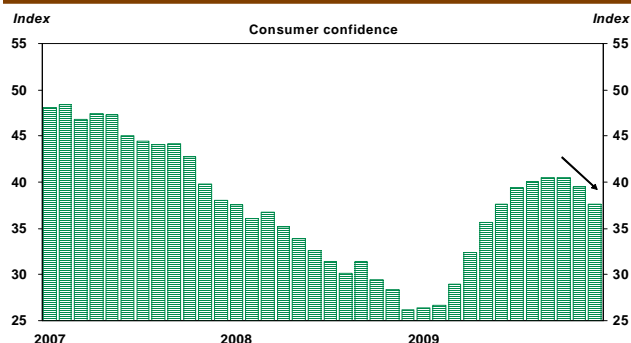


Sources: Bloomberg, Office of National Statistics and Desjardins, Economic Studies

ASIA

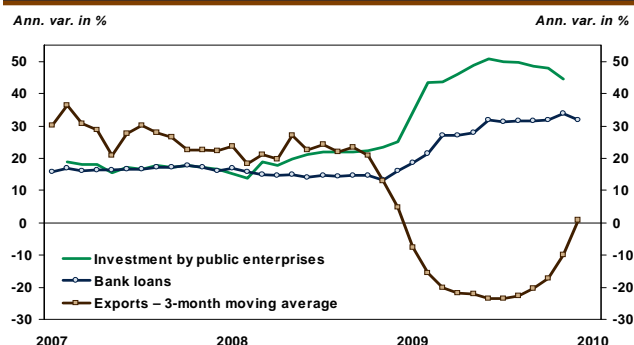
- After a few revisions, **Japan's** Q3 real GDP growth finally proved to be a disappointment. In particular, it signals that the upswing mainly stems from improved trade, while domestic demand remains very weak. The recent decline by the consumer confidence indexes (graph 6) does not point to a big surge in economic activity in the coming months; the risks of a real GDP pullback are often mentioned. Deflation also appears to be persistent, with its disincentives for consumption and investment. December also saw bank lending decline. Japan's real GDP is forecast to grow 1.3% in 2010.
- **China's** economy managed to achieve another year of fairly rapid growth after gaining 8.7% in 2009. Such a result attests to the public authorities' drive to avoid a domestic recession, a goal they met with success. The ambitious recovery program, which included public investment, help to consumers (tax cuts and subsidies) and a big increase in credit, has clearly paid off (graph 7). The consensus calls for 2010 to be another good year for growth. However, we now have to worry about the Chinese economy overheating, which would fuel inflation.

Graph 6 – Japanese consumer sentiment deteriorated in the last few months



Sources: Cabinet Office and Desjardins, Economic Studies

Graph 7 – Faster public investment and bank lending allowed the Chinese economy to recover quickly



Sources: National Bureau of Statistics of China and Desjardins, Economic Studies

**Table 4
Overseas: real GDP growth and inflation rate**

Country or zone	Real GDP growth (%)				Inflation rate (%)			
	2008	2009f	2010f	2011f	2008	2009f	2010f	2011f
Europe								
United Kingdom	0.5	-4.7	1.5	2.2	3.6	2.1	2.4	1.7
Euro zone	0.5	-3.9	1.3	1.6	3.3	0.3	1.2	1.5
Germany	1.3	-5.0	1.8	1.6	2.6	0.4	1.0	1.3
France	0.3	-2.2	1.4	1.6	2.8	0.1	1.2	1.5
Italy	-1.0	-4.8	0.9	1.2	3.4	0.8	1.6	1.8
Spain	0.9	-3.6	-0.4	1.2	4.1	-0.3	1.4	1.7
Russia	5.6	-7.9	4.1	3.8	13.3	9.1	7.9	8.6
Asia and Pacific								
Australia	2.3	1.1	2.9	3.3	4.4	1.8	2.4	2.6
Japan	-1.2	-5.4	1.3	1.5	1.4	-1.3	-1.0	-0.3
China	9.6	8.7	9.6	9.1	5.9	-0.7	2.5	2.9
India	7.4	6.6	7.7	7.9	9.0	10.4	7.2	5.9
South Korea	2.2	0.0	4.7	4.4	4.7	2.8	2.9	2.9
Latin America								
Argentina	6.8	-2.5	3.4	2.7	7.2	7.0	8.3	8.5
Brazil	5.1	-0.1	5.1	4.5	5.9	4.3	4.5	4.8
Mexico	1.3	-6.9	3.2	3.2	6.5	3.8	4.9	3.8

