

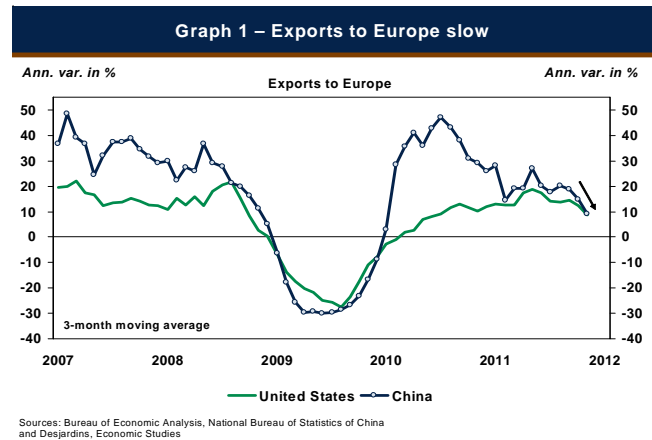
## UPDATE

January 23, 2012

### A number of economic figures are showing some resilience The financial markets still hold their breath

We must not be complacent: Europe's sovereign debt crisis is far from over. There are still many pieces to put together and a number of the solutions being considered or proposed offer more questions than answers. Still, the recent bond issues by Italy, Spain and France were painless and yields are well down from last December's issues. The bond markets are thus apparently encouraged to date by the efforts to resolve the issue made in these countries. Note that the European Central Bank's actions gave the banking sector substantial support, thus facilitating the purchase of sovereign debt. Lastly, Standard & Poor's downgrade of nine euro zone countries, including France, did not really disrupt the bond markets, which had probably already factored in the looming menace.

The economic data in Europe are not fantastic, though they are not deteriorating as much as anticipated. The euro zone will not be able to avoid a recession, which probably started in the fourth quarter of 2011. Moreover, the United States and China recently saw growth in their exports to this region decline sharply (graph 1). The euro zone should thus see its real GDP contract by 0.6% in 2012. The United Kingdom will be on a similar track, although growth there should remain slightly positive, at 0.2% for the period. The European recession will therefore have a major impact on international trade and the world economy, where growth will be just 3.1% in 2012.



In the United States, statistics on the labour market outstripped expectations in December. 200,000 jobs were created, providing some reassurance about the growth outlook for the U.S. economy. For more than a month now, some U.S. figures, such as housing starts, home resales, the ISM indexes and consumer confidence index, have been more encouraging. On the other hand, foreign trade took a big hit in November and the holiday season's retail sales were quite mediocre. In short, the news is mixed, pointing to an economy that remains unsettled and will post weak growth in the coming quarters. As for inflation, it continues to fall, hitting 3.0% in December 2011.

Although moderate growth is anticipated in the next few quarters for Canada, the recent indicators show some improvement, confirming our growth forecast of 1.7% for the last quarter of 2011 and 2.3% for the year as a whole. Exports rose 3.2% in November, while housing starts ended December up by 7.9%, to just over 200,000 units. The labour market added 17,500 jobs in December in Canada but, when excluding the 25,700 jobs lost in Québec, the rest of Canada added 43,200 jobs. However, consumer confidence continues to sag (graph 2 on page 2).

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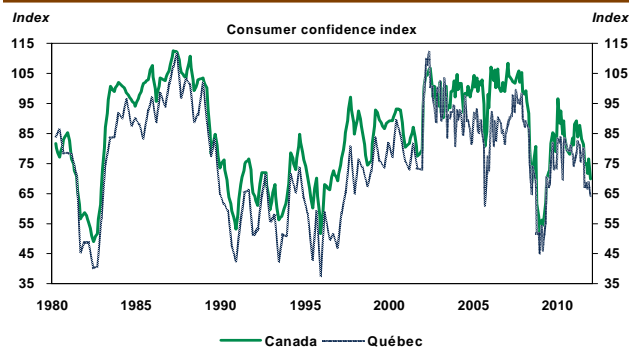
**Table 1**  
**Economic scenario: variation in real GDP**

Annualized rate in %	2011		2012				Annual average		
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2011f	2012f	2013f
United States	1.8	2.8	1.1	1.9	1.7	2.3	1.7	1.8	2.1
Canada	3.5	1.7	1.8	2.1	2.5	2.8	2.3	2.1	2.5
Ontario	2.7	1.5	1.5	2.0	2.8	2.6	1.7	1.8	2.4
Québec	1.3	1.2	1.8	2.1	2.3	2.5	1.6	1.7	2.3

f: forecasts

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

**Graph 2 – Canadian consumer confidence has been eroding for several months**



Sources: Conference Board of Canada and Desjardins, Economic Studies

In the near term, the oil producing provinces should continue to be boosted by relatively high oil prices, buoyed by the risks of conflict in the Middle East. Conversely, provinces whose production focuses more on manufacturing, like Ontario and Québec, will be hurt by the economic and financial uncertainties around the world. The recession in Europe will affect global trade and the negative impact should ripple to their exports, one way or another. These provinces' domestic demand will also be sluggish, influenced by government budget-cutting efforts and the housing market slowdown.

The current picture for Québec's economy is fairly worrisome. Housing starts did go up 7.2% in December and investment in non-residential construction posted annualized quarterly growth of 11.2% in the fall of 2011. However, this is not enough to offset the bad news that has been piling up for the last few months. Consumer confidence fell again in December (see graph 2), a situation that does not augur well for consumption, especially as 25,700 jobs were lost that month. The province lost nearly 70,000 jobs during the last quarter. While caution is still in order given the big fluctuations in the results of the Labour Force Survey, it is hard to deny that the labour market is currently correcting. Is it a real correction or simply a statistical phenomenon? The answer is probably somewhere in between. Given the bad news, economic growth has been lowered slightly from 1.7% to 1.6% for 2011.

The 1% increase to Québec's sales tax on January 1 will not help stimulate consumer spending, either. Add to that the increases to contributions to employment insurance, the Québec Parental Insurance Plan and the Québec Pension Plan which will hit the year's first paycheques. On the other hand, the Desjardins Leading Index rose 0.3% in November, raising hopes the situation will improve in the coming months. The growth outlook for 2012 thus stays at 1.7%, below the performance for Canada as a whole.

The current financial and economic situation argues for interest rates to remain very low in Canada and the United States. The Federal Reserve should not raise its key rates until 2014, while the Bank of Canada should announce a first increase in the summer of 2013. Bond yields will also stay at historically low levels. The uncertainties in Europe favour purchases of safe-haven North American securities, a situation that will persist until the European crisis dies down. Lastly, it is important to note that we could see periods of strong volatility in the coming months and quarters given the risks of a skid on several fronts.

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

Country or zone	Weight** (%)	Real GDP growth (%)			Inflation rate (%)		
		2011f	2012f	2013f	2011f	2012f	2013f
<b>Industrialized economies</b>	<b>47.0</b>	<b>1.3</b>	<b>1.0</b>	<b>1.7</b>	<b>2.5</b>	<b>1.5</b>	<b>1.8</b>
United States	19.1	1.7	1.8	2.1	3.1	1.6	2.4
Canada	1.7	2.3	2.1	2.5	2.9	2.0	1.9
Québec	0.4	1.6	1.7	2.3	3.0	2.2	2.1
Ontario	0.7	1.7	1.8	2.4	3.1	1.9	1.9
Japan	5.7	-0.6	2.2	1.4	-0.3	-0.3	0.0
United Kingdom	2.9	0.9	0.2	1.8	4.5	2.7	2.0
Euro zone	14.9	1.3	-0.6	1.0	2.7	1.9	1.7
Germany	4.0	3.0	-0.2	1.5	2.5	1.8	1.8
France	2.9	1.6	-0.3	1.0	2.3	1.7	1.6
Italy	2.5	0.6	-1.4	0.1	2.9	2.3	1.7
Other countries	2.9	2.2	1.7	2.5	2.4	1.6	2.0
<b>Developing economies</b>	<b>53.0</b>	<b>5.5</b>	<b>4.9</b>	<b>5.8</b>	<b>6.1</b>	<b>5.5</b>	<b>5.7</b>
North Asia (China, Hong Kong, India and South Korea)	21.6	8.0	7.5	7.8	6.0	4.3	4.5
China	13.2	9.2	8.4	8.4	5.4	3.5	4.0
India	5.5	7.2	7.3	8.2	8.2	7.1	6.7
South Asia (Indonesia, Malaysia, Thailand and Philippines)	3.5	4.6	4.4	5.6	4.6	4.0	4.2
Latin America	7.9	4.2	3.4	4.0	7.6	7.0	8.2
Eastern Europe	8.2	4.2	2.5	4.2	6.6	6.1	5.3
Other countries	11.8	2.9	2.8	4.0	5.2	6.4	6.6
<b>World</b>	<b>100.0</b>	<b>3.6</b>	<b>3.1</b>	<b>3.9</b>	<b>3.9</b>	<b>3.1</b>	<b>3.4</b>

f: forecasts; \* Purchasing power parities: Exchange rate that equates the costs of a broad basket of goods and services across countries; \*\* 2010.

Sources: World Bank, Consensus Forecasts and Desjardins, Economic Studies

**Table 3**  
**Summary of the financial forecasts**

End of period in % (except if indicated)	2011		2012				2013			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key interest rate</b>										
United States	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.50	1.50
Euro zone	1.50	1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
<b>10-year federal bonds</b>										
United States	1.93	1.88	1.90	2.00	2.20	2.40	2.70	3.10	3.30	3.50
Canada	2.15	1.94	2.00	2.10	2.30	2.50	2.80	3.20	3.40	3.60
<b>Currency market</b>										
Canadian dollar (USD/CAD)	1.05	1.02	1.05	1.04	1.02	1.00	0.99	0.98	0.97	0.96
Euro (EUR/USD)	1.34	1.30	1.18	1.20	1.22	1.25	1.27	1.30	1.32	1.34
Euro (EUR/CAD)	1.41	1.32	1.24	1.25	1.24	1.25	1.26	1.27	1.28	1.29
<b>Raw materials (annual average)</b>										
WTI* oil (US\$/barrel)	95 (99**)			89 (90**)				100 (105**)		
Gold (US\$/ounce)	1,572 (1,575**)			1,600 (1,550**)				1,450 (1,350**)		
<b>Stock markets** (level and growth)</b>										
United States (S&P 500)	1,258			Target: 1,350 (+7,3%)				Target: 1,470 (+8,9%)		
Canada (S&P/TSX)	11,955			Target: 13,000 (+8.7%)				Target: 14,100 (+8.5%)		

f: forecasts; \* West Texas Intermediate; \*\* End of year.

Sources: Datastream and Desjardins, Economic Studies

# OVERSEAS

## Growth is forecast to slow in 2012

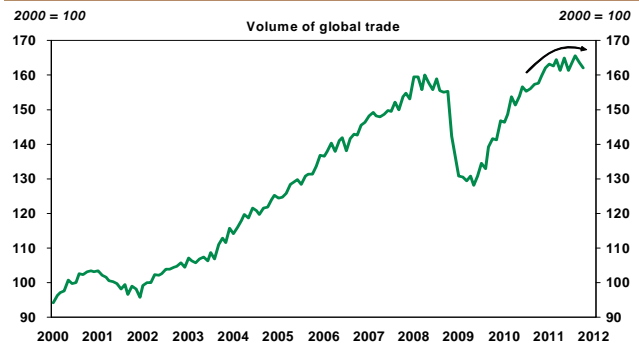
### GLOBAL ECONOMY

- The global economy is still in a downturn, while the euro zone is probably already in recession. Predictably, the downgrade to the debt of several zone nations is complicating matters for the European and global leaders who are trying to resolve the crisis.
- Most countries are seeing their exports to Europe slow. International trade is also stagnating (graph 3).
- The recent rise in oil prices, worsened by the Iranian threat, is also weakening the situation. Oil prices remain high despite soft demand.
- Global real GDP growth will be weak in 2012, at just 3.1% after an estimated gain of 3.6% in 2011. Growth should be slightly livelier in 2013, at 3.9%.