f: forecasts

Sources: Consensus Forecasts and Desjardins, Economic Studies

UNITED STATES

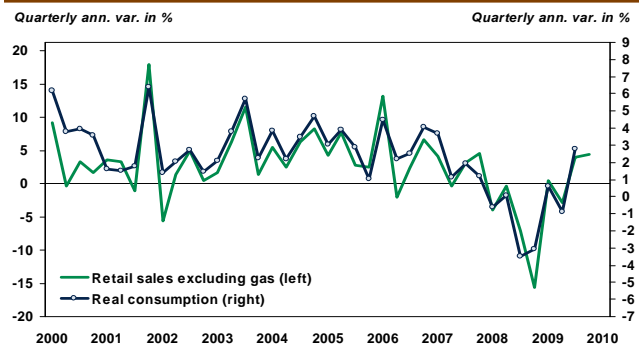
Inventories stimulate growth at the end of 2009

ECONOMY

- Initially estimated at 3.5%, Q3's quarterly annualized real GDP growth was, in the end, revised to just 2.2%. This first positive figure since spring 2008 reflects fairly modest economic growth. Moreover, a study released by President Obama's economic advisors deems that the recovery plan had a substantial effect on growth, of about 3.9 percentage points. Without this support, the American economy would still be in recession, whereas we can now assume that the recession ended at the start of last summer.
- Real GDP growth has certainly proven much stronger in the last quarter of 2009. Retail sales advanced throughout the period, although there was a slight downswing in December (graph 8). Industrial output grew, as did exports. Moreover, December's unusually cold weather drove up output by energy suppliers and, in turn, consumption of services.
- The biggest contribution to growth will, however, come in a major change of direction by business inventories. From substantial destocking of about US\$140B in 2005 dollars in the summer of 2009, the decline was much smaller last fall. Inventories are even up in current dollars (graph 9). The faster-than-forecast movement will lead to a big contribution of almost 4 percentage points to Q4 real GDP growth.
- Growth should remain fairly solid in early 2010, once again boosted by inventory growth and the government recovery program. The contribution from inventories will be smaller after that; the economy will drop to a slower cruising speed as of this spring.
- The jobless rate remains high in the United States. Although November saw a little job creation, layoffs returned in December, with 85,000 jobs being lost. The labour market will see a strong but passing rebound next spring, temporarily stimulated by the 10-year census (graph 10).

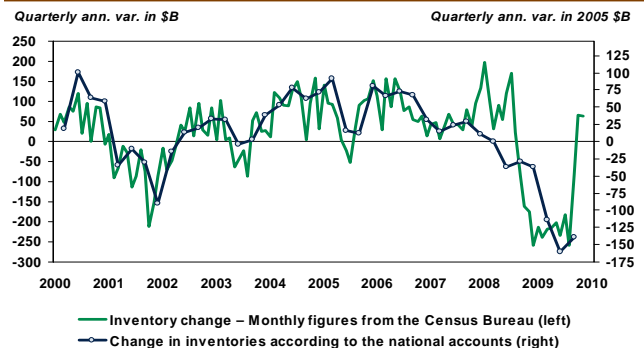
Conclusion: Real GDP growth should be strong in Q4, primarily based on inventory change; this is a very volatile component during economic recoveries. However, the better results at the end of 2009 do not do much to change the annual forecasts. A decline of 2.5% is estimated for 2009, followed by 2.5% growth in 2010 and growth of 2.4% in 2011.