### EUROPE

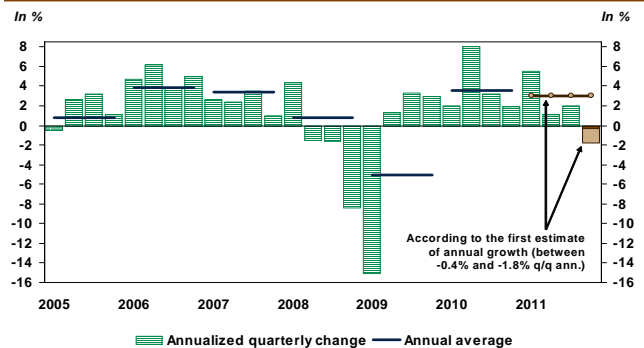
- The **euro zone's** economy may have contracted as of the fourth quarter of 2011. The first official estimate of Germany's real GDP growth for all of 2011 puts growth at 3.0%. With no changes to the figures for the first three quarters of the year, this result implies an annualized change between -0.3% and -1.8% (graph 4) for the fourth quarter. If Germany's real GDP declined in the fall of 2011, it is very likely that the same will happen for the zone as a whole.
- The recent easing of several euro zone economic indicators provides some comfort. Germany's IFO indexes, the PMI indexes for several countries and for the zone as a whole, and some confidence indexes have posted slight increases since December's releases. However, these improvements remain modest and, in most cases, levels are still compatible with an economic contraction (graph 5).
- A recession is certainly expected in the euro zone. Its real GDP should decline 0.6% in 2012, and then expand by 1.0% in 2013. The economy's contraction will thus be relatively modest, all in all, particularly compared with 2009's 4.2% plunge by real GDP. However, the risks surrounding the sovereign debt situation and financial consequences of a deterioration are still very strong.
- The situation in the **United Kingdom** is fairly similar; the country can only be hurt by its European partners' problems. Yet, there too, the PMI indexes are stabilizing and consumer confidence seems to be stopping its slide. Industrial output, home prices and consumption are still down, and real GDP contractions can be expected in the near term. For 2012 as a whole, real GDP should only rise by 0.2%. For 2013, growth of 1.8% is anticipated.

Graph 3 – Global trade is already slowing



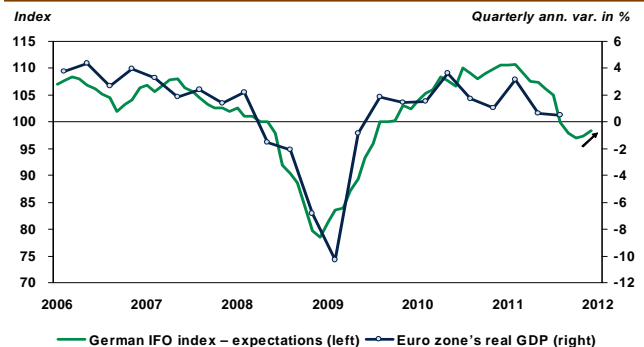
Sources: CPB Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

Graph 4 – Germany's real GDP will likely contract in Q4



Sources: Datastream and Desjardins, Economic Studies

Graph 5 – Although some indicators have improved lately, a recession cannot be avoided in the euro zone

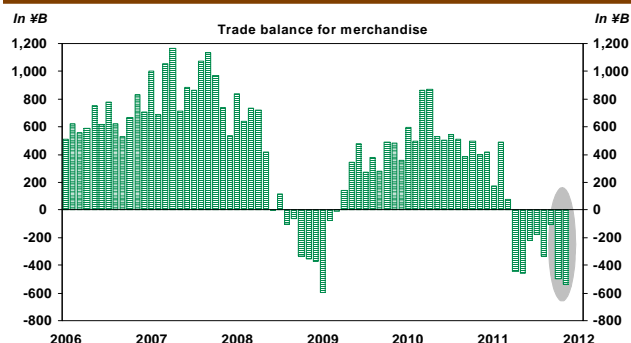


Sources: Datastream, Eurostat and Desjardins, Economic Studies

## ASIA

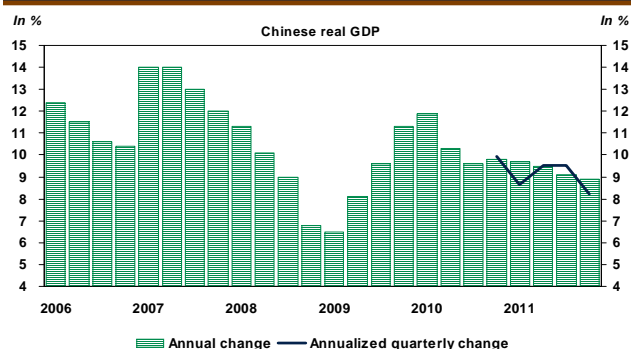
- In **Japan**, following the third quarter's annualized real GDP growth of 5.6%, a gain that put an end to the recession, the economy already seems to be slowing. The latest monthly indicators point to declines in retail sales and industrial production. The situation for foreign trade is also an issue, with the weakening global economy, import demand propelled upward by the rebuilding that has followed the disasters in the winter of 2011, and a currency that remains too strong (graph 6). The fourth quarter's slowdown by growth and revisions to previous real GDP figures have introduced a downside adjustment to the contraction estimated for 2011, putting it at 0.6%. For 2012, real GDP growth should be 2.2%.
- In **China**, the economy continued to decelerate in the fourth quarter of 2011, with a year-over-year real GDP change of "just" 8.9%, the slowest growth since the spring of 2009 (graph 7). The quarterly change showed a gain of 2.0% (an annualized 8.2%), which is also slower than the previous quarters. If this trend continues, the pace of growth at the very end of the year is consistent with real GDP growth of 8.4% in 2012. The soft landing thus seems to be a success. Inflation is decelerating as well, but December also saw fairly fast growth by industrial production and retail sales.

Graph 6 – Japan's trade balance continues to deteriorate



Sources: Cabinet Office and Desjardins, Economic Studies

Graph 7 – China's growth slows



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 (%)			
	2010	2011f	2012f	2013f	2010	2011f	2012f	2013f
<b>Europe</b>								
United Kingdom	2.1	0.9	0.2	1.8	3.3	4.5	2.7	2.0
Euro zone	1.8	1.3	-0.6	1.0	1.6	2.7	1.9	1.7
Germany	3.7	3.0	-0.2	1.5	1.1	2.5	1.8	1.8
France	1.4	1.6	-0.3	1.0	1.5	2.3	1.7	1.6
Italy	1.4	0.6	-1.4	0.1	1.5	2.9	2.3	1.7
Spain	-0.1	0.6	-1.0	0.7	1.9	3.1	1.6	1.7
Russia	4.0	4.0	3.3	4.4	6.9	8.4	6.6	6.6
<b>Asia and Pacific</b>								
Australia	2.6	1.8	3.1	3.3	2.9	3.5	2.8	3.1
Japan	4.4	-0.6	2.2	1.4	-0.7	-0.3	-0.3	0.0
China	10.4	9.2	8.4	8.4	3.3	5.4	3.5	4.0
India	9.9	7.2	7.3	8.2	12.0	8.2	7.1	6.7
South Korea	6.2	3.6	3.3	4.1	2.9	4.2	3.1	3.0
<b>Latin America</b>								
Argentina	9.2	7.4	3.4	3.5	10.8	9.9	10.3	13.5
Brazil	7.6	2.9	3.1	4.4	5.0	6.5	5.3	5.1
Mexico	5.4	3.7	3.0	3.4	4.2	3.5	3.7	3.5

f: forecasts

Sources: Consensus Forecasts and Desjardins, Economic Studies

# UNITED STATES

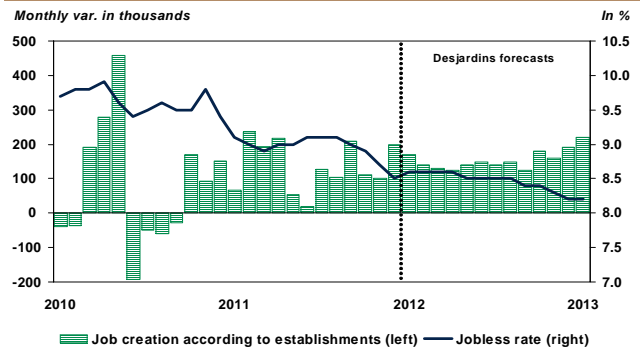
## Disappointing holiday season, but encouraging indicators

### ECONOMY

- The last estimate of national accounts for the third quarter puts annualized real GDP growth at 1.8%. The gain was estimated to be 2.5% in October and 2.0% in November.
- Job creation was fairly good at the very end of 2011, with an additional 200,000 jobs in December. For the year as a whole, 1,640,000 jobs were created, following 2010's increase of 940,000 and the combined loss of 8,663,000 jobs in 2008 and 2009. Simultaneously, the household survey continues to surprise, with another decline by the jobless rate. It held at 8.5%, the lowest level since the winter of 2009. The jobless rate is expected to be more stable in the next few quarters, after dropping by 0.6 points in five months. It should still continue to trend down. 1,800,000 new jobs are forecast to be created in 2012 (graph 8).
- Consumer confidence is still gaining. The job market's gradual improvement, stabilization of stock indexes and lower gas prices are putting households in a better mood. The indexes have recouped nearly all of last summer's losses, dissipating the main risks to consumer spending growth (graph 9).
- Yet retail sales were disappointing for the holiday period and their recent trend is fairly worrisome (graph 10). The situation in November was already bleaker than anticipated, and deteriorated further in December. Still, the good start to the fall means that real consumption should have increased by about 2.5% (annualized) in the fourth quarter. We must hope for a comeback in early 2012, however.
- Both ISM indexes rose in December. The manufacturing ISM is at 53.9, its highest point since June. The non-manufacturing ISM's rise is not as strong. It is now at 52.6. It is encouraging to note that these indexes are moving away from the 50 mark, but their components suggest that growth by business investment will be a little slower than it has been recently. They also indicate that the change in inventory should not make a big contribution to GDP growth in the near term, like foreign trade.

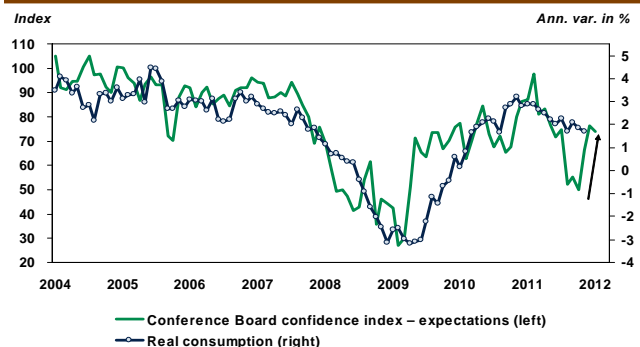
**Conclusion:** The scenarios for the U.S. real GDP are unchanged. After rising 1.7% in 2011, real GDP should grow by 1.8% in 2012 and 2.1% in 2013. Political instability remains a source of risk with the debate on measures to support the economy (those that expired at the end of last year were only extended by two months) and a presidential race that promises to be tight.