Graph 8 – U.S. real consumption should be fairly good in Q4



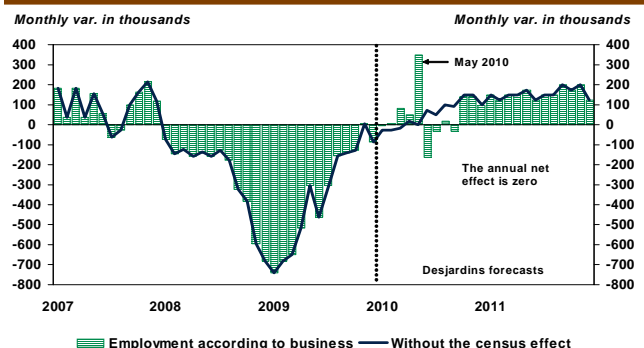
Sources: Census Bureau, Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 9 – The change in inventories will provide for a major contribution to U.S. real GDP growth



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 10 – Running the American census will have a big but temporary impact on employment in 2010

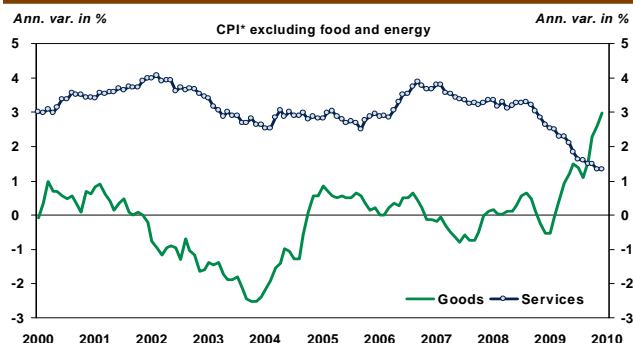


Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

INFLATION

- Total inflation continues the upswing that started in November. In December, the annual change in the consumer price index (CPI) was 2.7%. Five months earlier, it had bottomed out at -2.1%.
- Inflation movements of course reflect changes in oil prices. Last summer, the comparison between energy prices and the prices in effect the year before was very negative. Oil prices dropped abruptly starting in the fall of 2008, and this is now having a positive impact on the annual CPI change. Inflation is expected to peak above 3% at the end of the winter, subsequently decelerating toward more modest growth.
- As for core inflation, which excludes food and energy, it has been fairly stable for several months. The annual rate stood at 1.7% in December.
- However, some major upheaval is currently happening in core inflation. Service prices, which have historically posted stronger growth than goods prices, are decelerating sharply (graph 11). In fact, the increase in service prices has not been this small since the statistic was first compiled in 1958. Rents (and homeowners' equivalent rent) are mainly behind slowing service prices. In contrast, goods prices are accelerating due in part to tax increases.
- Core inflation should decelerate in the coming months, dropping below 1% in the second half.

Graph 11 – Goods prices are picking up while service prices are moderating



* Consumer price index.
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Table 5
United States: major economic indicators

	2009		2010				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2008	2009f	2010f	2011f
Quarterly annualized variation in % (except if indicated)										
Real gross domestic product*	2.2	4.5	2.8	2.0	1.7	2.3	0.4	-2.5	2.5	2.4
Personal cons. expenditures	2.8	1.7	0.8	0.9	1.4	1.5	-0.2	-0.6	1.3	1.5
Residential construction	18.9	4.5	17.6	21.4	14.3	25.2	-22.9	-20.4	13.0	19.1
Business fixed investment	-5.9	-6.8	-2.0	-1.5	0.9	1.9	1.6	-18.4	-3.2	2.1
Inventory change (\$B)	-139.2	-50.0	-10.0	0.0	5.0	15.0	16.0	-115.8	2.5	39.4
Public expenditures	2.7	1.4	2.5	2.9	0.4	0.5	3.1	2.0	2.2	0.9
Exports	17.8	25.0	4.0	4.0	2.5	2.5	5.4	-9.5	8.4	3.2
Imports	21.3	21.0	5.0	3.8	3.2	3.5	-3.2	-13.7	7.7	2.6
Final domestic demand	2.3	0.8	1.4	1.7	1.6	2.2	-0.4	-2.7	1.4	2.1
Other indicators										
Real disposable personal income	-1.4	1.1	1.5	2.6	2.5	2.5	0.5	1.2	1.7	2.5
Employment (establishments)	-2.6	-0.9	-0.1	0.9	-0.1	0.8	-0.4	-3.7	-0.6	1.0
Unemployment rate (%)	9.6	10.0	10.4	10.5	10.2	9.6	5.8	9.3	10.2	9.0
Housing starts (1)	587	554	610	668	648	732	901	552	665	813
Corporate profits*** (2)	-6.6	17.5	12.5	10.0	1.0	5.0	-11.8	-6.5	6.9	6.0
Personal saving rate (%)	4.5	4.2	4.4	4.8	5.1	5.4	2.7	4.5	5.0	6.0
Total inflation rate (2)	-1.6	1.5	3.0	2.2	2.3	2.1	3.8	-0.3	2.4	2.0
Core inflation rate** (2)	1.5	1.7	1.8	1.4	1.4	0.7	2.3	1.7	1.3	0.9
Federal gov't balance (\$B) (3)	-1,327	-1,000	-1,100	-950.0	-900.0	-850.0	-642.6	-1,141	-950.0	-850.0
Current account balance (\$B)	-432.1	-440.0	-447.9	-450.8	-456.1	-462.6	-706.1	-420.5	-454.3	-457.4