**Graph 8 – The U.S. jobless rate should continue to drop, but more slowly**



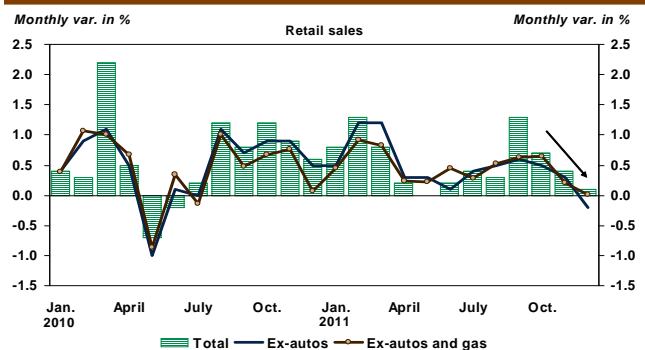
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

**Graph 9 – The jump in U.S. consumer confidence reduces the risk of seeing the economy relapse**



Sources: Conference Board, Bureau of Economic Analysis and Desjardins, Economic Studies

**Graph 10 – The latest U.S. retail sales figures were disappointing**

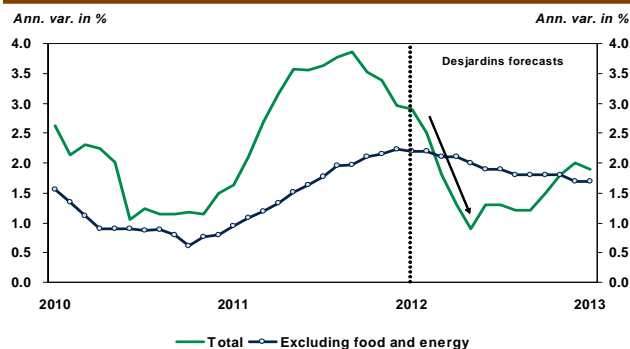


Sources: U.S. Census Bureau and Desjardins, Economic Studies

## INFLATION

- Total inflation began to slow in the final months of 2011. From 3.9% in October, inflation fell to 3.0% in December. It remains high, but should trend down steadily in the first few months of 2012 (graph 11).
- The main reason for the decline is what made prices accelerate in the first place: energy. The inflation rate started to show some teeth in early 2011, when oil and gas prices were rising in response to the political movements in Arab countries. At the time, gas prices went from a national average of US\$3/gallon to nearly US\$4/gallon. The price is currently oscillating around US\$3.30. As it should continue to slide, the comparison with last year's levels will be increasingly favourable. However, the tensions surrounding Iran, which is threatening to disrupt oil traffic in the Strait of Hormuz, are a substantial risk to this scenario.
- Excluding food and energy, price changes are a little more resilient. However, there is no real concern and the monthly increases have not exceeded 0.2% since the end of summer 2011. From its current 2.2%, core inflation should decelerate very gradually in 2012.
- Price growth should thus be softer in 2012 than 2011's 3.1%. Total consumer price index (CPI) should rise by 1.6%. On average for the year, the core CPI should be a little faster, at 2.0% in 2012 compared with 1.7% in 2011.

**Graph 11 – The annual inflation rate should continue to drop 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)	2011		2012				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2010	2011f	2012f	2013f
<b>Real gross domestic product*</b>	1.8	2.8	1.1	1.9	1.7	2.3	3.0	1.7	1.8	2.1
Personal cons. expenditures	1.7	2.4	1.3	1.4	1.6	2.0	2.0	2.2	1.6	1.6
Residential construction	1.2	9.5	7.0	7.0	6.0	10.0	-4.3	-1.5	6.6	6.7
Business fixed investment	15.7	6.0	5.9	6.8	7.3	9.0	4.4	8.9	7.9	8.4
Inventory change (\$B)	-2.0	18.0	10.0	25.0	35.0	50.0	58.8	26.1	30.0	66.3
Public expenditures	-0.1	-1.7	-1.1	-0.3	-0.3	-1.3	0.7	-2.0	-0.9	-0.7
Exports	4.7	5.0	1.5	1.5	2.0	2.5	11.3	6.8	2.8	3.0
Imports	1.2	4.0	1.5	3.0	4.5	4.5	12.5	4.9	2.8	3.4
Final domestic demand	2.7	2.2	1.4	1.7	1.9	2.2	1.8	1.9	1.9	2.0
<b>Other indicators</b>										
Real disposable personal income	-1.9	1.5	0.5	2.5	2.6	2.5	1.8	1.0	1.1	1.6
Employment (establishments)	0.9	1.3	1.4	1.2	1.3	1.5	-0.7	1.0	1.3	1.6
Unemployment rate (%)	9.1	8.7	8.6	8.5	8.5	8.3	9.6	9.0	8.5	8.0
Housing starts (1)	615	657	660	668	675	697	585	607	675	721
Corporate profits*** (2)	7.5	7.0	6.0	4.0	5.0	5.0	32.2	7.9	5.0	7.0
Personal saving rate (%)	3.9	3.3	3.1	3.4	3.7	3.8	5.3	4.2	3.5	3.5
Total inflation rate (2)	3.8	3.3	2.4	1.2	1.2	1.8	1.6	3.1	1.6	2.4
Core inflation rate** (2)	1.9	2.2	2.2	2.0	1.9	1.7	1.0	1.7	2.0	1.6
Federal gov't balance (\$B) (3)	-1,172	-1,100	-1,050	-1,000	-950	-875	-1,274	-1,187	-969	-669
Current account balance (\$B)	-441.1	-441.8	-443.6	-453.1	-468.4	-482.2	-470.9	-465.0	-461.8	-486.2

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

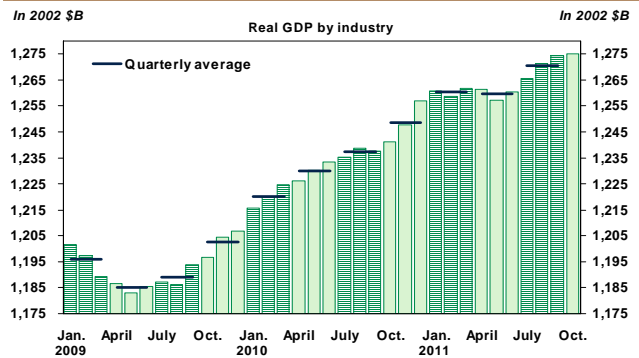
## The next few quarters will not be as good

### ECONOMY

- Overall, the Canadian economy's recent movement is fairly consistent with anticipations. Everything suggests that the rebound in the third quarter of 2011 (an annualized +3.5%) will be followed by much more modest growth until mid-2012.
- Real GDP by industry also barely changed from September to October (graph 12). The carryover for the fourth quarter of 2011 is thus quite small, at around 1.5%. Assuming moderate growth in November and December, our scenario features real GDP growth of around 1.7% for the last quarter of 2011.
- Projections for the early quarters of 2012 are no more optimistic, with unfavourable factors increasing due to the deterioration of global economic conditions (especially in Europe) and upheaval in the financial markets.
- Several economic indicators point to a slowdown by the country's economic growth. These include the labour market, which has been weaker for a while, and the unemployment rate, which went from 7.1% in September to 7.5% in December (graph 13). In December, the consumer confidence index also hit its lowest point since May 2009, when the Canadian economy was still in recession. Lastly, according to the Bank of Canada's Business Outlook Survey, Canadian businesspeople are less optimistic: most respondents expect sales growth to be slower over the next 12 months than it was in the last 12 months (graph 14).
- Canada's economy still has some supports, however. Residential and non-residential investment continues to ascend. Housing starts are holding at around 200,000 units. Against all expectations, international merchandise exports posted a substantial rise in November. This suggests that the initially forecast deterioration by the trade balance may not happen in the fourth quarter of 2011.

**Conclusion:** Our scenario for Canada's economy is essentially unchanged. We still expect real GDP growth of 2.3% for 2011. The growth forecasts for 2012 and 2013 remain at 2.1% and 2.5% respectively.

**Graph 12 – Growth by the Canadian economy slowed in October**



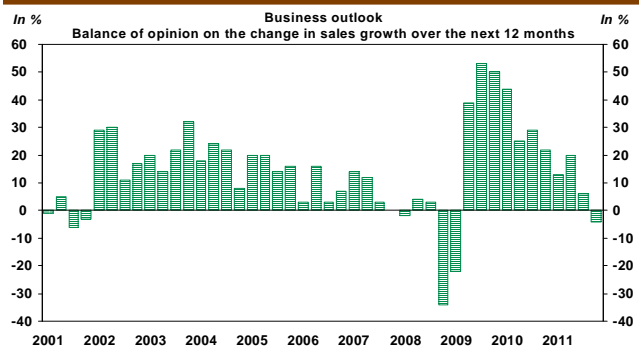
Sources: Statistics Canada and Desjardins, Economic Studies

**Graph 13 – Canada's unemployment rate rises again**



Sources: Statistics Canada and Desjardins, Economic Studies

**Graph 14 – Heading for slower growth by Canadian business sales**

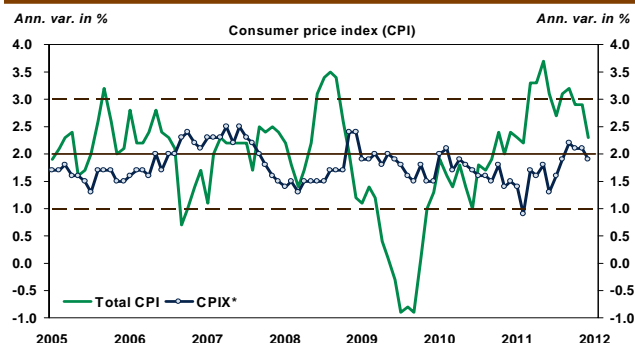


Sources: Bank of Canada and Desjardins, Economic Studies

## INFLATION

- The consumer price index's (CPI) monthly drop was much steeper than anticipated in December (-0.6%). On one hand, downward pressures from seasonal effects were a little stronger than usual. On average, the swings attributed to seasonal effects account for a 0.26% monthly reduction in the total CPI in December. This time, seasonal effects alone generated a monthly drop of 0.41%. On the other hand, seasonal fluctuations were not the only factor behind the monthly decrease in the CPI, as may be seen from the 0.2% reduction in the index once adjusted for seasonal effects.
- At this point, this monthly drop in prices is not a matter of concern. A similar downturn was observed last June, which did not prevent price increases from picking up smartly afterwards. We should also keep in mind that the sales tax hike in Québec will put upward pressure on the monthly growth of Canada's total CPI in January 2012. In addition, given the rather troubling economic conditions, the discounts during the holiday shopping season may have been a little larger than usual.
- Despite these somewhat larger swings in total inflation, the annual variation in the Bank of Canada's core index is still relatively stable, at 1.9% (graph 15). The outlook for future trends in Canada's key interest rates remains unchanged.

**Graph 15 – The total annual inflation rate pulled back sharply at the end of 2011 in Canada**



\* Bank of Canada's core index.  
Sources: Statistics Canada and Desjardins, Economic Studies