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

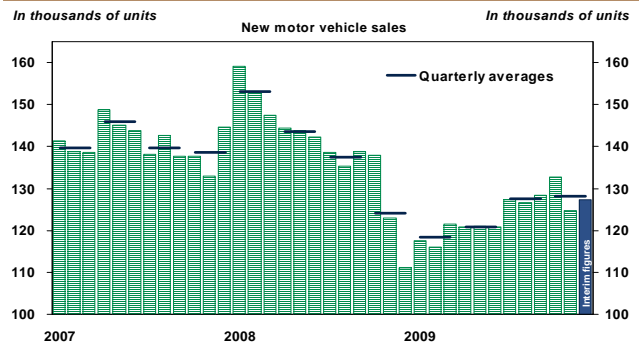
The recovery picked up in Q4 2009

ECONOMY

- Canada's real GDP rose by just 0.4% (quarterly annualized) in Q3; the movement by economic indicators signals that economic growth accelerated in the last quarter of 2009.
- Domestic demand continues to rise, while consumer spending is still benefiting from growth in durable goods and services. Moreover, interim data show that the number of new motor vehicles sold rose 0.6% in Q4 of 2009, despite November's 6.0% contraction (graph 12).
- Residential investment improved again in the fourth quarter of 2009. Not only did the number of housing starts grow 13.7% in the fall (graph 13), renovation spending seems to have seen a final surge before government assistance plans are withdrawn at the end of 2009 and early 2010.
- Everything suggests that non-residential investment is still benefiting from an increase in machinery and equipment purchases, while government investment remains lively due to the government recovery plans.
- The data for October and November show that, in real terms, merchandise exports are, to date, posting an average gain of 3.4% from Q3 to Q4 of 2009. This is a bigger gain than imports (+0.9%), so the trade balance could improve slightly for the period. Foreign trade's contribution to the real GDP could therefore be around 1%, a result that is much different from the previous quarter, when the trade balance's deterioration had prompted a 5.5% decline in the real GDP.
- The job market appears to have bottomed out last July, with 414,400 jobs lost in all (graph 14). The subsequent improvement to the job market, however, led to 91,000 jobs being created, and a jobless rate steady at around 8.5%.

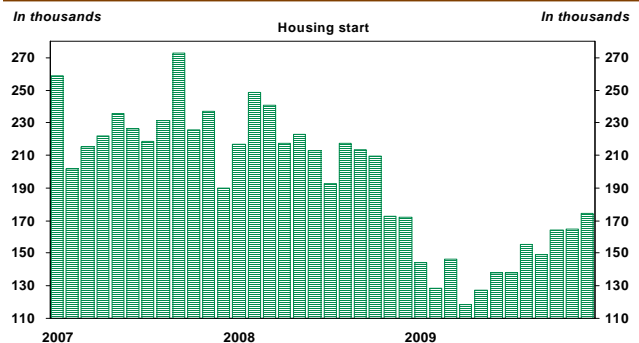
Conclusion: Our forecast for Q4 2009 has been raised from 3.0% to 3.6%. On average, 2009 could thus end with a contraction of 2.5%. Gains of 2.3% and 3.0% are expected for 2010 and 2011 respectively.

Graph 12 – Canadian auto sales slide in November, but interim data point to somewhat of a rebound in December



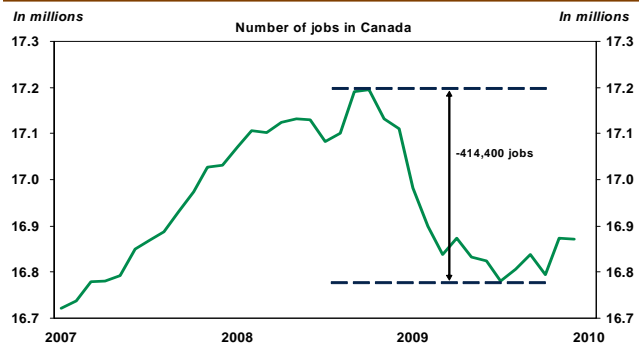
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 13 – Canadian housing starts continue to improve gradually



Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Graph 14 – Canada's job market starts to win back lost ground

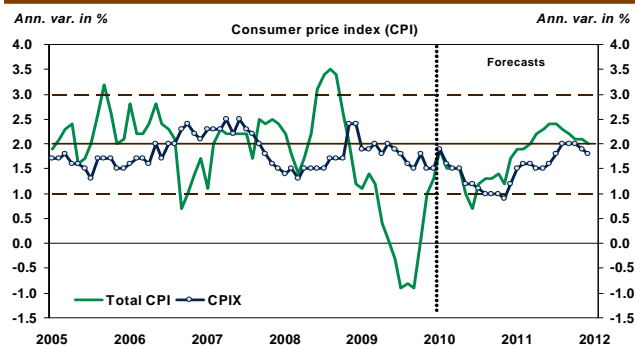


Sources: Statistics Canada and Desjardins, Economic Studies

INFLATION

- Despite December's monthly drop by the total consumer price index, the total annual inflation rate is still on the rise. It has gone from a low of -0.9% in September 2009 to +1.3% in December. Everything suggests that the year-over-year change in the total CPI will rise again in January 2010, especially as the interim results signal that gas prices went up about 5% that month.
- That said, a down trend should then emerge, when the effects of the major energy price fluctuations wane. At that point, it will be the recession's lagged impact that will have a bigger influence on movement by consumer prices.
- The Bank of Canada's core index has stayed in the same fluctuation range (from 1.5% to 2.0%) since 2009 began. Once again, the sizeable output gap will have a growing effect in the coming months. The CPIX's annual change should decline to around 1% by the end of 2010 (graph 15).

Graph 15 – The rise by the year-over-year total CPI change is ending in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

Table 6
Canada: major economic indicators

	2009		2010				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2008	2009f	2010f	2011f
Quarterly annualized variation in % (except if indicated)										
Real gross domestic product*	0.4	3.6	2.1	3.2	3.1	3.5	0.4	-2.5	2.3	3.0
Personal cons. expenditures	3.1	2.2	2.2	2.3	2.6	2.7	3.0	0.0	2.4	3.0
Residential construction	8.1	10.1	1.6	4.1	1.2	1.6	-2.7	-8.1	4.7	2.2
Business fixed investment	4.2	-2.9	-0.9	0.9	2.2	3.5	0.2	-14.6	-0.8	3.7
Inventory change (\$B)	-5.8	-8.8	-8.3	-6.5	-5.0	-2.0	12.2	-8.6	-5.4	0.9
Public expenditures	7.9	7.6	7.1	5.7	5.0	3.8	4.8	4.3	6.4	2.6
Exports	15.3	11.8	1.5	2.0	2.5	3.5	-4.7	-13.8	3.8	2.8
Imports	36.0	8.0	5.2	3.5	3.8	4.6	0.8	-13.7	7.7	4.4
Final domestic demand	4.7	3.5	3.0	3.1	3.1	3.0	2.6	-1.5	3.2	3.0
Other indicators										
Real disposable personal income	0.4	1.5	2.0	2.8	2.0	3.0	4.2	1.2	2.0	3.3
Weekly earnings	3.3	2.0	1.5	1.5	2.0	2.5	2.9	1.6	1.8	2.4
Employment	-0.8	0.9	0.6	0.6	1.7	2.8	1.5	-1.6	0.6	2.5
Unemployment rate (%)	8.6	8.5	8.7	8.7	8.6	8.4	6.1	8.3	8.6	7.6
Housing starts (1)	147.5	167.8	166.0	169.0	164.2	165.8	211.1	145.7	166.3	170.9
Corporate profits*** (2)	-42.0	-20.0	5.0	21.5	19.0	13.0	5.7	-34.8	14.4	4.7
Personal saving rate (%)	4.8	4.8	5.1	5.4	5.6	5.3	3.7	5.0	5.4	5.0
Total inflation rate (2)	-0.9	0.8	1.7	1.2	1.4	1.5	2.3	0.3	1.5	2.2
Core inflation rate** (2)	1.6	1.6	1.7	1.3	1.1	1.0	1.7	1.7	1.3	1.7
Federal gov't balance (\$B) (3)	-31.4	-55.0	-55.0	-35.0	-30.0	-25.0	2.7	-36.0	-36.3	-20.0
Current account balance (\$B)	-52.5	-55.0	-45.0	-40.0	-30.0	-25.0	8.1	-46.6	-35.0	-14.3