**Table 6**  
**Canada: major economic indicators**

Quarterly annualized variation in % (except if indicated)	2011		2012				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2010	2011f	2012f	2013f
<b>Real gross domestic product*</b>	3.5	1.7	1.8	2.1	2.5	2.8	3.2	2.3	2.1	2.5
Personal cons. expenditures	1.2	1.9	2.2	2.3	2.8	3.3	3.3	1.9	2.2	2.9
Residential construction	10.9	3.3	-0.6	0.7	2.2	3.3	10.2	2.6	2.5	2.1
Business fixed investment	-3.6	11.5	8.0	6.5	6.0	5.2	7.3	12.3	6.8	4.9
Inventory change (\$B)	10.3	6.0	10.0	12.3	14.0	14.5	8.9	11.7	12.7	10.4
Public expenditures	0.0	-0.9	-0.9	-0.1	1.3	1.8	4.7	1.2	-0.1	1.2
Exports	14.4	1.0	-1.5	1.0	2.0	2.5	6.4	4.2	1.7	3.7
Imports	-3.2	-0.5	2.0	2.6	4.0	4.0	13.1	6.3	2.0	3.6
Final domestic demand	0.9	2.3	1.9	2.1	2.8	3.1	4.5	2.9	2.2	2.7
<b>Other indicators</b>										
Real disposable personal income	-1.2	2.0	1.5	2.0	2.5	3.0	3.6	0.9	1.5	3.1
Weekly earnings	0.3	4.0	0.5	1.5	2.0	2.5	3.5	2.5	1.6	2.7
Employment	1.2	-0.5	0.6	0.8	1.1	1.6	1.4	1.6	0.7	1.2
Unemployment rate (%)	7.2	7.4	7.5	7.4	7.4	7.2	8.0	7.5	7.4	7.0
Housing starts (1)	204.6	199.2	176.7	173.3	178.3	183.3	189.9	193.2	177.9	190.0
Corporate profits*** (2)	17.0	10.0	4.0	2.0	3.0	6.0	21.2	13.7	3.8	8.3
Personal saving rate (%)	3.5	3.2	2.7	2.3	2.1	2.2	4.8	3.8	2.3	3.2
Total inflation rate (2)	3.0	2.7	2.5	2.0	1.9	1.6	1.8	2.9	2.0	1.9
Core inflation rate** (2)	1.9	2.0	2.0	1.8	1.9	1.7	1.8	1.6	1.9	2.0
Federal gov't balance (\$B) (3)	-40.4	-35.0	-32.0	-29.0	-27.0	-25.0	-42.6	-35.2	-28.3	-18.8
Current account balance (\$B)	-48.5	-50.0	-53.0	-55.0	-57.0	-60.0	-50.9	-51.1	-56.3	-47.5

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

## Concerns persist

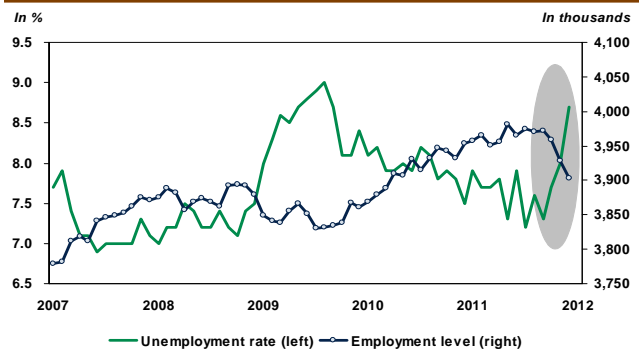
### QUÉBEC

- The Desjardins Leading Index recorded an increase of 0.3% in November, reassuring given the clouds gathering over Québec's economy. Real GDP growth was just 1.3% (annualized) in the third quarter of 2011. For now, we are keeping our growth forecast for 2012 at 1.7%. Québec's economy will still be tested by the climate of global economic and financial uncertainty; we could see some additional surprises from negative economic statistics early in the year.
- The loss of about 70,000 jobs in Q4 of 2011 is disconcerting (graph 16), as is the unemployment rate's rise to 8.0% in November and 8.7% in December. There are few tangible factors to explain the skid and we will have to wait a while to find out how much influence Statistics Canada's revisions to the monthly results will have on the final results for the end of 2011. Let us hope that January's statistics will help correct the situation, in order to lessen the concerns. The labour market's recent deterioration is worrisome; its upcoming direction will be critical to the expansion cycle.
- Meanwhile, we must be happy about some positive indicators, such as the acceleration by business investment in the last quarter of 2011 (graph 17). Businesses put nearly \$1B (in real 2002 terms) into non-residential building, an annualized quarterly increase of 11.2%. The business climate does not seem to be overly affected by the current uncertainty. The confidence index of Québec's small and mid-sized businesses even rose in December and is well above the cyclical low it reached during the last recession.

### ONTARIO

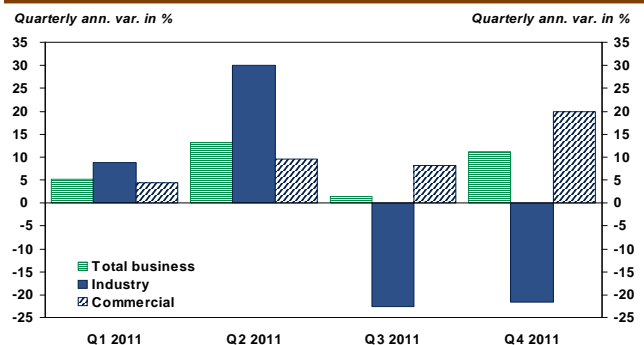
- After dropping 0.8% in Q2 of 2011, the third quarter saw a rebound, with Ontario's real GDP rising by an annualized 2.7%.
- The strong upswing by residential construction (+22.5%) was partially offset by a drop in non-residential investment (-0.1%) and a decline in government spending (-0.4%). As in the previous quarter, consumer spending posted a modest increase (+0.8%). Domestic demand thus rose by just 1.8% for the third quarter.
- International trade made a positive contribution to real GDP, however, thanks to a rise in exports (+4.3%) and a drop in imports (-2.5%). Lastly, business inventories grew more slowly, reining in real GDP slightly.
- Despite the fairly satisfactory results for the third quarter, the outlook for the next few quarters is overshadowed by the impacts of deteriorating global economic conditions. The manufacturing sector could end up at the core of the problems. Manufacturing employment also fell 3.2% in the fourth quarter of 2011, compared with a rise of 0.2% in the other sectors (graph 18).

**Graph 16 – The labour market eroded substantially at the end of 2011 in Québec**



Sources: Statistics Canada and Desjardins, Economic Studies

**Graph 17 – Growth by investment in non-residential construction in Québec**



Sources: Statistics Canada and Desjardins, Economic Studies

**Graph 18 – Manufacturing employment is starting to run into difficulties in Ontario**



Sources: Statistics Canada and Desjardins, Economic Studies

- Ontario's real GDP is expected to rise by 1.7% for 2011. Growth should be similar in 2012, with a gain of 1.8%. Growth of 2.4% is forecast for 2013.