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 recovery continues in eastern central Canada

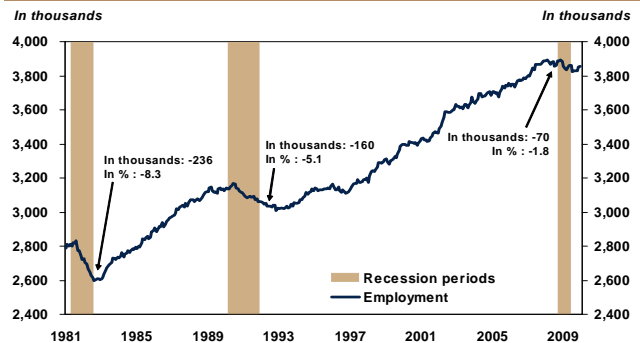
QUÉBEC

- The recovery that began last summer seems to be consolidating in Québec. In addition to renewed real GDP growth, the turnaround by employment is a decisive factor in the forecast scenario. December saw a third straight monthly gain; over 30,000 workers were added in the fourth quarter of 2009. About 70,000 jobs were lost from November 2008's peak to the bottom in July 2009, so that the recovery period is already well underway. The damage was limited compared with previous recessions (graph 16).
- However, household confidence is taking its time in getting back above its historic average, signalling some fragility for consumers. Although retail sales have gained back almost all of the ground lost during the recession, they have been more hesitant since October (+0.1%).
- For business, the positive signs are not yet strong enough to talk about a real recovery. Manufacturing sales are not being quick to show a lasting up trend, while exports are starting to stabilize. However, the trade deficit is still growing, as the rebound by domestic demand is boosting imports (graph 17).
- The Desjardins Leading Index continues to rise, even accelerating in November. More sustained real GDP growth is thus expected as of Q4 2009, following the tepid gain noted the quarter before (annualized +0.6%). The Institut de la statistique du Québec revised the results for the first half of 2009 downwards. The projection for the year therefore goes from -1.7% to -1.8%. For 2010 and 2011, the growth outlooks are at 2.0% and 2.5% respectively.

ONTARIO

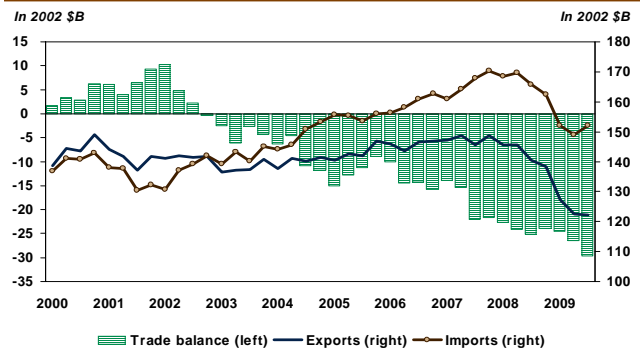
- Ontario's real GDP rose 1.9% (quarterly annualized) in the third quarter of 2009, better growth than forecast (graph 18).
- The auto industry got back on its feet, which played a key role in this recovery. The auto industry's real output jumped by a quarterly annualized 86.1% last summer, generating a substantial positive contribution to the province's real GDP. Without this industry, economic growth would have been much smaller. Among other things, a number of sectors still saw sizeable declines in Q3, for example, primary industries (-27.1%), utilities (-16.3%), construction (-4.9%) and some service sectors.
- The latest data on the auto industry are more ambiguous. The number of motor vehicles produced fell 9.3% in November, wiping out some of the gains made since last summer. The next few months will likely be characterized by some stabilization for the auto industry. As a result, we cannot expect it to make as big a contribution to economic growth in the coming quarters.

Graph 16 – From peak to trough, Québec employment is down less than in previous recessions



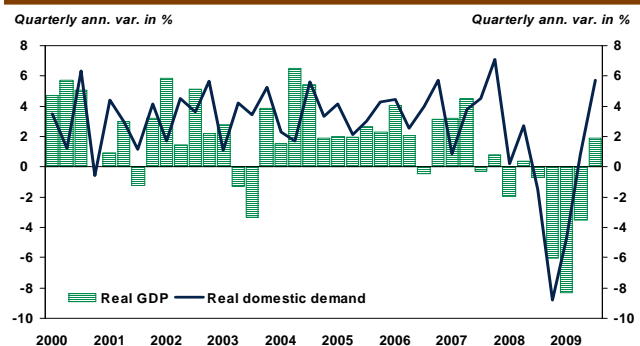
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 17 – The turnaround by imports is magnifying Québec's trade deficit



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

Graph 18 – Ontario emerges from recession



Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

- For 2009, Ontario's real GDP could contract a little less than initially forecast, -3.6%. Increases of 2.2% and 2.8% are expected for 2010 and 2011.

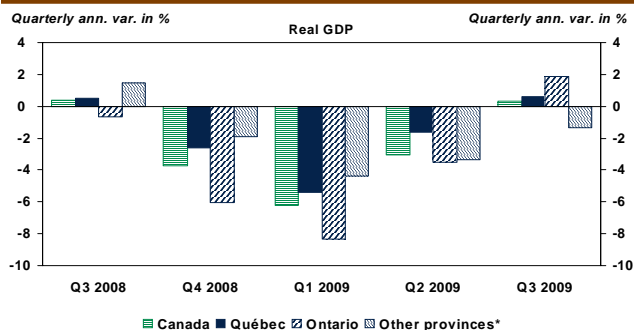
WESTERN PROVINCES

- Canada's real GDP rose by just 0.4% in Q3 2009 which, combined with stronger growth in Québec (+0.6%) and Ontario (+1.9%) during the period, means that real output in the other provinces fell by about 1.3%, on average, in the third quarter of 2009 (graph 19). However, the contraction is not as large as in previous quarters, when they were -4.4% and -3.3%.
- Provinces that export energy of course benefited from the increase in the volume of crude oil exported at the end of 2009, but the reduction in natural gas offset some of the positive impacts on economic growth.

ATLANTIC PROVINCES

- New Brunswick benefited from sizeable rebound by manufacturing sales last fall. Note that they had declined 26.1% in September.

Graph 19 – The economic recovery comes mainly from Ontario and Québec



* Implicit changes.
Sources: Statistics Canada, Institut de la statistique du Québec, Ontario Ministry of Finance and Desjardins, Economic Studies