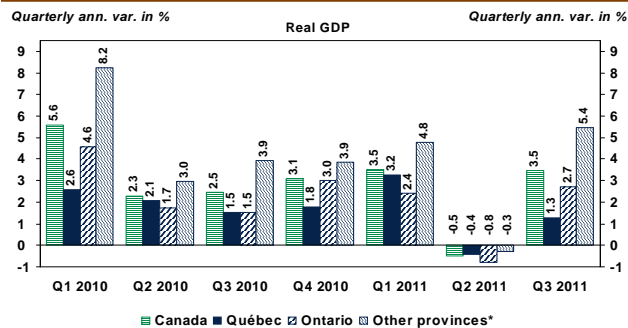
### WESTERN PROVINCES

- The western provinces have especially benefited from the Canadian economy's rebound in Q3 of 2011. According to our estimates, real output jumped by an annualized 5.4% outside Québec and Ontario during this period (graph 19).
- Alberta should continue to get a boost from ongoing relatively high oil prices. For example, once seasonally adjusted and expressed in Canadian dollars, the Canadian energy price index rose 1.7% in the fourth quarter of 2011.

### ATLANTIC PROVINCES

- After last August's sharp rebound, offshore oil production in Newfoundland and Labrador fell again during the fall, when the problems at the Terra Nova field resurfaced (temporary shutdowns for technical problems and natural depletion of some wells).

**Graph 19 – Last summer's rebound was particularly favourable for the western provinces**



\* Implicit changes.

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

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

	2009	2010	2011f	2012f	2013f
Annual average in % (except if indicated)					
<b>Québec</b>					
Real gross domestic product	-0.7	2.5	1.6	1.7	2.3
Personal consumption expenditures	0.8	3.3	1.4	1.5	2.4
Residential construction	-2.2	12.9	0.6	-2.0	3.0
Business fixed investment	-15.0	5.9	10.4	4.6	4.4
Inventory change (2002 \$M)	-1,003	5	1,980	3,315	3,225
Public expenditures	4.1	3.7	1.9	1.1	0.8
Exports	-7.4	0.8	1.0	1.9	2.4
Imports	-6.0	5.3	3.4	2.2	2.1
Final domestic demand	0.1	4.2	2.1	1.4	2.3
<b>Ontario</b>					
Real gross domestic product	-3.2	3.0	1.7	1.8	2.4
Personal consumption expenditures	0.2	3.6	2.3	1.9	2.7
Residential construction	-8.7	8.3	4.6	-1.0	1.0
Business fixed investment	-16.8	11.0	15.2	7.4	4.5
Inventory change (2002 \$M)	-3,043	1,964	5,006	7,713	5,375
Public expenditures	5.3	5.5	1.1	-0.3	1.2
Exports	-12.6	7.5	1.6	0.6	3.8
Imports	-10.4	13.3	2.0	1.3	3.2
Final domestic demand	-0.8	4.8	3.1	1.8	2.5

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 %	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key rate</b>												
Federal funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Treasury bills</b>												
3-month	0.09	0.03	0.02	0.02	0.05	0.10	0.10	0.10	0.15	0.20	0.25	0.30
<b>Federal bonds</b>												
2-year	0.76	0.44	0.26	0.23	0.25	0.35	0.50	0.60	0.70	0.85	1.00	1.30
5-year	2.19	1.72	0.94	0.81	0.85	1.00	1.25	1.50	1.80	2.15	2.40	2.70
10-year	3.45	3.16	1.93	1.88	1.90	2.00	2.20	2.40	2.70	3.10	3.30	3.50
30-year	4.51	4.38	2.92	2.89	2.95	3.05	3.25	3.50	3.75	4.00	4.20	4.40
<b>Yield curve</b>												
5-year - 3-month	2.10	1.69	0.92	0.79	0.80	0.90	1.15	1.40	1.65	1.95	2.15	2.40
10-year - 2-year	2.70	2.72	1.66	1.64	1.65	1.65	1.70	1.80	2.00	2.25	2.30	2.20
30-year - 3-month	4.42	4.35	2.90	2.87	2.90	2.95	3.15	3.40	3.60	3.80	3.95	4.10

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

**Table 9**  
**Canada: fixed income market**

End of period in %	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key rate</b>												
Overnight funds	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.50	1.50
<b>Treasury bills</b>												
3-month	0.96	0.93	0.81	0.82	0.85	0.90	0.95	1.00	1.00	1.10	1.50	1.60
<b>Federal bonds</b>												
2-year	1.83	1.60	0.88	0.96	1.05	1.15	1.25	1.40	1.60	1.90	2.30	2.50
5-year	2.77	2.33	1.39	1.28	1.35	1.50	1.75	2.00	2.40	2.75	3.00	3.15
10-year	3.35	3.11	2.15	1.94	2.00	2.10	2.30	2.50	2.80	3.20	3.40	3.60
30-year	3.80	3.58	2.77	2.49	2.55	2.70	2.90	3.15	3.45	3.70	3.90	4.05
<b>Yield curve</b>												
5-year - 3-month	1.81	1.40	0.58	0.46	0.50	0.60	0.80	1.00	1.40	1.65	1.50	1.55
10-year - 2-year	1.52	1.51	1.27	0.98	0.95	0.95	1.05	1.10	1.20	1.30	1.10	1.10
30-year - 3-month	2.84	2.65	1.96	1.67	1.70	1.80	1.95	2.15	2.45	2.60	2.40	2.45
<b>Spreads (Canada - U.S.)</b>												
3-month	0.87	0.90	0.79	0.80	0.80	0.80	0.85	0.90	0.85	0.90	1.25	1.30
2-year	1.08	1.16	0.62	0.73	0.80	0.80	0.75	0.80	0.90	1.05	1.30	1.20
5-year	0.58	0.62	0.45	0.47	0.50	0.50	0.50	0.50	0.60	0.60	0.60	0.45
10-year	-0.10	-0.05	0.22	0.06	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
30-year	-0.71	-0.80	-0.15	-0.40	-0.40	-0.35	-0.35	-0.35	-0.30	-0.30	-0.30	-0.35

f: forecasts

Sources: Datastream and Desjardins, Economic Studies