**Table 7
Québec and Ontario: national accounts**

	2007	2008	2009 ^f	2010 ^f	2011 ^f
Annual average in % (except if indicated)					
Québec					
Real gross domestic product	2.8	1.0	-1.8	2.0	2.5
Personal consumption expenditures	4.3	3.3	0.6	2.3	2.4
Residential construction	5.2	-2.3	-1.1	5.1	3.8
Business fixed investment	6.3	-0.8	-10.8	3.7	3.9
Inventory change (2002 \$M)	2,057	679	-684	50	775
Public expenditures	3.7	6.4	3.5	2.4	1.7
Exports	0.6	-2.6	-13.3	0.7	4.0
Imports	5.1	1.6	-11.5	2.6	4.1
Final domestic demand	4.5	3.3	0.0	2.6	2.4
Ontario					
Real gross domestic product	2.3	-0.5	-3.6	2.2	2.8
Personal consumption expenditures	3.7	2.6	0.3	2.4	2.7
Residential construction	2.2	-2.3	-9.4	3.5	-1.1
Business fixed investment	3.5	-0.5	-13.8	-0.1	3.1
Inventory change (2002 \$M)	5,410	4,334	-5,721	-1,938	1,938
Public expenditures	3.7	2.5	0.0	5.9	2.9
Exports	1.5	-6.3	-14.7	4.6	2.7
Imports	4.0	-2.8	-16.1	7.1	3.6
Final domestic demand	3.7	1.9	-2.0	2.8	2.6

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 %	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key rate												
Federal funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00
Treasury bills												
3-month	0.21	0.19	0.14	0.06	0.25	0.25	0.25	0.30	0.70	1.20	1.70	2.20
Federal bonds												
2-year	0.81	1.12	0.95	1.14	1.00	1.10	1.40	1.80	2.40	3.00	3.50	3.90
5-year	1.68	2.56	2.31	2.68	2.30	2.50	2.80	3.20	3.60	3.90	4.10	4.20
10-year	2.69	3.52	3.30	3.84	3.40	3.60	3.80	4.00	4.10	4.20	4.30	4.40
30-year	3.57	4.31	4.05	4.63	4.40	4.50	4.60	4.70	4.75	4.75	4.75	4.80
Yield curve												
5-year - 3-month	1.47	2.37	2.17	2.62	2.05	2.25	2.55	2.90	2.90	2.70	2.40	2.00
10-year - 2-year	1.88	2.40	2.35	2.69	2.40	2.50	2.40	2.20	1.70	1.20	0.80	0.50
30-year - 3-month	3.36	4.12	3.91	4.57	4.15	4.25	4.35	4.40	4.05	3.55	3.05	2.60

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

Table 9
Canada: fixed income market

End of period in %	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key rate												
Overnight funds	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.25	2.75
Treasury bills												
3-month	0.40	0.25	0.23	0.19	0.30	0.30	0.50	1.05	1.55	2.00	2.50	3.05
Federal bonds												
2-year	1.07	1.21	1.26	1.48	1.30	1.45	1.80	2.10	2.60	3.10	3.50	3.80
5-year	1.75	2.46	2.58	2.77	2.55	2.70	2.95	3.25	3.55	3.80	3.95	4.00
10-year	2.78	3.36	3.31	3.61	3.40	3.55	3.70	3.85	3.95	4.00	4.05	4.10
30-year	3.56	3.86	3.84	4.08	4.00	4.10	4.15	4.20	4.25	4.25	4.25	4.30
Yield curve												
5-year - 3-month	1.35	2.21	2.35	2.58	2.25	2.40	2.45	2.20	2.00	1.80	1.45	0.95
10-year - 2-year	1.71	2.15	2.05	2.13	2.10	2.10	1.90	1.75	1.35	0.90	0.55	0.30
30-year - 3-month	3.16	3.61	3.61	3.89	3.70	3.80	3.65	3.15	2.70	2.25	1.75	1.25
Spreads (Canada - U.S.)												
3-month	0.19	0.06	0.09	0.13	0.05	0.05	0.25	0.75	0.85	0.80	0.80	0.85
2-year	0.27	0.09	0.31	0.34	0.30	0.35	0.40	0.30	0.20	0.10	0.00	-0.10
5-year	0.07	-0.10	0.26	0.09	0.25	0.20	0.15	0.05	-0.05	-0.10	-0.15	-0.20
10-year	0.09	-0.16	0.00	-0.22	0.00	-0.05	-0.10	-0.15	-0.15	-0.20	-0.25	-0.30
30-year	-0.00	-0.45	-0.21	-0.55	0.00	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50

f: forecasts

Sources: Datastream and Desjardins, Economic Studies